DEPARTMENT OF THE TREASURY

AGENCY FINANCIAL REPORT

FISCAL YEAR 2020

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
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
Special Inspector General for Pandemic Recovery	www.sigpr.gov

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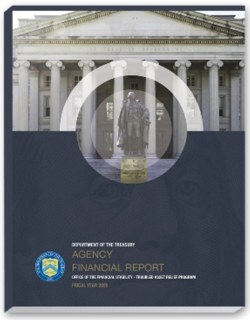
About This Report



Our *Agency Financial Report* (AFR) for Fiscal Year (FY) 2020 presents the Department of the Treasury's (Treasury, Department, or our) financial information in relation to our mission and 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 the Office of Management and Budget's (OMB) Circular A-136, *Financial Reporting Requirements,* we produce the following reports: *(i)* an *AFR* issued on December 30, 2020, and *(ii)* an *Annual Performance Report* (APR) submitted with Treasury's congressional budget justification, to be issued by February 1, 2021. 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, 2019, and ending on September 30, 2020, 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.

The Treasury annual Agency Financial Report provides an opportunity to reflect on our priorities and accomplishments of the past year. We have continued to advance our mission of creating economic and job opportunities, supporting American businesses, strengthening national security, and responsibly managing the resources of the government. I am especially proud of Treasury's central role in negotiating and executing so much of the Nation's pandemic recovery. We are committed to ensuring that every worker who lost their job as a result of Coronavirus Disease 2019 (COVID-19) returns to the workforce.

COVID-19 Recovery

In response to the COVID-19 pandemic, Treasury swiftly implemented numerous measures to provide Americans key economic relief from the impacts of the pandemic, including the bipartisan *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act). The over $2 trillion economic package provisioned by the CARES Act delivers on the Administration's commitment to safeguard the American people from the economic challenges of COVID-19. Treasury worked with the Small Business Administration to launch the Paycheck Protection Program, which provided small businesses with the resources to maintain their payroll, hire back employees who may have been laid off, and cover applicable overhead. The program provided over $525 billion worth of forgivable loans to over 5 million small businesses and supported an estimated $51 million jobs. The Internal Revenue Service (IRS), in coordination with the Bureau of the Fiscal Service (Fiscal Service), quickly issued Economic Impact Payments (EIP) to more than 160 million American families, totaling $275 billion in financial support. Treasury launched the Payroll Support Program (PSP), which provided $28 billion in critical financial assistance to air carriers and contractors to preserve jobs for tens of thousands of aviation industry workers. Under the $150 billion Coronavirus Relief Fund, Treasury provided significant aid to states, local, territorial, and tribal governments. Treasury also launched a loan program for air carriers and related businesses, as well as businesses critical to national security. Treasury also funded multiple Federal Reserve facilities that provided liquidity and stability to financial markets.

Tax Cuts and Jobs Act

The Treasury Department continues to implement the historic *Tax Cuts and Jobs Act* (TCJA), P.L. 115-097, which significantly lowered the amount of taxes American families are required to pay, while enhancing American business competitiveness. As a result, companies continue to invest in American labor, contributing to the success of our economy. During the last fiscal year, the IRS published 45 final and proposed regulations implementing the TCJA.

In 2020, taxpayers visited IRS.gov over 1.6 billion times. The IRS answered over 50 million phone calls from taxpayers, and also hosted more than 80 events for the American public and businesses. These events provided guidance to individuals and businesses regarding essential information needed to complete their tax year 2019 filings. The TCJA has been extremely effective, but more work must be done to support taxpayers and businesses in meeting their tax obligations efficiently and accurately. The Treasury's Office of Tax Policy and the IRS are committed to implementing sustainable reforms to better serve Americans through the taxpaying process.

National Security

As a member of the Intelligence Community, Treasury provides important benefits to our country's national security by implementing economic sanctions, targeting terrorist financial networks, and improving safeguards for financial systems. Over the past three years, the Office of Terrorism and Financial Intelligence (TFI) has cut off billions of dollars from flowing to Iran, the world's largest state sponsor of terror. TFI has also targeted Hizballah, disrupted North Korean shipping and export networks, and responded to the malign activity of many Russian oligarchs. Treasury continues to sanction members of the Maduro regime in Venezuela for human rights violations and corruption. This year, the Financial Crimes Enforcement Network (FinCEN), one of five TFI components, issued new rules to ensure that financial institutions take action to report and block money laundering attempts. The Office of Terrorism and Financial Intelligence is dedicated to pursuing the world's worst terrorists, criminals, and dictators and actively disrupting numerous illicit finance schemes around the world.

Treasury also chairs the Committee on Foreign Investment in the United States (CFIUS). CFIUS is authorized to review and take action to address any national security concerns arising from certain investments and real estate transactions involving foreign persons. In 2020, Treasury released final regulations to implement the changes required by the *Foreign Investment Risk Review Modernization Act of 2018* (FIRRMA) to strengthen and modernize CFIUS to address national security concerns more effectively.

Fair Trade

The President's economic agenda has always focused on fair and reciprocal trade. Treasury's important role in negotiations with trading partners helped secure trade deals that benefit American workers and businesses. Discussions with Chinese leadership have been productive in addressing issues regarding intellectual property rights and making China's market more accessible to American businesses. The U.S. – Mexico – Canada agreement (USMCA) took effect this year. The renegotiated agreement provides a more even playing field for our nation's workers, farmers, ranchers, fishermen, and businesses. This agreement promotes a more balanced system of trade between the three countries while also bolstering the North American economy.

International Cooperation

Treasury is committed to maintaining and developing economic relations with other countries, which includes involvement in international organizations that promote interdependence. Earlier this year, the U.S. facilitated the preparation of a draft agreement on the filling and operation of the Grand Ethiopian Renaissance Dam (GERD). Under such an agreement, GERD would generate electricity and deliver appropriate mitigation measures for Egypt and Sudan during prolonged periods of drought.

Since COVID-19, Treasury met with other G7 Finance Ministers to discuss economic responses to the pandemic, such as the implementation of the G20-Paris Club Debt Service Suspension Initiative, an effort to provide relief to the world's poorest countries by suspending official bilateral debt payments through the end of 2020. Treasury has also worked with the European Union to discuss topics such as the pandemic, the regulation and supervision of digital finance and financial innovation, and measures taken to ensure that banks can help support economic recovery.

BUSINESS PROTECTION

Treasury protects the financial sector from the growing threat of cyber-attacks, issuing advisories that provide information on the role of financial intermediaries in payments, ransomware trends and typologies, and related financial red flags. Specifically, the Office of Cybersecurity and Critical Infrastructure Protection is tasked with enhancing financial security in order to reduce cybersecurity threats. CFIUS's robust review process identifies transactions that pose a national security risk and therefore should be suspended or blocked. CFIUS preserves national economic security by responding to major shifts in technology within the context of a changing global economic order and an open and rules-based international economic system.

GENERAL ECONOMY

President Trump has always focused on delivering a strong economy that provides greater prosperity for all Americans. In addition to tax cuts, Treasury has helped achieve fairer and more reciprocal trade deals and unleashed economic growth by promoting pro-growth policies.

Prior to the COVID-19 pandemic, the unemployment rate reached historic lows and wages rose for manufacturing and low-income workers. In February 2020, there were 7 million job openings, outnumbering job seekers by 1.2 million. Jobless claims in early 2020 hit their lowest level in half a century and the unemployment rate for women reached its lowest rate in 66 years. Similarly, the unemployment rate for African Americans, Hispanic-Americans, Asian-Americans, veterans, individuals with disabilities, and those without a high school diploma all reached record lows.

This historic success is due to Treasury's important role in formulating and enacting economic policies that provide benefit to all Americans. Treasury is committed to helping American workers and families achieve financial freedom.

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 workforce is part of a historic and important agency that supports economic growth, protects national security, and represents the United States on the world stage. This report highlights the hard work of these public servants and details how Treasury policies are improving the economic well-being of families across our nation. I look forward to a durable and sustained recovery and a more prosperous future for all Americans.

Steven T. Mnuchin

Steven T. Mnuchin
Secretary of the Treasury
December 30, 2020

PART 1:

MANAGEMENT'S DISCUSSION AND ANALYSIS

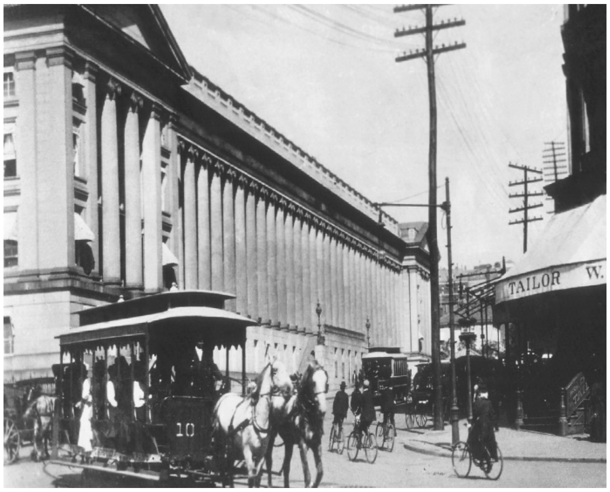
(UNAUDITED)

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, over 70 Secretaries have led the Department.

Throughout its history, Treasury served as 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 one of the nation's premier financial institutions, responsible for the nation's debt management, cash production, disbursement of Social Security benefit payments, tax collection, and federal agency financing. We are a trusted policy advisor to the President, formulating and recommending domestic and international financial, economic, and tax policies. 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, while reducing our exposure to international terrorism. We employ the Department's national security tools and authorities—including sanctions—to identify, disrupt, and dismantle national security and foreign policy threats.

In addition, we identify and reduce vulnerabilities in the U.S. and international financial systems 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.

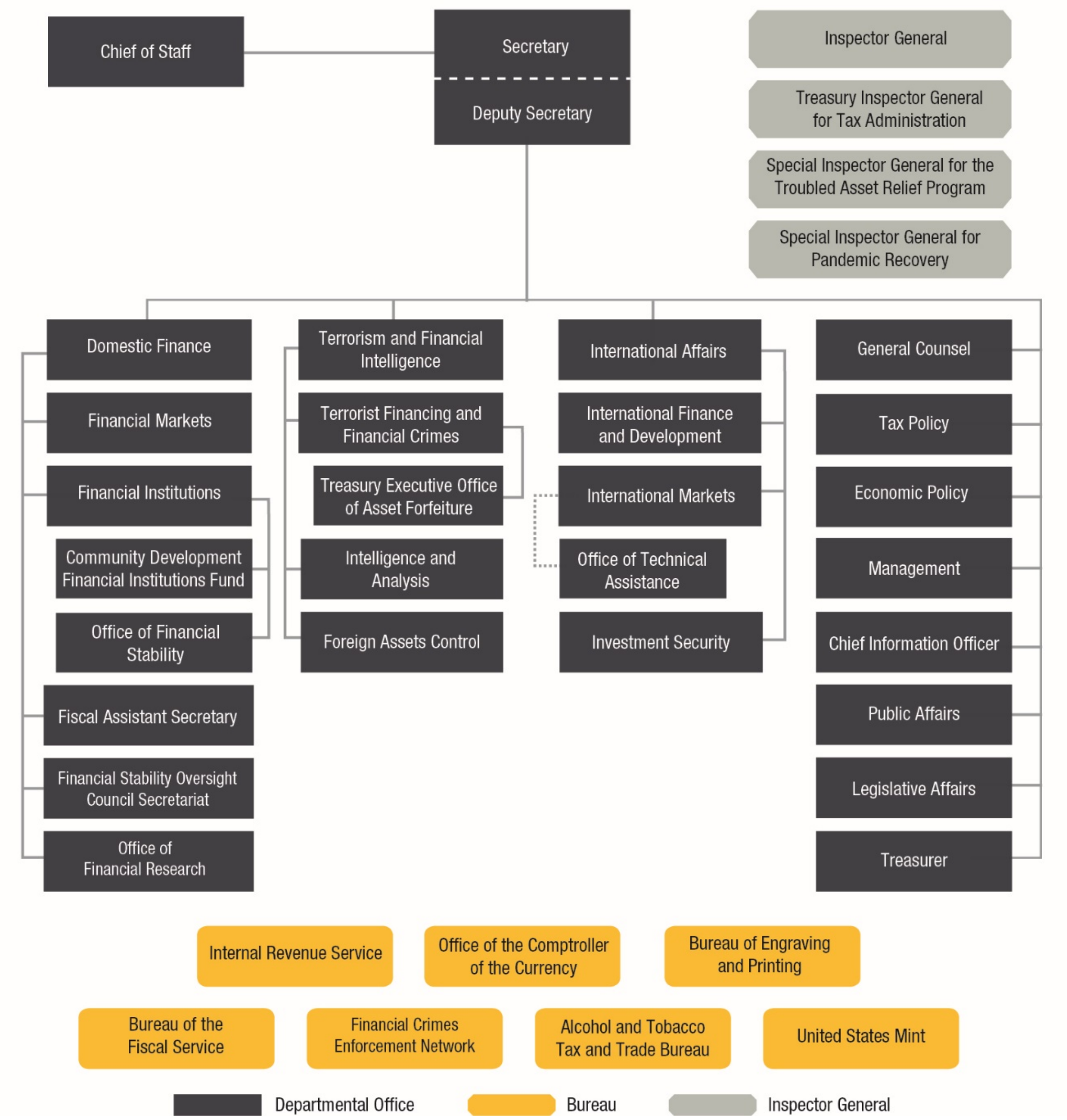
Furthermore, we work to increase opportunities for small businesses, which are the backbone of our economy. We create jobs to improve the well-being of U.S. citizens and to safeguard and grow our national economy. We also continue to play a key and influential role in the government's service to the American people, adapting to meet the nation's needs.

Globally, Treasury represents the U.S. in important 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 hold significant responsibility 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 evolves 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 financing government operations.

ORGANIZATION

Treasury is organized into the Departmental Offices, seven bureaus, and four 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, provides revenue estimates for proposals, and receipt 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, enterprise risk management, information technology, acquisition, diversity issues, and CARES Act operations.

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

INSPECTORS GENERAL

Four Inspectors General – the Office of Inspector General (OIG), the Treasury Inspector General for Tax Administration (TIGTA), the Special Inspector General for the Troubled Asset Relief Program (SIGTARP), and the Special Inspector General for Pandemic Recovery – 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, while enforcing and administering laws covering the 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, combats money laundering and its related crimes including terrorism; promoting national security through the strategic use of financial authorities and the collection, analysis, and dissemination of financial intelligence.

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 conducts 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, while aiming to prevent tax-related fraud.

The United States Mint (U.S. Mint) designs, mints, and issues U.S. circulating coins, as well as numismatic and bullion coins; in addition to striking Congressional gold medals and other medals of national significance. It maintains physical custody and protection of most of the nation's gold and 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 allow stakeholders within and outside the organization to assess the organization's health and impact, while promoting effective decision-making, and improved strategy execution and resource allocations. 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 the bureaus and the Departmental Offices' management and leadership. We bring together different perspectives to set and align priorities, identify and solve problems, review agency performance, and drive results. The performance review cycle integrates statutory requirements to conduct quarterly reviews of agency results toward goals, with an annual exercise to validate our supporting objectives, executed through our Strategic Objective Annual Review (SOAR) process. We also integrate portfolio reviews of programs within our performance review cycle activities, as required by the *Program Management Improvement Accountability Act* (PMIAA). 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 U.S. 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 align our available funding to maximize results for the agency. Treasury's process and framework for managing to our strategic objectives and performance outcomes are described in Table 1 on the following page.

TABLE 1: TREASURY ANNUAL ORGANIZATIONAL PERFORMANCE REVIEW CYCLE

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 • Recognize successes • Set priorities for year ahead • Identify shortfalls/risks; accountability; assess organizational health • Deep dives on select critical programs/projects	• Evaluate cross-agency progress toward strategic objectives • Identify strategic shift/validate Treasury priorities *[note: this year is the "close-out year" for the 2021 plan, so may result in identifying potential new strategic objectives]* • Outline potential topics for annual review with OMB • Confirm list of critical programs and projects/ check status	• Issue-based sessions: Dive deep on cross-cutting issues identified in the SOAR with relevant leadership; surface problems and needed assistance, identify near-term improvement strategies • Program-based sessions: check in on critical programs/projects identified in the SOAR as needing a deep dive with Treasury leadership; identify assistance needed	• Connect priorities to future funding • Align funding to performance impacts and risk mitigation • Strengthen IT acquisition, budgeting, and accountability • Identify efficiencies and redundancies in request • Update list of critical programs/projects based on budget requests

FY 2018 – 2022 Strategic Framework

The strategic framework provides the foundation for the Department's FY 2018 – 2022 strategic goals and objectives and FY 2020 – 2021 Agency Priority Goals (APGs), which align to specific objectives. All bureaus and offices align their programs and performance within this framework. In FY 2020, after Treasury's annual review to assess progress towards the Department's strategic objectives, Treasury leadership identified three key updates. First, we added a new strategy for Strategic Objective 1.2 (Strong Economic Fundamentals) to reflect Treasury's central role in the administration's economic recovery efforts, including the implementation of the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act). Second, we sunset a strategy under Strategic Objective 2.1 (Housing Finance Reform) to recognize the publication of the Treasury Housing Reform Plan in September 2019, although important work continues as we partner with stakeholders to implement reforms according to the plan. Lastly, we updated Strategic Objective 1.1 (Tax Law Implementation) to emphasize the *Taxpayer First Act*'s (TFA's) implementation and the IRS's modernization efforts in their strategies to support this overall Strategic Objective. 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 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 3.2: Anti-Money Laundering and Combating Financing of Terrorism Framework 3.3: Economic Strength and National Security *Aligned APG: CFIUS*	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 *Aligned APG: Paper Check Reduction*	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 a focus area for improvement in our FY 2020 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—also assessed a focus area of improvement in our FY 2020 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—assessed as an area of noteworthy progress in our FY 2020 SOAR process—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 the four strategic objectives and noted two strategic objectives as focus areas for improvement in our FY 2020 SOAR.

TAX LAW IMPLEMENTATION

During the last fiscal year, we published 45 final and proposed regulations implementing the *Tax Cuts and Jobs Act* (TCJA), P.L. 115-097. In addition, we streamlined regulatory coordination between the Office of Tax Policy, the IRS, and OMB's Office of Information and Regulatory Affairs. As a result, we anticipate publishing regulations implementing all of the TCJA provisions by the end of 2020.

Congress passed the *Taxpayer First Act*, P.L. 116-25, on July 1, 2019, to redesign the IRS's organization and workforce to better support American taxpayers and exempt organizations. The last major reorganization effort of this magnitude was the *IRS Restructuring and Reform Act of 1998*, which also required the IRS to modify its organization substantially. The IRS plans on transmitting a consolidated report to Congress in December 2020 that encompasses three major redesign efforts covered in the Act: a comprehensive taxpayer service strategy, a proposal to update the IRS organizational structure, and a comprehensive training strategy.

In addition, the *Taxpayer First Act* retains provisions related to improving the management of IRS information technology, directing the IRS to develop and implement a multiyear strategic plan. In FY 2020, the IRS made significant improvements in the area of information technology in accordance with the existing Integrated Modernization Business Plan, published in April 2019. The plan describes a six-year modernization roadmap across four pillars: Modernized Operations, Taxpayer Experience, Core Taxpayer Services and Enforcement, and Cybersecurity and Data Protection. To drive value for taxpayers and innovation within the IRS, each pillar is supported by focus areas, such as: digital services, overhauling core tax systems, implementing emerging technologies (such as robotics process automation), and protecting taxpayer information against cyber threats. In FY 2020, the IRS delivered 40 new or expanded capabilities in the area of information technology. Some examples of the IRS successfully delivering new capabilities include: establishing a contract for a new enterprise case management platform on the cloud; adding customer callback services to more IRS phone lines; introducing robotics to automate manual processes; and cybersecurity enhancements. These successes provide a solid foundation to continue accelerating our modernization efforts in the service of taxpayers.

Pandemic Recovery

On March 13, 2020, the President declared the coronavirus disease 2019 (COVID-19) pandemic a national emergency. President Trump signed the *Coronavirus Aid, Relief and Economic Security Act* (CARES Act), the largest economic recovery package in our history, into law on March 27, 2020. Treasury's leadership and rapid response provided direct economic assistance to American workers, families, and small businesses, and helped preserve large numbers of jobs in critical American industries. Treasury's efforts included issuing $275 billion of Economic Impact Payments (EIPs) to over 160 million families in record time, providing over $28 billion in critical payroll support and $15.4 billion in direct loans to save hundreds of thousands of jobs in the airline and related industries, and disbursing nearly $150 billion to state, local, territorial, and tribal governments to assist with COVID-related expenses. Treasury, through its partnership with the Federal Reserve, disbursed $114 billion in liquidity to capital markets, money markets, and the municipal bond market to sustain businesses and financial markets. For further information on our COVID-19 programs and their financial statement impact, refer to Note 10 in Part 2 of the AFR. In conjunction with Treasury, the Small Business Administration (SBA) launched the Paycheck Protection Program (PPP), which disbursed $525 billion in loans to provide a critical lifeline to over 5 million small businesses thereby preserving approximately 51 million jobs.

Beginning in mid-March, IRS employees worked around the clock to implement major provisions of the CARES Act, which included delivering EIPs. Within 10 days of enactment of the CARES Act, the IRS and Fiscal Service worked together to issue the first 81 million EIPs totaling almost $150 billion. The IRS accomplished delivery of EIPs while simultaneously delivering individual income tax refunds and implementing changes in response to the People First Initiative, all while supporting the IRS workforce through the COVID-19 pandemic. The initiative provided taxpayers relief on a variety of tax issues, including the suspension of all in-person contacts and some compliance actions through July 15, 2020. By September 30, 2020, more than 160 million Americans were issued EIPs totaling almost $275 billion.

Along with EIPs for individuals, the IRS made sure businesses knew about important tax relief programs and provided guidance about business tax relief provisions in the CARES Act and other pandemic relief legislation. The legislative relief measures included:

- **Credit for Sick and Family Leave:** Eligible employers may receive a credit in the full amount of the required sick leave and family leave that the law provides to employees dealing with health and family issues related to the COVID-19 pandemic between April 1, 2020 and December 31, 2020.
- **Employee Retention Credit:** Designed to encourage businesses to keep employees on their payroll. The refundable tax credit is 50 percent of up to $10,000 of qualified wages paid by employers financially affected by COVID-19. Qualifying wages, including health plan expenses, are those paid after March 12, 2020 and before January 1, 2021.
- **Social Security Tax Deferral:** Employers may defer payment of the employer's share of the Social Security portion of *Federal Insurance Contributions Act* (FICA), and their share and the employee representative's share of the same portion of Railroad Retirement Tax (RRTA). The deferred amount is due in two installments with 50 percent due by December 31, 2021, and the remaining amount due by December 31, 2022.

Treasury and SBA launched the PPP in less than a week after the CARES Act was passed. Within the first 14 days of the program, SBA processed more loans than it processes in 14 years. The program's focus on getting money to workers quickly supported millions of jobs and provided immediate economic relief to businesses who needed it most. The scale of this economic relief effort was unprecedented. By August 8, 2020, loans totaling $525 billion were approved for more than 5.2 million small businesses, nonprofits, veterans' organizations, tribal businesses, sole proprietors, and independent contractors.

TTB also acted swiftly in response to the pandemic by lifting restrictions and prioritizing applications to enable the alcohol beverage industry to quickly shift to producing hand sanitizer to replenish the nation's supply. As a result of TTB's response, these applications were generally approved within one day. Further, to support thousands of U.S. breweries, wineries, distilleries, and importers through the pandemic, TTB also significantly reduced wait times for product formula and label approvals. Since March, TTB processed the vast majority of applications in 10 days or less and achieved its FY 2020 target to process these applications within the 15-day standard for 85 percent of applicants.

Additionally, through leading the interagency Financial Literacy and Education Commission, Treasury coordinated a government-wide approach to improving financial education for all Americans, while also playing a vital role in supporting ongoing measures to help provide relief to American consumers overcoming the economic challenges wrought by the pandemic.

TRUSTED CURRENCY AND SERVICES

Circulating coins were collectively produced at higher volumes than at any time during the last 19 years, and 100 percent of Federal Reserve Bank orders were met. During FY 2020, bullion revenue for the U.S. Mint nearly tripled from FY 2019. This increase was primarily due to increased demand for gold bullion products, as a result of uncertainty in the stock market caused by the COVID-19 pandemic.

Treasury also made significant progress toward improving service levels for new and existing U.S. alcohol beverage businesses, with focused efforts resulting in reduced wait times for Federal permits, as well as product formula and label approvals for the alcohol beverage industry. Treasury filled an important role as these industries adapted their operations in response to the pandemic. TTB reduced permit approval times in FY 2020 to an average of 42 days across various permit types, and nearly achieved its target of processing 85 percent of permit applications in the 75-day standard, an improvement of 26 percent since last year.

As authorized by Congress, Treasury negotiated the transfer of 104 acres of property from the USDA for the construction of a new currency printing facility. A new currency printing facility will enable BEP to support future currency security redesign efforts in a smaller, more efficient, and more environmentally sustainable facility when compared to BEP's existing 100-plus year-old facilities in Washington, D.C. In accordance with the *National Environmental Protection Act*, BEP hosted a public townhall in late 2019, to solicit stakeholder comments pertaining to the construction of the new facility. As a result, Treasury determined the proposed facility will require preparation of an Environmental Impact Statement (EIS), which is currently in development with a completion date projected for July 2021. Completion of the EIS will permit pre-construction site activities to occur on the proposed property. We achieved all major project schedule milestones despite the current in-person work limitations.

FREE AND FAIR TRADE

Treasury played an important role ensuring that China followed through on its Phase One trade agreement commitments, particularly with regards to financial services and currency matters. Treasury also worked with the Office of the U.S. Trade Representative in finalizing two trade agreements—the U.S.-Mexico-Canada Agreement (USMCA) and the U.S.-Japan Trade Agreement. Treasury played a critical role in negotiating financial services commitments in the USMCA and the U.S.-Japan Digital Trade Agreement, including prohibiting data localization in financial services to support regulatory and oversight efforts. In the USMCA, Treasury also negotiated the chapter on Macroeconomic Policies and Exchange Rate Matters, with new policy and transparency commitments on currency issues. Treasury continues to support implementation of these trade agreements, while securing protective status of certain distinctive U.S. products, such as U.S. alcohol beverages in major export markets like Mexico, Canada, and Japan. Similarly, in coordination with Japan, TTB is engaging in rulemaking on standards related to wine and distilled spirits that could increase U.S. consumer choices and ensure Japan treats U.S. products fairly. Outside of formal trade negotiations, we continue to promote market access for U.S. financial services firms and cross-border data flows in financial services, as indicated with the issuance of the U.S.-Singapore joint statement on financial services data connectivity.

GOAL 1: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 17	FY 18	FY 19	FY 20	FY 20 Target	Result vs Target
Customer Service Representative Level of Service (IRS)[1]	77.1%	75.9%	65.4%	53.1%	60.0%	Unmet
Enterprise Self-Assistance Participation Rate (IRS)[2]	79.0%	82.0%	85.4%	90.6%	82.0%	Exceeded
Timeliness of Critical Individual Filing Season Tax Products (IRS)[3]	93.1%	59.6%	92.6%	78.4%	89.0%	Unmet
Percentage of Permit Applications Processed within Service Standards (TTB)[4]	48.1%	71.2%	57.6%	84.1%	85.0%	Unmet
Currency Notes Delivered Returned Due to Defects – Parts per Million (BEP)[5]	<0.008	0.0031	.09	.02	<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. In FY 2020, this measure ended the fiscal year below target due primarily to the effects of COVID-19. Sites incrementally began closing on March 16, with all sites and toll-free lines closing on March 31. Account management phone lines began a phased approach for reopening in the months of May and June based on resources available for telework. Taxpayer Assistance Center phone lines reopened on June 26.

[2]This indicator represents the percent of instances where a taxpayer uses one of the IRS's self-assistance service channels (e.g., automated calls, web services) versus needing support from an IRS employee (e.g., face-to-face, over the phone, or via paper correspondence). The rate of 90.6 percent was 6 percent higher from the prior year of 85.4 percent. Compared to FY 2019, total services increased by 26.8 percent, self-assisted services increased by 34.5 percent and assisted services fell 18.5 percent.

[3]This measure represents the percentage of Critical Individual Filing Season (CIFS) tax products available to the public in a timely fashion. CIFS tax products include tax forms, schedules, instructions, publications, tax packages, and certain notices required by numerous filers to prepare a complete and accurate tax return. The timeliness of CIFS tax products ended the fiscal year below target at 78.4 percent compared to the FY 2020 target of 89.0 percent. The December 20, 2019, enactment of Public Law 116-94 did not allow enough time to incorporate the new laws into the tax products by January 20, 2020. The legislation impacted over 160 tax products, 34 (40 percent) of which were CIFS and many of which had already been released to the public. Despite prioritization, workload planning, and additional work hours performed by IRS employees, the results fell 11.9 percent short of the annual target.

[4]This measure represents the overall rate at which TTB is meeting its annual service standard (75 days for FYs 2017 – 2020) for all original permit applications and registrations. The measure reflects the efficiency and consistency of TTB's permitting process and supports effective communication with industry members as to level of service. In FY 2020, TTB issued 84 percent of applications within its 75-day service standard, nearly achieving its 85 percent target. To meet the target, TTB is undertaking process and system improvements, including an effort to streamline permit application requirements.

[5]This measure incentivizes continuous product quality improvement and reduces defect-driven returns of currency notes by the Federal Reserve back to BEP. BEP collects and tracks the number of notes by denomination that are returned from the Federal Reserve Banks. The target for this measure aligns with manufacturing industry quality standards.

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. Under this goal, our first strategic objective 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), as a means to prevent taxpayer bailouts of public and private mortgage finance entities. Our second strategic objective is to provide technical assistance to enable foreign partner countries to better raise and manage financial resources to protect their financial sectors. Finally, our third strategic objective 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

The Department released the Treasury Housing Finance Reform Plan in September 2019, pursuant to a March 2019 Presidential Memorandum. Treasury proposed 49 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. On September 30, 2019, consistent with the plan, Treasury and the Federal Housing Finance Agency (FHFA) announced that they had agreed to permit the GSEs to retain additional capital—up to $25 billion for Fannie Mae and $20 billion for Freddie Mac. During FY 2020, Treasury continued to support congressional action to enact comprehensive housing finance reform legislation. Pending legislation, Treasury continues to support FHFA's administrative actions to enhance the regulation of the GSEs, promote private-sector competition, and satisfy the preconditions set forth in our plan for ending the GSEs' conservatorships.

Foreign Technical Assistance

In FY 2020, Treasury continued delivering technical support to developing countries in the interest of the U.S. government and our partner countries. Developing countries that generate more domestic revenue and manage their resources effectively are less dependent on foreign aid, contributing to stronger financial sectors and more opportunities for economic growth. In FY 2020, Treasury executed 92 projects in approximately 50 developing and transitional countries, strengthening public financial management and financial sector oversight in core areas.

We also implemented new tools and approaches to maintain a significant level of technical assistance to partner countries despite the challenges of delivering assistance remotely, as a result of the COVID-19 pandemic. Examples of how Treasury adapted to the new environment included:

- Implementing collaborative tools, such as video conferencing and other software to facilitate communication between the Office of Technical Assistance (OTA) and foreign counterparts and stakeholders. This enabled OTA to facilitate a seminar via videoconference for its counterparts in Ecuador on the subject of banking and pension reform that was attended by nearly 200 government officials and other stakeholders from eight countries (US, Canada, Ecuador, Honduras, Finland, Colombia, Peru and Chile).
- Conducting virtual missions to facilitate the initiation of new engagements (e.g., a new economic crimes project with the government of Latvia).

At the international level, we continued to focus on key priorities, which included: *(i)* combating terrorist financing and economic crimes; *(ii)* advocating for sound approaches to capital market development and infrastructure finance; *(iii)* supporting our Energy and Infrastructure Frameworks initiative; *(iv)* bolstering information systems security efforts; *(v)* engaging strategically with countries in Latin America; and *(vi)* promoting the transparency of national debt for our partner countries.

In FY 2020, Treasury assisted partner countries in addressing economic and fiscal challenges created by the pandemic. Some examples of our projects that focused on the pandemic include restructuring sovereign debt in Ecuador; assessing the sovereign liabilities of state-owned enterprises in Kenya; facilitating capabilities for virtual/remote taxpayer audits in Rwanda; and implementing pandemic appropriate human resource practices regarding tax administration in Sierra Leone.

FINANCIAL SECTOR CYBERSECURITY AND CRITICAL INFRASTRUCTURE PROTECTION

Treasury works with financial sector stakeholders to improve information sharing and reduce risks to U.S. financial services critical infrastructure. Treasury functions as the sole agency responsible for the overall stability of the U.S. financial system. The Office of Cybersecurity and Critical Infrastructure Protection (OCCIP) leads Treasury's engagement with the private sector. In FY 2020, OCCIP introduced the SECURE Program, aimed at enhancing risk management through improved analysis of critical operations and processes that support the U.S. financial system.

OCCIP also manages the Hamilton Series Exercise Program, a voluntary public-private initiative that brings together incident management practitioners and policy leaders from across the financial services sector to identify risks to the sector's resilience and recommends steps to address those risks. The program is divided into two distinct categories of exercises: *(i)* those that target the systemic financial sector participants, and *(ii)* those that target smaller firms that do not typically have response plans as robust as larger firms. In FY 2020, while many in-person exercises were put on hold due to restrictions on travel and physical meetings, the program continued to hold virtual exercises with financial sector firms of all sizes. These exercises focused on the highest cybersecurity risks to the financial services sector today and helped the sector identify various response capabilities to combat these risks.

OCCIP, along with the Bank of England, co-chairs the G-7 Cyber Expert Group (CEG). The CEG is Treasury's focal point for international cyber engagement across the G-7 public financial authorities and the private sector to build cyber policy and response capabilities. In FY 2020, Treasury contributed its expertise to the CEG's Statement on Digital Payments and a forthcoming Fundamental Elements of Cyber Exercise Program. During the COVID-19 pandemic, OCCIP engaged bilaterally with the CEG members, as well as other select international partners, to share information to assist senior Treasury decision makers in understanding the impacts of potential operational disruptions to the critical infrastructure of the international financial system. This assistance included information related to the increased cybersecurity threats from hostile actors who sought to take advantage of pandemic-related government programs.

GOAL 2: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 17	FY 18	FY 19	FY 20	FY 20 Target	Result vs Target
Engagement of Partner Countries in Programs – 5 point scale (International Affairs)[1]	4.0	3.8	3.6	3.3	3.6	Unmet
Explanation of Results						
[1]Measures the degree to which foreign counterparts are engaging proactively and constructively with 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. The result for FY 2020 is 3.3, a reduction of 0.3 from the FY 2019 result and the FY 2020 target of 3.6. This result reflects the challenges of achieving and maintaining traction with foreign counterparts during the COVID-19 pandemic, which forced OTA to provide assistance remotely, instead of engaging with counterparts in-person per OTA's typical approach for providing technical assistance.						

Goal 3: Enhance National Security

Through its national security mission and statutory authority, Treasury's Office of Terrorism and Financial Intelligence (TFI), which includes the Financial Crimes Enforcement Network (FinCEN), has broad tools and authorities to address activity that threatens national security in the interest of protecting the U.S. and international financial system from abuse by illicit actors. Additionally, Treasury is the chair of the Committee on Foreign Investment in the United States (CFIUS) and leads CFIUS in fulfilling its national security mission and statutory mandate to allow foreign investment into the U.S. consistent with the protection of national security.

There are three strategic objectives for achieving these goals, the first two of which are under TFI's purview. The first strategic objective focuses on identifying, disrupting, and dismantling priority threats to the U.S. and international financial systems. The second objective—identified as an area of noteworthy progress in the FY 2020 SOAR process—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 (which includes the CFIUS process under the Office of Investment Security) is also identified as an area of noteworthy progress, as well as a focus area for improvement in our FY 2020 SOAR. This objective is to advance American prosperity and security through economic growth, investment, trade, and expansion of the American industrial base, while protecting national security.

Strategic Threat Disruption

TFI strategically applies Treasury's powerful tools and authorities against bad actors that include rogue regimes, terrorist financiers, human rights abusers, proliferators of weapons of mass destruction, drug kingpins, and others.

In response to Iran, Treasury used its tools and authorities to deter Iran's nuclear and ballistic missile program, hinder their support of global terrorism, and offset efforts to destabilize the Middle East and countries beyond. Treasury targeted endemic terrorist financing and money laundering activity in response to Iran. Specifically, TFI led the Administration's maximum economic pressure campaign to deprive Iran of the resources it uses to finance its malign activity. Since February 2017, TFI targeted and sanctioned over 1,100 individuals and entities. Most recently, in September 2020, Treasury, along with the Department of State, imposed a series of sanctions designed to disrupt Iran's nuclear program and its ability to acquire and sell conventional arms. And then in October 2020, Treasury imposed sanctions on the Iranian ambassador to Iraq who is responsible for coordinating the activity of Iran's Islamic Revolutionary Guard Corps-(IRGC) Quds Force throughout Iraq.

Additionally, in October 2019, FinCEN found Iran to be a jurisdiction of primary money laundering concern pursuant to Section 311 of the *Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001* (USA PATRIOT Act).

TFI also applies its powerful tools and authorities against organizations and networks that support terrorist activity, such as those aiding Hizballah, Hamas, Islamic State of Iraq and Syria (ISIS), and Al-Qaeda, among others. In December 2019, TFI's Office of Foreign Assets Control (OFAC) took action against two prominent Lebanon and the Democratic Republic of the Congo-based money launderers and their affiliated companies, including those that have generated tens of millions of dollars for Hizballah, its financiers, and their malign activities. These designations underscore the extent to which Hizballah, and its affiliates engage in illicit economic activity that prioritizes the terrorist group's own economic interests over those of the Lebanese people. In addition, TFI's continued leadership of the Terrorist Financing Targeting Center partnership with seven Gulf nations resulted in joint sanctions actions against ISIS, Hizballah, and Iran's IRGC.

On Russia, TFI has developed a tailored approach that leverages all Treasury tools and authorities, including engagement with foreign partners, to impose costs upon those acting on Russia's behalf against U.S. interests, while mitigating potential unintended economic consequences on partners and allies. In response to foreign interference and influence threats to the American electoral system, TFI formed an Election Security team to identify financial vulnerabilities that could be exploited, which has led to actions against Russian targets.

Treasury continues to use sanctions to place pressure on North Korea including its unlawful supply of labor to overseas markets, which is used to generate income in contravention of United Nations (UN) sanctions. Additionally, Treasury applied its tools and authorities against Venezuela's corrupt Maduro regime, in an effort to deny the regime revenue pursuant to our U.S. foreign policy goals.

Through its Office of Intelligence and Analysis (OIA), TFI also expanded its role in cybersecurity. Specifically, OIA's Cyber Analysis Office worked with Treasury's Office of Cybersecurity and Critical Infrastructure Protection and major financial institutions to gather intelligence aimed at disrupting global cyber theft operations. The Cyber Analysis Office also augmented resources to detect and analyze emerging trends in state and non-state use of virtual currencies to undermine U.S. national security.

Finally, in FY 2020, TFI built a tailored financial intelligence data platform that aggregates and overlays TFI data holdings. This platform hosts foreign government information, open source corporate registry information, and Financial Action Task Force publications, among other resources, to help TFI personnel make more effective national security decisions. TFI also realigned analytic resources to more thoroughly anticipate and analyze the security threats posed by China, a posture which will continue through FY 2021.

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

In FY 2020, Treasury continued to build upon the programs established during the U.S. presidency of the Financial Action Task Force (FATF) the previous year. TFI led efforts focused on virtual currencies and the combating of terrorist financing and the financing of weapons of mass destruction, in order to strengthen the U.S. and international financial system. Under U.S. leadership, the FATF revised its standards to also apply to virtual assets and virtual asset service providers. This revision means that 205 countries around the world committed to complying with FATF standards must effectively regulate and supervise these providers for anti-money laundering and counter the financing of terrorism. In addition, the FATF assisted countries in combating terrorist financing, which included training prosecutors and judges from around the world on how to conduct terrorist financing investigations and prosecute terrorist financers. Under our leadership the FATF also published a guide for countries on how to conduct national terrorist financing risk assessments and provided updates on ISIS and Al-Qaeda financing. With Treasury leading the FATF, we initiated work on expanding the scope of standards to further incorporate proliferation financing, supported the accession of two key U.S. allies into FATF, Israel and Saudi Arabia, and modernized the FATF's budget model.

In addition, TFI, including FinCEN took regulatory rulemaking actions and published multiple guidance documents and advisories to strengthen the AML/CFT framework in efforts to safeguard the U.S. financial system. We addressed several topic areas including minimum requirements for bank AML programs without a federal regulator; regulatory amendments under the *Bank Secrecy Act* (BSA); enforcement of BSA rules and regulations; virtual currency; and COVID-19 pandemic relief-related financial crimes, among others.

Economic Strength through National Security

In February 2020, Treasury published final regulations implementing the *Foreign Investment Risk Review Modernization Act* (FIRRMA). These regulations effectuated FIRRMA's expansion of the jurisdiction of CFIUS to review certain non-controlling, non-passive investments by foreign persons into certain types of U.S. businesses, as well as certain transactions by foreign persons involving real estate in the U.S. The regulations also implemented mandatory declarations for two types of transactions—where a foreign government is acquiring a "substantial interest" in certain U.S. businesses, and transactions involving certain U.S. businesses that produce, design, test, manufacture, fabricate, or develop one or more critical technologies. Additionally, the regulations created an exception to the mandatory declaration provision for non-controlling investments by certain foreign persons defined as "excepted investors" based on their ties to certain countries identified as "excepted foreign states," and their compliance with certain laws, orders, and regulations.

In May 2020, Treasury initiated the collection of filing fees for notices filed with CFIUS and also launched a secure web-based portal for parties to submit notices and declarations. In FY 2021, a final new rule will go into effect to reorient mandatory declarations for certain transactions involving U.S. businesses that produce, design, test, manufacture, fabricate, or develop one or more critical technologies. Similarly, Treasury expects to publish guidelines for public notice and comment regarding how CFIUS intends to exercise its enforcement authority to address instances of non-compliance with these types of regulations.

GOAL 3: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 17	FY 18	FY 19	FY 20	FY 20 Target	Result vs Target
Percentage of CFIUS Cases Reviewed within Statutory Timeframes, reported by calendar year (International Affairs)[1]	100%	100%	100%	TBD	100%	TBD
Number of New or Modified Sanctions Programs Established by Executive Order or Congressional Mandate (TFI)[2]	5	5	7	7	N/A	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]	92%	95%	92%	97%	90%	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. Results are reported on a calendar year basis.

[2]This indicator tracks the number of new or modified sanctions programs that must be implemented and enforced. However, the indicator does not capture the levels of relative complexity for each sanction program 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 (e.g. to be useful to a wide range of customers and have impact, such as identify new leads or provide previously unknown information). In FY 2020, 97 percent found that the analytic products and research had impact on investigations, meeting the target of 90 percent or above. FinCEN was able to achieve this high level of performance by continuously improving processes to increase and more rapidly disseminate intelligence reports to a wider audience, by maintaining the high quality of its reporting through stringent review processes, and by covering issues and topics that meet the operational and intelligence demands of its domestic and international stakeholders.

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 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 with the least cost over time. The third strategic objective—assessed as an area of noteworthy progress, as well as a focus area for improvement in our FY 2020 SOAR process—aims to improve federal financial management performance, using innovative practices to support effective government.

Financial Data Access and Use

Treasury's key accomplishments in the area of financial data access and use include launching the FiscalData.Treasury.gov website in July 2020, which provides citizens with centralized access to Fiscal Service's financial data through a modern user experience. Treasury also collaborated with OMB and other federal agencies to issue guidance on supplemental funding provided in response to COVID-19 and worked with federal agencies to report this information to the public on USAspending.gov.

GAO's Bureau of the Fiscal Service's Fiscal Year 2018 Schedules of the General Fund report was published on May 19, 2019, and it identified opportunities to advance the auditability of the Schedules of the General Fund. In response, Fiscal Service implemented a comprehensive remediation plan to address these issues, which includes: *(i)* implementing processes for validating the integrity of certain beginning balances; *(ii)* developing an automated reconciliation to readily trace payment transactions; and *(iii)* working diligently with the federal agency community to provide guidance on improving the accuracy of the Schedules.

Federal agencies (and other entities) use the Government-wide Treasury Account Symbol Adjusted Trial Balance System to provide proprietary financial reporting information about budget execution to the Treasury. This information was used to compile the Financial Report of the U.S. Government. FY 2020 key enhancements include data automation to support the elimination of 40 agency closing packages for the U.S. Consolidated Financial Statements and progress in standardizing the Balance Sheet between the financial statement lines presented by agencies.

Debt Management

In FY 2020, the federal government's response to the COVID-19 pandemic resulted in unprecedented Treasury borrowing needs. Treasury successfully raised more than $4 trillion in FY 2020 at historically low costs and without disrupting financial markets. Treasury launched a new product, a 20-year nominal coupon bond, which helped increase financing capacity during this critical period. The Office of Debt Management also conducted substantial market outreach to a broad range of market participants to gather information on market conditions and to help inform Treasury's policy decisions. Similarly, Treasury worked to improve its internal data and analytics platform for debt management to handle growing data sets and facilitate additional analyses.

Furthermore, Treasury continued efforts to modernize our securities auction system. In FY 2020, we implemented an improved operations and maintenance program to ensure the resiliency, reliability, and high-performance of our existing technology; developed a roadmap for additional system enhancements; and initiated additional discovery activities for the modernization effort.

Federal Financial Performance

Treasury created the Payment Integrity Center of Excellence (PICOE) in FY 2019 to provide actionable business insights and solutions that transform how agencies approach identification, prevention, and recovery of improper payments. PICOE's initiatives are executed in a complementary fashion to OMB Cross Agency Priority Goal 9: *Getting Payments Right*. Key accomplishments in FY 2020, include: *(i)* analyzing over 2.1 million potential IRS payments against Government-wide data to provide actionable payment integrity and fraud risk management solutions—data which will help strengthen IRS's risk profiles and fraud filters for future payments; *(ii)* conducting a Payment Recovery Project that identified a fraud scheme impacting an agency partner and led to immediate action in intercepting erroneously generated U.S. Treasury checks; and *(iii)* increasing the number of data sharing agreements and federal agency partnership engagements.

Treasury's Do Not Pay (DNP) program, which helps in the identification and prevention of improper payments, continues to expand analytical projects with states and agencies. As of September 30, 2020, DNP identified and prevented payments totaling $43.5 million, as part of normal operations.

Treasury also added an Agency Priority Goal to reduce paper check payments by creating a more modern, secure, and cost-effective federal payment experience. This initiative supports the OMB's Cross Agency Priority Goal 4: *Improving Customer Experience*, and Goal 9: *Getting Payments Right*, and is part of an overall effort to improve federal financial performance throughout the federal government. FY 2020 accomplishments include disbursing 3.7 million fewer checks compared to FY 2019, while increasing the electronic payment rate for the same period from 95.6 percent to 96.0 percent for all Treasury-disbursed payments, excluding certain payments related to pandemic relief. Fiscal Service also continues to identify and implement efforts that will further reduce paper checks in future years through collaboration and initiatives with other federal agencies including the U.S. Courts, the Social Security Administration, the U.S. Department of Veterans Affairs, and other groups that support taxpayers and benefit recipients. For FY 2021, Treasury will continue to reduce the number of paper checks printed by Treasury's Bureau of the Fiscal Service and will work to further increase the electronic payment rate.

Treasury continues its efforts to streamline lockbox networks, which process paper-based payments and forms. In FY 2020, we streamlined the General Lockbox Network (GLN) that provides services to a variety of agencies. This effort streamlined 65 cash flows and reduced the GLN lockbox footprint from four sites managed by three financial agents to two sites managed by a single financial agent. In FY 2021, the Fiscal Service is planning to streamline the IRS Lockbox Network.

In June 2020, the OMB designated Treasury as the Quality Service Management Office for core financial management (FM QSMO). The FM QSMO will create a marketplace of solutions and services to help agencies meet their financial management needs and accomplish shared government-wide goals.

GOAL 4: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 17	FY 18	FY 19	FY 20	FY 20 Target	Result vs Target
Dollar Amount (in millions) of Improper Payments Identified and Prevented through the Do Not Pay (DNP) program (Fiscal Service)[1]	$36.58	$ 35.53	$41.10	$43.5	$35.3	Exceeded
Dollar Amount (in billions) of Delinquent Debt Collected through All Tools (Fiscal Service)[2]	$7.61	$7.44	$9.65	$10.68	$8.88	Exceeded
Percentage of Treasury Payments Made Electronically (Fiscal Service)[3]	95.1%	95.4%	95.6%	96.0%	95.8%	Exceeded
Percentage of Total Federal Government Receipts Settled Electronically (Fiscal Service)[4]	98.3%	98.0%	98.4%	99.0%	98.0%	Exceeded
Number of paper checks printed FYTD (millions) (Fiscal Service)[5]	59.0	56.0	54.2	50.5	51.3	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 $43.5 million value represents normal operations and does not include identification and prevention of improper payments related to economic impact payments.

[2]This measure provides the total amount of delinquent debt collected, in billions, through debt collection tools operated by Fiscal Service. FY 2020 totals include collection of $3.4 billion from EIPs to satisfy delinquent child support. Several federal and state creditor agencies suspended collection activity beginning in April 2020 due to economic concerns around COVID-19.

[3]This measure provides the portion of the total volume of payments that is made electronically. The FY 2020 EFT percentage of 96.0 percent excludes 37.6 million of EIPs and 2.1 million of Department of Education checks related to the pandemic.

[4]This measure provides the percentage of total federal government revenue collection dollars settled electronically. In FY 2020, the 99 percent resulted from our continuing efforts to move paper-based transactions to electronic alternatives (e.g., pay.gov and eCommerce alternatives such as digital wallets), and a decline in non-electronic collections due to the pandemic.

[5]This measure provides the number of payments made via paper checks. For FY 2020, check volume totaled 90.3 million including EIPs, and 50.5 million excluding 37.6 million EIPs and 2.1 million Department of Education checks related to the pandemic. The 50.5 million check volume includes other CARES Act and coronavirus-related disbursements that generally cannot be separately identified.

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 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—assessed as an area of noteworthy progress in our FY 2020 SOAR process—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

This year, Treasury removed Strategic Objective 5.1 related to workforce management from its list of areas requiring additional focus based on the results of the FY 2020 SOAR. Improvements in workforce management were driven by dedicating a Quarterly Performance Review (QPR) to examining challenges in strategic human capital management and reviewing all performance data sets that align to this objective. The QPR resulted in a commitment by owners under this strategic objective to meet twice a year with their bureau's Human Resources (HR) Officer to review relevant data, develop strategies and tactics, and monitor progress toward mitigating human capital risks and challenges. Treasury's HRStat Program, implemented in FY 2013 and chaired by the Chief Human Capital Officer and Director of the Office of Civil Rights and Diversity as data-driven review of the progress on HR strategies and initiatives as required by 5 C.F.R. Part 250 was fully integrated into the regular QPR format in FY 2020, providing bureau HR Officers, Learning Officers, Equal Employment Opportunity Officers, and Diversity and Inclusion leadership a shared forum to discuss workforce-related issues directly with Treasury senior management in the context of monitoring progress toward front-line mission success. Treasury-wide workforce planning remains a Human Capital risk. Treasury updated its Human Capital Planning Policy to provide bureaus additional detailed guidance and annual reporting requirements for their progress in conducting Strategic Planning and Workforce Analyses to be effective in early FY 2021. Treasury also developed a roadmap to modernize talent acquisition and approved the selection of a new staffing and recruitment technology platform, which will help streamline hiring processes and enable the use of competency-based assessments starting in FY 2021. Treasury saw broad improvements on the Federal Employee Viewpoint results, as a result of workforce management being a continued priority for leadership, improving from 13th to 9th place amongst Large Agencies in the Partnership for Public Service's *Best Places to Work* index.

Treasury Infrastructure

The arrival of the global COVID-19 pandemic within the United States presented a significant challenge to Treasury's mission, including sustainment of our essential operational functions. In response, the Office of the Assistant Secretary for Management led a coordinated effort to establish safe operations to protect the workforce and ensure mission capability by developing, communicating, and implementing safety and return-to-work guidelines. Throughout the pandemic, Treasury management closely monitored recommendations by the Centers for Disease Control, World Health Organization, General Services Administration (GSA), Occupational Safety and Health Administration, and other authorities, to quickly acquire much needed Personal Protective Equipment, leading to improved strategic sourcing capabilities. Treasury bureaus also closely coordinated to share best practices for facility operations and cleaning protocols, in order to maximize the health and safety of employees. As the pandemic situation continues to unfold in FY 2021, Treasury management will work closely with both our federal and private sector partners to monitor, formulate, and implement recommendations and guidelines in order to follow GSA's Return To Workplace Strategy for federal facilities.

While operating in a pandemic environment, Treasury remains focused on improving cyber and organizational preparedness despite ongoing resource limitations. Information technology is a key enabler for many of the essential services Treasury provides. Treasury continued IT infrastructure modernization efforts in FY 2020, helping to ensure the Department's continued ability to safely meet the expectations of the customers it serves. In FY 2020, Treasury accomplished the following modernization initiatives:

- Prevented $6 million in technical refresh costs by successfully migrating Treasury's human capital shared service application supporting over 200,000 federal employees (HR Connect), from legacy data centers to Oracle's Cloud Infrastructure environment.
- Decommissioned and retired the Office of Tax Policy's legacy statistical analysis system (originally established in 1981).
- Made progress on awarding the Treasury Enterprise Infrastructure Solutions (TEIS) acquisition, which is on target for an award in early FY 2021. When awarded, TEIS will provide a modernized enterprise-wide network for telecommunications and other infrastructure components.
- Released a Request-for-Information, as part of Treasury's plans to establish an enterprise-wide acquisition vehicle for facilitating Treasury's access to cloud products, services, and associated labor.
- Established the Enterprise Cyber Risk Management Program (ECRM) to manage vulnerabilities and threats to Treasury assets that can be exploited and that can cause disruption in the delivery of services.
- Launched the Supply Chain Risk Management Program (SCRM) to identify supply chain related risks within Treasury's portfolio of IT vendors and products. The SCRM Program also supports Federal Acquisition Regulation (FAR) Section 889, which prohibits executive agencies from entering into, extending, or renewing a contract with any entity that uses certain technology or services produced by five statutorily designated Chinese entities. The FAR requires agencies to ensure compromised products, vendors, and suppliers are prohibited from being used or operated in Treasury's IT infrastructure.
- Integrated Continuous Diagnostic Monitoring (CDM) Identity Access Management (IAM) data into Treasury's CDM dashboard and transmitted IAM data to the federal dashboard to further control and secure Treasury's assets.
- OCIO partnered with bureau IT leadership to ensure Treasury shared infrastructure met pandemic and telework requirements for bureau missions and successfully met increased demand for bandwidth while achieving 100 percent availability for the Department's Trusted Internet Connection.
- Departmental Offices' remote access was redesigned to enable unplanned expansion in utilization (over 610 thousand access sessions) since March. Collaboration tools were also extended to provide tools necessary for the continuation of critical operations, such as its Video Teleconference support for the G7, G20, and other important events totaling 109 events over 163 hours. WebEx usage increased by over 500 percent over the prior fiscal year. Additionally, OCIO has added 862 additional conference bridge subscriptions and has supported over 19.7 million minutes of conference calls.
- OCIO seamlessly deployed four web application intake channels and a backend case management system to process over 3200 applications across three CARES Act scope areas (Sections 4003, 4112, and 5001). A CARES Act sub-site on Treasury.gov was launched to assist general public and industry regarding federal stimulus efforts and address Treasury administration FAQs.
- A COVID-19 response collaboration site on MyTreas has been established to centralize documentation and messaging for DO employees.

- OCIO modernized over a dozen legacy applications within Departmental Offices, substantially reducing the organization's technology footprint, consolidating platform adoption efforts and enhancing the user experience. OCIO prioritized business process automation, application integration, and Software as a Service (SaaS) configuration as general drivers to simplify management support systems to better enable mission accomplishment.
- OCIO deployed dual classified and unclassified case management systems for CFIUS. Both systems are SaaS solutions designed to improve legacy processing efforts, enhance reporting, and support administration priorities tied to financial markets and domestic interests.

CUSTOMER VALUE AND EXPERIENCE

Positive customer experiences have an outsized positive impact on citizens' trust in government. The imperative of providing positive customer experiences is reflected by the inclusion of customer service in the President's Management Agenda, OMB Circular A-11, and the Department of the Treasury's 2018 – 2022 Strategic Plan. In 2020, Treasury developed a department-wide customer experience (CX) strategy; this strategy focuses on two types of initiatives: those that target improved experiences for internal customers (employees within the Department), and those that target improvements for external customers (the public, other agencies, industry members, or international partners). Several bureaus have already made progress mapping customer journeys to pinpoint improvements that can be made.

Several Treasury bureau and policy offices have also begun to measure and more closely track CX data. For example, Treasury Operations has implemented a *Customer Experience Transformation* project establishing a framework for improving CX and value within Departmental Offices. Initial efforts are focused on specific projects related to customer service support for onboarding, offboarding, and moving personnel within Treasury Headquarters, and as other organizations pursue CX initiatives, transformation efforts will be expanded as the new framework is implemented across the Departmental Office's Treasury Operations organization.

In FY 2020, Treasury made significant progress in implementing the *Foundations of Evidence-based Policy-making Act*, which was signed into law by President Trump in January 2019. As required by the law, Treasury designated the required new senior accountable officials – a Chief Data Officer, Evaluation Officer, and Statistical Official, who have begun identifying research and data-sharing priorities to increase the evidence available to Treasury decision-makers. This increased use of evidence in decision-making will enable Treasury to improve programming, adding greater value to our customers.

Treasury worked to increase the use of Best-in-Class vehicles to 50.6 percent from 41.3 percent through acquisition planning, which allows the Department to better leverage buying power and improve value to the customer.

GOAL 5: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 17	FY 18	FY 19	FY 20	FY 20 Target	Result vs Target
Percentage of Aged Hardware (IRS)[1]	52.3%	45.5%	31.0%	16.0%	30.0%	Exceeded
Seigniorage per Dollar Issued (U.S. Mint)[2]	0.45	0.37	0.40	0.47	0.36	Exceeded
Manufacturing Costs – Dollar Costs per Thousand Notes Produced (BEP)[3]	$43.58	$47.41	$51.01	$56.19	$59.65	Exceeded
Treasury-wide EVS Satisfaction Index (Management)[4]	65%	63%	66%	N/A	67%	N/A
Percent of High or Critical Findings closed for Treasury's High Valued Assets (HVAs) (Management)[5]	N/A	N/A	86%	74%	70%	Exceeded

Explanation of Results

[1]The measure shows the percentage of IT hardware in operation past its useful life. The IRS has made considerable progress reducing the percentage of aged hardware within the IT environment from 31 percent at the end of FY 2019 to 16 percent at the end of FY 2020. The major driver in meeting this goal was the large volume of refreshed workstations. For FY 2021, IT will use an Enterprise Demand Management (EDM) tool to improve processing efficiency by increasing the visibility of overall IT demand for aged infrastructure refresh.

[2]Seigniorage per dollar issued is the seigniorage generated from each dollar of circulating coinage face-value shipped to the Federal Reserve Banks. FY 2020 results exceeded the target as a result of a 24.2 percent increase in circulating units shipped.

[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. Due to the timing of this year's survey the FY 2020 FEVS results will not be available until mid-January 2021.

[5]This measure is the percentage of High or Critical findings against Treasury's HVAs that were closed in FY 2020. 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 implement a robust process of risk management and internal control, as well as an enterprise-wide risk profile. Successful implementation requires us to establish and foster an open and transparent culture that encourages people to communicate information about potential risks and other concerns that impact our programs and operations.

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) 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 50 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 2020 SOAR and enterprise risk management process, we identified the following cross-cutting operational risks.

Evolving Cyber Climate: Treasury, the U.S. government, and the financial sector face growing complexities rooted in technology and the increased use of attacks from cyber criminals and state actors that threaten the confidentiality, integrity, or availability of sensitive information housed within our information systems. These malign efforts also challenge the effective operations of our financial sector firms. On December 11, 2020, Treasury was notified by a service provider of malicious activity related to services provided to the Department. Treasury is still assessing the overall impact, if any, of this breach to its financial management and other systems. Based on assessments performed thus far, we are not aware of any evidence that the breach impacted the accuracy of our financial information presented herein.

Significant Disruptions to Operations: Treasury could face significant disruptions to operations due to natural disasters, terrorist events, pandemics, or lapses in appropriations, resulting in the inability to successfully deliver on mission. These potential disruptions may impose challenges for employees, contractors, and taxpayers, and may constrain progress in critical areas.

Workforce Management: Treasury's mission capability may be eroded due to operational challenges in human resources, such as: recruitment, training and development, personnel security, and diversity and inclusion. These challenges may be intensified when paired with changing mission and skill requirements.

Data Analytics Capabilities, Sharing, and Infrastructure: Treasury's ability to support critical decisions with data may be negatively affected by a lack of data accessibility and reliability, inability to successfully use and interpret the data, or inability to process or analyze data due to insufficient or aging infrastructure.

Procurement, Acquisition, and Vendors: Treasury may be unable to acquire necessary products and services, initiate work under contracts, and effectively monitor contract execution due to supply chain vulnerabilities such as supplier risk, single vendors, lost time, and inefficient contracts. This may result in a failure to deliver on mission needs.

Prioritizing Objectives to Effectively Leverage Limited Resources: Treasury maintains a variety of important programs and services, while being at the forefront of new and evolving initiatives to improve our economy and keep it on a stable footing. Due to uncertain funding amounts and timing, new or changing legislative requirements, and reduced capacity, Treasury may not be agile enough to sufficiently balance new initiatives with existing requirements or projects.

FY 2021 OUTLOOK

Our FY 2020 SOAR outlined several critical leadership actions for the coming year: (1) implementing the tax law; (2) pandemic recovery; (3) issuing CFIUS regulations; (4) ensuring federal financial performance, and (5) improving Treasury's cyber and organizational preparedness resiliency. These critical leadership actions reflect what was designated as a focus area in the SOAR.

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

- 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 also authorizes modernization of the organizational structure of the IRS.
- Update, with the Secretary's approval, Treasury's FY 2018-2022 Strategic Plan to add a new strategy that reflects Treasury's leadership role in implementing new programs including the CARES Act.
- Issue public CFIUS enforcement guidelines, and conduct an assessment of whether excepted foreign states have established and are effectively utilizing a robust process to analyze foreign investments for national security risks and to facilitate coordination with the U.S. on matters relating to investment security.
- Support legislative proposals advancing the prevention, identification, and recovery of improper payments. Treasury will also work with key stakeholders to explore legislative proposals to resolve debts owed by insolvent Agency Funds.
- Advocate for and plan to execute (if supported) Cybersecurity Enhancement Account Operations and Maintenance FY 2021 budget requests.

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 federal generally accepted accounting principles (GAAP) 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, 2020 compared to September 30, 2019.

Summary Financial Information (*dollars in billions*)

		2020		2019		$ Change	% Change
Total Assets	$	**32,200.1**	$	25,614.5	$	6,585.6	25.7 %
Total Liabilities	$	**31,152.8**	$	25,125.0	$	6,027.8	24.0 %
Total Net Position	$	**1,047.3**	$	489.5	$	557.8	114.0 %
Total Net Cost of Treasury Operations	$	**128.5**	$	16.6	$	111.9	674.0 %
Net Federal Debt Interest Costs	$	**473.4**	$	528.9	$	(55.5)	(10.5)%
Other Federal Costs, Net	$	**32.7**	$	12.0	$	20.7	172.5%
GSEs Non-Entity Cost (Revenue), Net	$	**3.2**	$	(14.2)	$	17.4	(122.5)%
COVID-19 Non-Entity Revenue, Net	$	**(5.8)**	$	-	$	(5.8)	100.0%
Total Net Cost of Treasury Operations and Non-Entity Costs	$	**631.2**	$	542.6	$	88.6	16.3 %
Total Budgetary Resources	$	**1,805.8**	$	930.3	$	875.5	94.1 %
Agency Outlays, Net	$	**718.3**	$	538.1	$	180.2	33.5 %
Net Revenue Received (Custodial)	$	**2,863.6**	$	3,190.2	$	(326.6)	(10.2)%

Financial Overview. Our financial performance as of and for the fiscal year ended September 30, 2020, reflects the impact of the global spread of COVID-19 in early spring of 2020 on the U.S. economic systems. In March of 2020, the Federal Reserve Board of Governors (Board) and Congress took steps to limit the damage caused by the pandemic in the U.S. by helping to reduce the financial burden on individuals and their families, minimize business and employment losses, and enhance the liquidity of the U.S. financial system. We played a critical role in the implementation and support of these actions by the Board and Congress primarily through our execution of CARES Act appropriations used to support various programs in support of the COVID-19 pandemic recovery.

The outstanding federal debt, including interest, rose by $4.2 trillion to $27.1 trillion to finance the U.S. government's operations that included support of the COVID-19 response efforts.

Our "*Total Net Cost of Treasury Operations and Non-Entity Costs*" for FY 2020 increased by $88.6 billion. This increase primarily stems from the financial assistance we provided in support of the COVID-19 pandemic recovery efforts, partially offset by lower federal debt interest costs, as discussed further below.

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Total Assets	$22,170.9	$22,686.2	$24,273.8	$25,614.5	$32,200.1
Total Liabilities	$21,667.0	$22,188.8	$23,777.9	$25,125.0	$31,152.8
Net Position	$503.9	$497.4	$495.9	$489.5	$1,047.3

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

Total Assets of $32.2 trillion at September 30, 2020 consist of a receivable due from the General Fund of the U.S. government (General Fund) of $27.1 trillion, cash, foreign currency, and other monetary assets of $1.8 trillion, intra-governmental loans and interest receivable of $1.7 trillion, and fund balance and various other assets, which totaled $1.6 trillion (Figure 2).

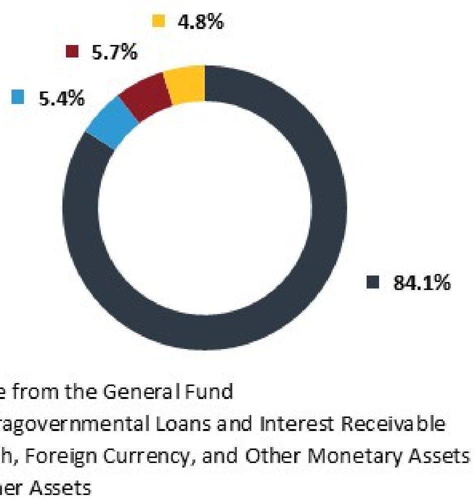


Figure 2: FY 2020 Total Assets (Composition)

The $6.6 trillion (or 25.7 percent) increase in total assets at the end of FY 2020 over the prior year is primarily due to a $4.2 trillion increase in our receivable, "*Due from the General Fund of the U.S. Government,*" which corresponds to the $4.2 trillion increase in federal debt and interest payable. The "*Due from the General Fund of the U.S. Government*" asset represents future funds required from the General Fund to pay borrowings from the public and other federal agencies.

"Cash, Foreign Currency, and Other Monetary Assets" represents, among other things, operating cash balances (held on behalf of the U.S. government) from tax collections, federal debt, and other receipts. These cash receipts grew by $1.4 trillion to $1.8 trillion at the end of FY 2020 due to increased receipts from the issuance of federal debt.

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 $153.9 billion (or 9.7 percent) to $1.7 trillion at the end of FY 2020 due to increased borrowings by various federal agencies—such as Small Business Administration and Housing and Urban Development—to fund their new and expanded programs supporting the COVID-19 pandemic recovery.

Other assets include, among other things, "*Fund Balance,*" *"Taxes, Interest, and Other Receivables, Net,"* as well our newly added *"COVID-19 Investments, Advances, Receivables, and Other"* related to our effort to stabilize financial markets during the COVID-19 pandemic. Other assets totaling $1.6 trillion increased by $796.1 billion over the prior year, largely reflecting a $481.1 billion increase in Fund Balance and new COVID-

19 investments, direct loans, and other assets totaling $184.3 billion. The increase in fund balance is due to $500.0 billion of appropriations provided by Section 4027 of the CARES Act to finance, in accordance with Federal Credit Reform Act of 1990 (FCRA), the subsidy portion of investments in Special Purpose Vehicles (SPVs) established by the Board and direct loans primarily to the U.S. airline industry. As required by FCRA, we financed the remainder of these COVID-19 investments and direct loans with borrowings from Fiscal Service. As of September 30, 2020, we had $468.1 billion of the CARES Act appropriation remaining, of which $395.7 billion is available for future investments and loans (refer to the section below entitled *"Subsequent Events"* as well as the same section of Note 10 to the Consolidated Financial Statements in Part 2 of this report). The "*Taxes, Interest, and Other Receivables, Net*", primarily comprised of federal taxes receivable, increased by $91.7 billion principally due to increased unpaid transition taxes on foreign earnings pursuant to Internal Revenue Code Section 965(h), coupled with the effect of a two-year deferral on employers' portion of FICA Social Security taxes due to the U.S. government as provided by CARES Act Section 2302 (refer to Note 8 to the Consolidated Financial Statements entitled *Taxes, Interest, and Other Receivables, Net*).

Total assets also increased as a result of the new COVID-19 related assets acquired or recognized in support of the pandemic relief. The "*COVID-19 Investments, Advances, Receivables and Other*" line item totaling $184.3 billion includes, among other things, investments in SPVs and direct loans primarily to the U.S. airline industry valued at $107.9 billion and $1.6 billion, respectively, as of September 30, 2020. Additionally, we provided Coronavirus Relief Fund financial assistance payments totaling $149.5 billion to states, local, territorial, and tribal governments, of which $80.6 billion is estimated to have been used for eligible expenses by these governments and the remaining amount of $68.9 billion is reported as an advance as of September 30, 2020 until such payments are either used by the recipients on or before December 30, 2020 (refer to Note 10 "*Subsequent Events*" section in Part 2 of this report), or returned unused to Treasury. Our financial support of the COVID-19 pandemic was authorized under the CARES Act, as well as other recovery legislation (refer to Note 10 to the Consolidated Financial Statements entitled *COVID-19 Investments, Advances, Receivables, and Other*).

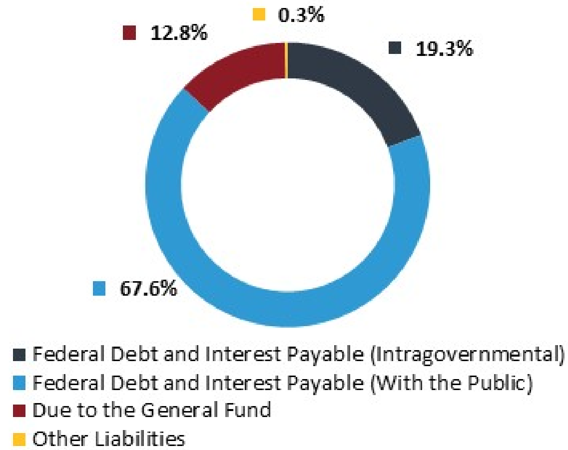


Figure 3: FY 2020 Total Liabilities (Composition)

Total Liabilities of $31.2 trillion at September 30, 2020 principally consist of the federal debt held by the public, including interest, of $21.1 trillion (Figure 3), which was mainly issued as Treasury Notes and Bills. Liabilities also include intra-governmental liabilities totaling $10.0 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 $84.8 billion.

The $6.0 trillion (or 24.0 percent) increase in total liabilities over the prior year is attributable to a $4.2 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 operations, including our financial support of the COVID-19 response efforts.

The increase in total liabilities is also attributable to a $1.8 trillion increase in our payable "*Due to the General Fund,*" which corresponds primarily to the increases in the operating cash balance, intra-governmental "*Loans and Interest Receivable*", and "*Taxes, Interest, and Other Receivables, Net*", as discussed above.

Total Net Position of $1.0 trillion at September 30, 2020 represents the combined total of our cumulative results of operations and unexpended appropriations at the end of the fiscal year. The $557.8 billion increase in the net position at the end of FY 2020 was principally attributable to our receipt of $500.0 billion of CARES Act appropriations used to fund various programs in support of the COVID-19 pandemic recovery, as discussed above (also refer to Note 10 to the Consolidated Financial Statements entitled *COVID-19 Investments, Advances, Receivables, and Other*).

	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
Net Cost of Treasury Operations	$17.7	$20.1	$21.4	$16.6	$128.5
Net Non-Entity Costs	$385.9	$418.6	$466.8	$526.0	$502.7
Total Net Cost	$403.6	$438.6	$488.2	$542.6	$631.2

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 "*Net Federal Debt Interest*" (net of interest revenue from loans), "*Other Federal Costs, Net,*" "*GSE Non-Entity Costs, Net,*" "*COVID-19 Non-Entity Revenue, Net,*" and other federal costs and revenues.

"*Total Net Cost of Treasury Operations and Non-Entity Costs*" totaled $631.2 billion and $542.6 billion for FY 2020 and 2019, respectively, an increase of $88.6 billion (or 16.3 percent) over the prior year. Net costs associated with our entity operations ("*Net Cost of Treasury Operations*") increased by $111.9 billion year-over-year. As further discussed below, net cost associated with our non-entity operations ("*Net Non-Entity Costs*") decreased by $23.3 billion year-over-year, driven by lower federal debt interest costs, partially offset by increased other federal costs and reduced GSE non-entity revenue.

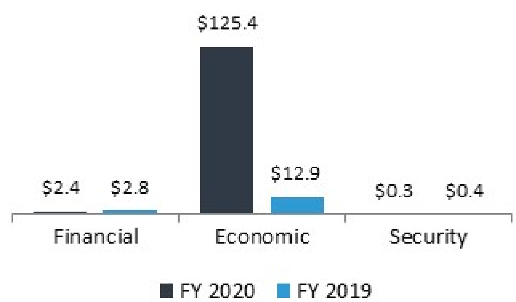


Figure 5 : Net Cost of Treasury Operations by Strategic Program (in billions)

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 $128.5 billion for FY 2020 compared to $16.6 billion for FY 2019, an increase of $111.9 billion. This increase primarily stems from Coronavirus Relief Fund payments made to affected states, local, territorial, and tribal governments, of which $80.6 billion of the $149.5 billion of such payments made was recognized as net costs in FY 2020 (see earlier discussion). Net costs also reflect $28.2 billion of financial assistance payments to passenger air carriers, air cargo carriers, and contractors to provide payroll support to aviation workers during the pandemic (refer to Note 10 to the Consolidated Financial Statements entitled *COVID-19 Investments, Advances, Receivables, and Other*).

Net Federal Debt Interest Costs (*a non-entity cost*) totaling $473.4 billion for FY 2020 primarily reflect interest expense on the federal debt, net of interest income on loans. This net cost decreased $55.5 billion (or 10.5 percent) from the prior year. The lower cost was primarily attributable to a decrease in average interest rates on outstanding debt held by the public.

Other Federal Costs, Net (*a non-entity cost*) of $32.7 billion in FY 2020 increased by $20.7 billion primarily due to an increase in interest expense incurred on uninvested credit program funds held on behalf of other federal agencies, which increased $14.0 billion in FY 2020. The higher cost was primarily attributable to an increase in federal agency credit programs across the U.S. government in response to the COVID-19 pandemic.

GSEs Non-Entity Cost (Revenue), Net is reported as a net cost totaling $3.2 billion for FY 2020 compared to net revenue of $14.2 billion reported for FY 2019. GSE non-entity cost 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 Senior Preferred Stock Purchase Agreements (SPSPAs). The $17.4 billion year-over-year change in this line item was driven by a $14.3 billion decrease in the estimated fair value of our GSE investments, a decrease of $15.3 billion in preferred stock dividends received, partially offset by an increase of $12.2 billion associated with our senior preferred stock liquidation preference year-over-year.

Our GSE investments are comprised of the estimated fair value of our senior preferred stock and our warrants to purchase GSE common stock. The fair value of our GSE investment decreased year-over-year, reflecting a decline in the fair value of our warrants due to a decrease in the market value of the GSE common stock. This was significantly offset by an increase in our senior preferred stock fair value primarily as a result of Fannie Mae's higher projected cash flows and a decrease in the market value of Fannie Mae's other equity securities that comprise its total equity.

Pursuant to amendments to the SPSPAs that increased the GSEs' capital reserve amounts, the GSEs will not pay a quarterly dividend if their positive net worth is below their capital reserve threshold. We received no cash dividends for the fiscal year ended September 30, 2020 as the GSEs' positive net worth was below their permitted capital reserve amounts as of September 30, 2020. For the fiscal year ended September 30, 2019, we received cash dividends totaling $15.3 billion (refer to Note 11 to the Consolidated Financial Statements entitled *Investments in Government Sponsored Enterprises*).

The liquidation preference of our senior preferred stock increased in value by $17.4 billion in FY 2020 compared to $5.2 billion in FY 2019. We increased the value of this liquidation preference by $17.4 billion and $5.2 billion for FY 2020 and 2019, respectively, pursuant to the amended SPSPAs.

COVID-19 Non-Entity Revenue, Net (*a non-entity revenue*) of $5.8 billion reflects revenue recognized in FY 2020 for financial instruments received from U.S. airlines as appropriate compensation to the U.S. government for the financial support provided to preserve aviation jobs during the pandemic. As a provision of the CARES Act, the U.S. government received promissory notes and common stock warrants valued at $5.8 billion as of September 30, 2020, for providing $28.2 billion of financial support to the aviation industry.

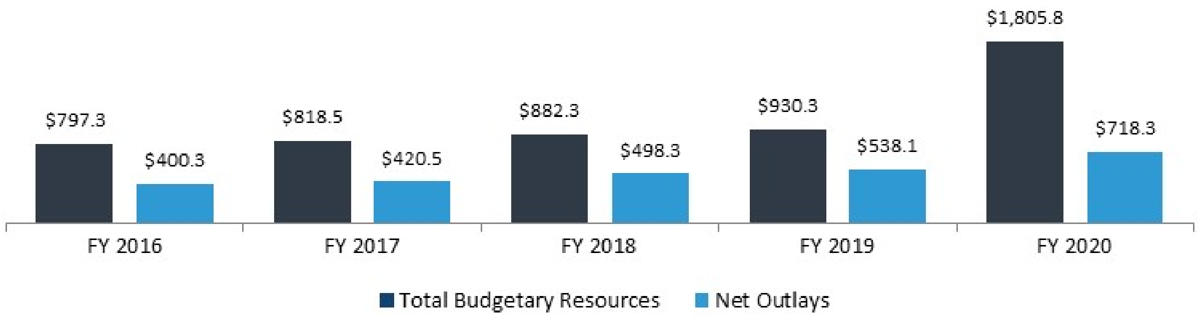


Figure 6 : Total Budgetary Resources and Agency Outlays, Net (*in billions*)

Total Budgetary Resources of $1.8 trillion in FY 2020 (Figure 6) increased by $875.5 billion (or 94.1 percent) primarily due to an increase in appropriations received and borrowing authority to implement various CARES Act programs. In FY 2020, we received $500.0 billion of CARES Act appropriations, to make loans or investments through December 31, 2020 to assist eligible businesses, states and municipalities which incurred losses as a result of COVID-19. As discussed above, we also received $150.0 billion and $32.0 billion of CARES Act appropriations for the Coronavirus Relief Fund and U.S. air carrier industry financial assistance, respectively. We additionally received $292.0 billion of CARES Act appropriations to finance tax provisions provided to U.S. individuals and employers. We received an additional $1.0 billion of CARES Act appropriations for other various program support and oversight activities.

Of the total $975.0 billion of CARES Act appropriations received, $472.4 billion remained unobligated as of September 30, 2020. Refer to Note 10 to the Consolidated Financial Statements entitled *COVID-19 Investments, Advances, Receivables, and Other* for additional discussion of the financial impact of the COVID-19 pandemic. Section 4003 also stipulated that Treasury could make direct loans, loan guarantees and other investments that do not, in the aggregate, exceed $500.0 billion. Treasury disbursed $104.3 billion in FY 2020 in making investments and direct loans. After taking into consideration the $104.3 billion disbursed, $395.7 billion was available as of September 30, 2020 for making new investments and direct loans to eligible businesses, states, and municipalities.

Subsequent Events: On December 27, 2020, the President signed into law the *Consolidated Appropriations Act, 2021*, which, as of the date of enactment, rescinded $429.0 billion of the $500.0 billion appropriation provided to Treasury under Section 4027 of the CARES Act and provided that the remaining unobligated appropriation as of January 9, 2021 will be rescinded as of that date other than with respect to those funds made available for administrative expenses pursuant to Section 4003(f), for the Special Inspector General for Pandemic Recovery pursuant to Section 4018(g), and for the Congressional Oversight Commission pursuant to Section 4020. Effective January 9, 2021, the statute eliminates Treasury's ability to make new loans and investments under Section 4003 of the CARES Act. In addition, the statute prohibits the Federal Reserve from engaging in further lending or extensions of credit, after December 31, 2020, through facilities established by the Federal Reserve under Section 13(3) of the *Federal Reserve Act* in which Treasury made investments under Section 4003 of the CARES Act other than a loan submitted on or before December 14, 2020, to the Main Street facilities (discussed in Note 10 in Part 2 of this report) for the sale of a participation interest in such loan, provided that the Main Street facilities purchase a participation interest in such loan on or before January 8, 2021. After December 31, 2020, the Federal Reserve is also prohibited from modifying the terms and conditions of any of the facilities in which Treasury made investments under the CARES Act.

Consistent with the *Consolidated Appropriations Act, 2021*, on December 29, 2020, Treasury and the Federal Reserve amended the SPV LLC Agreements for each of the SPVs funded under the CARES Act. The amended agreements provide that Treasury's investment in excess of the amount equivalent to the purchased asset amount within the SPV will be returned to Treasury between December 31, 2020 and January 8, 2021, and cancels Treasury's additional commitments to those SPVs. Refer to the section entitled *"Subsequent Events"* of Note 10 to the Consolidated Financial Statements in Part 2 of this report.

Agency Outlays, Net of $718.3 billion were higher in FY 2020 (Figure 6) by $180.2 billion (or 33.5 percent) primarily due to an increase in outlays for the Coronavirus Relief Fund, SPV investments, and loans and other financial assistance to U.S. air carrier industry, as discussed above.

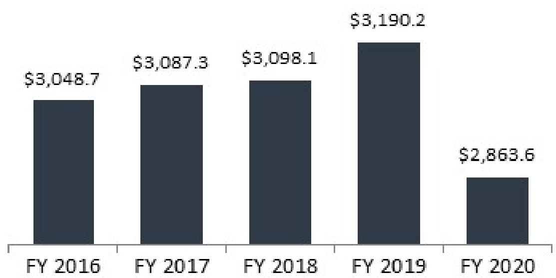


Figure 7 : Net Revenue Received (Custodial) (*in billions*)

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 $2.9 trillion for FY 2020, a decrease of $326.6 billion (or 10.2 percent) over the prior fiscal year. This decrease is attributable mainly to an overall growth in refunds and other payments issued to individuals pursuant to the CARES Act to help stimulate the economy through recovery rebates for individuals (also referred to as the "Economic Impact Payments"). In FY 2020, the IRS disbursed $274.7 billion of Economic Impact Payments to eligible recipients in every state and territory and at foreign addresses (refer to Note 10 to the Consolidated Financial Statements entitled *COVID-19 Investments, Advances, Receivables, and Other*).

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, 2020. In addition, we can provide reasonable assurance that, as of September 30, 2020, 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, 2020. 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 C, of this report.

Steven T. Mnuchin

Steven T. Mnuchin
Secretary of the Treasury
December 30, 2020

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 assurance that:

- Obligations and costs comply 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 assessed the effectiveness of their internal controls to support reliable financial reporting through the testing of the design and operating effectiveness of key internal controls for material transactions. 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, 2020.

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 the *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, 2020, 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 2020 to continue to enhance its Information Technology (IT) security. The IRS continues to implement 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 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 components 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.

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 2020, 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). Treasury implemented changes required by OMB Memorandum M-20-21, *Implementation Guidance for Supplemental Funding Provided in Response to the Coronavirus Disease 2019* (April 10, 2020) to track and report COVID-19 related spending on a monthly basis.

Additionally, we updated Treasury's Data Quality Plan to enhance the accuracy and integrity of our non-financial award data presented on USAspending.gov as stipulated by the OMB Circular A-123, Appendix A guidelines.

Treasury continues to focus on financial innovation and transformation. In FY 2020, ARC implemented over 60 Robotic Process Automations to improve efficiency, timeliness, and quality in its service operations and business processes. Furthermore, the IRS implemented several changes to its financial systems in FY 2020 to improve internal controls, increase transparency, streamline transaction reconciliation, and automate processes for third party payments, invoicing, and tax withholding postings.

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 are not aware of any violations of the Anti-deficiency Act. We have received the GAO's 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. On June 8, 2020, OMB formally advised Treasury of its conclusion that no ADA violation occurred, and the Department therefore does not plan to report a violation.

IMPROPER PAYMENTS

Background

The Payment Integrity Information Act of 2019 (PIIA) 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 2020, 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), the American Opportunity Tax Credit (AOTC), the Additional Child Tax Credit (ACTC) and the Premium Tax Credit (PTC), using the seven qualitative risk factors identified in OMB Circular A-123, 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 prior risk assessments, we determined that the EITC, the AOTC, the ACTC and the PTC were susceptible to significant improper payments.

The EITC, AOTC, ACTC and PTC 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 2020, 24% ($16.0 billion) of the total EITC payments of $68.2 billion were improper. For the AOTC, the IRS estimates that for FY 2020, 26% ($2.3 billion) of the total payments of $8.9 billion were improper. For the ACTC, the IRS estimates that for FY 2020, 12% ($4.5 billion) of the total payments of $39.1 billion were improper. The IRS is not reporting an estimate for FY 2020 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 D: *Payment Integrity*.

Payment Recapture Audits

The *Payment Integrity Information Act of 2019* (PIIA) 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 results can be found in Part 3, Section D, 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 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 D, of this report.

PART 2:

FINANCIAL SECTION

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 2020, despite being faced by many challenges as a result of the pandemic, and facing additional work to implement the CARES Act, 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 2020, Treasury also demonstrated effective fiscal and management leadership by:

- Standing up complex accounting and internal controls in support of the CARES Act program and developing formulation models to ensure funding;
- Establishing the CARES Operations organization, responsible for reporting, asset management, compliance monitoring, internal controls, and audit and risk management;
- Making significant progress in implementing the Foundations of Evidence-based Policy-making Act by designating the required new senior accountable officials – a Chief Data Officer, Evaluation Officer, and Statistical Official, who have begun identifying research and data-sharing priorities to increase the evidence available to Treasury decision-makers;
- Preventing $6 million in technical refresh costs by successfully migrating Treasury's human capital shared service application supporting over 200,000 federal employees (HR Connect), from legacy data centers to Oracle's Cloud Infrastructure environment;
- Quickly ensuring, in response to the pandemic, that all employees had the necessary infrastructure to effectively telework and providing personal protective equipment to our mission essential employees; and
- Receiving 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 21st 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
December 30, 2020

Carole Y. Banks
Deputy Chief Financial Officer
December 30, 2020

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INSPECTOR GENERAL'S TRANSMITTAL LETTER

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

December 30, 2020

INFORMATION MEMORANDUM FOR SECRETARY MNUCHIN

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

SUBJECT: Audit of the Department of the Treasury's Consolidated Financial Statements for Fiscal Years 2020 and 2019

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, 2020 and 2019, 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 December 30, 2020, 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) 528-8997 or Deborah L. Harker, Assistant Inspector General for Audit, at (202) 486-1420.

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

Deputy 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, 2020 and 2019, 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.

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 $247.5 billion and $153.3 billion, net cost of operations of $13.6 billion and $13.1 billion before applicable eliminating entries, budgetary resources of $14.1 billion and $13.1 billion, and custodial activity of $3,585 billion and $3,651 billion, as of and for the years ended September 30, 2020 and 2019, 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) – Troubled Asset Relief Program (TARP), a component entity of the Department, which statements reflect total assets of $15.0 billion and $15.8 billion, net cost of operations of $683 million and $1.4 billion before applicable eliminating entries, and budgetary resources of $303 million and $262 million, as of and for the years ended September 30, 2020 and 2019, 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-TARP, 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 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, 2020 and 2019, 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 11, 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 11, 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, 2020 and 2019, 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* 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, 2020, we considered the Department's internal control over financial reporting (internal control) as a basis for designing 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 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 many information systems to manage government-wide cash and the federal debt. Fiscal Service made progress towards remediating prior-year information system control deficiencies, including segregation of duties controls over Treasury's Oracle Financials and progress toward resolving aspects of Fiscal Service's mainframe security findings.

However, 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 not fully implemented remediation relative to corrective action plans and, in situations where Fiscal Service accepted associated risks, did not design and implement compensating controls to reduce such risks to an acceptable level. Further, Fiscal Service had newly identified control deficiencies related to its general information technology controls over its cash management systems. The unresolved and newly identified control deficiencies 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 that 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) changes to systems are authorized, properly configured, and secured as intended; (6) vulnerabilities identified by management were addressed timely; (7) inactive application user accounts are monitored and removed timely; (8) application backups are configured by management in accordance with policy; and (9) baseline policies and procedures for contingency planning and security configuration controls, including password and audit logging 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; identify and evaluate sufficient compensating controls to reduce the risk of unauthorized access for instances where management accepted associated risks 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 control deficiencies relate to information system general controls in the areas of security management, access controls, configuration management, and segregation of duties. Fiscal Service made progress toward improving its procedures to reasonably assure that (1) corrective action plans fully address information system control deficiencies and (2) new or enhanced controls established as part of the corrective actions fully resolve the control deficiencies. However, Fiscal Service continued to have instances in which the corrective actions taken by the responsible officials were not sufficient to address the control deficiencies or identify shortcomings. Specifically, Fiscal Service did not identify technical inaccuracies, inconsistencies between the documented policies and procedures, and significant control gaps in the information included in finding closure packages. Fiscal Service continued to have deficiencies where known information system vulnerabilities and deviations from baseline security requirements were not remediated on a timely basis or adequately tracked for remediation. Additionally, Fiscal Service needs improvement in documentation describing the security architecture for the mainframe and 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 used a manually driven 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 2020, IRS recorded adjustments totaling about $13 billion to correct the effects of continued errors in its underlying data that IRS identified during its estimation process. While using this process to determine material portion of taxes receivable has enabled IRS to produce reliable related balance for year-end reporting, it does not provide IRS management with readily available, reliable unpaid assessment information on a daily basis throughout the year for effectively managing unpaid assessment balances. Further, errors in taxpayer accounts create a burden for those taxpayers whose accounts were affected.

2. Financial Reporting Systems

   While IRS made progress addressing previously reported control deficiencies, IRS continued to have unresolved and newly identified control deficiencies related to its business process application controls and general controls in its information systems. Specifically, control deficiencies continue to exist concerning (1) unnecessary access rights granted to accounts, (2) inconsistent monitoring of systems and accounts, (3) inadequately enforced encryption to protect systems and data, (4) out-of-date and unsupported hardware and software, and (5) insufficient implementation and enforcement of effective policies and procedures as part of the IRS's security management program.

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, 2020 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 financial statements. 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 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
December 30, 2020

MANAGEMENT'S RESPONSE TO INDEPENDENT AUDITORS' REPORT

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

December 30, 2020

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 2020 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 21st 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 2020 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, 2020 and 2019

(in millions)	2020	2019
ASSETS		
Intra-governmental Assets		
Fund Balance (Note 2)	$ **896,385**	$ 415,327
Loans and Interest Receivable (Note 3)	**1,734,916**	1,581,019
Advances to Trust Funds (Note 4)	**37,166**	3,152
Due From the General Fund (Note 4)	**27,093,930**	22,855,331
Other Intra-governmental Assets	**1,218**	1,011
Total Intra-governmental Assets	**29,763,615**	24,855,840
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	**1,838,365**	441,365
Gold and Silver Reserves (Note 6)	**11,062**	11,062
Reserve Position in the International Monetary Fund (Note 7)	**31,211**	22,955
Taxes, Interest, and Other Receivables, Net (Note 8)	**237,590**	145,878
Credit Program Receivables, Net (Note 9)	**3,704**	4,867
Loans and Interest Receivable, Net (Note 7)	**1,708**	2,525
COVID-19 Investments, Advances, Receivables, and Other (Note 10)		
Investments, Net	**108,433**	-
Advances, Net	**68,889**	-
Notes and Interest Receivable, Net	**5,320**	-
Credit Program Receivables, Net	**1,580**	-
Other Assets	**1,619**	-
Investments in Government Sponsored Enterprises (GSEs) (Note 11)	**108,910**	112,070
Investments in Multilateral Development Banks (Note 12)	**8,205**	7,773
Other Investments and Related Interest (Note 13)	**5,822**	6,631
Property, Plant, and Equipment, Net (Note 14)	**2,958**	2,870
Other Assets	**1,103**	700
Total Assets (Note 15)	$ **32,200,094**	$ 25,614,536
Heritage Assets (Note 14)		

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

Consolidated Balance Sheets

As of September 30, 2020 and 2019

(in millions)	2020	2019
LIABILITIES		
Intra-governmental Liabilities		
Federal Debt and Interest Payable (Notes 4 and 16)	$ **6,005,252**	$ 5,981,029
Other Debt and Interest Payable (Note 17)	**7,310**	8,869
Due To the General Fund (Note 4)	**3,991,781**	2,213,616
Other Intra-governmental Liabilities (Note 19)	**726**	632
Total Intra-governmental Liabilities	**10,005,069**	8,204,146
Federal Debt and Interest Payable (Notes 4 and 16)	**21,062,850**	16,839,627
Special Drawing Right Certificates Issued to the Federal Reserve (Note 5)	**5,200**	5,200
Allocation of Special Drawing Rights (Note 5)	**49,709**	48,146
Gold Certificates Issued to the Federal Reserve Banks (Note 6)	**11,037**	11,037
Refunds Payable (Notes 4 and 23)	**3,751**	2,939
D.C. Federal Pension and Judicial Retirement Actuarial Liability (Note 18)	**8,272**	8,398
Other Liabilities (Note 19)	**6,865**	5,467
Total Liabilities (Note 19)	**31,152,753**	25,124,960
Commitments and Contingencies (Note 27)		
NET POSITION		
Unexpended Appropriations:		
Funds from Dedicated Collections (Note 24)	**200**	200
Other Funds	**903,758**	419,396
Subtotal	**903,958**	419,596
Cumulative Results of Operations:		
Funds from Dedicated Collections (Note 24)	**48,844**	46,351
Other Funds	**94,539**	23,629
Subtotal	**143,383**	69,980
Total Net Position - Funds from Dedicated Collections (Combined Totals) (Note 24)	**49,044**	46,551
Total Net Position - Other Funds (Combined Totals)	**998,297**	443,025
Total Net Position (Note 20)	**1,047,341**	489,576
Total Liabilities and Net Position	$ **32,200,094**	$ 25,614,536

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

Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2020 and 2019

(in millions)	2020	2019
Cost of Treasury Operations:		
Financial Program		
Gross Cost	**$ 6,187**	$ 6,214
Less Earned Revenue	**(3,749)**	(3,446)
Net Program Cost	**2,438**	2,768
Economic Program		
Gross Cost	**137,590**	22,423
Less Earned Revenue	**(12,200)**	(9,488)
Net Program Cost	**125,390**	12,935
Security Program		
Gross Cost	**355**	432
Less Earned Revenue	**(7)**	(5)
Net Program Cost	**348**	427
Total Program Gross Costs	**144,132**	29,069
Total Program Gross Earned Revenues	**(15,956)**	(12,939)
Total Net Program Cost before Changes in Actuarial Assumptions	**128,176**	16,130
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	**311**	500
Total Net Cost of Treasury Operations (Note 21)	**128,487**	16,630
Non-Entity Costs:		
Federal Debt Interest	**526,814**	570,948
Restoration of Foregone Federal Debt Interest (Note 16)	**116**	2,371
Less Interest Revenue from Loans	**(53,561)**	(44,385)
Net Federal Debt Interest Costs	**473,369**	528,934
Other Federal Costs, Net (Note 21)	**32,749**	12,016
GSEs Non-Entity Cost (Revenue), Net (Note 11)	**3,160**	(14,199)
COVID-19 Non-Entity Revenue, Net (Note 10)	**(5,832)**	-
Other, Net	**(690)**	(761)
Total Net Non-Entity Costs	**502,756**	525,990
Total Net Cost of Treasury Operations and Non-Entity Costs	**$ 631,243**	$ 542,620

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, 2020 and 2019

(in millions)	2020	2019
UNEXPENDED APPROPRIATIONS (Notes 20 and 24)		
Beginning Balance	$ **419,596**	$ 425,992
Budgetary Financing Sources		
Appropriations Received (Notes 10 and 20)	**1,273,854**	600,585
Appropriations Transferred In/Out	**60**	-
Other Adjustments (Note 20)	**(12,802)**	(10,433)
Appropriations Used (Note 10)	**(776,750)**	(596,548)
Total Budgetary Financing Sources	**484,362**	(6,396)
Total Unexpended Appropriations	**903,958**	419,596
CUMULATIVE RESULTS OF OPERATIONS (Notes 20 and 24)		
Beginning Balance	**69,980**	69,821
Budgetary Financing Sources		
Appropriations Used (Notes 10 and 20)	**776,750**	596,548
Non-Exchange Revenue	**481**	427
Donations and Forfeitures of Cash/Equivalent	**239**	600
Transfers In/Out Without Reimbursement	**(187)**	(766)
Other	**105**	233
Other Financing Sources (Non-Exchange)		
Donation/Forfeiture of Property	**93**	74
Accrued Interest and Discount on Debt	**1,505**	8,030
Imputed Financing Sources (Note 21)	**666**	807
Transfers to the General Fund and Other (Note 20)	**(75,006)**	(63,174)
Total Financing Sources	**704,646**	542,779
Net Cost of Treasury Operations and Non-Entity Costs	**(631,243)**	(542,620)
Net Change	**73,403**	159
Cumulative Results of Operations	**143,383**	69,980
Net Position	$ **1,047,341**	$ 489,576

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

Combined Statement of Budgetary Resources
For the Fiscal Year Ended September 30, 2020

(in millions)	Budgetary	Non-Budgetary Financing	2020 Total
BUDGETARY RESOURCES			
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 22)	$ 319,493	$ 78	$ 319,571
Appropriations (discretionary and mandatory) (Notes 10 and 20)	1,260,677	-	1,260,677
Borrowing authority (discretionary and mandatory) (Note 22)	-	188,664	188,664
Spending authority from offsetting collections (discretionary and mandatory)	10,466	26,403	36,869
Total Budgetary Resources	$ 1,590,636	$ 215,145	$ 1,805,781
STATUS OF BUDGETARY RESOURCES			
New obligations and upward adjustments (Note 10)	$ 819,600	$ 215,000	$ 1,034,600
Unobligated balance, end of year:			
Apportioned, unexpired accounts	747,266	29	747,295
Exempt from apportionment, unexpired accounts	1,754	-	1,754
Unapportioned, unexpired accounts	21,604	116	21,720
Unexpired unobligated balance, end of year	770,624	145	770,769
Expired unobligated balance, end of year	412	-	412
Unobligated balance, end of year	771,036	145	771,181
Total Status of Budgetary Resources	$ 1,590,636	$ 215,145	$ 1,805,781
OUTLAYS, NET, AND DISBURSEMENTS, NET			
Outlays, net (discretionary and mandatory)	$ 786,215		$ 786,215
Distributed offsetting receipts	(67,964)		(67,964)
Agency Outlays, Net (Discretionary and Mandatory)	$ 718,251	-	$ 718,251
Disbursements, net (mandatory)		$ 85,859	$ 85,859

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) (Note 22)	$ 314,985	$ 19	$ 315,004
Appropriations (discretionary and mandatory) (Note 20)	606,913	-	606,913
Borrowing authority (discretionary and mandatory) (Note 22)	-	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, AND DISBURSEMENTS, NET			
Outlays, net (discretionary and mandatory)	$ 606,826		$ 606,826
Distributed offsetting receipts	(68,686)		(68,686)
Agency Outlays, Net (Discretionary and Mandatory)	$ 538,140	-	$ 538,140
Disbursements, net (mandatory)		$ (202)	$ (202)

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

Statements of Custodial Activity
For the Fiscal Years Ended September 30, 2020 and 2019

(in millions)	2020	2019
Sources of Custodial Revenue (Note 23)		
Individual Income and FICA Taxes	$ **3,127,540**	$ 3,176,406
Corporate Income Taxes	**263,563**	277,058
Estate and Gift Taxes	**18,198**	17,565
Excise Taxes	**92,058**	100,566
Railroad Retirement Taxes	**5,173**	6,219
Unemployment Taxes	**6,282**	6,438
Deposit of Earnings, Federal Reserve System	**81,880**	52,793
Fines, Penalties, Interest and Other Revenue	**5,453**	5,591
Total Revenue Received	**3,600,147**	3,642,636
Less Refunds and Other Payments (Note 10)	**(736,532)**	(452,434)
Net Revenue Received	**2,863,615**	3,190,202
Non-Cash Accrual Adjustment	**90,818**	86,298
Total Custodial Revenue	**2,954,433**	3,276,500
Disposition of Custodial Revenue (Note 23)		
Amounts Provided to Fund Non-Federal Entities	**477**	454
Amounts Provided to Fund the Federal Government	**2,863,138**	3,189,748
Non-Cash Accrual Adjustment	**90,818**	86,298
Total Disposition of Custodial Revenue	**2,954,433**	3,276,500
Net Custodial Revenue	$ **-**	$ -

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

NOTES TO THE 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 Pandemic Recovery (SIGPR), 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 15), 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 criteria for consolidation as described in Statement of Federal Financial Accounting Standards (SFFAS) No. 47, *Reporting Entity*. We have determined that none of our significant equity investments meet such criteria for consolidation. 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. Certain presentations and disclosures may 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) 2020 and 2019 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 2019 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.

The Coronavirus Disease 2019 (COVID-19) notes and interest receivable represent the principal and related interest receivable on promissory notes received in connection with providing financial assistance to air carriers, cargo air carriers, and airline contractors to support ongoing employment of their aviation workers under the *Coronavirus Aid, Relief, and Economic Security Act of 2020* (CARES Act) (refer to Note 10). Interest revenue on the promissory notes is accrued as earned over the life of the notes. The notes include a Payment-In-Kind (PIK) option in which borrowers may elect to pay the interest in-kind, capitalizing the interest due to the principal amount of the note, instead of paying the interest in cash. We increase the principal balance of the note and reduce interest receivable by the amount of unpaid interest when this PIK election is made by borrowers.

This receivable is an asset of the U.S. government and we are precluded from using the cash proceeds realized from the financial instruments received. We report the non-entity receivable net of an allowance for loss, which reflects our best estimate of the amount of credit losses experienced within the existing portfolio of promissory notes, within the "*COVID-19: Notes and Interest Receivable, Net"* line of the Consolidated Balance Sheets. We annually assess this estimated credit loss amount by deriving the fair value of these notes and determining the extent to which credit factors (such as historical loss experience, delinquencies, and note restructurings) reduced the value of these receivables from their face value to their lower net realizable value. The fair value of the notes portfolio was derived as the present value of the expected future cash flows of the notes (including disbursements, repayments, interest, defaults, and recoveries). We recognize the receivable and related interest as a non-entity exchange transaction within the "*COVID-19 Non-Entity Revenue, Net*" line of the Consolidated Statements of Net Cost. This receivable also results in a corresponding increase to "*Due To the General Fund*."

E. Advances to Trust Funds

Advances to the Unemployment Trust Fund

The General Fund issues advances to the Department of Labor's (DOL) Unemployment Trust Fund for states to pay unemployment benefits. The Fiscal Service accounts for the advances issued on behalf of the General Fund. As outlined in 42 United States Code (USC) 1323, *Repayable Advances to Federal Unemployment Account*, these advances bear an interest rate that is computed as the average interest rate as of the end of the calendar month preceding the issuance date of the advance for all interest-bearing obligations of the U.S. that form the public debt, to the nearest lower 1/8 of 1.0 percent. Interest on the advances is due on September 30 of each year. DOL repays advances when the Secretary, in consultation with the Secretary of the DOL, determines that the balance in the Unemployment Trust Fund is adequate to allow repayment.

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 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. Taxes receivable also consist of unpaid taxes related to Internal Revenue Code (IRC) section 965 which requires 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. IRC 965(h) allows taxpayers to elect to pay their 965(h) tax on an eight-year installment schedule. Additionally, taxes receivable includes employer's deferred share of the Social Security portion of the *Federal Insurance Contributions Act* (FICA), and the employer's and employee representative's share of the Railroad Retirement Tax (RRTA). Pursuant to Section 2302 of the CARES Act, employers are allowed to defer payment, without penalty, of these portions of FICA and RRTA.

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). Our credit programs also include loans associated with emergency relief efforts in response to the COVID-19 pandemic. These COVID-19 related loans are presented separately on the Consolidated Balance Sheets as *"COVID-19: Credit Program Receivables, Net"* (refer to Note 10).

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;
- Observed market prices;
- 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;
- Modeled asset prices from third-party market sources.

The recorded subsidy cost associated with each of our credit programs represents the difference between disbursed amounts and the net present value of future cash flows we anticipate receiving. The subsidy allowance 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

COVID-19: Investments, Net

In response to the COVID-19 pandemic, we hold equity investments in Special Purpose Vehicles (SPVs) established by the Federal Reserve Board of Governors (Federal Reserve Board or Board) through the Federal Reserve Bank of New York (FRBNY) and Federal Reserve Bank of Boston (FRBB) for the purpose of enhancing the liquidity of the U.S. financial system (refer to Note 10). We present these non-federal investment holdings at their fair value within the "*COVID-19: Investments, Net"* line of the Consolidated Balance Sheets. We record changes in the valuation of these investments as entity exchange transactions on the Consolidated Statements of Net Cost.

COVID-19: Investments, Net also consists of warrants held for the purchase of common stock received as compensation from recipients of financial assistance provided to support ongoing employment of aviation workers during the pandemic under Section 4117 of the CARES Act (refer to Note 10). The warrants are assets of the U.S. government and we are precluded from using the cash proceeds realized from the financial instruments received. We present these non-entity, non-federal investment holdings at their fair value within the "*COVID-19: Investments, Net"* line of the Consolidated Balance Sheets. These investments and related fair valuation changes also result in a corresponding "*Due To the General Fund*" liability, as we hold the investment on behalf of the General Fund. We report the investment revenue, as well as changes in valuation, as non-entity, exchange transactions within the "*COVID-19 Non-Entity Revenue, Net*" line of the Consolidated Statements of Net Cost.

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 which are accrued 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 range 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, 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).

We committed funds as credit support to the Federal Reserve Board who established emergency liquidity lending facilities to enhance overall liquidity of the U.S. financial system. We satisfied a portion of our commitment by acquiring preferred equity interests in SPVs (or transferring funds into an FRBNY demand deposit account) and, as of September 30, 2020, may be required to increase our SPV equity interest or FRBNY demand deposit account holdings up to our committed amounts as stipulated by the liquidity lending facility agreements. We also entered into direct loan agreements with certain passenger airlines and a national security business which are permitted to borrow in more than one installment up to their maximum available borrowing amount. We are committed to disburse the amounts remaining available for future borrowing as of September 30, 2020 under these loan agreements. We only recognize a liability related to our liquidity lending facilities or passenger airlines and national security business loan commitments if, on or before September 30, an undisbursed committed amount has been authorized and approved for disbursement subsequent to September 30 (refer to Note 10). Otherwise, we disclose the nature and amount of our existing commitments (refer to Note 27).

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 11), and loss contingencies that may arise from claims, assessments, litigations, fines, penalties, and other sources (refer to Note 27).

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 that are permanent resources to the U.S. 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. The SDR allocations are permanent resources to the U.S. as well, but we account for these allocations as a liability since the U.S. is obligated to repay the allocation amount to the IMF under the following circumstances: withdrawal by the U.S. from IMF membership or termination of its position in the SDR Department of the IMF, 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*, as amended, authorizes the Secretary to issue certificates, not to exceed the value of SDRs held against the certificates, to the FRBs 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 FRBs at their face value which approximates their carrying value since, under the terms of the arrangements with the Federal Reserve Board, 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 14.2 percent and 16.0 percent for regular employees, and between 31.6 percent and 33.4 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. OCC also is the administrator for a private defined benefit retirement plan which participates in the Pentegra Defined Benefit Plan for Financial Institutions, a multiple employer plan that provides retirement, disability, and death benefits for certain retired employees who meet eligibility requirements. In addition to the TSP, the OCC, sponsors a 401(k) plan, in which the OFR also participates.

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 the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund) and the District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund (the D.C. Federal Pension Fund) retirement plans (refer to Note 18). The actuarial cost method used to determine costs and actuarial liability for the Judicial Retirement Fund is the Individual Entry Age Normal Cost Method, which approximates the methodology specified by the Aggregate Entry Age Normal Actuarial Cost Method. The actuarial cost method used to determine the cost and actuarial liability for the D.C. Federal Pension Fund is the Projected Unit Credit Cost 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 actuarial liability of the Judicial Retirement Fund and D.C. Federal Pension Fund 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 discount rate assumption, OPM and the Judicial Retirement Fund and D.C. Federal Pension Fund use the same underlying yield curve, but the averaging periods differ and, unlike the D.C. Federal Pension Fund, 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 orders or sign contracts 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, refundable tax credits and related interest. 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.

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, COVID-19 related investments, 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.

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, 2020 the effects of any new developments that may have occurred subsequent to September 30, 2020. 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. The following is a discussion of certain significant transactions subject to estimation.

Credit Program Receivables, Net

We account for all our credit program receivables in accordance with credit reform accounting (refer to the accounting policy above entitled "*Credit Program Receivables, Net,*" and Notes 9 and 10). 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.

Investments

The annual valuation as of September 30 of the SPV preferred equity investments and common stock warrants primarily comprising the "*COVID-19: Investments, Net*" line item on the Consolidated Balance Sheets also incorporates various forecasts, projections and cash flow analyses to develop an estimate of the assets' fair value. The fair value of our SPV preferred equity investments and common stock warrants that are closely held are estimated based on a discounted cash flow valuation methodology, whereby the primary input is the present value of the projected annual cash flows associated with these investments. The primary input into our common stock warrants investments that are publicly held is the market value of the underlying shares of common stock of those warrants. We evaluate the need for adjusting our market-based valuation of these warrants for the effects, if any, of significant events occurring after the close of the market but before the end of the measurement date. Note 10 includes a detailed discussion of the results of the asset valuation.

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 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. Note 11 includes a detailed discussion of the results of the asset valuation and estimated liability assessment.

For both our COVID-19 and GSE investments, 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 our equity investments as usual and recurring.

Liabilities

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 certain liabilities of our CARES Act programs, as well as liabilities related to our funding commitment to the GSEs under the SPSPAs. As stipulated by the CARES Act, excess residual proceeds realized from our SPV capital contributions and direct loans to air carriers and national security businesses must be remitted to the Federal Old-Age and Survivors Insurance Trust Fund (refer to Note 10). We estimate and record the net present value of this potential liability, if any, based on the probable future occurrence of excess cash flows received above the full recovery of our costs associated with these programs. This calculation is subject to the same sensitivities as those related to our credit reform modeling discussed above.

Liability to the GSEs 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 (refer to Note 11).

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 that the cost of the investment is recoverable does outweigh 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 13). Our following programs entail credit risk: monetary assets held; investments, direct loans and other receivables related to our COVID-19, CDFI, SBLF, and TARP programs, as well as committed but undisbursed direct loans and/or funding commitments related to our COVID-19 and GSE programs; and GSE obligations obtained under the HFA initiative (the New Issue Bond Program).

Our activities generally focus on the underlying problems in the credit markets. We developed these programs, or provided credit support to the pandemic emergency relief programs of the Federal Reserve Board, 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, 11, and 27).

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 Treasury 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 DOL, Department of Housing and Urban 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 26.

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, including Treasury bureaus and other reporting entities, meeting the following "principles for inclusion" when considered 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, 2020.

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, 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

Federal Reserve Board of Governors

The Board is an independent regulatory organization governed by seven members appointed by the President and confirmed by the Senate. The full term of a Board member is 14 years, and the appointments are staggered so that one term expires on January 31 of each even-numbered year. The Board 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 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. The Board'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, 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 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 policy to transfer their excess earnings to us on behalf of the U.S. government (refer to Notes 8 and 23).

Federal Open Market Committee

The FOMC is comprised of the seven Board 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.

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 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 $6.8 billion for all FRBs, in accordance with the provisions of the *Economic Growth, Regulatory Relief, and Consumer Protection Act* (P.L. 115-174).

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. 115-174, 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 $6.8 billion aggregate surplus funds limitation, an FRB will suspend its payments to us until such earnings become sufficient. The FRB residual earnings of $81.9 billion and $52.8 billion for fiscal years ended September 30, 2020 and 2019, respectively, are reported as custodial revenues on our Statements of Custodial Activity. They constituted 2.3 percent and 1.4 percent of our total custodial revenues collected in FY 2020 and 2019, 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).

FRB-Managed Special Purpose Vehicles – Liquidity Lending Facilities

In response to the COVID-19 pandemic, we hold equity investments in SPVs established by the Federal Reserve Board through the FRBNY and FRBB for the purpose of enhancing the liquidity of the U.S. financial system. Our involvement in these programs represents non-permanent intervention activities designed to help mitigate the economic impacts of the pandemic. Accordingly, our equity interests in these SPVs meet the SFFAS No. 47 criteria for classifying our SPV investments as disclosure entities. 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).

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 11).

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 190 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 27 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 12 and 27 for a further description of our relationship, financial risk, and activities with the MDBs).

2. FUND BALANCE

Fund Balance is increased by receiving appropriations, reappropriations, continuing resolutions, appropriation restorations, and allocations; and when transfers and reimbursements from other federal agencies are received. Fund Balance can also be increased by amounts borrowed from the Fiscal Service, FFB, other federal entities, and by amounts collected and credited to appropriation or fund accounts.

Likewise, Fund Balance is reduced when disbursements are made to pay liabilities or to purchase assets, goods, and services; investments in U.S. securities (securities issued by Fiscal Service or other federal agencies); when expired appropriations are cancelled, transfers and reimbursements to other federal entities or non-federal entities, to the General Fund; and due to sequestration or rescission of appropriations.

STATUS OF FUND BALANCE

As of September 30, 2020 and 2019, the status of the fund balance consisted of the following:

(in millions)	2020	2019
Unobligated Balance - Available	**$ 749,049**	$ 274,609
Unobligated Balance - Not Available	**22,132**	40,740
Obligated Balance Not Yet Disbursed	**176,989**	62,132
Subtotal	**948,170**	377,481
Adjustment for Borrowing Authority	**(99,676)**	(6,248)
Adjustment for ESF	**(84,518)**	(93,195)
Adjustment for Intra-Treasury Investments	**(8,975)**	(8,697)
Adjustment for IMF	**120,688**	127,304
Adjustment for Authority Unavailable for Obligations	**17,020**	16,442
Other Adjustments	**3,676**	2,240
Total Status of Fund Balance	**$ 896,385**	$ 415,327

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. The significant changes in Unobligated Balance Available and Obligated Balance Not Yet Disbursed are due to the receipt of COVID-19 related appropriations provided by the CARES Act during fiscal year 2020. Of the total appropriations of $975.0 billion obtained via the CARES Act, $472.4 billion and $106.8 billion of appropriations were included in Unobligated Balance Available and Obligated Balance Not Yet Disbursed as of September 30, 2020, respectively (refer to Note 10).

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 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. The significant increase in borrowing authority is pursuant to the CARES Act in response to the COVID-19 pandemic (refer to Note 10);

- 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. The change in Adjustments for ESF is primarily due to ESF uninvesting overnight securities totaling $11.5 billion to support certain COVID-19 related programs (refer to Note 10);
- 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 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, 2020 and 2019, 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, 2020 and 2019, entity intra-governmental loans (issued by FFB) and interest receivable consisted of the following:

(in millions)	Loans Receivable	Interest Receivable	2020 Total	Loans Receivable	Interest Receivable	2019 Total
Department of Agriculture	$ **46,652**	$ **29**	$ **46,681**	$ 46,289	$ 525	$ 46,814
Department of Energy	**15,807**	**74**	**15,881**	14,817	76	14,893
United States Postal Service[(1)]	**14,000**	**40**	**14,040**	11,000	43	11,043
Department of Housing & Urban Development	**2,364**	**7**	**2,371**	1,969	7	1,976
Department of Education	**1,503**	**13**	**1,516**	1,482	13	1,495
Other Agencies	**330**	**1**	**331**	4	-	4
Total Entity Intra-governmental	$ **80,656**	$ **164**	$ **80,820**	$ 75,561	$ 664	$ 76,225

(1) The United States Postal Service (USPS) experienced an operating deficit in both FY 2020 and FY 2019. 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, 2020 and 2019, 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	2020 Total	Loans Receivable	Interest Receivable	2019 Total
Department of Education	**$ 1,249,870**	**$ -**	**$ 1,249,870**	$ 1,287,511	$ -	$ 1,287,511
Small Business Administration	**176,174**	**-**	**176,174**	11,810	-	11,810
Department of Agriculture	**96,450**	**-**	**96,450**	90,753	-	90,753
Department of Housing and Urban Development	**51,852**	**-**	**51,852**	30,409	-	30,409
Department of Homeland Security	**20,596**	**-**	**20,596**	20,596	-	20,596
Department of Transportation	**16,682**	**-**	**16,682**	20,756	-	20,756
Export Import Bank of the U.S.	**15,388**	**-**	**15,388**	16,946	-	16,946
Department of Energy	**6,632**	**28**	**6,660**	6,104	32	6,136
Department of Labor	**6,395**	**1**	**6,396**	5,958	-	5,958
US International Development Finance Corporation	**4,678**	**-**	**4,678**	3,829	-	3,829
Railroad Retirement Board	**4,384**	**39**	**4,423**	3,934	48	3,982
Executive Office of the President/ Security Assistance Accounts	**1,756**	**-**	**1,756**	3,114	-	3,114
Department of Defense	**1,663**	**-**	**1,663**	1,714	-	1,714
Other Agencies	**1,508**	**-**	**1,508**	1,280	-	1,280
Total Non-Entity Intra-governmental	**$ 1,654,028**	**$ 68**	**$ 1,654,096**	$ 1,504,714	$ 80	$ 1,504,794
Total Intra-governmental Loans and Interest Receivable (Entity and Non-Entity)	**$ 1,734,684**	**$ 232**	**$ 1,734,916**	$ 1,580,275	$ 744	$ 1,581,019

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, 2020 and 2019, the General Fund liabilities we owed exceeded the assets held on behalf of the General Fund by $23.1 trillion and $20.6 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, 2020 and 2019, Due From the General Fund included the following non-entity liabilities:

Liabilities Requiring Funding from the General Fund (in millions)	2020	2019
Federal Debt and Interest Payable - Held by the Public (Note 16)	**$ 21,062,850**	$ 16,839,627
Federal Debt and Interest Payable - Intra-governmental (Note 16)	**6,005,252**	5,981,029
Refunds Payable (Note 23)	**3,751**	2,939
Adjustment for Eliminated Liabilities	**22,077**	31,736
Total Due From the General Fund	**$ 27,093,930**	$ 22,855,331

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, 2020 and 2019, Due To the General Fund included the following non-entity assets:

Assets to be Distributed to the General Fund (in millions)	2020	2019
Fund Balance	**$ 2,539**	$ 1,875
Loans and Interest Receivable - Intra-governmental (Note 3)	**1,654,096**	1,504,794
Advances to Trust Funds	**37,166**	3,152
Cash Due To the General Fund (Held by the Department) (Note 5)	**1,769,916**	376,136
Taxes and Other Non-Entity Receivables Due To the General Fund	**237,346**	145,717
Credit Reform Downward Subsidy Re-estimates	**13,025**	106
COVID-19 Investments, Credit Program Receivables, and Other (Note 10)		
Investments, Net	**487**	-
Notes and Interest Receivable, Net	**5,320**	-
Investments in Government Sponsored Enterprises (Note 11)	**108,910**	112,070
Adjustment for Eliminated Assets	**161,647**	68,646
Other	**1,329**	1,120
Total Due To the General Fund	**$ 3,991,781**	$ 2,213,616

The assets to be distributed to the General Fund do not represent all of the non-entity assets we manage. Refer to Note 15 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.

The Advances to Trust Funds consists of Advances to the Unemployment Trust Fund and Advances to the Federal Supplementary Medical Insurance Trust Fund. The General Fund issues advances to the DOL's Unemployment Trust Fund to disburse to states for unemployment benefits. We transfer DOL's repayment of these advances to the General Fund. Advances to the Unemployment Trust Fund grew by $36.0 billion largely due to an increase in unemployment claims due to the COVID-19 pandemic. The *Bipartisan Budget Act of 2015* (P.L. 114-74) authorized a transfer from the General Fund to HHS' Federal Supplementary Medical Insurance Trust Fund to temporarily replace the reduction in Medicare Part B participants' premiums. 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, 2020 and 2019 were as follows:

(in millions)	2020	2019
Entity:		
Cash	**$ 90**	$ 74
Foreign Currency and Foreign Currency Denominated Assets	**15,867**	14,032
Other Monetary Assets:		
Special Drawing Right Holdings	**51,740**	50,054
U.S. Dollars Held in Cash by the IMF	**365**	304
Total Entity	**68,062**	64,464
Non-Entity:		
Operating Cash of the U.S. government	**1,769,869**	376,070
Foreign Currency	**134**	100
Miscellaneous Cash Held by All Treasury Reporting Entities	**300**	731
Total Non-Entity	**1,770,303**	376,901
Total Cash, Foreign Currency, and Other Monetary Assets	**$ 1,838,365**	$ 441,365

We hold non-entity operating and other miscellaneous cash due to the General Fund which consisted of the following as of September 30, 2020 and 2019:

(in millions)	2020	2019
Operating Cash - FRB Account	**$ 1,781,679**	$ 382,483
Outstanding Checks	**(11,810)**	(6,413)
Total Operating Cash of the U.S. government	**1,769,869**	376,070
Miscellaneous Cash	**51**	70
Subtotal	**1,769,920**	376,140
Amounts Due to the Public	**(4)**	(4)
Total Cash Due to the General Fund (Note 4)	**$ 1,769,916**	$ 376,136

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, 2020 and 2019 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 $15.9 billion and $14.0 billion as of September 30, 2020 and 2019, 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, 2020 and 2019. 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, 2020 and 2019, the total amount of SDR holdings of the U.S. (including interest receivable) was the equivalent of $51.7 billion and $50.1 billion, respectively. As of September 30, 2020 and 2019, the total value of SDR allocations to the U.S. was the equivalent of $49.7 billion and $48.1 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. The Operating Cash of the U.S. government grew by $1.4 trillion largely due to an increase in federal debt cash proceeds received from the increased issuance of Treasury Bills.

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, 2020 and 2019, the values of gold and silver reserves consisted of the following:

	FTOs	Statutory Rate	2020 Statutory Carrying Value (in millions)	Market Rate Per FTO	2020 Market Value (in millions)
Gold	**248,046,116**	**$ 42.2222**	**$ 10,473**	**$ 1,886.90**	**$ 468,038**
Gold Held by Federal Reserve Banks	**13,452,811**	**$ 42.2222**	**568**	**$ 1,886.90**	**25,384**
Total Gold	**261,498,927**		**11,041**		**493,422**
Silver	**16,000,000**	**$ 1.2929**	**21**	**$ 23.73**	**380**
Total Gold and Silver Reserves			**$ 11,062**		**$ 493,802**

	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

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 separate 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, 2020 and 2019, 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)	2020	2019
Letter of Credit (1)	**$ 85,387**	$ 90,033
Reserve Position (2)	**31,211**	22,955
Total U.S. Quota in the IMF	**$ 116,598**	$ 112,988

(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, 2020 and 2019, the U.S. quota reflects a net upward adjustment in value of $3.6 billion and a net downward adjustment in value of $2.7 billion, respectively, due to the depreciation and appreciation of the U.S. dollar against the SDR, respectively.

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 the NAB. 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, 2020 and 2019 was SDR 28.2 billion, which was equivalent to $39.7 billion and $38.4 billion respectively. As of September 30, 2020 and 2019, under the U.S. NAB arrangement with the IMF, there was $1.7 billion and $2.5 billion, respectively, of U.S. loans outstanding which were reported as "*Loans and Interest Receivable*" on the Consolidated Balance Sheets.

In accordance with P.L. 116-136, the Secretary is authorized to make additional loans not to exceed the dollar equivalent of SDR 28.2 billion to carry out the purposes of a decision of the IMF to expand the resources of the NAB, provided that prior to the activation of the NAB, the Secretary must have reported to Congress whether supplemental resources are needed to forestall or cope with an impairment of the international monetary system and whether the IMF has fully explored other means of funding. The Managing Director of the IMF formally requested an increase of the NAB in January 2020, which would increase U.S. participation in the NAB by an additional SDR 28.2 billion. The U.S. issued its consent to the NAB increase in May 2020. The NAB increase is scheduled to take effect January 1, 2021.

8. Taxes, Interest, and Other Receivables, Net

As of September 30, 2020 and 2019, Taxes, Interest, and Other Receivables, Net consisted of the following:

(in millions)	2020	2019
Non-Entity		
Federal Taxes Receivable, Gross	**$ 427,251**	$ 369,257
Less Allowance on Taxes Receivable	**(191,246)**	(225,251)
Receivable on FRB Deposits of Earnings	**162**	603
Other Receivables	**1,324**	1,247
Less Allowance on Other Receivables	**(134)**	(127)
Total Non-Entity (Note 15)	**237,357**	145,729
Entity		
Miscellaneous Entity Receivables and Related Interest	**233**	149
Total Taxes, Interest, and Other Receivables, Net	**$ 237,590**	$ 145,878

Federal taxes receivable constitutes the largest portion of these receivables, with IRS-related federal taxes receivable representing the majority of the balance. IRS federal taxes receivable 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. These receivables also include non-delinquent IRC 965(h) amounts and, in FY 2020, employers' deferred share of the Social Security portion of FICA and both the employers' and employee representatives' share of the RRTA, as provided by Section 2302 of the CARES Act. The growth in the *Federal Taxes Receivable, Gross* amount is largely due to the increase in non-delinquent IRC 965(h) amounts, and the inclusion in FY 2020 of the FICA and RRTA deferred amounts mentioned above for which employers may defer payment, without penalty, under the CARES Act.

Federal taxes receivable is reduced by an allowance for doubtful accounts which we established to represent an estimate for uncollectible amounts. The decrease in IRS's allowance on taxes receivable is primarily the result of a change in collectability methodology for Section 965(h) taxes receivable. 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, 2020 and 2019, respectively, gross receivables related to criminal restitution orders we monitored were $3.5 billion and $3.1 billion, of which we determined $0.4 billion and $0.4 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, 2020 and 2019, Credit Program Receivables, Net consisted of the following:

(in millions)		2020		2019
State and Local Housing Finance Agency Program (GSE sponsored)	**$**	**2,395**	$	3,684
Other (1)		**1,309**		1,183
Total	**$**	**3,704**	$	4,867

(1) Includes CDFI, SBLF, and TARP credit program receivables valued at $1.2 billion, $46 million and $16 million, respectively, as of September 30, 2020, and $1.1 billion, $48 million, and $23 million, respectively, as of September 30, 2019.

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, 2020 and 2019, the HFA net credit program receivable of $2.4 billion and $3.7 billion, respectively, included a positive subsidy allowance of $395 million and $582 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, 2020 and 2019. These re-estimates resulted in a downward re-estimate, or a decrease in the cost of the program, of $174 million and $17 million as of September 30, 2020 and 2019, respectively. The downward re-estimates in FY 2020 and 2019 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, 2020 and 2019. 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 2020 and 2019 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]		2020 TOTAL
Credit Program Receivables, Net:						
Credit Program Receivables, Gross	$	2,790	$	1,312	$	4,102
Subsidy Cost Allowance		(395)		(3)		(398)
Net Credit Program Receivables	$	2,395	$	1,309	$	3,704
New Credit Program Loans Disbursed	$	-	$	171	$	171
Obligations for Loans Not Yet Disbursed	$	-	$	451	$	451
Reconciliation of Subsidy Cost Allowance:						
Balance, Beginning	$	582	$	18	$	600
Subsidy Cost for Disbursements		-		(4)		(4)
Fees, Interest and Dividend Revenue Received		104		34		138
Net Proceeds from Sales and Repurchases of Assets in Excess (Less than) Cost		-		(17)		(17)
Subsidy Allowance Amortized [1]		(117)		(37)		(154)
Balance, Ending, Before Re-estimates		569		(6)		563
Subsidy Re-estimates		(174)		9		(165)
Balance, Ending	$	395	$	3	$	398
Re-estimates						
Interest on Re-estimate	$	(59)	$	17	$	(42)
Technical/Default Re-estimate		(115)		(8)		(123)
Total Re-estimates – Increase (Decrease) in Subsidy Cost	$	(174)	$	9	$	(165)
Reconciliation of Subsidy Costs:						
Subsidy Cost for Disbursements	$	-	$	(4)	$	(4)
Subsidy Re-estimates		(174)		9		(165)
Total Credit Program Receivables Subsidy Costs	$	(174)	$	5	$	(169)
Administrative Expense	$	1	$	3	$	4

(in millions)		HFA		Other [3]		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 (Less than) 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

(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 1.05% and 8.55%, respectively.
(3) CDFI Financial Assistance Direct Loan Program budget subsidy rates for Interest Differential and for Defaults were 1.00%, and 9.11%, respectively.

10. COVID-19 Investments, Advances, Receivables, and Other

The global spread of the COVID-19 in early spring of 2020 has resulted in a severe global health and economic crisis. In March of 2020, the Federal Reserve Board of Governors (Board) and Congress took steps to limit the damage caused by the pandemic in the U.S. by helping to reduce the financial burden on individuals and their families, minimize business and employment losses, and enhance the liquidity of the U.S. financial system. Treasury has played a critical role in the implementation and support of these actions by the Federal Reserve and Congress.

Among other things, the Board used its emergency-lending authority under Section 13(3) of the *Federal Reserve Act* (Section 13(3) hereafter) authorizing the FRBNY and the FRBB to establish liquidity lending facilities for the purpose of making loans and purchasing debt and other commercial paper of eligible entities to support key U.S. financial markets. Additionally, Congress passed the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act or the "Act"), P.L. 116-136, appropriating additional funds to Treasury to support the Board's emergency efforts, as well as to provide financial aid to U.S. individuals and businesses to counter losses. Our Exchange Stabilization Fund (ESF) utilized its core authority, the *Gold Reserve Act,* as amended, to support two of the Board's liquidity lending facilities.

Section 4027 of the CARES Act appropriated $500.0 billion to our ESF to fund the credit subsidy costs associated with making loans, loan guarantees, or investments through December 31, 2020 in support of eligible businesses, states and municipalities that incurred losses as a result of COVID-19. CARES Act Section 4003 authorized Treasury to make such loans, loan guarantees and other investments that did not, in the aggregate, exceed $500.0 billion, of which $46.0 billion was available to make direct loans and loan guarantees to passenger air carriers and certain related businesses, air cargo carriers, and businesses critical to maintaining national security, and $454.0 billion (together with any unused amounts from the $46.0 billion) was available to make loans and loan guarantees to, and investments in, programs or facilities established by the Board to provide liquidity to the financial system that supported lending to eligible businesses, states, or municipalities.

On December 27, 2020, the President signed into law the *Consolidated Appropriations Act, 2021*, which, as of the date of enactment, rescinded $429.0 billion of the $500.0 billion appropriation provided to Treasury under Section 4027 of the CARES Act and provided that the remaining unobligated appropriation as of January 9, 2021 will be rescinded as of that date other than with respect to those funds made available for administrative expenses pursuant to Section 4003(f), for the Special Inspector General for Pandemic Recovery pursuant to Section 4018(g), and for the Congressional Oversight Commission pursuant to Section 4020. Effective January 9, 2021, the statute eliminates Treasury's ability to make new loans and investments under Section 4003 of the CARES Act. In addition, the statute prohibits the Federal Reserve from engaging in further lending or extensions of credit, after December 31, 2020, through facilities established by the Federal Reserve under Section 13(3) of the *Federal Reserve Act* in which Treasury made investments under Section 4003 of the CARES Act other than a loan submitted on or before December 14, 2020, to the Main Street facilities (discussed below) for the sale of a participation interest in such loan, provided that the Main Street facilities purchase a participation interest in such loan on or before January 8, 2021. After December 31, 2020, the Federal Reserve is also prohibited from modifying the terms and conditions of any of the facilities in which Treasury made investments under the CARES Act.

Section 4112 of the CARES Act provided $32.0 billion of appropriated funds for us to make financial assistance payments to passenger air carriers, air cargo carriers, and contractors to provide payroll support for the purpose of preserving aviation jobs during the pandemic.

Section 5001 provided $150.0 billion of appropriated funds for us to make COVID-19 relief direct payments for specified use to affected states, local, territorial, and tribal governments.

Treasury, through the IRS, obtained $282.0 billion of its permanent and indefinite authority to pay recovery rebates for individuals (or Economic Impact Payments) pursuant to Section 2201 of the CARES Act. The IRS also obtained $10.0 billion of its permanent and indefinite authority pursuant to Section 2301 of the CARES Act and Sections 7001-7004 of the *Families First Coronavirus Response Act of 2020* (FFCRA) to fund tax credits associated with the Sick and Family Leave and Employee Retention Tax Credits programs.

The table below summarizes key Treasury budgetary resources and the status of those resources by program, as of September 30, 2020, enacted in response to the COVID-19 pandemic:

(in millions)	Appropriation and Other Authority (1)	Borrowing Authority and Other Adjustments (2)	Less: Obligations Incurred	Remaining Available Budgetary Resources
CARES Act Authority Used in Response to COVID-19				
Section 13(3) Federal Reserve Programs - Liquidity Lending Facilities *(Section 4003)*	$ 454,000	$ 164,835	$ (195,000)	$ 423,835
Direct Loans to Air Carriers and National Security Business *(Section 4003)*	46,000	13,656	(15,355)	44,301
Total Investments and Direct Loans	500,000	178,491	(210,355)	468,136
Payroll Support to Aviation Workers *(Section 4112)*	32,000	-	(28,206)	3,794
Coronavirus Relief Fund - Payments to States, Local, Territorial & Tribal Governments *(Section 5001)*	150,000	-	(150,000)	-
Total Relief Funding	182,000	-	(178,206)	3,794
Economic Impact Payments for Individuals *(Section 2201)*	282,000	(7,346)	(274,654)	-
Sick and Family Leave *(FFCRA Section 7001-7004)* and Employee Retention *(CARES Act Section 2301)* Tax Credits	10,000	(9,286)	(714)	-
Total Tax Provision	292,000	(16,632)	(275,368)	-
Other Program Support and Oversight (3)	1,045	25	(596)	474
Total CARES Act Authority	$ 975,045	$ 161,884	$ (664,525)	$ 472,404
Remaining Available Resources – Investments and Direct Loans(4)				
Maximum Available Per Statute (*Section 4003*)				$ 500,000
Less: Disbursements Made (using Subsidy and Borrowings)				(104,320)
Total Availability				$ 395,680
ESF Core Authority Used in Response to COVID-19				
Commercial Paper Funding Facility	$ 10,000	$ -	$ (10,000)	$ -
Money Market Mutual Fund Liquidity Facility	10,000	-	(10,000)	-
Total ESF Authority	$ 20,000	$ -	$ (20,000)	$ -

(1) *Appropriation and Other Authority includes the ESF's authority provided by the CARES Act which, together with ESF's core authority under the Gold Reserve Act, were used to finance emergency programs in response to the COVID-19 pandemic. Appropriation authority provided pursuant to the FFCRA is also included.*
(2) *Appropriation Authority is used to finance the subsidy costs associated with making the investments and direct loans in accordance with the provisions of FCRA. Borrowing Authority is used to finance the remainder of the disbursed amounts via borrowings from Fiscal Service. Other Adjustments primarily include a $16.6 billion withdrawal of unused indefinite appropriations for the tax provision programs.*
(3) *These primarily represent, among other things, the Department's program support and oversight of the CARES Act programs.*
(4) *Includes available resources for making new investments and direct loans to eligible businesses, states, and municipalities through December 31, 2020. Refer to the section below entitled "Subsequent Events" for a discussion of events that transpired after September 30, 2020.*

Section 4027 of the CARES Act provided for $500.0 billion in appropriations to finance the subsidy portion of investments and loans in support of eligible businesses, states, and municipalities. During FY 2020, we disbursed an aggregate of $104.3 billion (comprised of $102.5 billion and $1.8 billion for investments and direct loans, respectively), which we financed with $19.3 billion of the appropriation to fund the subsidy portion and $85.0 billion of Fiscal Service borrowings. As of September 30, 2020, $480.6 billion of the CARES Act appropriation remained and was reported in Fund Balance.

Section 4003 authorized Treasury to make direct loans, loan guarantees and other investments that do not, in the aggregate, exceed $500.0 billion. As previously mentioned above, Treasury disbursed $104.3 billion in FY 2020 in making investments and direct loans. After taking into consideration the $104.3 billion disbursed, $395.7 billion was available as of September 30, 2020 for making new investments and direct loans in support of eligible businesses, states, and municipalities through December 31, 2020 (refer to the section below entitled "*Subsequent Events"* for events that transpired after September 30, 2020).

In addition to the amounts already disbursed, we also had obligated but undisbursed amounts committed as of September 30, 2020 for future investment and loan disbursements totaling $106.0 billion (comprised of $92.5 billion and $13.5 billion, respectively). If disbursed, we would use $12.5 billion of the remaining $480.6 billion of the CARES Act appropriation to finance the subsidy portion of these disbursements, and finance the remaining $93.5 billion using Fiscal Service borrowings. Accordingly, when factoring in the obligated but undisbursed amounts committed, our unobligated budgetary resources available as of September 30, 2020 were $468.1 billion ($480.6 billion remaining appropriation less $12.5 billion of obligated but undisbursed subsidy). Please refer to the section below entitled "*Subsequent Events"*.

SECTION 13(3) FEDERAL RESERVE PROGRAMS

In March through July 2020, the Board, pursuant to Section 13(3) and Regulation A of the Board, authorized the FRBNY and FRBB to establish emergency liquidity lending facilities. Certain of the facilities were operationalized through Special Purpose Vehicles (SPVs) governed by Limited Liability Company (LLC) agreements between Treasury and the applicable Federal Reserve Bank (FRB). The FRBNY and FRBB established these facilities for the purpose of making loans and purchasing debt and other commercial paper of eligible entities affected by COVID-19 in an effort to provide liquidity to the U.S. financial system. As of September 30, 2020, the two FRBs had established the following LLCs: *(i)* Corporate Credit Facilities LLC (CCF), *(ii)* Main Street Facilities LLC (MSF), *(iii)* Municipal Liquidity Facility LLC (MLF), *(iv)* Term Asset-Backed Securities II LLC (TALF), and *(v)* Commercial Paper Funding Facility II LLC (CPFF). The FRBB also established the Money Market Mutual Fund Liquidity Facility (MMLF) for similar purposes as the SPVs, but with a structure that differs from that of the SPVs (as later discussed in the description of this program below).

The SPVs purchase assets and offer loans collateralized by corporate bonds, commercial paper, asset-backed securities, and municipal debt and loans to certain eligible states, municipalities, businesses and non-profit organizations affected by COVID-19. The FRBNY and FRBB contributed $10.00 in cash to capitalize each SPV they established. Additionally, the FRBNY and FRBB make loans to the SPVs, on a recourse basis, to fund the SPVs' purchase of assets from, or loans made to, eligible U.S. issuers and businesses with certain assets as collateral. As the managing member of each SPV, FRBNY or FRBB, as applicable, has the exclusive right to manage the business of the SPV and has all powers and rights necessary to carry out the purposes and business of the SPV. The FRBNY and FRBB will continue to fund each SPV until the SPV's underlying assets mature or are sold or distributed.

We provided equity to each SPV to protect the FRBNY and FRBB from potential losses from financing the facilities. We provided this protection by committing and contributing capital in the form of cash to the SPVs in exchange for a preferred equity interest in the SPVs. To the extent the FRBNY and FRBB experience losses, our preferred equity accounts absorb such losses up to the maximum amounts per the terms of the LLC agreements. As a preferred equity member, we have no voting, consent, or control rights over the SPV. The managing member and preferred equity member are the sole members of the SPVs.

(in millions)	FRB Manager	Total Treasury Commitment	Disbursed as of 9/30/20	Available for Future Disbursement
Corporate Credit Facilities LLC (1)	FRBNY	$ **75,000**	$ **37,500**	$ **37,500**
Main Street Facilities LLC (1)	FRBB	**75,000**	**37,500**	**37,500**
Municipal Liquidity Facility LLC (1)	FRBNY	**35,000**	**17,500**	**17,500**
Term Asset-Backed Securities II LLC (1)	FRBNY	**10,000**	**10,000**	**-**
Commercial Paper Funding Facility II LLC	FRBNY	**10,000**	**10,000**	**-**
Money Market Mutual Fund Liquidity Facility	FRBB	**10,000**	**1,500**	**8,500**
Total 13(3) Facilities		**$ 215,000**	**$ 114,000**	**$ 101,000**

(1) Consistent with the enactment of the Consolidated Appropriations Act, 2021, on December 29, 2020, Treasury and the Federal Reserve amended the SPV LLC Agreements for each of the SPVs funded under the CARES Act to, among other things, change the terms of our commitments (refer to the section entitled "Subsequent Events").

We funded the disbursed amounts for both the CPFF and MMLF credit facilities using ESF core funds. These core funds are exempt from apportionment, and were previously invested in overnight, nonmarketable U.S. Treasury securities (refer to Note 2). For all other credit facilities, we funded the disbursed amounts utilizing, in part, the $454.0 billion of funds appropriated under Section 4027 that the ESF, under Section 4003(a) of the CARES Act, is authorized to use to make loans, loan guarantees and other investments in programs or facilities established by the Board. In accordance with Section 4003(a) of the CARES Act, these appropriated funds are to be used to provide the subsidy amounts necessary for such loans, loan guarantees, and other investments in accordance with the provisions of FCRA. The remainder of the disbursed amounts were funded by borrowings from Fiscal Service.

Each SPV maintains the proceeds of our equity investment within a preferred equity account. As mutually agreed to by the applicable FRB and Treasury, 85 percent of the preferred equity cash proceeds of each SPV are permitted to be invested in interest-bearing, special, non-marketable Treasury securities (refer to Note 16). The remaining 15 percent is retained in cash or cash-equivalents by the SPV for its cash requirements. Any interest and other proceeds from these investments will be deposited into the preferred equity account.

Under the current terms of the LLC agreements, membership interests will not receive periodic or other distributions during the life of the SPV. Distribution of the SPV's assets will be made only upon dissolution of the facility, after liabilities and other interests are paid. Upon dissolution, we will be entitled to an amount equal to the cash balance of the preferred equity account plus 90 percent of the cash balance in all of the other accounts of the SPV. The applicable FRB is entitled to 10 percent of the cash balance in all of the other accounts of the SPV. The final distribution amount we receive will be used to repay all costs associated with our preferred equity investment in the SPV, including the initial subsidy amounts funded by appropriation and all amounts borrowed from Fiscal Service. In accordance with Section 4003(c) of the CARES Act, any excess amount of the final distribution after repayment of the appropriations and debt will be deposited into the Federal Old-Age and Survivors Insurance Trust Fund established under Section 201(a) of the *Social Security Act*.

The following is a description of each liquidity lending facility. These descriptions include financial information about the assets held in each SPV as of September 30, 2020 which we obtained from the FRB's Combined Quarterly Financial Reports (unaudited). Following these descriptions are sections entitled, *"COVID 19: Investments, Net"* and *"COVID 19: Other Assets"* which discuss the accounting treatment for these facilities.

Corporate Credit Facilities LLC

On April 13, 2020, the FRBNY established the CCF as the SPV to facilitate both the Primary Market Corporate Credit Facility (PMCCF) and the Secondary Market Corporate Credit Facility (SMCCF) programs in support of providing the flow of credit to employers through corporate bond and loan issuances.

The FRBNY lends to the SPV on a recourse basis. The PMCCF purchases qualified bonds from eligible issuers, and purchases portions of syndicated loans or bonds at issuance, giving issuers access to credit so that they are better able to maintain business operations and capacity during the period of disruption caused by COVID-19. The FRBNY is secured by all the assets of the SPV. The PMCCF buys bonds and loans of investment grade companies, as well as certain companies that were investment grade as of March 22, 2020.

The SMCCF supports the flow of credit to employers by providing liquidity to the market for outstanding corporate bonds. The SMCCF purchases in the secondary market corporate bonds issued by investment grade U.S. companies or certain U.S. companies that were investment grade as of March 22, 2020, as well as U.S. listed exchange-traded funds whose investment objective is to provide broad exposure to the market for U.S. corporate bonds.

Treasury, through the ESF, has committed to contribute up to a combined total of $75.0 billion in capital in the single common SPV supporting both programs. The nominal allocation of the equity is up to $50.0 billion toward the PMCCF and up to $25.0 billion toward the SMCCF. On May 11, 2020, we acquired an equity interest in the SPV by transferring a combination of CARES Act appropriated and Treasury borrowed funds for an aggregate total of $37.5 billion to the CCF SPV to cover potential losses incurred by FRBNY in connection with this program. The combined funding commitment of the FRBNY to the SPV for the PMCCF and SMCCF programs is up to $750.0 billion. As of September 30, 2020, the CCF held total assets of $13.1 billion excluding our equity contribution of $37.5 billion (or $50.6 billion including our equity contribution). The SPV will cease purchasing eligible notes on December 31, 2020.

Main Street Facilities LLC

On May 18, 2020, the FRBB established the MSF to support lending to small and medium-sized businesses that were in sound financial condition before the onset of the COVID-19 pandemic and have good post-pandemic prospects. The MSF program operates through five facilities: *(i)* the Main Street New Loan Facility (MSNLF), *(ii)* the Main Street Priority Loan Facility (MSPLF), *(iii)* the Main Street Extended Loan Facility (MSELF), *(iv)* the Main Street Nonprofit Organization New Loan Facility (NONLF), and *(v)* the Main Street Nonprofit Organization Expanded Loan Facilities (NOELF). Through loans from the FRBB, the SPV purchases 95 percent participations in loans originated by eligible lenders, while the lender retains five percent. To qualify for MSF loans, potential borrowers must meet certain specified eligibility criteria and pass normal lender underwriting processes. Loans issued under the MSF program have a five-year maturity, principal payments are deferred for two years, and interest payments are deferred for one year. All loans are amortized in years 3-5 according to the following schedule: 15 percent, 15 percent, 70 percent. Eligible lenders may originate new loans (under MSNLF, MSPLF, and NONLF) or increase the size of (or "upsize") existing loans (under MSELF and NOELF) made to eligible borrowers. Minimum loan sizes are $100,000 for the MSNLF, MSPLF, and NONLF, and $10 million for the MSELF and NOELF. Borrowers may qualify to borrow up to $35 million under the MSNLF and NONLF, $50 million under the MSPLF, and $300 million under the MSELF and NOELF. Transaction fees are specified for all facilities and are structured to incentivize lenders to make loans in the $100,000-$250,000 range under the MSNLF, MSPLF, and NONLF. Eligible lenders may not charge additional fees beyond those specified.

We committed to contribute up to $75.0 billion in capital in the single common SPV in connection with the MSF. On June 1, 2020, we acquired an equity interest in the SPV by transferring a combination of CARES Act appropriated and Treasury borrowed funds for an aggregate total of $37.5 billion to the Main Street LLC to cover potential losses incurred by the FRBB in connection with this program. The combined funding commitment of the FRBB to the MSF SPV is up to $600.0 billion. As of September 30, 2020, MSF held total assets of $2.1 billion excluding our equity contribution of $37.5 billion (or $39.6 billion including our equity contribution). The SPV will cease purchasing loan participations on December 31, 2020.

Municipal Liquidity Facility LLC

On May 1, 2020, the FRBNY established the MLF SPV to help state and local governments manage cash flow pressures while continuing to serve households and businesses in their communities. The FRBNY lends to the MLF SPV, on a recourse basis, to allow the facility to purchase up to $500.0 billion of short-term notes directly from eligible U.S. states (including the District of Columbia), U.S. counties with a population of at least 500,000 residents, and U.S. cities with a population of at least 250,000 residents. Issuers must have been rated at least BBB-/Baa3, as of April 8, 2020, by two or more nationally recognized statistical rating organizations. The SPV purchases eligible notes directly from issuers at the time of issuance. The SPV charges an origination fee of 10 basis points.

We committed to contribute up to $35.0 billion in capital in the MLF SPV. On May 26, 2020, we acquired an equity interest in the SPV by transferring a combination of CARES Act appropriated and Treasury borrowed funds for an aggregate total of $17.5 billion to the MLF LLC to cover potential losses incurred by FRBNY in connection with this program. As of September 30, 2020, MLF held total assets of $1.7 billion excluding our equity contribution of $17.5 billion (or $19.2 billion including our equity contribution). The SPV will cease purchasing eligible notes on December 31, 2020.

Term Asset-Backed Securities Loan Facility II LLC

FRBNY established the TALF SPV on March 23, 2020, to support the flow of credit to consumers and businesses for purposes of stabilizing the U.S. financial system. The TALF facilitates the issuance of asset-backed securities (ABS) backed by student loans, auto loans, credit card loans, loans guaranteed by the Small Business Administration, commercial mortgages, and certain other assets. Through loans from the FRBNY, the TALF SPV lends to holders of eligible ABS, an amount equal to the market value of the ABS less fees, and the loans will be secured at all times by the ABS. Eligible borrowers are U.S.-organized or U.S.-based businesses that maintain banking relationships with a primary dealer. Collateral valuations are reduced by haircuts ranging from five percent on credit card loans to 20 percent on static leveraged loans.

On June 16, 2020, we acquired an equity interest in the SPV by committing to and transferring a combination of CARES Act appropriated and Treasury borrowed funds for an aggregate total of $10.0 billion to the TALF LLC to cover potential losses incurred by the FRBNY in connection with this program. The funding commitment of the FRBNY to the TALF SPV is initially up to $100.0 billion of loans. As of September 30, 2020, the TALF held total assets of $3.2 billion excluding our equity contribution of $10.0 billion (or $13.2 billion including our equity contribution). No new credit extensions will be made after December 31, 2020.

Commercial Paper Funding Facility II LLC

On March 30, 2020, the FRBNY established the CPFF LLC to provide liquidity to short-term funding markets by purchasing three-month unsecured and asset-backed commercial paper directly from eligible issuers. The FRBNY makes loans to the

SPV, on a recourse basis, to fund the SPV's purchase from eligible U.S. issuers of three-month U.S. dollar-denominated commercial paper through the FRBNY's primary dealers.

On April 13, 2020, we made a capital contribution in the CPFF SPV by committing to and transferring $10.0 billion to the SPV in exchange for a preferred equity interest in the SPV. This contribution is being used to cover potential losses incurred by FRBNY in connection with this program. Unlike the other SPVs, which were funded by a combination of CARES Act appropriated and Treasury borrowed funds, we funded the CPFF contribution with core ESF funds which were previously invested in overnight federal investments. As of September 30, 2020, the CPFF held total assets of $59 million excluding our equity contribution of $10.0 billion (or $10.1 billion including our equity contribution). In November 2020, the Board and Treasury extended the operation of the CPFF, previously due to expire on March 17, 2021, to March 31, 2021.

Money Market Mutual Fund Liquidity Facility (MMLF)

The FRBB authorized the establishment of the MMLF on March 18, 2020 to broaden its program of support for the flow of credit to households and businesses. Launched on March 23, 2020, the MMLF makes loans available to eligible financial institutions, on a non-recourse basis, secured by high-quality assets purchased by the financial institution from money mutual funds. Loans made by the MMLF are at a rate equal to the primary credit rate in effect at the FRBB that is offered to depository institutions at the time the advance is made, plus a spread of 0 to 100 bps depending on the type of collateral that is securing the loan. Each loan made by the FRBB will have a maturity date not to exceed 12 months. In November 2020, the Board and Treasury extended the operation of the MMLF, previously due to expire on December 31, 2020, to March 31, 2021.

Our participation in the MMLF is similar to the other SPVs in that its purpose is to provide credit protection to the FRBB in the event of potential MMLF losses. The MMLF program differs from the other FRB programs in that, among other things, it is not operated through an SPV. Pursuant to the terms of the MMLF Credit Support Agreement (CSA) dated May 20, 2020 by and between FRBB and Treasury, we committed to provide $10.0 billion of credit support to the MMLF under the ESF's core authority, the *Gold Reserve Act*, as amended, which provides ESF with unappropriated core funds. As of September 30, 2020, MMLF held loans outstanding to eligible financial institutions of $7.1 billion.

On May 20, 2020, we transferred an initial $1.5 billion of the $10.0 billion of committed funds from core ESF funds—which were previously invested in overnight federal investments—to a separate deposit account maintained by the FRBNY in the name of the FRBB as a secured party (MMLF Fund or MMLF Account, henceforth). On a quarterly basis beginning September 30, 2020 and until the dissolution of the MMLF, we may be required to transfer a portion of the remaining $8.5 billion of undisbursed credit support to restore the balance of the MMLF Account to $1.5 billion should the program experience losses.

In accordance with the CSA, the FRBB agrees to pay us a "facility fee" for the use of the MMLF based on the amount of interest owed by the borrower on each MMLF loan. The facility fee for each MMLF loan is an amount equal to 90 percent of the difference between the interest rate charged to the related borrower on the MMLF loan and the primary credit rate offered by the FRBB to depository institutions at the time the MMLF loan is advanced. To the extent the MMLF experiences credit losses, the MMLF will first utilize the accumulated facility fees and then the principal amount of our credit support provided to the MMLF to reimburse FRBB for such losses experienced up to $10.0 billion.

The MMLF will be terminated when all extensions of credit have been discharged and released in full, and all final deficiency amounts related to items of the MMLF collateral have been determined and paid. Before the MMLF is terminated, the FRBB will pay any unpaid facility fees to the ESF. Within three business days following payment of all final deficiency amounts, the FRBB will return all amounts of the MMLF Fund, plus any residual earnings (facility fee) of the MMLF to the ESF.

The following section entitled *"COVID-19: Investments"* is a discussion of our accounting for the credit support we provide to the FRBs' liquidity lending facilities, with the exception of the MMLF facility which is discussed under the section entitled *"COVID-19: Other Assets."*

COVID-19: Investments, Net

As of September 30, 2020, our preferred equity investments in the SPVs were valued as follows:

COVID-19 Investments in SPVs (in millions)	Gross Investments As of 9/30/20	Cumulative Valuation Gain (Loss)	9/30/20 Fair Value
Corporate Credit Facilities	$ 37,500	$ (96)	$ 37,404
Main Street Lending Programs	37,500	(4,254)	33,246
Municipal Liquidity Facility	17,500	(177)	17,323
Term Assets Lending Facility	10,000	(74)	9,926
Commercial Paper Funding Facility	10,000	47	10,047
Total COVID-19 Investments in SPVs (1)	**$ 112,500**	**$ (4,554)**	**$ 107,946**

(1) This balance excludes $487 million related to our investment in common stock warrants received in connection with our financial assistance that provided payroll support to aviation workers during the pandemic (refer to the section below entitled "Payroll Support to Aviation Workers"). Also, our $1.5 billion funded credit support to the MMLF is included in Other Assets rather than as an investment (refer to the section below entitled "COVID-19: Other Assets").

Budgetary vs. Proprietary Accounting Treatment of SPVs. The Act stipulated that our SPV investment transactions, to the extent they involved the use of the CARES Act appropriation, be funded in accordance with the provisions of FCRA. Section 4003 of the Act provided up to $454.0 billion of the $500.0 billion in appropriation to finance the subsidy portion of these transactions, and to borrow from Treasury's Fiscal Service for the remainder of the financing. The subsidy financing made available pursuant to the Act is for current and future year subsidy costs, and is reported within the "*Fund Balance*" line of the Consolidated Balance Sheet (also refer to Note 2). As of September 30, 2020, we committed and obligated a total of $195.0 billion to acquire the preferred equity interests in the SPVs, funded using a combination of the CARES Act appropriation of $30.2 billion to fund the subsidy portion of the investment programs, and an additional $164.8 billion of Fiscal Service borrowing authority utilized to fund the remainder. Of the total amount committed and obligated through the combined funding of appropriation and borrowings, we actually disbursed an aggregate total of $102.5 billion to acquire equity interests in the SPVs, of which $19.1 billion represented the subsidy portion funded by the CARES Act appropriation and the remaining $83.4 billion was funded by Fiscal Service borrowings. For budgetary accounting purposes, the initial investment financing and subsequent activity related to these investments are being accounted for pursuant to FCRA guidelines in accordance with Section 185 of OMB Circular A-11, *Preparation, Submission, and Execution of the Budget*. We also utilized the ESF's unappropriated core funds to acquire a $10.0 billion equity interest in the CPFF SPV which is not subject to FCRA.

For proprietary accounting purposes, all SPV investments, including the CPFF, are accounted for as equity investments at fair value, rather than as direct loans, as these instruments do not meet the criteria of SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*. Accordingly, changes in the fair value of these investments are recorded as realized or unrealized fair value gains or losses within the "*Economic Program Revenue (Cost)*" line item of the Consolidated Statements of Net Costs. The budgetary subsidy cost allowance is based on cash flows discounted using a Treasury rate to determine the subsidy cost and the proprietary fair value adjustment is based on market interest rates to discount projected cash flows. For the fiscal year ended September 30, 2020, we recorded an unrealized fair value net loss of $4.6 billion related to these investments.

Fair Value Estimation Factors. In determining the fair value of our SPV equity investments, we use available market pricing data, risk-free discount rates, market pricing of floating interest-rate swaps, and contractual instrument terms to estimate scenario-specific, risk-neutral cash flows for the SPVs. For market pricing data, we specifically use: *(i)* active market prices for the CCF and TALF programs that own publicly traded securities, *(ii)* Bloomberg estimated prices for the MLF program which owns securities that do not have active market prices but have estimated prices in Bloomberg, or *(iii)* market prices for baskets of comparable publicly traded bonds for the MSF program, based on relevant bond attributes such as instrument credit rating, time to maturity, issuer industry, coupon rate, and call provisions. We use contractual instrument terms and market-derived, risk-neutral loss rates and, where applicable, market pricing of floating interest-rate swaps to estimate scenario-specific, risk-neutral cash flows which are discounted using risk-free discount rates.

In deriving the fair value of our SPV investments, we relied upon market observed prices for SPV purchased assets and collateral, market prices for comparable assets, asset valuations performed by third parties, historical asset data, discussions with subject matter experts within Treasury, 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.

Transfer of Proceeds Upon Dissolution of SPVs. For those SPVs that were funded through a combination of CARES Act appropriation and Fiscal Service borrowings in accordance with FCRA guidelines, all proceeds that we realize from these investments upon the dissolution of the SPVs will be transferred to us to repay all borrowings and other funding costs incurred from these investments. In accordance with the CARES Act, any remaining excess residual proceeds must then be transferred to the Federal Old-Age and Survivors Insurance Trust Fund. To the extent that the fair value of the SPV equity investment assets also incorporate anticipated realization of excess residual proceeds, we will record a corresponding liability due to the Federal Old-Age and Survivors Insurance Trust Fund. We recorded no such liability as of September 30, 2020. For the CPFF SPV that was funded utilizing the ESF's core funds, all proceeds realized from this investment upon dissolution will be returned fully to the ESF.

Entity vs. Non-Entity Exchange Transactions. Our SPV preferred equity investments are treated as exchange transactions in that we received a preferred equity interest in the SPVs in exchange for our capital funding of the liquidity facilities. All SPV investment assets funded through a combination of CARES Act appropriation and Fiscal Service borrowings, along with any related income or loss associated with these assets, are treated as entity transactions, with the exception of that portion of the assets and related income or loss representing the excess residual proceeds that will be remitted to the Federal Old-Age and Survivors Insurance Trust Fund which are treated as non-entity transactions. The SPV equity investment that was funded utilizing the ESF's core funds, and any related income or loss associated with these assets, are treated as entity transactions.

Future Funding Commitments. Of the total $205.0 billion that we committed to capitalize the FRBs' established SPVs (utilizing $195.0 billion of both appropriated and Fiscal Service borrowings and $10.0 billion of ESF unappropriated core funds), we funded $112.5 billion of this commitment as of September 30, 2020. As of September 30, 2020, we had a commitment to fund the remaining $92.5 billion as stipulated by the SPV LLC Agreements and, as of that date, there was no requirement for any additional funding. However, as discussed in the section below entitled "*Subsequent Events*," on

December 29, 2020, Treasury and the Federal Reserve amended the terms of the SPV LLC Agreements for each of the SPVs funded under the CARES Act to, among other things, change the terms of our commitment to the SPVs.

COVID-19: Other Assets

Our participation in the MMLF program to provide credit protection to the FRBB differs from the other FRB programs in that it is not structured and operated as an SPV. We transferred $1.5 billion of our $10.0 billion commitment (which were previously being invested by the ESF in overnight federal investments) to a separate deposit account maintained by the FRBNY in the name of the FRBB (MMLF Account). The funds held in the MMLF Account can be legally used only for the purpose of providing credit support of the MMLF program in accordance with the terms of the CSA between us and FRBB. Per the CSA, FRBB has exclusive control and dominion over the MMLF Account and can take all actions related to this account without our consent. Based on the nature of the restrictions associated with the MMLF Account, we reclassified the $1.5 billion from an overnight investment account to a restricted cash account as reported in the *"COVID-19 – Other Assets"* line of the Consolidated Balance Sheets.

We remain committed to funding the remaining $8.5 billion should the FRBB require it, as stipulated by the CSA. As of September 30, 2020, there was no requirement for any additional funding.

In accordance with the CSA, the FRBB agrees to pay us a "facility fee" for the use of the MMLF based on the amount of interest owed by the borrower on each MMLF loan. To the extent the MMLF experiences credit losses, the MMLF will first utilize the accumulated facility fees and then our principal amount invested in the MMLF to reimburse FRBB for such losses experienced up to $10.0 billion. The accumulated facility fees, net of any amounts used to cover credit losses, will be accrued over the life of the facility and payable to us upon the dissolution of the facility and liquidation of any remaining MMLF investments. We accrued net facility fees totaling $119 million for the fiscal year ended September 30, 2020.

Direct Loans to Air Carriers and National Security Business

Section 4003 of the CARES Act authorized us to make direct loans and loan guarantees to eligible passenger and cargo air carriers and national security businesses to provide them liquidity for losses incurred as a result of the COVID-19. As of September 30, 2020, we chose to make only direct loans under this authorization. Up to $46.0 billion of the total $500.0 billion in appropriations was provided for under Section 4003 to be used to fund the subsidy costs associated with making these loans. The Act stipulates that the direct loans and loan guarantees are to be made in accordance with the provisions of FCRA; accordingly, we must fund the direct loans and loan guarantees using a combination of the $46.0 billion in authorized appropriations and borrowings from Fiscal Service.

Total authorized funding of $46.0 billion for making direct loans and loan guarantees is allocated as follows:

- Not more than $25.0 billion is available to passenger air carriers, eligible businesses that are certified under part 145 of title 14, Code of Federal Regulations, and approved to perform inspection, repair, replace, or overhaul services, and ticket agents (as defined in Section 40102 of Title 49, United States Code).
- Not more than $4.0 billion is available to cargo air carriers.
- Not more than $17.0 billion is available to businesses critical to maintaining national security.

The Act specifies that the Secretary will determine the terms and conditions of the loans. It also mandates that these loans "shall be at a rate determined based on the risk and the current average yield on outstanding marketable obligations of the

United States of comparable maturity." The Act also states that the duration of the loans will be no longer than five years.

For the "financial protection of the Government," the Act mandates that we obtain a warrant, equity interest, or senior debt instrument in the eligible business which serves to provide for a "reasonable participation by the Secretary, for the benefit of taxpayers, in equity appreciation in the case of a warrant or other equity interest, or a reasonable interest rate premium, in the case of a debt instrument." The Act further states that we may sell, exercise, or surrender a warrant or any senior debt instrument received, and may not exercise voting power with respect to any shares of common stock acquired.

Passenger and cargo air carrier borrowers were required to submit applications before April 27, 2020 and national security borrowers before May 1, 2020. Loans to large airlines were partially disbursed by September 30, 2020, and these airlines will have until March 26, 2021 (one year after the passage of the Act) to fully draw down their remaining available borrowings. Smaller airlines, air cargo, national security, and maintenance and ticket agent loans will have one or more disbursements, with all disbursements to be completed by December 31, 2020.

The Act specifies that loan repayments and other proceeds collected will be deposited in the following order of priority: (1) first, into the financing accounts established under FCRA, up to an amount equal to the sum of: (*i*) the amount of the appropriations transferred to the financing accounts and (*ii*) the amounts necessary to repay borrowings from Treasury; and (2) second, after the deposits outlined in (1) above have fully recouped loan costs, into the Federal Old-Age and Survivors Insurance Trust Fund.

As of September 30, 2020, we had finalized loan agreements with seven passenger airlines and one national security business under which an aggregate of $1.6 billion and $245 million, respectively, in direct loans had been disbursed. These loan agreements provide for up to an aggregate total of $14.7 billion and $700 million, respectively, of available borrowings by these passenger airlines and national security business, respectively, of which $13.1 billion and $455 million, respectively, remain available for future disbursement as of September 30, 2020. Subsequent to September 30, 2020, the maximum amount available under the passenger airlines loan agreements increased by $6.1 billion to provide for up to an aggregate total of $20.8 billion of available borrowings. Passenger airlines have until March 26, 2021 to draw the remaining available borrowing amount. As financial protection, we received from these borrowers, warrants to purchase common stock equal to 10 percent of the total loan amount drawn. From the one national security business, we received common shares equal to 29.6 percent of this business's common stock, on a fully diluted basis, to be held in a voting trust, as appropriate taxpayer compensation, with specified terms of loan interest payable in cash and payment-in-kind. As of September 30, 2020, we also obtained senior debt instruments from the national security business.

From October 1, 2020 through December 10, 2020, we finalized and obligated additional loan commitments to 14 passenger airlines for an aggregate total of $6.5 billion (including the six large passenger borrowers with existing commitments that qualified for increases), and other air cargo carriers, national security business, ticket agents, and part suppliers for an aggregate total of $78 million. Of the total $6.6 billion of additional loans obligated across all borrowers, $503 million was disbursed as of December 10, 2020. During this period, the passenger airlines who initiated loans as of September 30, 2020 had not made any additional draws from the remaining available borrowing amount.

The following is a discussion of our accounting related to our direct loans.

COVID-19: Credit Program Receivables, Net

The direct loans are presented as credit program receivables on our Consolidated Balance Sheets. As of September 30, 2020, the net credit program receivables of the passenger airlines and national security business program of $1.4 billion and $163 million, included a positive subsidy allowance of $159 million and $85 million, respectively, which reflects our projection as of that date that both the passenger airlines and national security programs will result in a net cost to us after accounting for principal loan repayments, interest, and fees. Included in these receivables are the projected cash flows associated with the common stock warrants and common stock shares we received in connection with making these direct loans.

We performed a financial statement re-estimate of the passenger airlines and national security program costs. This re-estimate as of September 30, 2020 resulted in an upward re-estimate, or increase in the cost of the passenger airlines program, of $12 million, and resulted in a downward re-estimate, or decrease in the cost of the national security program cost, of $29 million. These re-estimate results stemmed primarily from the September 30, 2020 market prices which implied higher or lower loss rates than those we initially estimated in the budget formulation estimate for these programs.

As of September 30, 2020, there were no direct loans disbursed to cargo air carriers, ticket agents, or related businesses that perform inspection, repair, replace, or overhaul services. As of September 30, 2020, there were no draws anticipated by eligible recipients from their remaining available borrowing amount that we approved but were undisbursed on or before September 30, 2020.

Our net credit program receivables, including loan principal repayments, interest, fees, and proceeds from common stock sales, are treated as entity exchange transactions since all such future proceeds realized by Treasury from the net credit program receivables will be used by Treasury to repay all of its borrowing and other funding costs incurred from these direct loans. In accordance with the CARES Act, any remaining excess residual proceeds must be transferred to the Federal Old-Age and Survivors Insurance Trust Fund. Accordingly, to the extent that our net credit program receivables also incorporate anticipated realization of excess residual proceeds, we will record a corresponding liability due to the Federal Old-Age and Survivors Insurance Trust Fund. Hence, our net credit program receivables, including loan principal repayments, interest, fees, and proceeds from common stock sales are treated as entity transactions, with the exception of any excess residual amounts owed to this trust fund which are treated as non-entity transactions. As of September 30, 2020, we did not record a liability as there was a combined net positive subsidy cost of $244 million associated with the passenger airline and national security business loans, indicating that we have not yet recovered our costs.

The following table details the net composition, subsidy cost, re-estimates, a reconciliation of subsidy cost allowances, and the components of the subsidy for each direct loan credit program for the fiscal year ended September 30, 2020. The tables also include budget subsidy rates pertaining only to the cohorts of loans 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 includes re-estimates. Amounts reported in the line item "*COVID-19: Credit Program Receivables, Net*" are not necessarily the same as the proceeds that we would expect to receive from selling these loans.

(in millions)	Passenger Air Carriers	National Security	2020 TOTAL
Credit Program Receivables, Net:			
Credit Program Receivables, Gross	$ 1,576	$ 248	$ 1,824
Subsidy Cost Allowance	(159)	(85)	(244)
Net Credit Program Receivables	$ 1,417	$ 163	$ 1,580
New Credit Program Loans Disbursed	$ 1,575	$ 245	$ 1,820
Obligations for Loans Not Yet Disbursed	$ 13,080	$ 455	$ 13,535
Reconciliation of Subsidy Cost Allowance:			
Balance, Beginning	$ -	$ -	$ -
Subsidy Cost for Disbursements	148	112	260
Subsidy Cost for Modifications	-	-	-
Fees, Interest and Dividend Revenue Received	1	3	4
Net Proceeds from Sales and Repurchases of Assets			-
in Excess of Cost	-	-	-
Loans Written Off	-	-	-
Subsidy Allowance Amortized	(2)	(1)	(3)
Other	-	-	-
Balance, Ending, Before Re-estimates	147	114	261
Subsidy Re-estimates	12	(29)	(17)
Balance, Ending	$ 159	$ 85	$ 244
Re-estimates			
Interest Rate Re-estimate	$ 1	$ 1	$ 2
Interest on Re-estimate	$ -	$ -	$ -
Technical/Default Re-estimate	11	(30)	(19)
Total Re-estimates – Increase (Decrease) in Subsidy Cost	$ 12	$ (29)	$ (17)
Reconciliation of Subsidy Costs:			
Subsidy Cost for Disbursements	$ 148	$ 112	$ 260
Subsidy Cost for Modifications	-	-	-
Subsidy Re-estimates	12	(29)	(17)
Total Credit Program Receivables Subsidy Costs	$ 160	$ 83	$ 243
Administrative Expense	$ 5	$ -	$ 5
Subsidy Rates by Component:			
Interest Differential	1.16%	-2.94%	
Defaults	13.66%	50.89%	
Fees and Collections	0.00%	0.00%	
Other	-5.40%	-2.39%	
Total	**9.42%**	**45.56%**	

PAYROLL SUPPORT TO AVIATION WORKERS

Disruption to economic activity caused by the spread of COVID-19 in the early spring of 2020 placed significant pressure on U.S. airlines and the aviation industry as a whole. The dramatic reduction in the number of flyers resulted in airlines cancelling a large portion of flights and preparing for the layoff of tens of thousands of workers. The CARES Act provided for relief to this industry by helping to preserve aviation jobs and compensate air carrier industry workers.

Section 4112 of the CARES Act directed us to provide financial assistance to passenger air carriers, cargo air carriers, and airline contractors to be used exclusively for the continuation of payment of employee salaries, wages, and benefits. The Act appropriated an aggregate total of up to $32.0 billion to be allocated to this program, the Payroll Support Program (PSP), as follows:

- up to $25.0 billion for passenger air carriers,
- up to $4.0 billion for cargo air carriers, and
- up to $3.0 billion for aviation industry contractors.

We entered into Payroll Support Program Agreements (PSPA) with passenger air carriers, cargo air carriers, and aviation industry contractors. Each agreement specified that the recipient could receive up to a maximum awardable amount. This amount was equal to the compensation paid by the recipient to its employees for the period from April 1, 2019 through September 30, 2019.

The Terms and Benefits Section of each PSPA specified, among other things, the following: (a) the payroll support must be used exclusively for the continuation of payment of employee salaries, wages, and benefits, (b) the recipient may not conduct an involuntary termination or furlough, with limited exceptions, of any employee through September 30, 2020, and (c) the recipient may not reduce employee pay rates or benefits through September 30, 2020. Finally, in the case of air carriers, the agreements mandate the continuation of scheduled service until March 1, 2022 to any point served by the recipient before March 1, 2020. Recipients are required to certify to us quarterly their compliance with these terms.

Section 4117 of the CARES Act further authorized the Secretary to receive warrants, options, preferred stock, debt securities, or other financial instruments issued by recipients of the PSP which provide appropriate compensation to the federal government for the provision of the financial assistance.

Pursuant to agreements negotiated between us and PSP recipients, the terms and conditions associated with the financial instruments received include, among other things, the following:

Promissory Notes

- For passenger air carriers, the amount of the promissory note is equal to 30 percent of the payroll support provided to the recipient over $100.0 million. For cargo air carriers, the note is equal to 56 percent of the payroll support provided to the recipient over $50.0 million. For contractors, the note is equal to 44 percent of the payroll support provided to the recipient over $37.5 million. In the event of multiple disbursements to the same recipient, at the time of each disbursement, the amount of the note and the warrant was increased to reflect the aggregate amount disbursed. We did not receive a note or a warrant from those recipients who received an aggregate payroll support amount of less than or equal to the amounts above.

- Each note has a maturity date of 10 years from inception. For passenger air carriers, cargo air carriers, and contractors, the cash interest rate on the note is one percent per year for the first five years, and converts to the Secured Overnight Financing Rate plus two percent per year in the last five years. Cash interest on the notes is payable semi-annually on March 31 and September 30 of each year beginning on September 30, 2020.

- For contractors, the notes generally also include an option for payment-in-kind interest. The interest rate is three percent per year for the first five years, with an increase of 100 basis points per year in years six through ten. Contractors may elect to pay the interest in cash or in-kind adding interest due to the principal amount of the note.

Common Stock Warrants

- The warrants provide us with the right to purchase shares of common stock or receive a cash payment. The number of warrants required is equal to 10 percent of the principal amount of the note issued by the participant, divided by an exercise price. The exercise price for passenger air carriers is generally equal to the value of the shares as of market close on April 9, 2020. The exercise price for cargo air carriers is equal to the market value of the shares as of market close on May 1, 2020. The warrants are exercisable for a five-year term.

- In accordance with the warrant agreement between us and each recipient, we acknowledge the warrants are not registered under the *Securities Act of 1933* and may not be sold without such registration or an exemption. Additionally, the warrants we receive do not entitle us to any voting rights or other rights of a shareholder before the date of exercise.

For the fiscal year ended September 30, 2020, we awarded $28.2 billion of financial assistance payments, of which $25 billion, $845 million, and $2.4 billion was paid to passenger air carriers, cargo air carriers, and contractors, respectively. As compensation for the financial assistance paid, we received $7.5 billion and $0.4 billion of promissory notes and warrants, respectively. We recorded the $28.2 billion of financial assistance disbursements as "*Economic Program*" costs within the Consolidated Statements of Net Cost. The promissory notes and warrants received as compensation are reported as a notes receivable and an investment, respectively, on the Consolidated Balance Sheets.

The following provides further discussion of our accounting for the promissory notes and common stock warrants.

COVID-19: Notes and Interest Receivable, Net

Our promissory notes totaling $5.3 billion are presented net of an allowance for doubtful accounts estimated at $2.2 billion as of September 30, 2020. Interest on the notes is payable semi-annually on March 31 and September 30 of each year beginning on September 30, 2020. For the fiscal year ended September 30, 2020, we recognized interest revenue of $24.2 million.

The promissory notes are treated as exchange transactions as we received them as compensation for financial assistance paid to air carriers to support ongoing employment of their aviation workers. The notes and related interest receivable also represent assets of the U.S. government, or non-entity assets, as we are precluded from using any of the cash proceeds realized from these promissory notes. Accordingly, the initial revenue recognized at the inception of the loans, and subsequent recognition of related interest revenue, were reported within the "*COVID-19 Non-Entity Revenue, Net*" line item of the Consolidated Statements of Net Cost. The recording of this receivable also resulted in a corresponding amount recorded to the "*Due To the General Fund*" liability (refer to Note 4).

COVID-19: Investments, Net

The common stock warrants are accounted for at fair value, with changes in the fair value of these investments recorded as realized or unrealized gains or losses within the Consolidated Statements of Net Costs. As of September 30, 2020, our common stock warrants are valued at $487 million, which includes a fair value gain of $99 million recognized for the fiscal year ended September 30, 2020.

Our common stock warrants are comprised of those that either give us a right to purchase common shares of publicly traded or non-publicly traded air carriers. If the warrants were obtained from publicly traded companies, then their fair value was readily determinable based on quoted prices of underlying shares in an active market. If the warrants were obtained from non-publicly traded companies, then their fair value was determined based on significant unobservable inputs that reflect assumptions about the expectations that market participants would use in pricing. Factors impacting the fair value of the warrants include the nominal exercise price and the number of potential exercise shares, along with the time until the expiration of the warrants. Other factors impacting the fair value of our warrants of publicly traded companies include the market trading of the common stock that underlies the warrants as of September 30, the market estimate of the volatility of the common stock, and the market participants.

The warrant investments are treated as exchange transactions as we received them as compensation for financial assistance paid to air carriers to support ongoing employment of their aviation workers. These equity instruments also represent assets of the U.S. government, or non-entity assets, as we are precluded from using any of the cash proceeds realized from these equity investments. Accordingly, the initial recording at fair value of the warrants at inception, along with subsequent changes in the fair value of these investments, are reported within the "*COVID-19 Non-Entity Revenue (Cost), Net*" line item of the Consolidated Statements of Net Cost. The recording of this investment also resulted in a corresponding amount recorded to the "*Due To the General Fund*" liability.

Coronavirus Relief Fund – Payments to States, Local, Territorial, and Tribal Governments

Treasury established the Coronavirus Relief Fund (Fund) pursuant to the CARES Act to reduce financial pressure placed upon states, territorial and tribal governments, and certain eligible units of local governments as a result of the pandemic. Congress appropriated $150 billion to this Fund, of which $8.0 billion was reserved for making payments to Tribal governments, and $3.0 billion was reserved for making payments to the District of Columbia, other U.S. territories including the Commonwealth of Puerto Rico, the U.S. Virgin Islands, Guam, the Commonwealth of the Northern Mariana Islands, and American Samoa.

Pursuant to the terms of the Act, we made payments from the Fund to state, local, territorial, and tribal governments which are to use these funds to specifically cover costs that:

- are necessary expenditures incurred due to COVID–19;
- were not accounted for in the budget most recently approved as of March 27, 2020 (the date of enactment of the CARES Act) for the state or government; and
- were incurred during the period that begins on March 1, 2020 and ends on December 30, 2020 (refer to the section below entitled *"Subsequent Events"*).

As set forth by the Act, amounts paid from the Fund were subject to certain restrictions. Amounts paid to states, the District of Columbia, U.S. Territories, and eligible units of local government are based on population. A unit of local government eligible for receipt of direct payment includes a county, municipality, town, township, village, parish, borough, or other unit of general government below the state level with a population that exceeds 500,000. Payments to tribal governments were determined by the Secretary in consultation with the Secretary of the Interior and Indian Tribes.

Section 601(f)(2) of the *Social Security Act*, as added by Section 5001(a) of the CARES Act, provides for recoupment by the Treasury Office of Inspector General of amounts recipients received from the Fund that have not been used in a manner consistent with Section 601(d) of the *Social Security Act*. If a recipient has not used funds it has received to cover costs that were incurred by December 30, 2020, as required by the statute, those funds must be returned to us (refer to the section below entitled *"Subsequent Events"*).

The following is a discussion of the accounting for these direct payments.

COVID-19: Advances, Net

We disbursed $149.5 billion of $150.0 billion of appropriated and obligated funds to states, local, territorial, and tribal governments to cover eligible costs incurred in response to the pandemic. We initially recorded the $149.5 billion of disbursed funds as an advance on the Consolidated Balance Sheets, and subsequently recognized $80.6 billion of this advance as an expense recorded to the "*Economic Program Cost*" line item of the Consolidated Statements of Net Cost to reflect the estimated amount of eligible costs incurred by recipients as of September 30, 2020.

Economic Impact Payments for Individuals

Section 2201 of the CARES Act included provisions to help stimulate the economy through recovery rebates for individuals (also referred to as the "Economic Impact Payments"). The Act authorized the IRS to allow for a tax credit (or rebate) to individuals against their 2020 income tax, refundable in advance, of $1,200 per individual and $2,400 per eligible individuals filing a joint return, with an additional $500 for each qualifying child. These Economic Impact Payments were reduced above certain income limitations per individual tax return. During fiscal year 2020, the IRS disbursed $274.7 billion under this provision to eligible recipients in every state and territory and at foreign addresses. These outlays were reported as "*Refunds and Other Payments"* of the Statements of Custodial Activity (also refer to Note 23).

Sick and Family Leave and Employee Retention Tax Credits

The *Families First Coronavirus Response Act of 2020* (FFCRA), Section 7001-7004, created the Sick and Paid Family Leave tax credit. The credit allows employers a payroll credit against the tax imposed on the qualified sick leave and family leave wages paid in the calendar quarter, limited to 10 sick days and $200 leave wages per day. In addition, the family leave wages paid is limited to $10,000. The credit is available to employers with fewer than 500 employees.

In addition, Section 2301 of the CARES Act authorized eligible employers to claim a credit against applicable employment taxes for an amount equal to 50 percent of qualified wages of up to $10,000 paid by employers to employees during the COVID-19 crisis. The credit is available to employers whose (1) operations were fully or partially suspended, due to a COVID-19 related shut-down order, or (2) gross receipts declined by more than 50 percent when compared to the same quarter in the prior year.

The IRS obtained permanent and indefinite authority of $10 billion, of which $714 million of tax credits were obligated as of September 30, 2020. These credits are reported with the "*Refunds and Other Payments"* line of the Statements of Custodial Activity (refer to Note 23).

In addition to the COVID-19 tax relief options mentioned above, the CARES Act includes other tax measures to help businesses reduce their tax obligations or receive cash refunds. The Act contains a provision for employers to defer payment of the employer's share of the Social Security portion of FICA, and their share and the employee representative's share of the same portion of RRTA (refer to Note 8). The tax law changes in the Act also modify several provisions of the *Tax Cuts and Jobs Act*, such as carrying additional losses back to prior tax years.

COVID-19 PANDEMIC RELIEF – SUMMARY IMPACT ON THE STATEMENT OF NET COST

For the fiscal year ended September 30, 2020, the primary impact of COVID-19 relief efforts as reported within our Consolidated Statement of Net Cost were as follows:

(in millions)		2020
Entity Cost/(Revenue):		
Section 13(3) SPV Investments – Fair Value Loss	$	**4,554**
Section 13(3) Other Assets – MMLF Accrued Facility Fees Revenue		**(119)**
Direct Loans – Subsidy Costs		**243**
Payroll Support to Aviation Workers – Financial Assistance Payments		**28,170**
Coronavirus Relief Fund – Expense Recognition of Advances to States, Local, Territorial, and Tribal Governments		**80,578**
Total Net Entity Costs (Economic Program) (Note 21)		**113,426**
Non-Entity Cost/(Revenue):		
Payroll Support for Aviation Workers – Promissory Note Compensation Received		**(5,345)**
Payroll Support for Aviation Workers – Common Stock Warrant Compensation Received		**(487)**
Total Non-Entity Revenue		**(5,832)**
Total COVID-19 Pandemic Relief Costs, Net	**$**	**107,594**

SUBSEQUENT EVENTS

The following are events that transpired after September 30, 2020 but prior to the issuance date of this report.

Enactment of New COVID-19 Relief Legislation

On December 27, 2020, the President signed into law the *Consolidated Appropriations Act, 2021*, which, as of the date of enactment, rescinded $429.0 billion of the $500.0 billion appropriation provided to Treasury under Section 4027 of the CARES Act and provided that the remaining unobligated appropriation as of January 9, 2021 will be rescinded as of that date other than with respect to those funds made available for administrative expenses pursuant to Section 4003(f), for the Special Inspector General for Pandemic Recovery pursuant to Section 4018(g), and for the Congressional Oversight Commission pursuant to Section 4020. Effective January 9, 2021, the statute eliminates Treasury's ability to make new loans and investments under Section 4003 of the CARES Act. In addition, the statute prohibits the Federal Reserve from engaging in further lending or extensions of credit, after December 31, 2020, through facilities established by the Federal Reserve under Section 13(3) of the *Federal Reserve Act* in which Treasury made investments under Section 4003 of the CARES Act other than a loan submitted on or before December 14, 2020, to the MSF for the sale of a participation interest in such loan, provided that the MSF purchase a participation interest in such loan on or before January 8, 2021. After December 31, 2020, the Federal Reserve is also prohibited from modifying the terms and conditions of any of the facilities in which Treasury made investments under the CARES Act.

The new legislation, provides for additional Economic Impact Payments to individuals estimated at $166.0 billion and various tax breaks for employers, and extends the use of the Coronavirus Relief Fund program paid to state, local, territorial, and tribal governments from December 30, 2020 to December 31, 2021. The legislation also provides separate appropriations to Treasury for COVID-19 emergency funding, primarily including $16.0 billion for payroll support payments to passenger air carriers and contractors and an additional $2.0 billion for transportation services, $25.0 billion for emergency rental financial assistance payments to state, local, territorial, and tribal governments, $9.0 billion for investments in community development financial institutions (CDFIs) to support low-income and minority communities, and $3.0 billion for COVID-19 grants to CDFIs. Treasury has not yet assessed the impact of this new legislation on our FY 2021 consolidated financial statements.

Amendment of SPV Agreements

Consistent with the *Consolidated Appropriations Act, 2021*, on December 29, 2020, Treasury and the Federal Reserve amended the SPV LLC Agreements for each of the SPVs funded under the CARES Act. The amended agreements provide that Treasury's investment in excess of the amount equivalent to the purchased asset amount within each of the SPVs will be returned to Treasury between December 31, 2020 and January 8, 2021, and cancels Treasury's additional commitments to those SPVs. As provided to us by the Federal Reserve, the purchased assets held in the CCF, MSF, MLF and the TALF as of December 17, 2020 were $13.9 billion, $12.3 billion, $6.4 billion, and $3.7 billion, respectively, excluding our equity contribution in each of these SPVs. The purchased assets held by the MSF are expected to be higher due to purchase volume occurring between December 17, 2020 and January 8, 2021.

The amount of Treasury's canceled commitments will be de-obligated and, under the *Consolidated Appropriations Act, 2021,* rescinded as of January 9, 2021, and Treasury funds remaining in the SPVs funded under the CARES Act (like the SPVs themselves) cannot be used for further lending or extensions of credit after that date.

11. Investments in Government Sponsored Enterprises

Congress established Fannie Mae and Freddie Mac as GSEs to provide stability and increase liquidity in the secondary mortgage market and to promote access to mortgage credit throughout the nation. 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 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 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 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, 2020, Treasury's liquidation preference in Fannie Mae and Freddie Mac increased by $10.8 billion and $6.6 billion, respectively. 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 no cash dividends for the fiscal year ended September 30, 2020 as the GSEs' positive net worth was below their permitted capital reserve amounts as of September 30, 2020. For the fiscal year ended September 30, 2019, we received cash dividends totaling $15.3 billion.

The SPSPAs, which have no expiration date, require us to disburse funds to either GSE 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 $222 billion and $204 billion as of September 30, 2020 and 2019, respectively. There were no payments to the GSEs for the fiscal years ended September 30, 2020 and 2019.

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, 2020 and 2019, our investments in the GSEs consisted of the following:

GSEs Investments (in millions)	Gross Investments As of 9/30/20	Cumulative Valuation Gain/(Loss)	9/30/20 Fair Value
Fannie Mae Senior Preferred Stock	**$ 137,815**	**$ (79,515)**	**$ 58,300**
Freddie Mac Senior Preferred Stock	**83,914**	**(46,014)**	**37,900**
Fannie Mae Warrants Common Stock	**3,104**	**5,196**	**8,300**
Freddie Mac Warrants Common Stock	**2,264**	**2,146**	**4,410**
Total GSEs Investments	**$ 227,097**	**$ (118,187)**	**$ 108,910**

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

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—as measured by unobservable inputs—increased as of September 30, 2020 when compared to September 30, 2019. Fannie Mae's senior preferred stock drove this increase primarily due to higher projected cash flows and a decrease in the market value of Fannie Mae's other equity securities that comprise its total equity, partially offset by a higher discount rate (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—as measured by observable inputs—decreased at the end of FY 2020, when compared to 2019, primarily due to decreases in the Level 1 fair value measurement of 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 2045 and 2044 in assessing if a contingent liability was required as of September 30, 2020 and 2019, 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, 2020 and 2019, and thereby accrued no contingent liability. However, as of September 30, 2020, it is reasonably possible that a period of sustained economic and housing market volatility 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 such events, we could not estimate the total amount of this reasonably possible future funding liability as of September 30, 2020. There were no payments to the GSEs for the fiscal year ended September 30, 2020. At September 30, 2020 and 2019, 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, including their financial statements, monthly business 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, 2020 include four potential scenarios, with varying assumptions regarding the continuation of the GSEs new business activities, including purchasing mortgage loans and issuing new guaranteed mortgage-backed securities. The forecasts as of September 30, 2020, also assumed the maintenance of the GSEs' retained mortgage portfolios below the $250 billion maximum permitted under the amended SPSPAs.

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, 2020 and 2019, along with their summarized unaudited aggregated financial operating results for the nine months ended September 30, 2020 and 2019 were as follows:

(in millions)	2020	2019
Combined Assets		
Investment Securities	**$ 216,069**	$ 119,878
Mortgage Loans	**5,767,584**	5,311,626
Other	**335,021**	233,178
Total Combined Assets	**6,318,674**	5,664,682
Combined Liabilities		
Long-Term Debt	**6,201,946**	5,480,961
Other	**82,144**	166,705
Total Combined Liabilities	**6,284,090**	5,647,666
Combined Net Equity	**$ 34,584**	$ 17,016
For the Nine Months Ended September 30		
Combined Net Interest Income	**$ 26,898**	$ 23,602
Combined (Provision) Benefit for Loan Losses	**(4,359)**	4,206
Combined Net Interest Income After (Provision) Benefit for Loan Losses	**$ 22,539**	$ 27,808
Combined Total Comprehensive Income	**$ 12,233**	$ 15,042

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, 2020 and 2019, GSEs Non-Entity Revenue, Net consisted of the following:

Summary of GSEs Non-Entity Revenue (in millions)		2020		2019
General Fund Revenue from Increase in Liquidation Preference of GSEs Preferred Stock	$	**(17,389)**	$	(5,191)
Fair Value Loss on GSEs Warrants/Preferred Stock		**20,549**		6,271
GSEs Preferred Stock Dividends		**-**		(15,279)
Total GSEs Non-Entity Cost (Revenue), Net	$	**3,160**	$	(14,199)

Regulatory Environment

To date, Congress has not passed legislation nor has FHFA taken action to end the GSEs' conservatorships. 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 2020 and 2019, the GSEs remitted to us the incremental fees totaling $4.2 billion and $3.9 billion, respectively, which are reported within the line item entitled "*Fines, Penalties, Interest and Other Revenue*" on our Statements of Custodial Activity.

12. Investments in Multilateral Development Banks

As of September 30, 2020 and 2019, Investments in Multilateral Development Banks consisted of the following:

(in millions)		2020		2019
International Bank for Reconstruction and Development	$	**3,057**	$	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
North American Development Bank		**450**		225
African Development Bank		**434**		434
Multilateral Investment Guarantee Agency		**45**		45
Total	$	**8,205**	$	7,773

Refer to Note 27 for a description of the additional commitments related to these institutions.
(1) Includes Inter-American Investment Corporation

13. 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 $5.7 billion fair value of foreign investments (excluding interest receivable) held at September 30, 2020, $1.7 billion will mature within one year, $2.2 billion will mature after one year but before five years, and $1.8 billion will mature after five years but before ten years. The majority of our foreign currency holdings and other investments are Level 1 fair value measurements and $16 million are Level 3 fair value measurements.

As of September 30, 2020 and 2019, Other Investments and Related Interest consisted of the following:

(in millions)	Cost/ Acquisition Value	Unamortized (Premium)/ Discount	Interest Receivable	9/30/20 Net Investment	Unrealized Gain/(Loss)	9/30/20 Fair Value
Foreign Investments:						
Euro Bonds & Notes	**$ 4,504**	**$ 290**	**$ 53**	**$ 4,847**	**$ 437**	**$ 5,284**
Japanese Government Bonds	**334**	**-**	**-**	**334**	**41**	**375**
Other FCDAs	**142**	**-**	**-**	**142**	**-**	**142**
Other Investments	**26**	**-**	**-**	**26**	**(5)**	**21**
Total Non-Federal	**$ 5,006**	**$ 290**	**$ 53**	**$ 5,349**	**$ 473**	**$ 5,822**
Type of Investment:						
Available for Sale	**$ 1,307**	**$ 47**	**$ 15**	**$ 1,369**	**$ 127**	**$ 1,496**
Held to Maturity	**26**	**-**	**-**	**26**	**(5)**	**21**
Trading	**3,673**	**243**	**38**	**3,954**	**351**	**4,305**
Total Non-Federal	**$ 5,006**	**$ 290**	**$ 53**	**$ 5,349**	**$ 473**	**$ 5,822**

(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:						
Available for Sale	$ 2,339	$ 69	$ 18	$ 2,426	$ 127	$ 2,553
Held to Maturity	29	(1)	-	28	(11)	17
Trading	3,641	301	35	3,977	84	4,061
Total Non-Federal	$ 6,009	$ 369	$ 53	$ 6,431	$ 200	$ 6,631

14. PROPERTY, PLANT, AND EQUIPMENT, NET

As of September 30, 2020 and 2019, Property, Plant, and Equipment, Net consisted of the following:

(in millions)	Depreciation Method	Service Life	Cost	Accumulated Depreciation	2020 Net Book Value
Buildings, Structures and Facilities	**S/L**	**3 - 50 years**	**$ 846**	**$ (538)**	**$ 308**
Furniture, Fixtures and Equipment	**S/L**	**2 - 20 years**	**2,951**	**(2,160)**	**791**
Construction-in-Progress	**N/A**	**N/A**	**332**	**-**	**332**
Land and Land Improvements	**N/A**	**N/A**	**20**	**(4)**	**16**
Internal-Use Software in Use	**S/L**	**2 - 15 years**	**3,728**	**(2,788)**	**940**
Internal-Use Software in Development	**N/A**	**N/A**	**426**	**-**	**426**
Assets Under Capital Lease	**S/L**	**2 - 25 years**	**32**	**(17)**	**15**
Leasehold Improvements	**S/L**	**2 - 25 years**	**412**	**(282)**	**130**
Total			**$ 8,747**	**$ (5,789)**	**$ 2,958**

(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

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

The following table provides a reconciliation of total PP&E and accumulated depreciation for the fiscal year ended September 30, 2020:

(in millions)	PP&E	Accumulated Depreciation	2020 Net PP&E
Balance Beginning of Year	$ 8,324	$ (5,454)	$ 2,870
Capitalized Acquisitions	623	(4)	619
Dispositions	(200)	192	(8)
Depreciation Expense	-	(523)	(523)
Balance at End of Year	$ 8,747	$ (5,789)	$ 2,958

HERITAGE ASSETS

We have 15 heritage assets, of which five are considered multi-use, for FY 2020 and 2019. 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.

15. 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, 2020 and 2019:

		2020	
(in millions)	**Non-Entity**	**Entity**	**Total**
Intra-governmental Assets:			
Fund Balance [a]	**$ 3,917**	**$ 892,468**	**$ 896,385**
Loans and Interest Receivable (Note 3)	**1,654,096**	**80,820**	**1,734,916**
Advances to Trust Funds (Note 4)	**37,166**	**-**	**37,166**
Due From the General Fund (Note 4)	**27,093,930**	**-**	**27,093,930**
Other Intra-governmental Assets	**1,162**	**56**	**1,218**
Total Intra-governmental Assets	**28,790,271**	**973,344**	**29,763,615**
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	**1,770,303**	**68,062**	**1,838,365**
Gold and Silver Reserves (Note 6)	**11,062**	**-**	**11,062**
Taxes, Interest, and Other Receivables, Net (Note 8)	**237,357**	**233**	**237,590**
COVID-19 Investments, Advances, Receivables, and Other (Note 10)			
Investments, Net	**487**	**107,946**	**108,433**
Advances, Net	**-**	**68,889**	**68,889**
Notes and Interest Receivable, Net	**5,320**	**-**	**5,320**
Credit Program Receivables, Net	**-**	**1,580**	**1,580**
Other Assets	**-**	**1,619**	**1,619**
Investments in GSEs (Note 11)	**108,910**	**-**	**108,910**
Other Assets [b]	**7**	**54,704**	**54,711**
Total Assets	**$ 30,923,717**	**$ 1,276,377**	**$ 32,200,094**

[a] *$2.5 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.*

		2019	
(in millions)	**Non-Entity**	**Entity**	**Total**
Intra-governmental Assets:			
Fund Balance [c]	$ 3,294	$ 412,033	$ 415,327
Loans and Interest Receivable (Note 3)	1,504,794	76,225	1,581,019
Advances to Trust Funds (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 11)	112,070	-	112,070
Other Assets [d]	7	48,314	48,321
Total Assets	$ 25,013,329	$ 601,207	$ 25,614,536

[c] *$1.9 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.*

16. 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, 2020 and 2019 was as follows:

Held by Other Federal Agencies (Intra-governmental) (in millions)		2020		2019
Beginning Balance	$	**5,869,095**	$	5,712,537
New Borrowings/(Repayments) - Net		**28,097**		156,558
Subtotal at Par Value		**5,897,192**		5,869,095
Premium/(Discount)		**72,193**		73,111
Debt Principal Not Covered by Budgetary Resources (Note 19)		**5,969,385**		5,942,206
Interest Payable Covered by Budgetary Resources		**35,867**		38,823
Total	$	**6,005,252**	$	5,981,029

Held by the Public (in millions)		2020		2019
Beginning Balance	$	**16,809,092**	$	15,761,155
New Borrowings - Net of Repayments		**4,209,860**		1,047,937
Subtotal at Par Value		**21,018,952**		16,809,092
Premium/(Discount)		**(26,702)**		(42,688)
Debt Principal Not Covered by Budgetary Resources (Note 19)		**20,992,250**		16,766,404
Interest Payable Covered by Budgetary Resources		**70,600**		73,223
Total	$	**21,062,850**	$	16,839,627

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 2020 and 2019 was 2.3 percent and 2.7 percent, respectively. The average intra-governmental interest rate on TIPS for both FY 2020 and 2019 was 1.3 percent. The average interest rate on FRNs for FY 2020 and 2019 was 0.2 percent and 1.9 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, 2020 and 2019 was as follows:

(in millions)		2020		2019
Social Security Administration	$	**2,908,423**	$	2,900,916
Office of Personnel Management		**1,074,149**		1,051,505
Department of Defense Agencies		**1,197,374**		1,093,955
Department of Health and Human Services		**225,210**		307,225
All Other Federal Entities — Consolidated		**492,036**		515,494
Total Federal Debt Held by Other Federal Agencies	$	**5,897,192**	$	5,869,095

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, 2020 and 2019 consisted of the following:

(at par value in millions)	Term	Average Interest Rates		2020
Marketable:				
Treasury Bills	**1 Year or Less**	**0.2%**	**$**	**5,028,127**
Treasury Notes	**Over 1 Year - 10 Years**	**1.9%**		**10,655,969**
Treasury Bonds	**Over 10 Years**	**3.5%**		**2,668,116**
Treasury Inflation-Protected Securities (TIPS)	**5 Years or More**	**0.7%**		**1,522,418**
Treasury Floating Rate Notes (FRN)	**2 Years**	**0.3%**		**478,320**
Total Marketable				**20,352,950**
Non-Marketable	**On Demand to Over 40 Years**	**1.1%**		**666,002**
Total Federal Debt Held by the Public			**$**	**21,018,952**

(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

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. During FY 2020, Treasury's borrowing needs increased substantially as a result of the federal government's response to the COVID-19 pandemic. As a result, we increased our issuances. While the initial issuances were focused on Treasury bills, we shifted financing from bills to longer-term securities, using longer-term issuances as a prudent means of managing our maturity profile and limiting potential future issuance volatility.

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 $151.0 billion and $150.6 billion as of September 30, 2020 and 2019, 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, 2020, the FRB's SOMA had total holdings of $4.1 trillion which: *(i)* excluded $395.1 billion in Treasury securities used in overnight reverse repurchase transactions, and *(ii)* excluded a negligible amount lent to dealers and not collateralized by other Treasury securities. As of September 30, 2019, the FRB's SOMA had total holdings of $1.6 trillion which: *(i)* excluded $475.0 billion in Treasury securities used in overnight reverse repurchase transactions, and *(ii)* excluded a negligible amount lent to dealers and not collateralized by other Treasury securities. The significant increase in FY 2020 is a result of FRB's increased holdings of Treasury securities in amounts needed to support the smooth functioning and effective transmission of monetary policy to broader financial conditions. For the years ended September 30, 2020 and 2019, we incurred interest expense of $64.3 billion and $59.0 billion, respectively, related to Treasury securities held by the FRBs.

We issue non-marketable securities at either par value or at an amount that reflects a discount or a premium. The average interest rate on the non-marketable securities represents the original issue weighted effective yield on securities outstanding as of September 30, 2020 and 2019. Non-marketable securities are issued with a term of on demand out to 40 years. In FY 2020, we expanded our non-marketable securities to include a new special non-marketable Treasury security, known as a Special Purpose Vehicle (SPV) security. We issued these securities to SPVs, which were established by the Federal Reserve to implement its emergency lending facilities under Section 13(3) of the *Federal Reserve Act* to respond to the COVID-19 pandemic (refer to Note 10). An SPV security is a demand deposit certificate of indebtedness for which interest accrues daily and is paid at redemption. As of September 30, 2020, the total amount of SPV securities outstanding was $96 billion.

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 $26.9 trillion and $22.7 trillion as of September 30, 2020 and 2019, 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 17); 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 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 March 4, 2019 through August 1, 2019, we 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, was 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*." An additional $116 million of foregone interest owed to the two OPM funds was accrued and paid in FY 2020 and reported on the Consolidated Statements of Net Costs within the line item *"Restoration of Foregone Federal Debt Interest."*

17. OTHER DEBT AND INTEREST PAYABLE

Through FFB, we have outstanding borrowings and related accrued interest owed to the Civil Service Fund. At September 30, 2020 and 2019, FFB had outstanding borrowings of $7.3 billion and $8.9 billion, inclusive of $48 million and $60 million of accrued interest payable, respectively. The outstanding borrowings at September 30, 2020 had stated interest rates that ranged from 2.25 percent to 2.88 percent per annum, and an effective interest rate of 2.64 percent. 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. Maturity dates ranged from June 30, 2021 to June 30, 2029 for outstanding borrowings at September 30, 2020, and from June 30, 2020 to June 30, 2029 for outstanding borrowings at September 30, 2019.

18. D.C. Federal Pension and Judicial Retirement Actuarial Liability

Title XI of the *Balanced Budget Act of 1997*, as amended, was 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, 2020 and 2019 is as follows:

(in millions)	2020	2019
Beginning Liability Balance	**$ 8,398**	$ 8,372
Pension Expense:		
Normal Cost	**5**	6
Interest on Pension Liability During the Year	**66**	55
Actuarial (Gains) Losses During the Year:		
From Experience	**53**	34
From Discount Rate Assumption Change	**383**	290
From Other Assumption Changes	**(36)**	133
From Non-Economic Changes	**(44)**	64
Total Pension Expense	**427**	582
Less Amounts Paid	**(553)**	(556)
Ending Liability Balance	**$ 8,272**	$ 8,398

Additional Information ($ in millions):	D.C. Federal Pension Fund	Judicial Retirement Fund	2020 Total
Amount Received from the General Fund	**$ 540**	**$ 16**	**$ 556**
Annual Rate of Investment Return Assumption	**0.82% - 3.60%**	**0.82% - 3.60%**	
Future Annual Rate of Inflation and Cost-Of-Living Adjustment:			
Police Officers	**1.76%**	**N/A**	
Firefighters	**1.76%**	**N/A**	
Teachers	**1.71%**	**N/A**	
Judicial	**N/A**	**1.52%**	
Future Annual Rate of Salary Increases:			
Police Officers	**2.15%**	**N/A**	
Firefighters	**2.20%**	**N/A**	
Teachers	**2.30%**	**N/A**	
Judicial	**N/A**	**0.94%**	

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%	

19. LIABILITIES

LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30, 2020 and 2019, liabilities not covered by budgetary resources consisted of the following:

(in millions)	2020	2019
Intra-governmental Liabilities Not Covered by Budgetary Resources		
Federal Debt Principal, Premium/Discount (Note 16)	**$ 5,969,385**	$ 5,942,206
Other Intra-governmental Liabilities	**85**	90
Total Intra-governmental Liabilities Not Covered by Budgetary Resources	**5,969,470**	5,942,296
Federal Debt Principal, Premium/Discount (Note 16)	**20,992,250**	16,766,404
Other Liabilities	**1,152**	1,049
Total Liabilities Not Covered by Budgetary Resources	**26,962,872**	22,709,749
Total Liabilities Covered by or Not Requiring Budgetary Resources	**4,189,881**	2,415,211
Total Liabilities	**$ 31,152,753**	$ 25,124,960

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, 2020 and 2019, consisted of the following:

(in millions)	Current	Non-Current	2020 Total	Current	Non-Current	2019 Total
Intra-governmental						
Accounts Payable	**$ 112**	**$ -**	**$ 112**	$ 76	$ -	$ 76
Unfunded Federal Workers Compensation Program Liability (FECA)	**39**	**44**	**83**	41	48	89
Other Accrued Liabilities	**510**	**21**	**531**	446	21	467
Total Intra-governmental	**$ 661**	**$ 65**	**$ 726**	$ 563	$ 69	$ 632
With the Public						
Liability for Deposit Funds (Held by the U.S. government for Others) and Suspense Accounts	**$ 3,056**	**$ -**	**$ 3,056**	$ 1,437	$ -	$ 1,437
Actuarial Federal Workers Compensation Program Liability (FECA)	**-**	**574**	**574**	-	576	576
Accrued Funded Payroll and Benefits	**564**	**-**	**564**	462	-	462
Accounts Payable and Other Accrued Liabilities	**2,569**	**102**	**2,671**	2,902	90	2,992
Total With the Public	**$ 6,189**	**$ 676**	**$ 6,865**	$ 4,801	$ 666	$ 5,467

20. 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, 2020 and 2019:

(in millions)	2020	2019
Categories of Transfers to the General Fund and Other		
Interest Revenue	**$ (58,451)**	$ (46,616)
Downward Re-estimates of Credit Reform Subsidies	**(14,188)**	(105)
COVID-19 Non-Entity Revenue (Note 10)	**(5,832)**	-
Increase in Liquidation Preference of GSEs Preferred Stock, GSEs Preferred Stock Dividends and Valuation Changes (Note 11)	**3,160**	(14,199)
Other	**305**	(2,254)
Total	**(75,006)**	(63,174)

Included in "*Transfers to the General Fund and Other*" is accrued 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 credit reform downward re-estimate subsidies transferred to the General Fund is driven by a change in forecasted future cash flows. Our *"COVID-19 Non-Entity Revenue"* represents the value of our notes receivable and common stock warrants received pursuant to Section 4112 of the CARES Act. Also, included is the annual valuation adjustment on the GSE Senior Preferred Stock investments and related dividends.

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 22). 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.

21. 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 $938 million and $912 million during FY 2020 and 2019, 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 $666 million and $807 million for the fiscal years ended September 30, 2020 and 2019, 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, other federal costs incurred, and non-entity exchange revenues earned on behalf of the U.S. government. We do not reflect these costs and revenues as net 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, 2020 and 2019 consisted of the following:

(in millions)	2020	2019
Credit Reform Interest on Uninvested Funds (Intra-governmental)	**$ 21,144**	$ 7,109
Judgment Claims and Contract Disputes	**7,802**	1,299
Resolution Funding Corporation	**2,425**	2,628
Corporation for Public Broadcasting	**540**	465
All Other Payments	**838**	515
Total	**$ 32,749**	$ 12,016

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

For Fiscal Year Ended September 30, 2020

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	$ -	$ 2,317	$ 6,233	$ -	$ -	$ -
Less Earned Revenue	-	(518)	(4,351)	-	-	-
Net Program Cost	-	1,799	1,882	-	-	-
ECONOMIC PROGRAM						
Gross Cost	691	-	123,086	-	14,072	3,066
Less Earned Revenue	(773)	-	(9,302)	-	(460)	(3,067)
Net Program Cost	(82)	-	113,784	-	13,612	(1)
SECURITY PROGRAM						
Gross Cost	-	-	352	128	-	-
Less Earned Revenue	-	-	(11)	(1)	-	-
Net Program Cost	-	-	341	127	-	-
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	(82)	1,799	116,007	127	13,612	(1)
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	-	-	303	-	-	-
Total Net Cost of (Revenue From) Treasury Operations	$ (82)	$ 1,799	$ 116,310	$ 127	$ 13,612	$ (1)

(a) The total $113.8 billion of the Economic Program net costs reported by DO consisted of $109.0 billion of net costs from DO Policy Offices primarily related to the COVID-19 stimulus programs: $80.6 billion for payments made to States, Municipalities and Tribal Organizations as part of Section 5001 of the CARES Act Relief funding; $28.2 billion for payments made to Air Carriers Worker Support as part of Section 4112 of the CARES Act Relief funding; and $4.4 billion of net costs from ESF primarily for CARES Act program related costs (refer to Note 10). The remaining net costs consisted of net costs from other DO programs or offices.

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

For Fiscal Year Ended September 30, 2020

Program Costs	Office of the Comptroller of the Currency	Alcohol and Tobacco Tax and Trade Bureau	Combined Total	Eliminations	2020 Consolidated
FINANCIAL PROGRAM					
Gross Cost	$ -	$ -	$ 8,550	$ 2,363	$ 6,187
Less Earned Revenue	-	-	(4,869)	(1,120)	(3,749)
Net Program Cost	-	-	3,681	1,243	2,438
ECONOMIC PROGRAM					
Gross Cost	1,079	128	142,122	4,532	137,590
Less Earned Revenue	(1,095)	(7)	(14,704)	(2,504)	(12,200)
Net Program Cost	(16)	121	127,418	2,028	125,390
SECURITY PROGRAM					
Gross Cost	-	-	480	125	355
Less Earned Revenue	-	-	(12)	(5)	(7)
Net Program Cost	-	-	468	120	348
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	(16)	121	131,567	3,391	128,176
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	8	-	311	-	311
Total Net Cost of (Revenue From) Treasury Operations	$ (8)	$ 121	$ 131,878	$ 3,391	$ 128,487

21. 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	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.

21. 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

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

Net Adjustments to Unobligated Balance, Brought Forward, October 1

Net adjustments to unobligated balance, brought forward, October 1 as of September 30, 2020 and 2019 consisted of the following:

(in millions)		2020	2019
Unobligated Balance, Brought Forward From Prior Year	$	**315,349**	$ 313,661
Adjustments to Budgetary Resources Made During Current Year			
Downward Adjustments of Prior Year Undelivered Orders		**994**	651
Downward Adjustments of Prior Year Delivered Orders		**539**	1,608
Other Adjustments		**2,689**	(916)
Unobligated Balance From Prior Year Budgetary Authority, Net (Discretionary and Mandatory)	**$**	**319,571**	$ 315,004

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. The increase in *Undelivered Orders - Paid* as of September 30, 2020, resulted from Coronavirus Relief Fund obligations incurred related to advance payments made to states, local, territorial, and tribal governments under the Section 5001 of the CARES Act (refer to Note 10). The increase in *Undelivered Orders - Unpaid* as of September 30, 2020, resulted from obligated but undisbursed funding associated with the FRB's emergency liquidity lending facilities (refer to Note 10). Undelivered orders as of September 30, 2020 and 2019 consisted of the following:

		2020			2019		
(in millions)		**Federal**	**Non-Federal**	**Total**	**Federal**	**Non-Federal**	**Total**
Paid	**$**	**8 $**	**68,900 $**	**68,908** $	4 $	9 $	13
Unpaid		**13,036**	**120,484**	**133,520**	471	6,478	6,949
Undelivered Orders at the End of the Year	**$**	**13,044 $**	**189,384 $**	**202,428** $	475 $	6,487 $	6,962

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 20). Contributed capital for the fiscal years ended September 30, 2020 and 2019 was $0 million and $9 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 5.83 percent.

AVAILABLE BORROWING

The available borrowing authority and related changes in available borrowing authority as of and for the fiscal years ended September 30, 2020 and 2019 are shown below:

(in millions)	2020	2019
Beginning Balance	**$ 6,248**	$ 6,523
Current Authority [1]	**188,664**	125
Borrowing Authority Withdrawn	**(43)**	(20)
Borrowing Authority Converted to Cash	**(95,193)**	(380)
Ending Balance	**$ 99,676**	$ 6,248

(1) The significant increase in borrowing authority is related to the CARES Act in response to the COVID-19 pandemic (refer to Note 10).

RECONCILIATION OF THE PRESIDENT'S BUDGET

The Budget of the United States (also known as the President's Budget), with actual numbers for FY 2020, was not published at the time that these financial statements were issued. The FY 2022 President's Budget is expected to be published by OMB in February 2021, 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 2019 AFR and the actual FY 2019 balances included in the FY 2021 President's Budget.

Reconciliation of FY 2019 Combined Statement of Budgetary Resources to the FY 2021 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 (1)	$ 930,297	$ 614,948	$ 606,624	$ (68,686)	$ 537,938
IRS non-entity tax credit payments and other outlays not in SBR (2)	164,891	164,890	154,294	-	154,294
Tax and Trade Bureau (TTB) non-entity collections for Puerto Rico not in SBR	445	445	445	-	445
Expired funds in SBR	(479)	-	-	-	-
Non-Treasury offsetting receipts	-	-	-	(177)	(177)
Other	1	-	2	-	2
President's Budget Amounts	**$ 1,095,155**	**$ 780,283**	**$ 761,365**	**$ (68,863)**	**$ 692,502**

(1) *The Outlays amount is based on FY 2019 SBR presentation which included ($202) million of non-budgetary disbursements.*

(2) *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.

23. 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, 2020 and 2019:

	Tax Year				
(in millions)	2020	2019	2018	Pre-2018	2020 Collections
Individual Income and FICA Taxes	**$ 1,947,888 $**	**1,118,473 $**	**33,689 $**	**27,490 $**	**3,127,540**
Corporate Income Taxes	**152,005**	**89,037**	**9,932**	**12,589**	**263,563**
Estate and Gift Taxes	**2,578**	**11,805**	**2,066**	**1,749**	**18,198**
Excise Taxes	**68,084**	**23,601**	**143**	**230**	**92,058**
Railroad Retirement Taxes	**3,848**	**1,323**	**1**	**1**	**5,173**
Unemployment Taxes	**4,350**	**1,827**	**18**	**87**	**6,282**
Fines, Penalties, Interest & Other Revenue - Tax Related	**253**	**1**	**-**	**-**	**254**
Tax Related Revenue Received	**2,179,006**	**1,246,067**	**45,849**	**42,146**	**3,513,068**
Deposit of Earnings, Federal Reserve System	**66,877**	**15,003**	**-**	**-**	**81,880**
Fines, Penalties, Interest & Other Revenue - Non-Tax Related	**4,170**	**1,029**	**-**	**-**	**5,199**
Non-Tax Related Revenue Received	**71,047**	**16,032**	**-**	**-**	**87,079**
Total Revenue Received	**$ 2,250,053 $**	**1,262,099 $**	**45,849 $**	**42,146 $**	**3,600,147**
Less Amounts Collected for Non-Federal Entities					**477**
Total				**$**	**3,599,670**

	Tax Year				
(in millions)	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

AMOUNTS PROVIDED TO FUND THE U.S. GOVERNMENT

For the fiscal years ended September 30, 2020 and 2019, collections of custodial revenue transferred to other federal entities were as follows:

(in millions)	2020	2019
General Fund	**$ 2,862,273**	$ 3,188,795
Other Federal Agencies	**865**	953
Total	**$ 2,863,138**	$ 3,189,748

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. The CARES Act included provisions to help stimulate the economy through economic impact payments. In FY 2020, the IRS disbursed $274.7 billion of payments to eligible taxpayers of up to $1,200 for individuals and $2,400 for individuals filing a joint tax return, with up to an additional $500 for each eligible child added (refer to Note 10). Refunds and other payments, by revenue type and tax year, were as follows for the years ended September 30, 2020 and 2019:

	Tax Year				
(in millions)	2020	2019	2018	Pre-2018	2020 Refunds/ Payments
Individual Income and FICA Taxes	**$ 335,586**	**$ 299,269**	**$ 31,040**	**$ 7,455**	**$ 673,350**
Corporate Income Taxes	**3,986**	**13,975**	**20,151**	**21,313**	**59,425**
Estate and Gift Taxes	**-**	**52**	**316**	**242**	**610**
Excise Taxes	**387**	**1,813**	**338**	**338**	**2,876**
Railroad Retirement Taxes	**-**	**3**	**-**	**137**	**140**
Unemployment Taxes	**-**	**70**	**23**	**37**	**130**
Fines, Penalties, Interest & Other Revenue	**-**	**-**	**1**	**-**	**1**
Total	**$ 339,959**	**$ 315,182**	**$ 51,869**	**$ 29,522**	**$ 736,532**

	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

FEDERAL TAX REFUNDS AND OTHER AMOUNTS PAYABLE

As of September 30, 2020 and 2019, refunds and other amounts payable consisted of the following:

(in millions)	2020	2019
Internal Revenue Service	**$ 3,751**	$ 2,923
Alcohol and Tobacco Tax and Trade Bureau	**-**	16
Total	**$ 3,751**	$ 2,939

24. 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	5805585001	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	020X5445	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	0200/15445	Debt Collection Special Fund
Fiscal Service	020X5680	Guam World War II Claims 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, with the approval of the President, through the ESF, may deal in gold, foreign exchange, and other instruments of credit and securities the Secretary considers necessary, consistent with U.S. obligations in the IMF on orderly exchange arrangements and a stable system of exchange rates. 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 production of currency and other federal security documents. 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 16, 481 and 482 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, 2020

(in millions)	Exchange Stabilization Fund	Public Enterprise/ Revolving Funds	Other FDC Funds	Combined FDC Funds
ASSETS				
Intra-governmental Assets				
Fund Balance	$ -	$ 1,226	$ 1,408	$ 2,634
Investments and Related Interest	11,170	1,995	2,982	16,147
Other Intra-governmental Assets	-	6	-	6
Total Intra-governmental Assets	11,170	3,227	4,390	18,787
Cash, Foreign Currency and Other Monetary Assets	67,607	-	78	67,685
Taxes, Interest, and Other Receivables, Net	-	79	146	225
COVID-19 Investments, Advances, Receivables, and Other				
Investments, Net	10,047	-	-	10,047
Other Assets	1,619	-	-	1,619
Other Investments and Related Interest	5,801	5	-	5,806
Property, Plant, and Equipment, Net	-	809	27	836
Other Assets	-	1,005	89	1,094
Total Assets	$ 96,244	$ 5,125	$ 4,730	$ 106,099
LIABILITIES				
Intra-governmental Liabilities				
Due To the General Fund	$ -	$ -	$ 919	$ 919
Other Intra-governmental Liabilities	-	31	362	393
Total Intra-governmental Liabilities	-	31	1,281	1,312
Special Drawing Right Certificates Issued to the Federal Reserve	5,200	-	-	5,200
Allocation of Special Drawing Rights	49,709	-	-	49,709
Other Liabilities	8	687	139	834
Total Liabilities	54,917	718	1,420	57,055
Net Position				
Unexpended Appropriations	200	-	-	200
Cumulative Results of Operations	41,127	4,407	3,310	48,844
Total Liabilities and Net Position	$ 96,244	$ 5,125	$ 4,730	$ 106,099
Statement of Net Cost				
Gross Cost	$ 5,464	$ 4,836	$ 911	$ 11,211
Less: Earned Revenue	(6,890)	(4,935)	(293)	(12,118)
Gains/Losses on Pension, ORB, or OPEB Assumption Changes	-	8	-	8
Total Net Cost of (Revenue From) Operations	$ (1,426)	$ (91)	$ 618	$ (899)
Statement of Changes in Net Position				
Cumulative Results of Operations:				
Beginning Balance	$ 39,701	$ 3,745	$ 2,905	$ 46,351
Budgetary Financing Sources	-	-	544	544
Other Financing Sources	-	571	479	1,050
Total Financing Sources	-	571	1,023	1,594
Revenue From (Net Cost of) Operations	1,426	91	(618)	899
Change in Net Position	1,426	662	405	2,493
Ending Balance	$ 41,127	$ 4,407	$ 3,310	$ 48,844

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				
Intra-governmental Assets				
Fund Balance	$ -	$ 1,141	$ 1,274	$ 2,415
Investments and Related Interest	22,622	1,967	2,749	27,338
Other Intra-governmental Assets	-	7	-	7
Total Intra-governmental Assets	22,622	3,115	4,023	29,760
Cash, Foreign Currency and Other Monetary Assets	64,086	-	61	64,147
Taxes, Interest, and Other Receivables, Net		71	68	139
Other Investments and Related Interest	6,614	-	-	6,614
Property, Plant and Equipment, Net		689	35	724
Other Assets	-	596	97	693
Total Assets	$ 93,322	$ 4,471	$ 4,284	$ 102,077
LIABILITIES				
Intra-governmental Liabilities				
Due To the General Fund	$ -	$ -	$ 911	$ 911
Other Intra-governmental Liabilities	-	28	332	360
Total Intra-governmental Liabilities	-	28	1,243	1,271
Special Drawing Right 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

25. 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 $70.6 billion and $73.2 billion of interest accrued on outstanding public debt as of September 30, 2020 and 2019, respectively; as well as $37.0 billion and $61.4 billion of net amortization of discounts on outstanding public debt as of September 30, 2020 and 2019, respectively. 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 Valuation Adjustments on COVID-19 Investments and Direct Loans – revenue primarily related to the unrealized gain resulting from the valuation adjustment of the Section 4003 Special Purpose Vehicles (refer to Note 10). They represent revenue/cost as a component of Net Cost that are not a part of Net Outlays. For budgetary purposes, these assets are accounted for in accordance with FCRA, and as a result, in any given year, the amount recognized as current year accrued costs may differ from the current year President's Budget due to timing differences.
- Net unrealized loss on investments in GSEs – cost related to the combination of loss from the valuation adjustment of the preferred and common stock investments in the GSEs, and unrealized gain resulting from the increase in liquidation preference in GSE preferred stock (refer to Note 11). They represent revenue/cost as a component of Net Cost which is not part of Net Outlays.
- COVID-19 Notes and Interest Receivable – promissory notes received as compensation for financial assistance provided for air carrier worker support under Section 4112 of the CARES Act (refer to Note 10). They represent an increase in non-entity assets not affecting Net Outlays.
- CARES Act Section 5001 Advances – advanced funds to state, local, territorial, and tribal governments that have been obligated but not expensed until the recipients incur eligible obligations or expenditures in accordance with Section 5001 of the CARES Act (refer to Note 10). They represent a component of Net Outlays that are not a part of Net Cost.
- COVID-19 CPFF SPV Investments – preferred equity investment in the CPFF SPV facility established by the Federal Reserve Board, to provide liquidity to the financial system which was funded using unappropriated core funds of the ESF (refer to Note 10). Investments made using unappropriated funding represent a component of Net Outlays that are not a part of Net Cost.
- GSEs guarantee fee collections – fees collected on behalf of the U.S. government in accordance with P.L. 112-78 (refer to Note 11). They represent custodial collections recognized as a component of Net Outlays but not a component of Net Cost.

For the fiscal years ended September 30, 2020 and 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	2020 Total
Total Net Cost of Treasury Operations and Non-Entity Costs	**$ 124,221**	**$ 507,022**	**$ 631,243**
Components of Net Cost Not Part of Net Outlays:			
Net Valuation Adjustments on COVID-19 Investments and Direct Loans	-	13,320	13,320
Net Unrealized Loss on Investments in GSEs	-	(3,160)	(3,160)
Year-end credit reform accrual subsidy re-estimates	2	1,181	1,183
Property, Plant, and Equipment Depreciation	-	(415)	(415)
Other	-	(63)	(63)
Increase/(Decrease) in Assets Not Affecting Net Outlays:			
COVID-19 Notes and Interest Receivable	-	5,320	5,320
Accounts Receivable	210	10	220
Loans Receivable	-	(538)	(538)
Other Assets	51	1,568	1,619
(Increase)/Decrease in Liabilities Not Affecting Net Outlays:			
Interest Payable	(2,949)	-	(2,949)
Other Liabilities	95	(1,662)	(1,567)
Other Financing Sources:			
Imputed Financing Sources	(666)	-	(666)
Transfers Out (In) Without Reimbursement	187	-	187
Other Financing Sources	(130)	-	(130)
Total Components of Net Cost Not Part of Net Outlays	**(3,200)**	**15,561**	**12,361**
Components of Net Outlays That Are Not Part of Net Cost			
COVID-19 CPFF SPV Investments	-	10,000	10,000
COVID-19 Other Assets	-	1,500	1,500
CARES Act Section 5001 Advances	-	68,889	68,889
GSEs Guarantee Fee Collections	-	(4,238)	(4,238)
Acquisition of Capital Assets	-	213	213
Other	(1,563)	(154)	(1,717)
Total Components of Net Outlays That Are Not Part of Net Cost	**(1,563)**	**76,210**	**74,647**
Agency Outlays, Net	**$ 119,458**	**$ 598,793**	**$ 718,251**

(in millions)	Intra-governmental	With the Public	2019 Total
Total Net Cost of Treasury Operations and Non-Entity Costs	$ 133,066	$ 409,554	$ 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	76	514	590
Increase/(Decrease) in Assets Not Affecting Net Outlays:			
Accounts Receivable	476	(14)	462
Loans Receivable	-	7	7
Other Assets	(9)	58	49
(Increase)/Decrease in Liabilities Not Affecting Net Outlays:			
Interest Payable	440	-	440
Other Liabilities	(265)	(462)	(727)
Other Financing Sources:			
Imputed Financing Sources	(807)	-	(807)
Transfers Out (In) Without Reimbursement	742	-	742
Other Financing Sources	(217)	-	(217)
Total Components of Net Cost Not Part of Net Outlays	436	(1,528)	(1,092)
Components of Net Outlays That Are Not Part of Net Cost			
GSEs Guarantee Fee Collections	-	(3,903)	(3,903)
Acquisition of Capital Assets	1	259	260
Other	201	54	255
Total Components of Net Outlays That Are Not Part of Net Cost	202	(3,590)	(3,388)
Agency Outlays, Net	$ 133,704	$ 404,436	$ 538,140

26. 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

	2020			2019		
(in millions)	Payment of Unclaimed Monies Fund	All Other Fiduciary Funds	Total Fiduciary Funds	Payment of Unclaimed Monies Fund	All Other Fiduciary Funds	Total Fiduciary Funds
Fiduciary Net Assets, Beginning of the Year	**$ 803**	**$ 166**	**$ 969**	$ 749	$ 55	$ 804
Increases:						
Contributions to Fiduciary Net Assets	**52**	**5,109**	**5,161**	54	609	663
Investment earnings	**-**	**1**	**1**	-	-	-
Total Increases	**52**	**5,110**	**5,162**	54	609	663
Decreases:						
Disbursements to and on behalf of beneficiaries	**-**	**(5,126)**	**(5,126)**	-	(498)	(498)
Total Decreases	**-**	**(5,126)**	**(5,126)**	-	(498)	(498)
Net Increase (Decrease) in Fiduciary Assets	**52**	**(16)**	**36**	54	111	165
Fiduciary Net Assets, End of Year	**$ 855**	**$ 150**	**$ 1,005**	$ 803	$ 166	$ 969

Schedule of Fiduciary Net Assets

	2020			2019		
(in millions)	Payment of Unclaimed Monies Fund	All Other Fiduciary Funds	Total Fiduciary Funds	Payment of Unclaimed Monies Fund	All Other Fiduciary Funds	Total Fiduciary Funds
Fiduciary Net Assets						
Cash and Cash Equivalents						
Fund Balance with Treasury	$ 855	$ 146	$ 1,001	$ 803	$ 54	$ 857
Investments						
Investments in Treasury Securities	-	4	4	-	112	112
Total Fiduciary Assets	855	150	1,005	803	166	969
Total Fiduciary Net Assets	$ 855	$ 150	$ 1,005	$ 803	$ 166	$ 969

27. 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, that 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 11). 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. With respect to certain cases pending before the U.S. Court of Federal Claims, the U.S. government's motion to dismiss was granted with respect to certain claims and denied with respect to certain other claims. The parties have appealed, and the appeals are still pending. 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. 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 that is pending before the Supreme Court. Cases in the U.S. District Courts for the District of Minnesota and Western District of Michigan were dismissed by the District Courts, and appeals are pending. A case in the Eastern District of Pennsylvania remains in litigation, and a motion to dismiss is pending. We are unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss in these cases 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. As of September 30, 2020, the Department has determined the likelihood of an unfavorable outcome as probable and estimated a potential loss within a range of $0 to $288 million.

- *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, 2020 and 2019, we have determined there is a reasonably possible likelihood of an unfavorable outcome in some of the cases totaling approximately $460 million. 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.

- *State of Texas et. al. v. United States:* Two cases were filed in the U.S. District Court for the Northern District of Texas in which various states allege, among other things, that the payments of the Affordable Care Act's Health Insurance Provider Fee (HIPF) imposed on "covered entities," is unlawfully applied to states. Although the states themselves are not covered entities, payments that were made to for-profit Medicaid managed care organizations that entered into contracts with the states are covered entities subject to the HIPF. Therefore, the managed care organizations structured their coverage rates for each state to account for the fee. On July 31, 2020, the Fifth Circuit Court of Appeals ruled in favor of the U.S. government. The plaintiffs filed a petition for rehearing and, on October 5, 2020, the court ordered the U.S. government to respond to this petition. The U.S. government responded to the motion for rehearing en banc on November 16, 2020. The plaintiffs have filed a reply, which is still pending. The second case is stayed pending the outcome of the first case. We are unable to determine the likelihood of an unfavorable outcome but estimate a potential loss of $479 million at this time.

- *Braun v. United States:* A civil suit was filed in the U.S. District Court for the District of Columbia seeking to determine if legislation passed in November 2019 is retroactive to December 2015, when the U.S. Victims of State Sponsored Terrorism Fund (USVSST) was created. The November 2019 legislation increased the mandatory percentage of deposits into the USVSST fund from eligible civil forfeitures, fines, and penalties from 50 percent to 75 percent, payable to victims on a pro rata basis. The suit was filed on September 16, 2020. We are unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

- *Keough et al. v. United States et al.:* A case was filed in the U.S. District Court for the District of Massachusetts seeking to determine if the fees Treasury charges agencies in its Cross-Servicing program related to the collection of delinquent debt are unlawful. We are unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

- *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, 2020 and 2019, we had remaining loan commitments totaling $35.9 billion and $17.8 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 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, 2020 and 2019, U.S. callable capital in MDBs was as follows:

(in millions)	2020	2019
Inter-American Development Bank	**$ 49,181**	$ 49,181
International Bank for Reconstruction and Development	**44,942**	43,521
Asian Development Bank	**18,702**	18,702
African Development Bank	**5,608**	5,608
European Bank for Reconstruction and Development	**3,055**	3,055
North American Development Bank	**1,530**	1,275
Multilateral Investment Guarantee Agency (1)	**315**	315
Total	**$ 123,333**	$ 121,657

(1) Both FY 2020 and 2019 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 2019* (P.L. 116-94) extended the Terrorism Risk Insurance Program (TRIP) until December 31, 2027. 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 2020 and 2019, the program trigger amount was $200 million and $180 million, respectively. 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, 2020 or 2019.

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, 2020 and 2019.

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, 2020 and 2019, the U. S. financial commitment under the U.S. quota was SDR 83.0 billion, which was equivalent to $116.6 billion and $113.0 billion, respectively. Its financial commitment under the NAB was SDR 28.2 billion as of September 30, 2020 and 2019, which was equivalent to $39.7 billion and $38.4 billion, respectively. In May 2020, the United States issued its consent to increase participation by the U.S. in the NAB by an additional SDR 28.2 billion, which is scheduled to take effect January 1, 2021. 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, 2020 and 2019, we had committed up to $32.6 billion and $33.1 billion, respectively, for these programs. Outstanding commitments totaled $1.7 billion and $3.0 billion as of September 30, 2020 and 2019, respectively. For FY 2020 and 2019, payments made on behalf of the housing programs under TARP totaled $760 million and $1.5 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, 2020 and 2019, our maximum remaining potential commitment to the GSEs was $254.1 billion. Refer to Note 11 for further information.

COVID-19 Future Funding Commitments

As of September 30, 2020, we committed to contribute $205.0 billion to capitalize the FRBs' SPVs (utilizing $195.0 billion of both appropriated and Fiscal Service borrowings and $10.0 billion of ESF unappropriated core funds) to protect the FRBNY and FRBB from potential losses incurred by these liquidity lending facilities that were established in response to the COVID-19 pandemic. We funded $112.5 billion of this commitment as of September 30, 2020 and had a commitment, as of that date, to fund the remaining $92.5 billion as stipulated by the SPV LLC Agreements. However, as discussed in Note 10, consistent with the enactment of the *Consolidated Appropriations Act, 2021*, on December 29, 2020, Treasury and the Federal Reserve amended the SPV LLC Agreements for each of the SPVs funded under the CARES Act to, among other things, change the terms of our commitments to the SPVs (refer to the section entitled "*Subsequent Events*" within Note 10). Pursuant to the ESF core authority, we also committed $10.0 billion to the FRBB to provide it with credit protection in the event of potential credit losses related to the MMLF liquidity lending facility. We satisfied a portion of our MMLF commitment by transferring $1.5 billion of funds into a deposit account, and may be required to transfer the remaining $8.5 billion. Under Section 4003, we also entered into direct loan agreements that provide for up to an aggregate total of $14.7 billion and $700 million, respectively, of available borrowings by certain passenger airlines and a national security business, respectively, of which $13.1 billion and $455 million, respectively, remain available for future borrowings as of September 30, 2020. Refer to Note 10 for further information. As of September 30, 2020, there was no requirement for any additional funding.

28. 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 2019 FR can be found on the Fiscal Service website and a copy of the FY 2020 FR will be posted to the site as soon as it is released.

Consolidated Balance Sheet
As of September 30, 2020

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total (in millions)	Reclassified Financial Statement Line
ASSETS							
Intra-governmental Assets							
Fund Balance	$ 896,385	$ 2,634	$ -	$ 893,751	$ -	$ 896,385	Fund Balance with Treasury
Loans and Interest Receivable	1,734,916	-	-	1,734,684	-	1,734,684	Loans Receivable
		-	-	232	-	232	Interest Receivable - Loans and Not Otherwise Classified
Total Loans and Interest Receivable	1,734,916	-	-	1,734,916	-	1,734,916	*Total*
Investments and Related Interest	-	16,142	-	-	16,142	-	Federal Investments
		5	-	-	5	-	Interest Receivable - Investments
Total Investments and Related Interest	-	16,147	-	-	16,147	-	*Total*
Advances to Trust Funds	37,166	-	-	37,154	-	37,154	Loans Receivable
		-	-	12	-	12	Interest Receivable - Loans and Not Otherwise Classified
Total Advances to Trust Funds	37,166	-	-	37,166	-	37,166	*Total*
Due From the General Fund	27,093,930	-	-	27,093,930	-	27,093,930	Other Assets
Other Intra-governmental Assets	1,218	3	-	1,219	12	1,210	Accounts Receivable, Net
		-	-	7	7	-	Transfers Receivable
		3	-	5	-	8	Advances to Others and Prepayments
Total Other Intra-governmental Assets	1,218	6	-	1,231	19	1,218	*Total*
Total Intra-governmental Assets	**29,763,615**	**18,787**	**-**	**29,760,994**	**16,166**	**29,763,615**	**Total Intra-governmental Assets**
Cash, Foreign Currency, and Other Monetary Assets	1,838,365	67,685	-	1,770,680	-	1,838,365	Cash and Other Monetary Assets
Gold and Silver Reserves	11,062	-	-	11,062	-	11,062	Cash and Other Monetary Assets
Reserve Position in the International Monetary Fund	31,211	-	-	31,211	-	31,211	Cash and Other Monetary Assets
Taxes, Interest, and Other Receivables, Net	237,590	225	-	237,365	-	237,590	Accounts Receivable, Net
Credit Program Receivables, Net	3,704	-	-	3,704	-	3,704	Direct Loan and Loan Guarantees Receivable, Net
Loans and Interest Receivable, Net	1,708	-	-	1,708	-	1,708	Direct Loan and Loan Guarantees Receivable, Net

Consolidated Balance Sheet
As of September 30, 2020

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total (in millions)	Reclassified Financial Statement Line
COVID-19 Investments, Advances, Receivables, and Other							
Investments, Net	108,433	10,047	-	98,386	-	108,433	Securities and Investments
Advances, Net	68,889	-	-	68,889	-	68,889	Other Assets
Notes and Interest Receivable, Net	5,320	-	-	5,320	-	5,320	Direct Loan and Loan Guarantees Receivable, Net
Credit Program Receivables, Net	1,580	-	-	1,580	-	1,580	Direct Loan and Loan Guarantees Receivable, Net
Other Assets	1,619	1,619	-	-	-	1,619	Other Assets
Investments in Government Sponsored Enterprises (GSEs)	108,910	-	-	108,910	-	108,910	Investments in Government Sponsored Enterprises
Investments in Multilateral Development Banks	8,205	-	-	8,205	-	8,205	Other Assets
Other Investments and Related Interest	5,822	5,806	-	16	-	5,822	Securities and Investments
Property, Plant, and Equipment, Net	2,958	836	-	2,122	-	2,958	General Property, Plant, and Equipment, Net
Other Assets	1,103	1,093	-	-	-	1,093	Inventory and Related Property, Net
		1	-	9	-	10	Other Assets
Total Other Assets	1,103	1,094	-	9	-	1,103	*Total*
Total Assets	**$ 32,200,094**	**$ 106,099**	**$ -**	**$ 32,110,161**	**$ 16,166**	**$ 32,200,094**	**Total Assets**
LIABILITIES							
Intra-governmental Liabilities							
Federal Debt and Interest Payable	$ 6,005,252	$ -	$ -	$ 5,985,525	$ 16,141	$ 5,969,384	Federal Debt
		-	-	35,873	5	35,868	Interest Payable - Debt
Total Federal Debt and Interest Payable	6,005,252	-	-	6,021,398	16,146	6,005,252	*Total*
Other Debt and Interest Payable	7,310	-	-	7,262	-	7,262	Federal Debt
		-	-	48	-	48	Interest Payable - Debt
Total Other Debt and Interest Payable	7,310	-	-	7,310	-	7,310	*Total*
Due To the General Fund	3,991,781	918	-	3,990,862	-	3,991,780	Liability to the General Fund for Custodial and Other Non-Entity Assets
		1	-	-	-	1	Other Liabilities
Total Due To the General Fund	3,991,781	919	-	3,990,862	-	3,991,781	*Total*

Consolidated Balance Sheet
As of September 30, 2020

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total (in millions)	Reclassified Financial Statement Line
Other Intra-governmental Liabilities	726	27	-	176	-	203	Benefit Program Contributions Payable
		46	-	109	12	143	Accounts Payable
		319	-	-	7	312	Transfers Payable
		-	-	35	-	35	Advances from Others and Deferred Credits
		1	-	25	-	26	Other Liabilities (without Reciprocals)
		-	-	7	-	7	Liability to Agency Other Than the General Fund for Custodial and Other Non-Entity Assets
Total Other Intra-governmental Liabilities	726	393	-	352	19	726	*Total*
Total Intra-governmental Liabilities	**10,005,069**	**1,312**	**-**	**10,019,922**	**16,165**	**10,005,069**	**Total Intra-governmental Liabilities**
Federal Debt and Interest Payable	21,062,850	-	-	21,062,850	-	21,062,850	Federal Debt and Interest Payable
Special Drawing Right Certificates Issued to the Federal Reserve	5,200	5,200	-	-	-	5,200	Other Liabilities
Allocation of Special Drawing Rights	49,709	49,709	-	-	-	49,709	Other Liabilities
Gold Certificates Issued to the Federal Reserve Banks	11,037	-	-	11,037	-	11,037	Other Liabilities
Refunds Payable	3,751	-	-	3,751	-	3,751	Accounts Payable
D.C. Federal Pension and Judicial Retirement Actuarial Liability	8,272	-	-	8,272	-	8,272	Other Liabilities
Other Liabilities	6,865	101	-	531	-	632	Accounts Payable
		206	-	1,157	-	1,363	Federal Employee and Veteran Benefits Payable
		527	-	4,343	-	4,870	Other Liabilities
Total Other Liabilities	6,865	834	-	6,031	-	6,865	*Total*
Total Liabilities	**31,152,753**	**57,055**	**-**	**31,111,863**	**16,165**	**31,152,753**	**Total Liabilities**

Consolidated Balance Sheet
As of September 30, 2020

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total (in millions)	Reclassified Financial Statement Line
NET POSITION							
Unexpended Appropriations:							
Funds from Dedicated Collections	200	200	-	-	-	200	Unexpended Appropriations - Funds from Dedicated Collections (Combined)
Other Funds	903,758	-	-	903,758	-	903,758	Unexpended Appropriations - Funds Other than Those from Dedicated Collections (Combined)
Cumulative Results of Operations:							
Funds from Dedicated Collections	48,844	48,844	-	-	-	48,844	Cumulative Results of Operations - Funds from Dedicated Collections (Combined)
Other Funds	94,539	-	-	94,539	-	94,539	Cumulative Results of Operations - Funds Other than Those from Dedicated Collections (Combined)
Total Net Position (Combined Totals)	**1,047,341**	**49,044**	**-**	**998,297**	**-**	**1,047,341**	**Total Net Position**
Total Liabilities and Net Position	**$ 32,200,094**	**$ 106,099**	**$ -**	**$ 32,110,160**	**$ 16,165**	**$ 32,200,094**	**Total Liabilities and Net Position**

Consolidated Statement of Net Cost
For the Fiscal Year Ended September 30, 2020

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total (in millions)	Reclassified Financial Statement Line
Cost of Treasury Operations:							
Total Program Gross Costs	$ 144,132	$ 10,348	$ -	$ 128,272	$ -	$ 138,620	Non-Federal Gross Costs
							Intra-governmental Costs
		233	-	1,852	-	2,085	Benefit Program Costs
		55	-	612	-	667	Imputed Costs
		400	-	1,346	227	1,519	Buy/Sell Cost
		-	-	4	-	4	Purchase of Assets
		-	-	226	-	226	Federal Securities Interest Expense
		-	-	498	-	498	Borrowing Losses
		16	-	501	-	517	Other Expenses (without Reciprocals)
		-	-	(4)	-	(4)	Purchase of Assets Offset
		704	-	5,035	227	5,512	*Total Intra-governmental Costs*
Total Program Gross Costs	**144,132**	**11,052**	**-**	**133,307**	**227**	**144,132**	**Total**
Total Program Gross Earned Revenues	(15,956)	(11,743)	-	(765)	-	(12,508)	Non-Federal Earned Revenue
							Intra-governmental Revenue
		(115)	-	(598)	(224)	(489)	Buy/Sell Revenue
		(197)	-	-	(197)	-	Federal Securities Interest Revenue Including Associated Gains and Losses
		-	-	(2,192)	-	(2,192)	Borrowing and Other Interest Revenue
		-	-	(767)	-	(767)	Borrowing Gains
		(312)	-	(3,557)	(421)	(3,448)	*Total Intra-governmental Earned Revenue*
Total Program Gross Earned Revenues	**(15,956)**	**(12,055)**	**-**	**(4,322)**	**(421)**	**(15,956)**	**Total**
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	311	8	-	303	-	311	Non-Federal Gross Costs
Total Net Cost of Treasury Operations	**$ 128,487**	**$ (995)**	**$ -**	**$ 129,288**	**$ (194)**	**$ 128,487**	**Total**

Consolidated Statement of Net Cost
For the Fiscal Year Ended September 30, 2020

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total (in millions)	Reclassified Financial Statement Line
Non-Entity Costs:							
Federal Debt Interest	$ 526,814	$ -	$ -	$ 371,090	$ -	$ 371,090	Interest on Debt Held by the Public (Non-Federal)
		-	-	155,964	240	155,724	Federal Securities Interest Expense (Federal)
Total Federal Debt Interest	526,814	-	-	527,054	240	526,814	*Total*
Restoration of Foregone Federal Debt Interest	116	-	-	116	-	116	Federal Securities Interest Expense (Federal)
Less Interest Revenue from Loans	(53,561)	-	-	(53,561)	-	(53,561)	Borrowing and Other Interest Revenue (Federal)
Other Federal Costs, Net	32,749	119	-	12,083	-	12,202	Non-Federal Gross Costs
							Intra-governmental Costs
		-	-	39	-	39	Buy/Sell Cost
		-	-	21,144	-	21,144	Borrowing and Other Interest Expenses
		-	-	21,183	-	21,183	*Total Intra-governmental Costs*
		(64)	-	-	-	(64)	Non-Federal Earned Revenue
		-	-	(572)	-	(572)	Buy/Sell Revenue (Federal)
Total Other Federal Costs, Net	32,749	55	-	32,694	-	32,749	*Total*

Consolidated Statement of Net Cost
For the Fiscal Year Ended September 30, 2020

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total (in millions)	Reclassified Financial Statement Line
GSEs Non-Entity Cost (Revenue), Net	3,160	-	-	3,160	-	3,160	Non-Federal Earned Revenue
COVID-19 Non-Entity Revenue, Net	(5,832)	-	-	2,178	-	2,178	Non-Federal Gross Costs
		-	-	(8,010)	-	(8,010)	Non-Federal Earned Revenue
Total COVID-19 Non-Entity Revenue, Net	(5,832)	-	-	(5,832)	-	(5,832)	*Total*
Other, Net	(690)	41	-	1	-	42	Non-Federal Gross Costs
		-	-	(732)	-	(732)	Buy/Sell Revenue (Federal)
Total Other, Net	(690)	41	-	(731)	-	(690)	*Total*
Total Net Non-Entity Costs	**502,756**	**96**	**-**	**502,900**	**240**	**502,756**	**Total**
		63	-	436,763	-	436,826	Non-Federal Gross Costs [(1)]
Total Net Cost of Treasury Operations and Non-Entity Costs	**$ 631,243**	**$ (836)**	**$ -**	**$ 1,068,951**	**$ 46**	**$ 1,068,069**	**Total Net Cost [(1)]**

(1) Includes income tax credits of $436.8 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, 2020

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total (in millions)	Reclassified Financial Statement Line
STATEMENT OF CHANGES IN NET POSITION							
UNEXPENDED APPROPRIATIONS							
Beginning Balance	$ 419,596	$ 200	$ -	$ 419,396	$ -	$ 419,596	Net Position, Beginning of Period
Budgetary Financing Sources							
Appropriations Received	1,273,854	-	-	1,273,854	-	1,273,854	Appropriations Received as adjusted
Appropriations Transferred In/Out	60	-	-	60	-	60	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources
Other Adjustments	(12,802)	-	-	(12,802)	-	(12,802)	Appropriations Received as adjusted
Appropriations Used	(776,750)	-	-	(776,750)	-	(776,750)	Appropriations Used
Total Unexpended Appropriations	**903,958**	**200**	**-**	**903,758**	**-**	**903,958**	**Total**
CUMULATIVE RESULTS OF OPERATIONS							
Beginning Balance	69,980	46,351	-	23,629	-	69,980	Net Position, Beginning of Period
Budgetary Financing Sources							
Appropriations Used	776,750	-	-	776,750	-	776,750	Appropriations Expended
Non-Exchange Revenue	481	456	-	-	-	456	Collections Transferred into Another TAS other than the General Fund of the U.S. Government
		24	-	-	-	24	Individual Income Tax and Tax Withholdings
		-	-	1	-	1	Other Taxes and Receipts
		43	-	-	43	-	Federal Securities Interest Revenue Including Associated Gains and Losses (Non-Exchange)
Total Non-Exchange Revenue	481	523	-	1	43	481	*Total*
Donations and Forfeitures of Cash/Equivalent	239	239	-	-	-	239	Other Taxes and Receipts

Consolidated Statement of Changes in Net Position and Statement of Custodial Activity
For the Fiscal Year Ended September 30, 2020

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total (in millions)	Reclassified Financial Statement Line
Transfers In/Out Without Reimbursement	(187)	379	379	-	-	-	Appropriation of Unavailable Special or Trust Fund Receipts Transfers-In
		(379)	(379)	-	-	-	Appropriation of Unavailable Special or Trust Fund Receipts Transfers-Out
		3	3	1	1	-	Non-expenditure Transfers-In of Unexpended Appropriations and Financing Sources
		(4)	(3)	-	(1)	-	Non-expenditure Transfers-Out of Unexpended Appropriations and Financing Sources
		2	-	129	130	1	Expenditure Transfers-In of Financing Sources
		(317)	-	(1)	(130)	(188)	Expenditure Transfers-Out of Financing Sources
Total Transfers In/Out Without Reimbursement	(187)	(316)	-	129	-	(187)	*Total*
Other	105	98	-	7	-	105	Other Budgetary Financing Sources
Other Financing Sources (Non-Exchange)							
Donation/Forfeiture of Property	93	93	-	-	-	93	Other Taxes and Receipts
Accrued Interest and Discount on Debt	1,505	-	-	1,505	-	1,505	Other Non-Budgetary Financing Sources for Debt Accruals/Amortization
Transfers In/Out Without Reimbursement	-	2,472	2,472	-	-	-	Transfers-In Without Reimbursement
		(2,471)	(2,471)	-	-	-	Transfers-Out Without Reimbursement
Total Transfers In/Out Without Reimbursement	-	1	1	-	-	-	*Total*
Imputed Financing Sources	666	54	-	612	-	666	Imputed Financing Sources

Consolidated Statement of Changes in Net Position and Statement of Custodial Activity
For the Fiscal Year Ended September 30, 2020

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total (in millions)	Reclassified Financial Statement Line
Transfers to the General Fund and Other	(75,006)	-	-	(18,803)	-	(18,803)	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
		(9)	-	(58,062)	-	(58,071)	Non-Entity Collections Transferred to the General Fund
		65	-	(2)	-	63	Other Non-Budgetary Financing Sources
		846	-	959	-	1,805	Other Taxes and Receipts
Total Transfers to the General Fund and Other	(75,006)	902	-	(75,908)	-	(75,006)	*Total*
Net Cost of Treasury Operations and Non-Entity Costs	(631,243)	836	-	(1,068,951)	(46)	(1,068,069)	Net Cost of Operations [2]
Total Cumulative Results of Operations	**143,383**	**48,781**	**1**	**(342,226)**	**(3)**	**(293,443)**	**Total**
STATEMENT OF CUSTODIAL ACTIVITY							
Sources of Custodial Revenue							
Individual Income and FICA Taxes	$ 3,127,540	$ 63	$ -	$ 3,127,477	$ -	$ 3,127,540	Individual Income Tax and Tax Withholdings
Corporate Income Taxes	263,563	-	-	263,563	-	263,563	Corporation Income Taxes
Estate and Gift Taxes	18,198	-	-	18,198	-	18,198	Estate and Gift Taxes
Excise Taxes	92,058	-	-	92,058	-	92,058	Excise Taxes
Railroad Retirement Taxes	5,173	-	-	5,173	-	5,173	Other Taxes and Receipts
Unemployment Taxes	6,282	-	-	6,282	-	6,282	Unemployment Taxes
Deposit of Earnings, Federal Reserve System	81,880	-	-	81,880	-	81,880	Other Taxes and Receipts
Fines, Penalties, Interest and Other Revenue	5,453	-	-	5,451	-	5,451	Other Taxes and Receipts
		-	-	2	-	2	Borrowing and Other Interest Revenue
Total Fines, Penalties, Interest and Other Revenue	5,453	-	-	5,453	-	5,453	*Total*
Less Refunds and Other Payments	(736,532)	-	-	(257,558)	-	(257,558)	Individual Income Tax and Tax Withholdings
		-	-	(38,492)	-	(38,492)	Corporation Income Taxes
		-	-	(128)	-	(128)	Unemployment Taxes
		-	-	(2,850)	-	(2,850)	Excise Taxes
		-	-	(573)	-	(573)	Estate and Gift Taxes
		-	-	(105)	-	(105)	Other Taxes and Receipts
Total Less Refunds and Other Payments	(736,532)	-	-	(299,706)	-	(299,706)	*Total* [2]

(2) Includes income tax credits of $436.8 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, 2020

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total (in millions)	Reclassified Financial Statement Line
Non-Cash Accrual Adjustment	90,818	-	-	91,630	-	91,630	Other Taxes and Receipts
		-	-	(812)	-	(812)	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	90,818	-	-	90,818	-	90,818	*Total*
Disposition of Custodial Revenue							
Amounts Provided to Fund Non-Federal Entities	(477)	-	-	(477)	-	(477)	Other Taxes and Receipts
Amounts Provided to Fund the Federal Government	(2,863,138)	-	-	(2,862,273)	-	(2,862,273)	Non-Entity Collections Transferred to the General Fund
		-	-	(865)		(865)	Collections Transferred to a TAS Other Than the General Fund of the U.S. Government
Total Amounts Provided to Fund the Federal Government	(2,863,138)	-	-	(2,863,138)	-	(2,863,138)	*Total*
Non-Cash Accrual Adjustment	(90,818)	-	-	(90,817)	-	(90,817)	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Gov't
		-	-	(1)	-	(1)	Accrual of Collections Yet to be Transferred to a TAS Other Than the General Fund of the U.S. Gov't
Total Non-Cash Accrual Adjustment	(90,818)	-	-	(90,818)	-	(90,818)	*Total*
Total Statement of Changes in Net Position and Statement of Custodial Activity	**$ 1,047,341**	**$ 49,044**	**$ 1**	**$ 998,295**	**$ (3)**	**$ 1,047,341**	**Total Reclassified Statement of Changes in Operations and Net Position**

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 $3.3 billion and $10.1 billion as of September 30, 2020 and 2019, 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 2020, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts and appeals courts is $1.6 billion and $1.7 billion, respectively. In FY 2019, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts and appeals courts was $7.8 billion and $2.3 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. 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, 2020 and 2019, were as follows:

(in millions)		2020	2019
Total Unpaid Assessments	$	**596,000** $	550,000
Less Compliance Assessments		**(74,000)**	(75,000)
Write Offs		**(95,000)**	(106,000)
Gross Federal Taxes Receivable		**427,000**	369,000
Less Allowance for Doubtful Accounts		**(191,000)**	(225,000)
Federal Taxes Receivables, Net	$	**236,000** $	144,000

Total unpaid assessments include $200 billion of non-delinquent taxes receivable, including $178 billion of non-delinquent IRC 965(h) tax of which $168 billion is collectible based on the type of taxpayer and the financial assistance of large dollar businesses. 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. The remaining balance is related to Social Security tax deferral under the CARES Act, which contains a provision for employers to defer the employer's share of the Social Security portion of FICA, and the employer and employee representative's share of the RRTA. The deferred amount is due by December 31, 2022.

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 $1.4 billion and $1.5 billion as of September 30, 2020 and 2019, 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 2020 and 2019, TTB collected approximately $20.0 billion and $19.8 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 2020 and 2019, we had no material amounts of deferred maintenance and repair costs to report on vehicles, buildings, heritage assets, 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, 2020 and 2019 disaggregated by Treasury reporting entity rather than by Treasury major budget account, since we manage our budget at the reporting entity level.

Fiscal Year 2020 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)	$ 582	$ 1,686	$ 313,936	$ 31	$ 1,172
Appropriations (discretionary and mandatory)	-	560,753	686,970	126	12,708
Borrowing authority (discretionary and mandatory)	-	-	188,664	-	-
Spending authority from offsetting collections (discretionary and mandatory)	1,045	314	30,686	2	185
Total Budgetary Resources	$ 1,627	$ 562,753	$ 1,220,256	$ 159	$ 14,065
STATUS OF BUDGETARY RESOURCES					
New obligations and upward adjustments	$ 879	$ 560,942	$ 455,325	$ 125	$ 12,670
Unobligated balance, end of year:					
Apportioned, unexpired accounts	584	1,669	743,336	30	1,077
Exempt from apportionment, unexpired accounts	-	5	86	-	7
Unapportioned, unexpired accounts	164	117	21,364	-	70
Unexpired unobligated balance, end of year	748	1,791	764,786	30	1,154
Expired unobligated balance, end of year	-	20	145	4	241
Unobligated balance, end of year	748	1,811	764,931	34	1,395
Total Status of Budgetary Resources	$ 1,627	$ 562,753	$ 1,220,256	$ 159	$ 14,065
OUTLAYS, NET, AND DISBURSEMENTS, NET					
Outlays, net (discretionary and mandatory)	$ 75	$ 561,109	$ 212,795	$ 120	$ 12,171
Distributed offsetting receipts	-	(60,689)	(6,460)	(3)	(812)
Agency Outlays, Net (Discretionary and Mandatory)	$ 75	$ 500,420	$ 206,335	$ 117	$ 11,359
Disbursements, net (mandatory)	$ -	$ -	$ 85,859	$ -	$ -

(a) Of the $1,220 billion of Total Budgetary Resources for DO, ESF, GSE, and OAS had $758 billion, $254 billion, and $14 billion, respectively. The remainder is spread throughout other offices.

Fiscal Year 2020 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)	$ 487	$ 1,669	$ 8	$ 319,493	$ 78
Appropriations (discretionary and mandatory)	-	-	120	1,260,677	-
Borrowing authority (discretionary and mandatory)	-	-	-	-	188,664
Spending authority from offsetting collections (discretionary and mandatory)	3,574	1,056	7	10,466	26,403
Total Budgetary Resources	$ 4,061	$ 2,725	$ 135	$ 1,590,636	$ 215,145
STATUS OF BUDGETARY RESOURCES					
New obligations and upward adjustments	$ 3,462	$ 1,069	$ 128	$ 819,600	$ 215,000
Unobligated balance, end of year:					
Apportioned, unexpired accounts	594	-	5	747,266	29
Exempt from apportionment, unexpired accounts	-	1,656	-	1,754	-
Unapportioned, unexpired accounts	5	-	-	21,604	116
Unexpired unobligated balance, end of year	599	1,656	5	770,624	145
Expired unobligated balance, end of year	-	-	2	412	-
Unobligated balance, end of year	599	1,656	7	771,036	145
Total Status of Budgetary Resources	$ 4,061	$ 2,725	$ 135	$ 1,590,636	$ 215,145
OUTLAYS, NET, AND DISBURSEMENTS, NET					
Outlays, net (discretionary and mandatory)	$ (159)	$ (16)	$ 120	$ 786,215	
Distributed offsetting receipts	-	-	-	(67,964)	
Agency Outlays, Net (Discretionary and Mandatory)	$ (159)	$ (16)	$ 120	$ 718,251	$ -
Disbursements, net (mandatory)	$ -	$ -	$ -		$ 85,859

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	$ 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, AND DISBURSEMENTS, NET					
Outlays, net (discretionary and mandatory)	$ (55)	$ 589,472	$ 5,359	$ 119	$ 11,707
Distributed offsetting receipts	-	(47,671)	(20,388)	-	(627)
Agency Outlays, Net (Discretionary and Mandatory)	$ (55)	$ 541,801	$ (15,029)	$ 119	$ 11,080
Disbursements, net (mandatory)	$ -	$ -	$ (202)	$ -	$ -

(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	$ 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, AND DISBURSEMENTS, NET					
Outlays, net (discretionary and mandatory)	$ 241	$ (131)	$ 114	$ 606,826	
Distributed offsetting receipts	-	-	-	(68,686)	
Agency Outlays, Net (Discretionary and Mandatory)	$ 241	$ (131)	$ 114	$ 538,140	$ -
Disbursements, net (mandatory)	$ -	$ -	$ -		$ (202)

PART 3:

OTHER INFORMATION (UNAUDITED)

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 non-compliance 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. As a result, the IRS develops estimates of the tax gap in order to measure overall compliance with the current tax system. 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. Underreporting 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.

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.[1] 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.

[1] The tax gap estimates released in FY 2019 are the most recent estimates available.

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: *(i)* the non-filing tax gap, which is the tax not paid on time by those who do not file required returns on time; *(ii)* the underreporting tax gap, which is the net understatement of tax on timely filed returns; and *(iii)* the underpayment tax gap, which is 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 Tax Gap Estimates for Tax Years 2011 – 2013 publication.

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	$6 [4]	+ $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. Furthermore, the component estimates that are based on statistical samples are also 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. Since the individual income tax underreporting estimate is derived from actual compliance data obtained through the audit of tax returns, there is a resulting mismatch between the latest tax year and the period from which the estimates are calculated.

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 Gap	Tax: Share of Gross Tax Gap	Tax: Share of Individual Income Tax Underreporting Tax Gap	Line Item Amount: 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%**
Earned Income Tax Credit	$27	6%	11%
Education Credits (Including AOTC)	$5	1%	2%
Child Tax Credit and Additional Child Tax Credit	$9	2%	3%
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.[2] 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 2018, over 25 million taxpayers received more than $63 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.[3] Congress enacted the AOTC as part of the *American Recovery and Reinvestment Act of 2009* (P.L. 111-5) 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.

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

[3] 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 *Payment Integrity Improvement Act* (PIIA) requires additional reporting requirements for payment programs that are determined to be susceptible to significant improper payments. The focus of PIIA, 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. PIIA does not take into consideration all aspects of administering tax provisions in a system that relies heavily on voluntary reporting. In keeping with PIIA 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 D: *Payment Integrity*, of this report).

The IRS follows the practice of conducting risk assessments largely because refundable tax credits may result in a payment to the taxpayer in excess of tax liability. It can be challenging to distinguish between the portion of a credit that offsets an individual tax liability versus the portion that is refundable. Determining the impact of a refundable tax credit depends on 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 D, 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 analysis 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. Fifty 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 tax returns 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. 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 2020, the IRS conducted 179,848 refundable credit 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 2.0 percent for the lowest income filers to 25.0 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, 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 2018) and corporations (TY 2017).

INDIVIDUAL INCOME TAX LIABILITY

FIGURE 1.1: AVERAGE AGI REPORTED AND AVERAGE INDIVIDUAL INCOME TAX LIABILITY FOR TY 2018

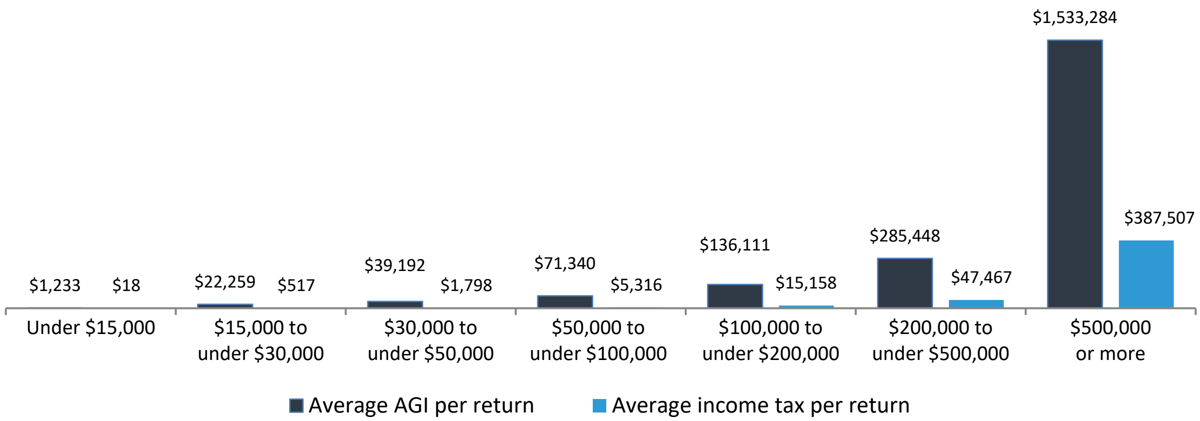

FIGURE 1.2: INDIVIDUAL INCOME TAX LIABILITY AS A PERCENTAGE OF AGI FOR TY 2018

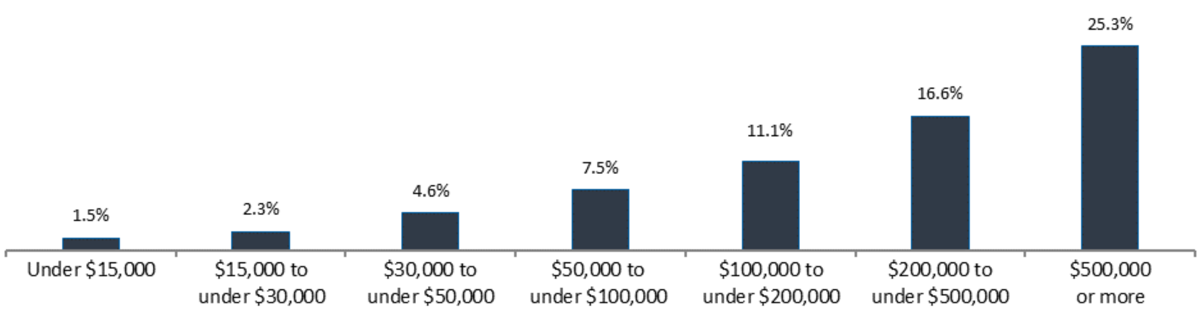

TABLE 1: INDIVIDUAL INCOME TAX DATA BY AGI FOR TY 2018

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	32,618 $	40,228 $	591 $	1,233 $	18	1.5%
$15,000 under $30,000	28,782	640,648	14,894	22,259	517	2.3%
$30,000 under $50,000	27,528	1,078,886	49,485	39,192	1,798	4.6%
$50,000 under $100,000	35,146	2,507,316	186,826	71,340	5,316	7.5%
$100,000 under $200,000	21,146	2,878,203	320,536	136,111	15,158	11.1%
$200,000 under $500,000	6,906	1,971,306	327,806	285,448	47,467	16.6%
$500,000 or more	1,648	2,526,852	638,611	1,533,284	387,507	25.3%
Total	**153,774 $**	**11,643,439 $**	**1,538,749**			

CORPORATION TAX LIABILITY

FIGURE 2: CORPORATION TAX LIABILITY AS A PERCENTAGE OF TAXABLE INCOME FOR TY 2017

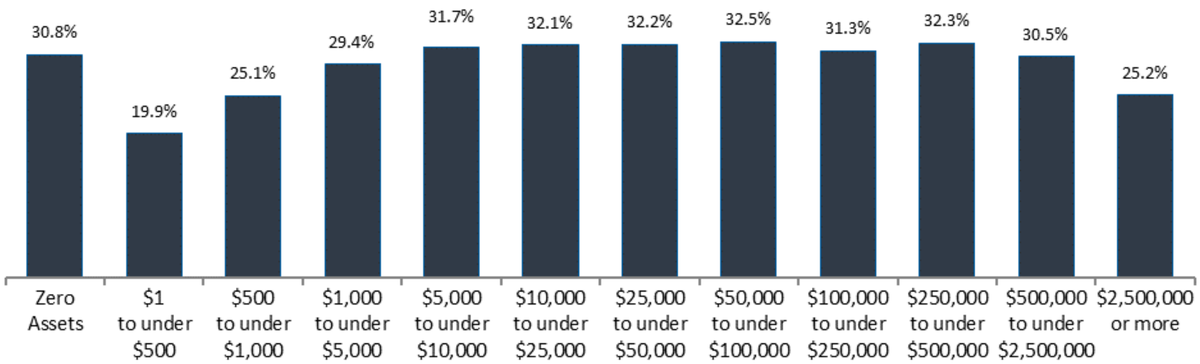

TABLE 2: CORPORATION TAX DATA BY TOTAL ASSETS FOR TY 2017

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	$	25,145	$	7,740	30.8%
$1 under $500		7,611		1,514	19.9%
$500 under $1,000		3,784		950	25.1%
$1,000 under $5,000		13,638		4,011	29.4%
$5,000 under $10,000		8,617		2,727	31.7%
$10,000 under $25,000		12,535		4,021	32.1%
$25,000 under $50,000		11,831		3,809	32.2%
$50,000 under $100,000		13,496		4,391	32.5%
$100,000 under $250,000		21,275		6,652	31.3%
$250,000 under $500,000		20,996		6,790	32.3%
$500,000 under $2,500,000		85,366		25,998	30.5%
$2,500,000 or more		777,981		196,257	25.2%
Total	**$**	**1,002,275**	**$**	**264,860**	

SECTION B: 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

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 29, 2020

OFFICE OF
INSPECTOR GENERAL

INFORMATION MEMORANDUM FOR SECRETARY MNUCHIN

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

SUBJECT: Management and Performance Challenges Facing the Department of the Treasury (OIG-CA-21-006)

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 six challenges, one of which one is new and reports on Treasury's role in combatting the economic fallout of the Coronavirus Disease 2019 (COVID-19) global pandemic at the forefront of the Nation. Five challenges are repeated and updated from last year to include COVID-19 impacts on related workforce and work streams.

- COVID-19 Pandemic Relief (New)
- 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 (Repeat)

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), (2) managerial cost accounting, and (3) internal control matters at the Bureau of Engraving and Printing (BEP).

We identified challenges and concerns based on the threat they pose to Treasury's mission and stakeholders' interests. We also acknowledge the Department's accomplishments and efforts over the past year to address critical matters as noted within each challenge. That said, the COVID-19 pandemic has caused a global health emergency and an ensuing economic crisis that Treasury has spent the second half of fiscal year 2020 tackling. As noted throughout the challenges, Treasury had to act swiftly, and in some cases, draw on its existing resources to meet the more recent economic needs.

2021 Management and Performance Challenges

Challenge 1: COVID-19 Pandemic Relief (New)

The COVID-19 pandemic has affected the health and economic stability of communities worldwide. In the United States alone, more than 8.7 million people have been infected with more than 225,000 deaths[1] reported as of this writing. In March 2020, Congress passed three key pieces of legislation in succession to address the COVID-19 health crisis and the economic fallout affecting individuals, businesses, and other industry sectors. On March 6, 2020, the Coronavirus Preparedness and Response Supplemental Appropriation Act of 2020 was signed into law providing $8.3 billion in emergency funding to address health and medical care.[2] Shortly thereafter, the Families First Coronavirus Response Act was enacted on March 18, 2020 to address the financial stress of individuals and households with approximately $104 billion in funding.[3] The Coronavirus Aid, Relief, and Economic Security Act (CARES Act),[4] which is by far the largest relief funding to date, passed on March 27, 2020. The CARES Act provided over $2.4 trillion in health and economic relief to hospitals and healthcare providers, individuals and households, businesses and employees, as well as, states, local and tribal governments, and Federal agencies, among other things.

Treasury has been instrumental in implementing and/or supporting other Federal agencies in implementation of economic relief provisions of the CARES Act. To assist individuals and households, Treasury directed approximately $468 billion in Economic Impact Payments (EIP)[5] to workers and households through the Internal Revenue Service (IRS). Through the IRS, Treasury also implemented the Employee Retention Tax Credit and Payroll Tax Deferral CARES Act provisions to protect workers and jobs. Treasury also assisted the Small Business Administration (SBA) in carrying out the Paycheck Protection Program[6] and the Economic Injury Disaster Loans authorized by the CARES Act. SBA's Paycheck Protection Program authorized $349 billion to support payroll, benefits, and other operating costs of small businesses for up to 24 weeks[7] in order to keep workers on the payroll. The Economic Injury Disaster Loans provides authority for small businesses to receive an advance loan up to $10,000 to cover revenue loss due to COVID-19. In addition to all this, the Department established programs to preserve airline industry jobs, provide liquidity to the financial sector, and disbursed payments to other levels of government within the United States impacted by the increasing costs caused by the COVID-19 pandemic. The Emergency Relief and Taxpayer Protections (commonly referred to as Section 4003) provisions authorized Treasury to make up to $500 billion in loans, loan guarantees, and other investments to eligible businesses, Sates, and municipalities. Up to $46 billion of this amount was made available as loans and loan guarantees to air passenger carriers ($25 billion), air cargo carriers ($4 billion), businesses engaged in national security ($17 billion) and up to $454 billion was made available as loans, loan guarantees and other investments in programs and facilities of the Board of Governors of the Federal Reserve System to provide liquidity to the financial system. The Emergency Relief and Taxpayer Protections provisions also authorized the establishment of the Special Inspector General for Pandemic Recovery (SIGPR) within Treasury to oversee $500 billion in loans, loan guarantees, and other investments provided by Treasury.

Although some of the aforementioned CARES Act provisions do not fall under the oversight jurisdiction of my office, the payment work streams and mechanisms administered by the Bureau of the Fiscal Service (Fiscal Service) do. In the context of this overarching challenge, we

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[1] CDC COVID Data Tracker.
[2] Public Law 116-123 (March 6, 2020).
[3] Public Law 116-127 (March 18,2020).
[4] Public Law 116-136 (March 27, 2020).
[5] IRS estimate as of April 24, 2020.
[6] The Payroll Protection Program received an additional $321 billion under the *Paycheck Protection Program and Healthcare Enhancement Act* (Public Law 116-139; April 24, 2020).
[7] The Paycheck Protection Program Flexibility Act of 2020 (Public Law 116-142, June 5, 2020), extended the covered period for loan forgiveness from 8 weeks after the date of loan disbursement to 24 weeks after the date of loan disbursement.

recognize the breadth and scope of Treasury's responsibilities as it impacts programs, operations, and activities regardless of jurisdictional oversight boundaries. The CARES Act provisions within the oversight purview of my office are those that support airline industry workers and state, local, territorial, and tribal government entities through direct financial assistance.

To maintain pay and benefits of airline industry workers, Treasury implemented the Air Carrier Worker Support (hereinafter referred to as the Payroll Support Program) provisions of the CARES Act that authorized up to $32 billion of direct financial assistance for passenger air carriers ($25 billion), cargo air carriers ($4 billion), and contractors ($3 billion). Financial assistance is to ensure the continuation of workers' payroll and benefits with the stipulation that employees are not involuntarily furloughed and do not receive reductions in pay and benefits. Many requirements for this program, such as program procedures, were implemented within days of the CARES Act enactment. Using existing resources and contractor support, Treasury quickly stood up the Payroll Support Program to establish, among other things, the application requirements for requesting financial assistance, terms and conditions for receiving financial assistance, and subsequent compliance monitoring of air carriers and contractors. Treasury also consults with the Department of Transportation (DOT) on the larger air carriers that report financial information to DOT on a regular basis (referred to as 241 carriers[88]). As you are aware, the CARES Act requires my office to audit the certifications of sworn financial data submitted to Treasury by passenger and cargo carriers and contractors that do not report to DOT (referred to as non-241 carriers). While my office has ongoing audits of Treasury's program implementation and non-241 carriers' certifications submitted to Treasury, it is incumbent upon the Department to establish and maintain strong internal control over recipients' compliance with signed terms and conditions for receiving financial assistance. That is, Treasury's compliance monitoring function is essential to ensuring that recipients use funds for the continuation of salaries and benefits as intended.

The $150 billion Coronavirus Relief Fund, established under Title VI of the Social Security Act, as amended by Title V of the CARES Act, has been a large endeavor for both the Department and my office. The Department was responsible for making direct payments to States, units of local government, the District of Columbia, U.S. Territories, and Tribal governments. Disbursement of funds was a complicated undertaking given the number of recipients at varying levels of government and other payment requirements of the CARES Act. That is, payments to States and local units of government were formula-driven and based on the 2019 U.S. Census, while other payments were based on consultations with the Department of the Interior and Tribal Governments and other information obtained by the Department. The CARES Act created a unique challenge in distinguishing between the programmatic administrative responsibility for payments made from the Coronavirus Relief Fund and the Treasury Office of Inspector General's (OIG) independent oversight. Although Treasury was authorized to make payments, the CARES Act assigned Treasury OIG with responsibility for monitoring and oversight of the receipt, disbursement, and use of funds. Additionally, my office was given authority to recoup funds if it is determined that recipients fail to comply with uses of funds for COVID-19 related costs under Section 601 (d), "Uses of Funds," of the Social Security Act, as amended.[9] Given the direct oversight authorities of the Treasury OIG, the Department did not establish an administrative program to ensure recipient compliance. Recipients were not bound to any terms and conditions

[8] 14 CFR Part 241, Uniform System of Accounts and Reporting for Large Certified Air Carriers.

[9] Section 601 (d), Use of Funds, " to cover only those costs of the State, Tribal government, or unit of local government that (1) are necessary expenditures incurred due to the public health emergency with respect to COVID– 19; (2) were not accounted for in the budget most recently approved as of the date of enactment of this section for the State or government; and (3) were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020."

for the receipt of funds. We reported this in our first audit of the Coronavirus Relief Fund regarding the lack of terms and conditions and accountability and transparency of funds.[10] While this is unusual for a Federal agency that administers financial assistance programs, Treasury officials stated commitment to supporting our oversight role for ensuring transparency, accountability, and adherence to all statutory requirements and will continue to collaborate with us to ensure compliance by recipients. This continued collaboration is critical for overseeing such a large and widely dispersed recipient population given the challenges of defining and interpreting eligible uses of Coronavirus Relief Fund proceeds. That said, it is crucial that the Department maintain its fundamental role to establish and interpret policy over the uses of funds. As recipients are still in the process of using these funds, we anticipate that questions will continue to arise that will require interpretation and changes to Treasury's guidance and Frequently Asked Questions. Providing as much clarity as possible over allowable uses of Coronavirus Relief Fund proceeds is essential for ensuring recipients understand the compliance requirements and are accountable and transparent in how they report uses of funds. As part of my office's compliance monitoring and oversight function, we established a portal using GrantSolutions[11] for recipients to report their uses of funds on a quarterly basis starting September 2020 through the quarter ending September 2021. Recipient data will be reported to the newly created Pandemic Response Accountability Committee (PRAC) for display on its website (https://pandemicoversight.gov).

Along with administering and delivering economic relief, Treasury must manage the unprecedented oversight that CARES Act funding is subject to. In addition to my office's ongoing work on the Payroll Support Program and the Coronavirus Relief Fund, Treasury is subject to a number of additional CARES Act oversight provisions. As mentioned above, SIGPR was created to oversee $500 billion in "loans, loan guarantees, and other investments" provided by Treasury[12] and must report to congress 60 days after Senate confirmation, and quarterly thereafter, on SIGPR's activities and Treasury's loan programs. A Congressional Oversight Commission was established to report to Congress on Treasury's and the Federal Reserve Board's implementation activities under Title IV, Subtitle A, "Coronavirus Economic Stabilization Act of 2020." Moreover, the commission is required to report every 30 days on the use of contractors and administration of loan programs, the impact of programs on the nation's financial wellbeing, whether required disclosures of the CARES Act provide market transparency, and effectiveness of maximizing benefits and minimizing costs to taxpayers, among other things.[13] The PRAC, created within the Council of Inspectors General on Integrity and Efficiency, is comprised of Inspectors General of agencies involved in the COVID-19 response to include Treasury Inspector General for Tax Administration (TIGTA), SIGPR, and my office.[14] The CARES Act also provided additional funding to the Government Accountability Office (GAO) and Offices of Inspectors General to augment oversight of CARES Act programs and activities. Among several oversight reporting provisions, GAO is required to conduct a study of "loans and loan guarantees, and other investments" authorized under Section 4003.[15]

[10] OIG, *Interim Audit Update–Coronavirus Relief Fund Recipient Reporting* (OIG-20-036; May 27, 2020).
[11] GrantSolutions is a grant program management Federal Shared service provider under the U.S. Department of Health and Human Services.
[12] SIGPR terminates five years after enactment of the CARES Act (March 27, 2025).
[13] The Congressional Oversight Commission issued its first report on May 18, 2020 (https://hill.house.gov/uploadedfiles/coc_1st_report_05.18.2020.pdf).
[14] PRAC is comprised of Inspectors General of the departments of Defense, Education, Health and Human Services, Justice, Labor, Treasury, and TIGTA, and any other Inspector General, as designated by the Chairperson of the PRAC from any agency that expends or obligates covered funds or is involved in the Coronavirus response. The PRAC is to promote accountability and transparency of CARES Act funds and has established a public-facing website to make use of funds publically available. PRAC also has authority to conduct and support audits and investigations of the COVID-19 responses to mitigate risks across Federal programs and agencies, as well as, provide management alerts to Congress and the President on issues requiring immediate attention.
[15] Coronavirus Economic Stabilization Act of 2020 (Section 4026(f)).

With no clear end to the COVID-19 pandemic in sight, Treasury must continue to navigate through this challenging time and be prepared to administer another fast-paced relief package in the near future, if legislated. To date, Treasury has been able to leverage its existing workforce and hired contractors to address the demands of the CARES Act workload. That said, there was reported strain associated with working remotely while managing normal responsibilities and additional work due to the COVID-19 pandemic. Going forward, Treasury may experience difficulties in balancing its new responsibilities and workloads while managing several ongoing challenges as described throughout this memorandum. While I am hopeful that fiscal year 2021 will see an end to the horrific fallout that the COVID-19 pandemic has had on our nation, I am also mindful that challenges lay ahead for both Treasury and my office in the short-term.

Challenge 2: Operating in an Uncertain Environment (Repeat)

The COVID-19 outbreak presented unique complexities for Treasury to include, among other things, implementing measures for the health and safety of its workforce, as well as, administering more than $2 trillion in financial assistance under the CARES Act. Despite these challenges, Treasury responded with limited onsite staff and details from within Treasury, other Federal agencies and outside contractors. Treasury acted quickly to work with its business partners[16] to prepare disbursements of more than 160 million of EIPs totaling over $267 billion within two months after the passage of the CARES Act; $28 billion in financial assistance under the Payroll Support Program to hundreds of companies in the aviation industry; up to $500 billion in loans to the aviation industries ($46 billion administered by Treasury, and the remainder through the Federal Reserve); $150 billion to state, local, territorial, and tribal governments; as well as working closely with the Small Business Administration to disburse up to $659 billion to over 5 million small businesses through the Payroll Protection Program and $190 billion through the Economic Injury Disaster Loan program.

In addition to its normal payment operations and the delivery of EIPs, Fiscal Service also facilitated the delivery of billions of dollars in other CARES Act funding and other urgent agency payments as a result of the pandemic in the most efficient and effective manner. Fiscal Service is also leveraging existing resources and processes in the disbursement of payments related to the Payroll Support Program and Coronavirus Relief Fund, as well as, disbursements under the "Coronavirus Economic Stabilization Act" under the oversight of SIGPR. Even with these additional responsibilities, Fiscal Service continued to process payments on behalf of more than 250 Federal entities, including salaries, benefits, tax refunds, and vendor/miscellaneous payments. These payments were processed on time and in accordance with agency disbursement instructions. As noted in challenge 5, Fiscal Service plans to leverage its Do Not Pay (DNP) Initiative and DNP Business Center to assist programs making CARES Act payments in the identification and prevention of improper payments.

Departmental Offices re-allocated resources to implement and administer other responsibilities under the CARES Act. The Office of the Assistant Secretary for Management (OASM) provided resources to support implementation to ensure that approximately $180 billion of disbursements related to the Payroll Support Program and the Coronavirus Relief Fund were properly authorized and processed for delivery to Fiscal Service for payment. The Office of CARES Operations was established within OASM, to support the implementation of applicable

[16] Partners include the Federal Reserve Banks (Kansas City and St. Louis), financial agents, and vendors.

provisions of the Coronavirus Economic Stabilization Act of 2020 (under SIGPR's oversight jurisdiction) and the Payroll Support Program. The Office of CARES Operations is broken into seven components to include Administrative and Budget, Performance Reporting and Data Analytics, IG and GAO Interface, Risk Management, Asset Management and Recipient Monitoring, Process Controls and Compliance, and Data Management. The Office of the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer (DASHR/CHCO), along with other Departmental Offices' detailed personnel, has allocated staff time to filling positions for the Office of CARES Operations and other project teams.

In other support efforts, the Office of the DSHR/CHCO and the Office of Strategic Planning and Performance Improvement (OSPPI) worked to incorporate Treasury's CARES Act responsibilities into the Treasury Strategic Plan and draft interim enterprise learning agendas. The Director of OSSPI helped to stand up the Office of CARES Operations, including planning, prioritization, project management, and establishing team norms and business practices. The Office of Privacy, Transparency and Records is managing higher volumes of Freedom of Information Act requests, while the Office of Risk Management has dedicated resources to develop a risk profile for the Office of CARES Operations that will be regularly updated over time. The Office of Budget and Travel (OBT) has shifted portfolios and workloads to accommodate additional work associated with working groups established within the OASM to process payments under the Payroll Support Program and the Coronavirus Relief Fund and to provide budget execution assistance with administrative funding Treasury received under the CARES Act.[17] The Office of the Deputy Chief Financial Officer worked to determine appropriate accounting treatment for complex CARES Act financial transactions, designed and implemented internal controls for CARES Act processes across Departmental Offices, and formulated credit models and related asset valuations for the various CARES Act investments and direct loans. Additionally, the Office of Chief Information Officer has worked on the site development of the CARES Act portal used by the Office of CARES Operations to monitor recipient compliance with the Payroll Support Program requirements.

While this additional level of effort was not anticipated at the beginning of fiscal year 2020, the Office of the DASHR/CHCO was able to address new work-streams. The Office of DASHR/CHCO recruited and on-boarded over 90 details from within Treasury and across the Federal government to work across all CARES Act functions. Nevertheless, some Treasury officials have raised concerns over the possibility of a lapse in appropriations during fiscal year 2021, and the disruption it would cause to implementation timelines and organizational performance processes. Additionally, concern was raised that with anticipated funding levels for fiscal year 2021, the cost associated with administering certain CARES Act programs may have an impact on Treasury's ability to fund other work.

While Treasury faces unforeseen challenges working through the COVID-19 pandemic going into fiscal year 2021, other previously reported uncertainties have yet to be resolved. As conveyed in prior years' memoranda, it is still unknown what the potential impacts of OMB's comprehensive "Government–wide Reform Plan and Reorganization Recommendations" (Government–wide Reform Plan) will be. OMB made agency-specific recommendations that would merge functions with similar missions across agencies. In response to OMB's proposed recommendation to

[17] Under Division A of the CARES Act, Treasury was authorized $25 million under Title I to carry out Section 1109 related to establishing criteria for insured depositories and credit unions participating in the Paycheck Protection Program, among other things; and up to $100 million to carry out the Air Carrier Worker Support provisions under Title IV, Subtitle B.

transfer 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), Treasury has included a request for funding in the fiscal year 2021 budget to initiate the transfer and implementation of this enforcement program, which includes the transfer of enforcement authority for the Contraband Cigarette Trafficking Act and the Prevent All Cigarette Trafficking Act. Other potential impacts on Treasury include OMB's recommendations to increase coordination between agencies and avoid duplication of roles for 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 (USPS), which is estimated to be insolvent; however, USPS continues to hold a $15 billion unfunded liability to the Treasury's Federal Financing Bank. On July 29, 2020, the USPS Board of Governors unanimously approved an agreement with Treasury on the terms and conditions associated with a $10 billion lending authority provided in the CARES Act. The agreement has yet to be finalized due to the House Committee on Oversight and Reform's concerns related to the loan terms of the agreement, which would permit the funding to be used only on operational expenses with Treasury's approval. 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.

Another matter on the horizon is the proposed transfer of the United States Secret Service (USSS) to Treasury from the United States Department of Homeland Security (DHS) included in the President's fiscal year 2021 budget. The transfer is intended to improve the response to cyber- enabled financial crimes and benefit national security efforts. USSS has approximately 6,500 employees and is a global organization with locations in the United States and across the world. DHS' fiscal year 2021 budget for USSS is a $2.36 billion appropriations request including $20 million for 119 additional personnel and $20 million in costs for the proposed transition of the USSS to Treasury. If USSS is transferred, Treasury faces challenges with providing the necessary resources and implementing the infrastructure, as well as cultural challenges involved with integrating and overseeing the large and diverse missions of the USSS. These primarily include physical protection of the Nation's highest elected leaders, visiting foreign dignitaries, and facilities and major events; investigation and forensic services to combat counterfeiting with a focus on securing the Nation's critical infrastructures, specifically in the areas of cyber, banking, and finance; and investigative expertise and innovative approaches to the detection, investigation, and prevention of financial crimes. The potential transfer of USSS to Treasury will be a critical and complex undertaking by itself and will be challenging during the ongoing COVID-19 pandemic if legislation is passed.

Dealing with additional workloads, staffing, and other critical matters during the COVID-19 pandemic may be more challenging than usual. Two offices significantly impacted are the Office of International Affairs, which requested an increase in its staffing level from 81 employees to 120 employees by the end of calendar year 2021, to meet expanding workloads as discussed below; and the Office of Terrorism and Financial Intelligence (TFI), which requested approximately 50 new positions for fiscal year 2021 to address priorities discussed in challenge 4 of this memorandum. These positions could be difficult to fill if approved because of the expertise required for these positions. Human capital management overall remains an area of concern as the lengthy security clearance process and backlog of background investigations has only recently improved since the responsibility for conducting background investigations was transferred from the Office of Personnel Management's (OPM) National Background Investigations Bureau to the Department of Defense's (DOD) Defense Counterintelligence and Security Agency, effective June 24, 2019. The intent of this transfer was to develop a unified approach for the security clearance process. As a result of this new process, the Department has seen a decrease in the number of pending background investigations. With that said, the security clearance process is still a culprit in the recruiting process and remained on GAO's 2019 high-risk list.[18] However, in their continuous effort to reduce the wait time for onboarding new personnel to fill special- sensitive and critical-sensitive positions within TFI, the Department still has an investigative waiver request in place for granting interim clearances while clearances are being adjudicated. If approved on a case-by-case basis, the Department may grant a secret level clearance with the condition 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, the clearance process still naturally creates some delays in the hiring process that impacts the mission critical need to fill positions dealing with programs and materials of the highest sensitivity.

As noted above, an increase in staffing levels in the Office of International Affairs was proposed to address the expanding demands on the Committee on Foreign Investments in the United States[19] (CFIUS), which is charged with reviewing transactions involving foreign investments in the United States to determine national security risks. The Office of International Affairs carries out the Secretary's role as Chair of CFIUS and coordinates the interagency review process. While the Foreign Investment Risk Review Modernization Act of 2018 (FIRRMA)[20] modernized the review process, it also expanded CFIUS' jurisdiction to address growing concerns over certain investment structures that were not within CFIUS' 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 issued two final regulations in February 2020 to implement changes to jurisdiction and process. The FY 2020 budget cited an expected increase in workload from approximately 200 to 1,000 cases annually. Because CFIUS' expanded jurisdiction under FIRRMA became effective recently on February 13, 2020, and the COVID-19 pandemic impact on case volume is tough to measure, it is difficult for Treasury to predict the effect of FIRRMA changes over the next year. CFIUS management stated that it does not plan to lower the 1,000 transactions yearly estimate for now. Treasury implemented a new Case Management System (CMS) in May 2020 that allows for submission of transaction-related information through a secure online portal. Treasury had no legacy case system so staff previously managed information on SharePoint and other Microsoft applications. Management intends to add legacy information from Treasury's secure data network into the CMS but for now must rely on older methods to work with that data. While the intent of CMS is to streamline CFIUS activities, there are further developments planned for functionality and analytics. In anticipation of increased transaction reviews, the Office of Investment Security and the Office of the Assistant General Counsel for International Affairs have been aggressively hiring for approximately 35 positions. Treasury plans to decrease reliance on contractors over time as new employees are hired. While management anticipates being close to filling 81 positions (including contractors) approved for fiscal year 2020, it requested another 39 positions as part of its fiscal year 2021 budget justification. Fiscal Service's Administrative Resource Center has had trouble dealing with increasing recruitment actions and recently began to assign more support staff to help. With increased telework during the COVID-19 pandemic, CFIUS activities that involve sensitive and classified materials have been more difficult to perform. In addition, coordination with other Federal partners has been tougher as they are experiencing their own COVID-19 challenges.

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[18] GAO, *High-Risk Series, Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas* (GAO-19-157SP: March 2019).
[19] 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.
[20] Public Law 115-232 (August 13, 2018).

Over the past several years, we reported that the recruitment of cybersecurity personnel was a government-wide challenge due to the lengthy security clearance process. 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. In its April 23, 2020 letter[21] 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. In addition, GAO reported in 2019 that Treasury likely incorrectly categorized more than a thousand positions performing IT management functions. This means that Treasury may have unreliable information about its cybersecurity workforce that it will need to identify its workforce roles of critical need.

To further complicate matters, Treasury must also operate in the repeated cycle of budget and debt ceiling stopgaps. A long-term solution has yet to be found, and the U.S. debt limit was reinstated at $22 trillion on March 2, 2019. At that time, 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. Consequently, legislation was passed to suspend the statutory debt limit through July 31, 2021.[22] 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 2020 letter to the Department, GAO raised the same concerns to Congress in its July 2015 report[23] with the approach to managing the federal debt limit and its impact on Treasury's borrowing costs and the need for alternative approaches. Fiscal Service has increased its communication with the Department, particularly the Office of Fiscal Projections (OFP). OFP provides Treasury decision-makers with information on current and predicted cash balances. As the Federal Government's financial manager, Fiscal Service plays a unique role in ensuring that OFP has current and accurate federal financial data.

The impact of this challenge and the uncertainties require the Department to continue 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 3: 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

[21] GAO, *Treasury Priority Recommendations* (GAO-20-549PR; April 23, 2020).
[22] Public Law 116-37 (August 2, 2019).
[23] GAO, *Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches* (GAO-15-476; July 9, 2015).

threats continue to evolve and become more sophisticated, subtle, and easier to perform they pose ongoing challenges for Treasury to fortify and safeguard its internal systems and operations along with the financial sector it oversees. While managing known risks is an ongoing challenge, Treasury must also be ready to reinforce and/or redirect cybersecurity efforts when unforeseen events occur such as the COVID-19 global pandemic. As discussed throughout this challenge, the ongoing healthcare crisis has created more opportunities for malicious actors to disrupt and exploit information systems.

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 while 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. In its 2019 high risk list published biennially, GAO reported the nations' cybersecurity as a government-wide issue.

Long-standing cyber threats pose increased risks to networks and information systems during the ongoing COVID-19 global health pandemic as more opportunities are available for bad actors to stage cyber-attacks. As the tools used to perpetrate cyber-attacks become easier to use and more widespread, less technological knowledge and fewer resources are needed to launch successful attacks of increasing sophistication. Such attacks include distributed denial of service, phishing or whaling, fraudulent wire payments, malicious spam (malspam), ransomware, and compromise of supply chains (both hardware and software). The COVID -19 pandemic has shifted the Federal workforce to a primarily telework status which has provided attackers with more possibilities to disrupt services. Increased network traffic from remote sources provides cover for attackers to blend in with the Federal workforce and launch cyber assaults. Attackers may take advantage of the increased demand for information on COVID-19 by crafting highly attractive phishing, whaling, and malspam attacks that are more likely to succeed by luring workers in with promises of information related to COVID-19. These opportunities may allow hackers to launch a denial of service attack upon a network that can prevent remote workers from performing their duties and disrupt operations. Furthermore, information systems and its users are at heightened risk of COVID-19 related exploitation such as stimulus check scams, tax-fraud schemes, and fraudulent coronavirus testing kit scams, among other things.

There is continuing concern over foreign adversaries creating and exploiting vulnerabilities in the Nation's information and communication technology and services. Executive Order 13873 was issued on May 15, 2019, to secure the supply technology and services chain by banning 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.[24] On May 13, 2020, this Executive Order was extended for one year.[25] 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

[24] *Executive Order on Securing the Information and Communications Technology and Services Supply Chain* (May 15, 2019).
[25] *Text of a Notice on the Continuation of the National Emergency on Securing the Information and Communications Technology and Services Supply Chain* (May 13, 2020).

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. This is especially true during this global pandemic as companies continue to temporarily close manufacturing plants due to COVID-19 outbreaks or shipping is disrupted by travel restrictions.

We continue to remind the Department that, 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. Increased threats and risks posed to third- parties' networks and systems due to the opportunities that the COVID-19 pandemic provides to potential attackers also poses increased risks to Treasury's networks and systems. Treasury frequently enters into interconnection agreements with other Federal, State, and local agencies, and service providers, to conduct its business. Management must exercise due care when authorizing such internetwork connections and verify that third parties comply with Federal policies and standards including any guidance issued to address new and/or expanded threats and risks created by the COVID-19 pandemic. Management is also challenged with ensuring that critical data and information maintained by third-party cloud service providers are properly protected. There have been ongoing issues related to management of cloud systems reported in four consecutive *Federal Information Security Modernization Act of 2014* [26] audits (fiscal years 2015, 2016, 2017, and 2018) with some recommendations yet to be implemented.

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 to the Nation's critical infrastructure. As such, effective public-private coordination is essential to the Nation's financial and national security. In this regard, 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. Given the stress that the global COVID-19 pandemic has placed on financial institutions and the financial sector, as a whole, it is important that the Department reassess cyber risks in these areas. That said, Treasury and other Federal agencies have yet to fully implement the National Institute of Standards and Technology (NIST) guidance to assist Federal agencies in managing cybersecurity risks.[27] In 2018, GAO had reported that the extent of adoption of the NIST framework by critical infrastructure sectors was unknown since agencies were not measuring framework implementation. With respect to Treasury, GAO had 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 23, 2020 letter[28] regarding its top open recommendations, GAO noted that Treasury had established ongoing initiatives such as developing common terminology for cyber terms, but had not developed methods to determine the level and type of framework adoption; the recommendation remained open. GAO also noted in its April 23, 2020 letter that Treasury has not provided actions related to a July 2019 report[29] to Treasury to develop a cybersecurity risk management strategy that includes key elements identified in federal guidance and establish a process for conducting an organization-wide cybersecurity risk assessment.

[26] Public Law 113-283 (December 18, 2014).
[27] NIST, *Framework for Improving Critical Infrastructure Cybersecurity* (Version 1.0, February 12, 2014; superseded by Version 1.1; April 16, 2018).
[28] GAO, *Treasury Priority Recommendations* (GAO-20-549PR; April 23, 2020)
[29] GAO*, Cybersecurity Risk Management* (GAO-19-384 , July 25, 2019)

The Department continues to report progress in its risk-based approach to cybersecurity, focusing efforts on identifying High Value Assets (HVA) [30] that would be of interest to attackers seeking maximum impact, as well as, examining the security architectures of systems and performing risk and vulnerability assessments. Fiscal Service had reported that, as a result of new assessments, it has increased the number of systems designated as HVA from six to eight. The Department acknowledged that the presence of those systems results in an inherently concentrated risk of cyber-attacks for Treasury. Additionally, a Cybersecurity Strategy Center was established in October 2019 at Fiscal Service 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.

The Department also reported that it continues to leverage the Federal government-wide Continuous Diagnostics and Mitigation program to enable automated monitoring of vulnerabilities, and is leveraging new investments to better protect Treasury data and users of Treasury's IT services. In this regard, the Department noted that it continues to implement higher security settings for websites, web services, and e-mail.

While addressing potential increases in cyber threats during the COVID-19 global pandemic, Treasury will need to continue 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 6. This will also require a cadre of skilled IT resources that has been an ongoing issue to obtain as noted in challenge 2.

Challenge 4: Anti-Money Laundering/ Terrorist Financing and Bank Secrecy Act Enforcement (Repeat)

Over the past year, TFI has remained dedicated to countering the ability of 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. Additionally, criminals and other bad actors evolve and continue to develop more sophisticated money laundering methods in an attempt to avoid detection.

TFI's authorities are key tools in implementing U.S. policy to pressure foreign countries and regimes, such as Russia and Iran, through the use of designations and economic sanctions. TFI has significantly increased sanctions against Russia and Iran related to malign and 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

[30] 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.

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. Concerns over TFI's ability to meet mission critical objectives are heightened by multiple vacant key positions. These vacancies include the Undersecretary for TFI, which has been vacant since October 2019, as well as the Assistant Secretary for Terrorist Financing, who left this year. As noted in challenge 2, TFI requested approximately 50 new positions for fiscal year 2021 to address this growing demand.

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 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. In addition, the COVID-19 global pandemic outbreak created additional challenges for TFI senior management. For example, many TFI employees regularly work with classified information and with international organizations involving travel. Protocols for social distancing and expanded telework are challenges for TFI to accomplish its mission.

Challenge 5: 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 note the renewed challenges facing the Department given the need to ensure transparency to the taxpayer and other stakeholders on the use of funds distributed under economic relief packages enacted to address individuals and industry sectors impacted by the COVID-19 global pandemic. As noted in challenge 1, Treasury was tasked with responsibilities to administer over $2 trillion of emergency funding. DATA Act reporting is now seen as one of the means to ensure transparency into the use of Federal funds related to COVID-19 expenditures. In it April 2020 memorandum, *Implementation Guidance for Supplemental Funding Provided in Response to the Coronavirus Disease 2019 (COVID-19)*[31] OMB requires that agencies leverage existing financial accountability and transparency mechanisms. In part, OMB requires (1) tracking of COVID-19 expenditures with usage of a Disaster Emergency Fund Code; (2) reporting financial assistance recipient information within two weeks of issuance, with the exception of loans; and (3)

[31] OMB M-20-21, *Implementation Guidance for Supplemental Funding Provided in Response to the Coronavirus Disease 2019* (April 10, 2020).

reporting outlay information at the financial award transaction level. To further enhance transparency, Treasury devoted significant resources and leveraged existing financial reporting systems to promote spending transparency and use of Federal financial data in order to strengthen Government-wide decision-making. Treasury has also shifted from quarterly to monthly reporting and certification beginning with the period ending June 2020, and plans to add a program activity attribute beginning with the first quarter of fiscal year 2021. The speed in which supplemental funding was distributed created new data management needs for Treasury along with labor intensive ingestion of data associated with the application for, and issuance of, economic relief. The rapidly delivery of funds within short timeframes may create opportunities and risks for illicit activity by anyone attempting to misuse or abuse funds that were intended for COVID-19 relief. Considering the challenges and risks associated with ensuring economic relief is deployed and used for intended purposes, Treasury must continue to address reporting and data quality issues noted in DATA Act audits and intensify efforts to reduce improper payments.

Given the data-centric aspects of the *Foundations for Evidence-Based Policymaking Act of 2018* [32] (Evidence Act), it is critical that data is of high quality to be useful. In accordance with the Evidence Act and OMB's M-19-23,[33] the Department is implementing Government-wide reforms for making data accessible and useful for decision-making. Under Title I of the Evidence Act, also known as Federal *Evidence Building Activities*, Federal agencies, among other things, must submit annually to Congress and OMB, an evidence-building plan for identifying and addressing policy questions relevant to programs, policies, and regulations. 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[34] (www.Data.gov) developed and maintained by the General Services Administration.

Since the law was enacted, Treasury leveraged the Department-wide Strategic Objective Annual Review (SOAR) that the Office of Strategic Planning and Performance Improvement (OSPPI) leads to collaboratively identify a preliminary set of research questions as a primary means of gathering relevant policy questions for each of the Department's strategic objectives. Treasury also began working with Treasury's Federally Funded Research Development Center to identify existing research efforts that align closely with the Department's research priorities. Under Phase 1 of its implementation efforts, Treasury's Assistant Secretary for Management established an Office of the Chief Data Officer and appointed an interim Chief Data Officer and interim Deputy Chief Data Officer. The Chief Data Officer's goals are to ensure data is used as a strategic asset, increase use of data in decision-making and evidence building, and increase coordination of data collection and use. Prior to the enactment of the Evidence Act, Treasury had already started developing a data governance framework in alignment with Evidence Act Title II requirements. At that time, Treasury's Deputy Chief Financial Officer (CFO) began a Data Governance and Analytics project designed to identify a data governance structure, develop standards, and

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[32] Public Law 115-435; (January 14, 2019).
[33] OMB M-19-23, Phase 1 Implementation of the Foundations for Evidence-Based Policymaking Act of 2018: Learning Agendas, Personnel, and Planning Guidance.
[34] A single public interface on-line as a point of entry for sharing data assets with the public.

increase the department's analytic capabilities through infrastructure and visualization improvements. Since that time, the Executive Steering Committee, which includes the Deputy CFO, Chief Information Officer, and OSPPI, was expanded to include Treasury's designated Statistical Official and the Deputy Assistant Secretary for Privacy, Transparency, and Records. Currently, this group is developing recommendations for the mission and goals of the Data Governance Body, along with recommendations for initial broader membership.

Detect Improper Payments

In light of the continuing government-wide problem with improper payments (estimated at $175 billion or 4 percent of all program outlays for fiscal year 2019),[35] the Federal agencies intensified efforts to reduce improper payments in major Federal programs. The DNP Initiative and 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.[36] Since our May 2016 report, that challenge continues to exist in obtaining better death information.[37] In October 2016, GAO reported that restrictions on the center's access to SSA's full death data remained in place.[38] Since the issuance of these three reports, the DNP Center's access to SSA's full death data has not changed. In June 2020, GAO issued its initial report examining key actions the Federal Government has taken to address the COVID-19 pandemic and evolving lessons learned relevant to the nation's response to the pandemic. In its report, GAO recommended that Congress take legislative action to provide Treasury with access to the SSA's full set of death records, and require that Treasury use it, to help reduce improper payments.[39]

In response to the *Federal Improper Payments Coordination Act of 2015*,[40] 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.[41] 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

[35] GAO, *Payment Integrity: Federal Agencies' Estimates of FY 2019 Improper Payments* (GAO-20-344; March 2, 2020), percentage based on total Government outlays of 4.4 billion (https://www.fiscal.treasury.gov/files/reports- statements/mts/mts0919.pdf).
[36] OIG, *Fiscal Service Successfully Established the Do Not Pay Business Center But Challenges Remain* (OIG-15-006; November 6, 2014).
[37] 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).
[38]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).
[39] GAO, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts* (GAO-20-625; June 25, 2020).
[40] Public Law 114-109 (December 18, 2015).
[41] 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' Exempt Organizations Select Check, (5) the IRS' e-Postcard database, and (6) the commercial database American InfoSource (AIS) Deceased Data.

death file as well as the National Directory of New Hires.[42] Fiscal Service included legislative proposals in its fiscal year 2021 budget justification that included, among other things, that Treasury is granted access to SSA's full Death Master File for purposes of administering the DNP Business Center and preventing, identifying, and recovering improper payments for Federal agencies and federally funded state programs.

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 assessed the services provided to agencies by the DNP Data Analytics Service and found that performance metrics developed by Fiscal Service to measure the effectiveness of the DNP Data Analytics Service need to be strengthen.[43]

Altogether, the DNP Business Center works to identify and prevent improper payments in federally funded programs by providing access to relevant data and analytic services. Fiscal Service plans to leverage the DNP Initiative to assist programs making CARES Act payments in the identification and prevention of improper payments and will continue to seek additional ways to improve improper payment prevention and detection. In this regard, the DNP Business Center has worked with Federal Communications Commission, the IRS, the Small Business Administration (SBA), and SBA's Office of Inspector General to match CARES Act payments against DNP's data sets to help prevent and identify improper payments. As of July 10, 2020, the DNP Business Center has screened over 27 million payments made under the CARES Act, identifying over $600 million in improper payments as a result. Fiscal Service also meets regularly with the PRAC, GAO, and other stakeholders to obtain feedback about COVID-19 spending data to ensure that the data is available for oversight entities.

With its potential to reduce improper payments, the DNP Business Center is a major and important undertaking by Treasury and critical to ensuring that the more than $2 trillion in COVID-19 economic support funds are properly spent. 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 6: Information Technology Acquisition and Project Management (Repeat)

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* [44] 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.[45] FITARA is intended to improve how Federal agencies acquire and manage IT, as well as, enable Congress to monitor progress and hold

[42] 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.

[43] OIG, *Performance Metric Policy Needed for the Fiscal Service Do Not Pay Business Center's Data Analytics Services* (OIG-20-025; January 28, 2020).

[44] Public Law 104-106 (February 10, 1996).

[45] Public Law 113-291 (December 19, 2014).

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

While FITARA is 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.[46] 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 CIOs' authorities, establish action plans to modernize and replace obsolete IT investment, and address weaknesses in IT Dashboard[47] reporting of IT investment risk and incremental development implementation.[48] 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 a C. Areas needing most improvement were enhanced transparency and risk management (i.e. IT investment risk), improved cybersecurity, and data center optimization. The *FITARA Enhancement Act of 2017*[49] 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 calendar year 2019, Treasury met its savings, uptime, and utilization targets, but did not achieve its other targets in the data center optimization initiative.

In fiscal year 2020, Treasury reported $2 billion in non-IRS IT investment, which is expected to increase in fiscal year 2021. Given this sizable investment, we are reporting the Department's IT acquisition and project management as an ongoing management and performance challenge distinct from challenge 3 that addresses cybersecurity concerns. Treasury's non-IRS bureaus reported 21 major IT investments. Treasury's CIO assessed 18 IT investments as having moderately low or low risk to accomplishing their goals. The remaining three IT investments, which reside at Fiscal Service, were assessed as having medium risk[50] to accomplishing their goals:

[46] GAO, *High- Risk Series*, *An Update* (GAO-15-290; February 11, 2015).
[47] 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.
[48] GAO, *High-Risk Series, Substantial Efforts Needed to Achieve Greater Progress on High-Risk Areas* (GAO-19-157SP: March 2019).
[49] Public Law 115-88 (November 21, 2017).
[50] 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.

- Electronic Federal Tax Payment System (EFTPS),[51]
- Post Payment Services, and
- Wholesale Securities Services (WSS).

During fiscal year 2020, some projects within EFTPS and WSS were behind schedule and over budget, while Post Payment Services had select projects that were over budget. 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, 82 percent of Treasury's total IT projects were on schedule and 57 percent were within budget. During fiscal year 2020, Treasury spent 32 percent of its total IT spending on 40 major investments. A major WSS investment includes the Treasury Automated Auction Processing System (TAAPS), used by Fiscal Service for the announcement, auction, and issuance of marketable Treasury bills, notes, bonds, Treasury inflation-protected securities, and floating rate notes. In fiscal year 2017, Fiscal Service started a multi-year project to modernize the TAAPS application software and associated technology components to ensure that critical auction processes continue to work flawlessly, remain secure, and operate without service disruptions. However, in January 2020, Fiscal Service terminated its TAAPS application software project due to contractor delays and problems involving (1) the application code quality issues; (2) project leadership that did not include sufficient IT support; and (3) governance bodies relying on representations that the project was succeeding, despite some warning signs. It was not until third party reviews were conducted that the full extent of the project's challenges became clear.

An ongoing 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. The TBM framework consists of layers that represent different views into IT costs and performance, enabling greater transparency into the true cost of IT and its value to the business. Fiscal Service's financial community was trained on TBM and has reduced uncategorized IT spending by 60 percent. In early fiscal year 2021, Fiscal Service expects to see further reductions in IT portfolio spending.

Other Matters of Concern

Although we are not reporting these as management and performance challenges, we are highlighting three areas of concern: (1) coin redemption and (2) managerial cost accounting, and (3) internal control at BEP.

Coin Redemption

The Mint continues to address internal control issues to ensure the integrity of U.S. coinage in its coin redemption program. Over the past several years, it has suspended and

[51] Renamed Tax Collections Services in fiscal year 2021.

recommenced the program in an effort to address weaknesses in its program. Since our audit in 2018, the Mint updated its standard operating procedures for the coin redemption program and in May 2020 has drafted a Notice of Proposed Rule Making in an effort to implement adequate internal controls over its program. Considering of the history of this program, we will monitor the implementation of these controls to ensure they are sufficient to properly safeguard U.S. coinage.

Managerial Cost Accounting

Managerial cost accounting continues to be 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. We have reported concerns that were identified in our audit of the Departmental Offices' OBT controls over its overhead[52] process and compliance with the *Economy Act.*[53] Specifically, we identified internal control weaknesses within OBT's overhead process and composite methodology used during fiscal years 2015 through 2018 to charge reimbursable customers. That is, OBT's methodology to accumulate, allocate, and charge overhead costs to reimbursable customers was not appropriate and consistently followed and the salaries and expenses directly charged to reimbursable customers through the composite methodology lacked adequate support. Therefore, we also concluded that OBT violated the Economy Act and potentially augmented its fiscal year 2015 appropriation by recovering indirect costs in excess of actual costs from reimbursable customers. These concerns, in turn, could also potentially be violations of the Anti-deficiency Act.

In response to our concerns, OBT management has implemented a new overhead process for fiscal years 2019 and 2020, and subsequently hired a consultant to review and improve the process. Based on the consultant's recent report, OBT management implemented a number of the consultant's recommendations to improve the process going forward, which we plan to review during our ongoing audit.

Internal Control Issues at BEP

Internal control is a process put in place by management to safeguard assets, promote accountability, and increase efficiency and effectiveness of operations. It helps an entity report reliable information about its operations and comply with applicable laws and regulations. The fiscal year 2019 BEP financial statement audit[54] identified 22 deficiencies in internal control with nine of them collectively reported as two significant deficiencies related to financial reporting and information technology controls. The remaining 13 deficiencies related to entity level controls; property, plant, and equipment; inventory; human resources; journal entries; financial reporting; and expenditures and were reported in a management letter.[55] BEP management noted that control issues were largely due to resource constraints caused by turnover in the workforce and increased workloads for key accounting personnel. BEP management has begun addressing concerns by hiring additional personnel and identifying parties responsible for the issues noted. A reliable system of internal control over

[52] Overhead, also known as indirect costs, include items that 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.
[53] Public Law 73-2 (March 20, 1933).
[54] OIG, *Audit of the Bureau of Engraving and Printing's Financial Statements for Fiscal Years 2019 and 2018* (OIG- 20-031; April 20, 2020).
[55] OIG, *Management Letter for the Audit of the Bureau of Engraving and Printing's Financial Statements for Fiscal Years 2019 and 2018* (OIG-20-032; April 20, 2020).

financial reporting is vital for BEP's management to accurately and reliably report on its financial transactions and positions. Our office will continue to monitor BEP's progress in strengthening its financial management and reporting processes. As another matter, our office has an ongoing corrective action verification of recommendations related to a 2013 audit report that identified numerous deficiencies in BEP's contracting practices.[56] While this verification is nearing completion, we noted that contract file management continues to be a systemic issue at BEP. We expect to issue our verification audit in early fiscal year 2021. Given our concerns, we also plan to initiate an audit of BEP's transition from hard copy contract files to an electronic filing system beginning in fiscal year 2017.

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

[56] OIG, *BEP's Administration of the Burson-Marsteller Public Education Awareness Contract Was Deficient* (OIG- 13-046; August 13, 2013).

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION MANAGEMENT CHALLENGES

Inspector General
For Tax
Administration

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20005

October 14, 2020

MEMORANDUM FOR SECRETARY MNUCHIN

FROM: J. Russell George
Inspector General

SUBJECT: Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2021

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 most vulnerable areas in the Nation's tax system. For Fiscal Year (FY) 2021, the IRS's top management and performance challenges, in order of priority, are:

1. Responding to the COVID-19 Pandemic;
2. Enhancing Security of Taxpayer Data and Protection of IRS Resources;
3. Implementing Tax Law Changes;
4. Addressing Emerging Threats to Tax Administration;
5. Supporting an Enhanced Taxpayer Experience;
6. Modernizing IRS Operations;
7. Improving Tax Reporting and Payment Compliance;
8. Reducing Fraudulent Claims and Improper Payments;
9. Increasing International Tax Compliance; and
10. Protecting Taxpayer Rights.

The most significant change since the prior year is the onset of the Coronavirus Disease 2019 (COVID-19) pandemic, which has dramatically impacted the IRS and the taxpayers that it serves. As such, we have identified "Responding to the COVID-19 Pandemic" as the top challenge facing the IRS. To address this challenge, the IRS has implemented laws and taken action to provide relief to taxpayers experiencing financial hardship and to protect the health of its employees. Although no longer listed, achieving operational efficiencies should remain an area of continued focus for the IRS. The IRS faces significant resource challenges. Its budget has been reduced significantly in real terms since FY 2011, which has affected its ability to provide sufficient levels of

[1] 31 U.S.C. § 3516(d) (2006).

service and enforcement. Further, human capital remains a serious underlying issue that impacts all 10 of the Major Management Challenges. Between FY 2010 and FY 2019, the IRS lost more than 29,000 full-time positions, which included more than 14,600 key enforcement personnel.[2]The following information detailing the management and performance challenges is being provided to promote the economy, efficiency, and effectiveness of the IRS's administration of the Nation's tax laws.

RESPONDING TO THE COVID-19 PANDEMIC

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, the largest economic rescue package in U.S. history, had a significant impact on the IRS and Federal tax administration. The CARES Act contained numerous tax-related provisions impacting individuals and businesses and appropriated approximately $750 million in additional funding to the IRS to administer and oversee these provisions.

TIGTA has implemented a multi-audit strategy to provide oversight of IRS's relief and recovery efforts. TIGTA is currently reviewing the IRS's pandemic plan, designed to protect the health and safety of IRS employees, as well as its response to health and safety incidents that occur during the pandemic.

In addition, TIGTA is assessing the IRS's processes designed to ensure that only eligible taxpayers received financial relief through the tax provisions of the CARES Act. TIGTA reported that significant coordination and efforts were taken by the IRS to expedite its analysis and reprogramming of systems and to educate individuals on the Economic Impact Payment (EIP).[3] During our initial review in May 2020, TIGTA found that the IRS issued more than 157 million payments totaling more than $264 billion and had correctly computed the payment amount for approximately 98 percent of the payments processed. However, at the time of our review, we found that the IRS had issued 1.2 million payments to prisoners and deceased individuals. TIGTA is continuing to assess the accuracy of the EIPs, the assistance provided to individuals who did not receive a payment, and the recovery efforts for any erroneous payments. TIGTA is also reviewing the impact of the CARES Act provisions related to business taxpayers.

The IRS also announced the "People First Initiative" in March 2020 as part of an effort to assist taxpayers facing the challenges of COVID-19. The initiative temporarily adjusted or suspended key IRS compliance programs. The changes generally included postponing certain payments related to installment agreements and offers in compromise; suspending liens and levies; suspending passport certifications of seriously delinquent taxpayers; not referring new delinquent accounts to private debt collection; and delaying new field, office, or correspondence examinations. This initiative was implemented for the period March through July 15, 2020.

TIGTA works closely with the IRS to identify, investigate, and combat threats to tax administration. After passage of the CARES Act, TIGTA observed an increase in related illicit scams and schemes with various objectives, such as manipulation of IRS online applications, theft of the EIPs, and efforts to steal sensitive taxpayer information.

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[2] IRS, *Management's Discussion and Analysis*, *Fiscal Year 2019*.

[3] TIGTA, Ref. No. 2020-46-041, *Interim Results of the 2020 Filing Season: Effect of COVID-19 Shutdown on Tax Processing and Customer Service Operations and Assessment of Efforts to Implement Legislative Provisions* (June 2020).

ENHANCING SECURITY OF TAXPAYER DATA AND PROTECTION OF IRS RESOURCES

Advances in technology have provided the IRS an opportunity to be more responsive to taxpayers' needs for its services. The IRS continues to work toward improving its public-facing applications to ensure that taxpayers who want access to IRS's online services have verified their identities and can securely access IRS resources. TIGTA reported that the IRS is making progress to comply with the National Institute of Standards and Technology guidelines on identity proofing[4] by developing and using a five-step process to determine the required assurance level for each of its applications.[5] However, the IRS may not complete its processes on all applications as scheduled. The IRS is using compensating controls that include identity proofing and authentication level of assurances based on superseded guidelines.

While identity verification and secure access are imperative to the function of IRS public-facing applications, the IRS has to ensure that it does not surrender access to the data necessary to investigate abuses of these portals. The IRS is currently exploring the possibility of outsourcing identity proofing under a project that relies heavily on third-party verification, which creates the possibility that neither the IRS nor TIGTA would be able to access authentication and validation logs.

TIGTA also evaluated the effectiveness of security controls and procedures over wireless networks in use at IRS facilities and identified areas of improvement.[6] We determined that security weaknesses related to the wireless networks are not timely resolved and the IRS's inventory of wireless access points could be improved. An inaccurate inventory hinders the IRS's ability to timely detect the loss or potential theft of the access points. Further, we determined that wireless access points are broadcasting a wireless network signal beyond IRS-controlled space, which creates the potential risk of external entities detecting and attempting to access or hack the IRS through the wireless networks. TIGTA detected the wireless signal outside of the IRS-controlled space in 21 (75 percent) of the 28 locations visited.

In addition to external threats, the IRS must ensure that its systems and data are protected against internal threats. An audit trail can help protect against insider threats as it is a record of events[7] occurring on a computer system. TIGTA reported that the IRS continues to struggle with ensuring that all applications are providing complete and accurate audit trails for monitoring and identifying unauthorized access.[8] TIGTA also found that the IRS could not provide an accurate inventory of all applications that store or process taxpayer data and Personally Identifiable Information. This inventory is critical to identify applications that need to be monitored for potential unauthorized access by employees. We also noted that not all applications with audit trail deficiencies were being monitored as required, which could allow unresolved deficiencies to persist.

IMPLEMENTING TAX LAW CHANGES

[4] Identity proofing is ensuring that users who interact with an entity over open networks, *i.e.*, the Internet, are who they claim to be.
[5] TIGTA, Ref. No. 2020-20-012, *While Progress Is Being Made on Digital Identity Requirements, Completion Dates to Achieve Compliance With Identity Proofing Standards Have Not Been Established* (Mar. 2020).
[6] TIGTA, Ref. No. 2020-20-063, *Improvements Are Needed to Ensure Wireless Networks Are Secure* (Sept. 2020).
[7] An event is any action that happens on a computer system. Examples include logging into a system, executing a program, and opening a file.
[8] TIGTA, Ref. No. 2020-20-033, *Most Internal Revenue Service Applications Do Not Have Sufficient Audit Trails to Detect Unauthorized Access to Sensitive Information* (July 2020).

Legislative developments related to tax reform and tax policy continue to present challenges for the IRS. During the year, the IRS implemented many tax provisions in the Families First Coronavirus Response Act[9] and the CARES Act which were intended to provide relief to those experiencing financial hardship. The IRS developed online assistance tools and a dedicated web page and has expedited analysis and reprogramming of systems needed to provide EIPs to taxpayers. In addition, the IRS identified other tax law and administrative changes affecting the filing season. These changes affected tax forms, instructions, and publications.

In addition, the Taxpayer First Act,[10] enacted on July 1, 2019, aims to expand and strengthen taxpayer rights and to reform the IRS into a more taxpayer-friendly agency by requiring it to develop a comprehensive customer service strategy, modernize its technology, and enhance its cybersecurity. It also 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. In its FY 2021 budget justification, the IRS is requesting approximately $106 million for 262 full-time equivalents to implement this legislation.

Further, according to the IRS's Strategic Plan,[11] implementing the Tax Cuts and Jobs Act of 2017[12] is a high priority for the IRS. The provisions that affect individual taxpayers include the repeal of the personal exemption, increase in the standard deduction, modification of itemized deductions, increase in the Child Tax Credit, and creation of a new Other Dependent Credit. While the majority of the changes enacted in the Tax Cuts and Jobs Act of 2017 were effective beginning in Tax Year 2018, some are effective beginning in later tax years.

ADDRESSING EMERGING THREATS TO TAX ADMINISTRATION

Identity theft tax refund fraud involves the use of another person's name and Taxpayer Identification Number[13] to file a fraudulent tax return reporting false income and withholding in an effort to receive a fraudulent tax refund. TIGTA has continually reported that new fraud patterns are constantly evolving and, as such, the IRS needs to adapt its detection and prevention processes. We reported that the IRS continues to evaluate and expand on successful fraud detection initiatives, while also piloting new fraud detection initiatives.[14] The actions taken on the part of the IRS have been extremely effective in addressing the identity theft epidemic and reducing its negative impact on tax administration. Specifically, the IRS's multifaceted approach has significantly reduced losses to the Government from the $5.2 billion reported for Processing Year 2010 that TIGTA first estimated in July 2012[15] to the IRS's most recent estimated losses for Processing Year 2018 of between $90 million and $380 million. However, the IRS has not yet developed metrics to quantitatively measure its success in detecting and preventing identity theft tax refund fraud, i.e., reporting the number of tax returns stopped and refunds protected, as required by the Taxpayer First Act.

In addition to identity theft, telephone calls from criminals impersonating IRS agents also are near the top of the IRS's "Dirty Dozen"[16] tax scams and remain an ongoing threat to taxpayers as con

[9] Pub. L. No. 116-127.
[10] Pub. L. No. 116-25.
[11] *Internal Revenue Service Strategic Plan – FY 2018 – 2022*, IRS Pub. 3744 (Rev. Apr. 2018).
[12] Pub. L. No. 115-97.
[13] A nine-digit number assigned to taxpayers for identification purposes. Depending upon the nature of the taxpayer, it can be an Employer Identification Number, a Social Security Number, or an Individual Taxpayer Identification Number.
[14] TIGTA, Ref. No. 2020-40-040, *Constantly Evolving Refund Fraud Patterns Require Continued Refinement and Development of Detection Initiatives* (July 2020).
[15] TIGTA, Ref. No. 2012-42-080, *There Are Billions of Dollars in Undetected Tax Refund Fraud Resulting From Identity Theft* (July 2012).
[16] Compiled annually, the "Dirty Dozen" lists a variety of common scams that taxpayers may encounter.

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 impersonation 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. The callers demand money from the taxpayer under the pretense that they owe unpaid taxes. To date, more than 16,000 victims reported that they have paid approximately $81 million to these criminals.

As of July 31, 2020, TIGTA's commitment to protecting taxpayers has resulted in 198 individuals being charged in Federal court for their roles in IRS impersonation scams. Ninety-seven of those individuals have been sentenced and collectively received a total of more than 402 years' imprisonment.

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. Recent incidents involving taxpayers who threatened or assaulted IRS employees underscore the dangers that these employees face each day. In August 2020, a taxpayer was indicted for making an online bomb threat directed at an IRS facility in New York. If convicted, the taxpayer could face 10 years' imprisonment, followed by a period of supervised release.

SUPPORTING AN ENHANCED TAXPAYER EXPERIENCE

Providing taxpayers with quality customer service is a key component in the IRS's mission. The IRS continues to take action to assist victims of identity theft. The IRS established a single point of contact to assist identity theft victims and resolve their cases efficiently. The IRS also sent notifications to victims that provided instructions about the actions they can take to reduce the burden of identity theft. While these are positive steps, TIGTA identified other areas that need improvement to better assist identity theft victims.[17] For instance, taxpayers eligible to obtain an Identity Protection Personal Identification Number may not be aware of their eligibility due to a lack of IRS advertising for its Identity Protection Personal Identification Number Opt-In Program. In addition, the IRS did not issue notices to the parents or legal guardians of 133,864 dependents that it identified as employment identity theft victims in Processing Year 2019.

Another area for improvement is the Free File Program. The Free File Program is a private-public partnership between the IRS and Free File Inc. to provide online Federal tax preparation and electronic filing to economically disadvantaged and underserved populations at no cost to the individual or the Government. TIGTA recently reported that the complexity, confusion, and lack of taxpayer awareness about the operation and requirements of the Free File Program are contributing reasons why many eligible taxpayers do not participate in the Program.[18] During Processing Year 2019, only 2.5 million (2.4 percent) of the 104 million eligible taxpayers obtained a free return filing through the Program. In contrast, more than 34.5 million taxpayers, who met Free File Inc. members' Free File Program criteria, used the members' commercial software to file their tax return. TIGTA estimates that more than 14 million taxpayers met the Free File Program criteria and may have paid a fee to electronically file their Federal tax return in the 2019 Filing Season.

[17] TIGTA, Ref. No. 2020-45-070, *Taxpayer First Act: Implementation of Identity Theft Victim Assistance Provisions* (Sept. 2020).
[18] TIGTA, Ref. No. 2020-40-009, *Complexity and Insufficient Oversight of the Free File Program Result in Low Taxpayer Participation* (Feb. 2020).

Additionally, the IRS's actions in response to the pandemic will continue to affect its ability to provide timely customer service and tax return processing. The closure of the processing sites resulted in significant backlogs of work. As of August 21, 2020, the IRS estimates it still has more than 7.3 million pieces of unopened mail, as well as 4.3 million paper individual tax returns and 3.3 million paper business tax returns that need to be processed. In addition, the IRS has more than 737,000 tax returns in its Error Resolution inventory. The IRS has reopened 211 (59 percent) of its 358 Taxpayer Assistance Centers with limited services, and 83 (78 percent) of its 107 toll-free lines.

MODERNIZING IRS OPERATIONS

Modernization is vital to the IRS's core functions: serving taxpayers, processing tax returns and payments, and enforcing the tax laws. To ensure that the IRS fulfills its mission over the long term, the IRS will need to update legacy computing infrastructure and business operations. The IRS budgeted $300 million for the modernization effort in FY 2019 and an equal amount in FY 2020. 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. However, Modernization efforts will not be complete at the end of the six years, but the IRS believes it will be better positioned for future successes. According to the IRS, the Plan's success is dependent on a number of legislative proposals and regulatory authorities, which include the Direct Hire Authority for Information Technology modernization positions (granted to Federal agencies in April 2019), Streamlined Critical Pay (granted by the Taxpayer First Act), and funding for multiple fiscal years at somewhat predictable intervals.

While legacy systems are critical for many organizations because they support key mission functionalities, the systems carry significant risks, including increased cybersecurity threats and maintenance costs. TIGTA reported that the IRS's management of its legacy systems can be improved.[19] Specifically, the IRS does not have an enterprise-wide definition or a complete and accurate inventory of legacy systems, nor has it developed specific or long-term plans to address updating, replacing or retiring most of its legacy systems. TIGTA also reported that the IRS generally does not capture operations and maintenance costs at the system or subsystem levels, only at the investment level. As a result, the IRS does not have sufficient and detailed cost data that can be used in its decision-making processes to prioritize its legacy system modernization efforts.

To help modernize operations, the IRS is planning to invest in cloud services. While the IRS created an enterprise-wide cloud strategy that was approved and authorized in December 2017, the strategy has not been updated to reflect current Federal and Department of the Treasury guidance and requirements.[20] Without an updated cloud strategy, the IRS may miss the opportunity to deliver public value by increasing operational efficiency and responding faster to taxpayer needs.

IMPROVING TAX REPORTING AND PAYMENT COMPLIANCE

[19] TIGTA, Ref. No. 2020-20-044, *Legacy Systems Management Needs Improvement* (Aug. 2020).
[20] TIGTA, Ref. No. 2020-20-010, *The Enterprise Cloud Program Developed a Strategy, but Work Remains to Achieve Cloud-Based Modernization Goals* (Mar. 2020).

One of the IRS's key responsibilities is to ensure that taxpayers comply with the tax law. The gross Tax Gap is the estimated difference between the amount of tax that taxpayers should pay and the amount paid voluntarily and on time. The average annual gross Tax Gap is estimated to be $441 billion for Tax Years 2011 through 2013, and approximately $39 billion (9 percent) is due to nonfilers.[21] According to the IRS, high-income nonfilers, although fewer in number, contribute to the majority of the nonfiler Tax Gap.

In May 2020, TIGTA reported that the IRS was not working high-income nonfiler cases owing billions of dollars.[22] TIGTA's analysis of Tax Years 2014 through 2016 data identified 879,415 high-income nonfilers who did not have a satisfied filing requirement with an estimated tax due of $45.7 billion. The top 100 high-income nonfilers for Tax Years 2014 through 2016 have estimated tax due of approximately $9.9 billion, making up 22 percent of the $45.7 billion associated with the 879,415 high-income nonfilers.

TIGTA also reported that the IRS could better use Currency Transaction Reports (CTR)[23] to improve its compliance activities.[24] The IRS considers CTR information useful to identify cash activity that may not be reported accurately on the income tax return. It may lead the examiner to discover sources of unreported income. However, some subjects of the CTRs with significant dollar amounts of cash transactions may not be filing income tax returns. TIGTA found that 5,266 subjects of the CTRs totaling more than $1.9 billion did not file income tax returns for Tax Year 2017; however, the IRS is not using the data to identify these nonfilers.

Large corporation (those with assets of $10 million or more) tax noncompliance contributes an estimated $26 billion to the average annual underreporting Tax Gap. The IRS uses a computer model, the Discriminant Analysis System (DAS), to systemically score the examination potential for Form 1120, *U.S. Corporation Income Tax Return*, tax returns with total assets of $10 million or more. Generally, the higher the score, the greater the audit potential. However, TIGTA reported that the IRS could improve the DAS model to better identify returns with a higher likelihood of potential tax adjustment.[25] We analyzed 10,755 returns closed in the DAS workstream during FYs 2015 through 2018 and found that 47 percent were closed with no change to the tax return. Although the IRS is updating the DAS model to improve the no-change rates, TIGTA found that it is not leveraging all available examination information, such as the examination scope and knowledge on productive issues, when developing new formulas, and it plans to test new formulas only on returns that are nearly a decade old.

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. The Improper Payments Information Act of 2002[26] requires Federal agencies, including

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[21] Nonfilers are taxpayers who do not timely file a required tax return and timely pay the tax due for such delinquent returns.
[22] TIGTA, Ref. No. 2020-30-015, *High-Income Nonfilers Owing Billions of Dollars Are Not Being Worked by the Internal Revenue Service* (May 2020).
[23] Federal law requires financial institutions to report currency (cash or coin) transactions of more than $10,000 conducted by, or on behalf of, one person, as well as multiple currency transactions that aggregate to more than $10,000 in a single day. The Financial Crimes Enforcement Network Form 112, *Currency Transaction Report*, is used to report these transactions.
[24] TIGTA, Ref. No. 2020-30-055, *The Accuracy of Currency Transaction Report Data in IRS Systems Should Be Improved to Enhance Its Usefulness for Compliance Purposes* (Sept. 2020).
[25] TIGTA, Ref. No. 2020-30-031, *The Large Case Examination Selection Method Consistently Results in High No-Change Rates* (June 2020).
[26] Pub. L. No. 107-300, 116 Stat. 2350.

the IRS, to estimate the amount of improper payments and report to Congress annually on the causes of and the steps taken to reduce improper payments. The Earned Income Tax Credit (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.

For FY 2019, in response to TIGTA recommendations, the IRS correctly rated the Additional Child Tax Credit (ACTC), the American Opportunity Tax Credit (AOTC), and the Net Premium Tax Credit (PTC) as also being susceptible to significant improper payments, i.e., high risk, similar to the EITC.[27] The IRS estimates it issued approximately $27.2 billion in potentially improper EITC, ACTC, AOTC and Net PTC payments in FY 2019. This represents a significant loss to both the Federal Government and taxpayers. TIGTA remains concerned about the IRS's inability to significantly reduce these payments.

Congress provided the IRS with tools to address taxpayers identified as submitting fraudulent or reckless refundable credit claims. These tools include the authority to assess the erroneous refund penalty, to require taxpayers to recertify that they meet refundable credit eligibility requirements for credits claimed on a return filed subsequent to disallowance of a credit, and to apply two-year or 10-year bans on taxpayers who disregard credit eligibility rules.

However, TIGTA reported that the IRS does not use the tools provided by Congress to the fullest extent possible to address erroneous credit payments.[28] While the IRS assessed the erroneous refund penalty on 3,190 returns, TIGTA identified 494,555 taxpayers with more than $2.6 billion in withholding and refundable credits that were disallowed for Tax Years 2015, 2016, and 2017 for which almost $534.7 million in potential penalties was not assessed. In addition, TIGTA identified 289,059 returns processed during Calendar Year 2018 for which the IRS did not verify the taxpayers' eligibility before recertifying them to receive a refundable credit. These taxpayers received more than $532 million in refundable credits.

Since Calendar Year 2012, TIGTA has issued several reports addressing weaknesses in the IRS's Individual Taxpayer Identification Number (ITIN) program that increase the risk that individuals filing questionable applications will be assigned an ITIN.[29] While the IRS has made some improvements, there are indications that there is a reduced emphasis on identifying questionable ITIN applications.[30] For example, the IRS does not require individuals to show they have a tax filing need, i.e., provide a tax return prior to renewing their ITIN. The IRS renewed 38,597 ITINs between January 2017 and April 2019 for the purpose of filing a tax return that have not been used on a tax return since being renewed.

INCREASING INTERNATIONAL TAX COMPLIANCE

[27] TIGTA, Ref. No. 2020-40-025, *Improper Payment Reporting Has Improved; However, There Have Been No Significant Reductions to the Billions of Dollars of Improper Payments* (Apr. 2020).
[28] TIGTA, Ref. No. 2020-40-008, *Authorities Provided by the Internal Revenue Code Are Not Effectively Used to Address Erroneous Refundable Credit and Withholding Credit Claims* (Feb. 2020).
[29] An ITIN is issued by the IRS to individuals who are required to have a Taxpayer Identification Number for Federal tax purposes but do not have and are not eligible to obtain a Social Security Number.
[30] TIGTA, Ref. No. 2020-40-064, *Processes Do Not Ensure That Individual Taxpayer Identification Numbers Are Issued Only to Qualifying Individuals With a Tax Administration Need* (Sept. 2020).

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. In most cases, foreign persons[31] are subject to U.S. tax of 30 percent[32] on their U.S. source income. The U.S. tax owed is generally withheld from payments made to foreign persons by a withholding agent.[33] Withholding agents are required to file Forms 1042-S, Foreign Person's U.S. Source Income Subject to Withholding, to report on an individual taxpayer basis the income and withholding for each foreign person. For Tax Year 2017, the IRS received 6.3 million Forms 1042-S from 49,618 withholding agents. These agents reported U.S. tax withholdings totaling more than $528 billion.

In response to our prior recommendations, the IRS has implemented processes to improve its identification of reporting discrepancies for Federal tax withheld on U.S. source income paid to foreign individuals. However, these processes did not identify some withholding tax discrepancies. TIGTA reported that IRS processes did not identify 1,919 withholding agents with reporting discrepancies totaling more than $182.7 million.[34] Our review also identified 366 withholding agents that claimed $506 million more in credits for tax withheld than was reported on the Forms 1042-S.

In addition, partnerships conducting business in the United States are required to withhold taxes on certain income paid to foreign partners.[35] The withholding serves as an incentive for foreign partners to file the appropriate U.S. tax return. However, TIGTA reported that the IRS's compliance efforts in this area can be improved.[36] TIGTA identified significant errors in the database that the IRS uses to track withholding reported by partnerships, which limits the IRS's ability to verify withholding credits and accurately identify potential nonfilers.

Foreign individuals are also required to pay tax related to the sale of U.S. real estate. Specifically, the Foreign Investment in Real Property Tax Act (FIRPTA) of 1980[37] imposes an income tax on foreign persons selling U.S. real property interests. Buyers are required to withhold a percentage of the anticipated taxes due on the amount realized from the sale. A foreign seller of U.S. property can claim a credit for the tax withheld by the buyer. If the seller's tax liability is less than the amount of tax withheld, the seller gets a refund of the difference. TIGTA reported that the IRS's reconciliation processes do not effectively identify and address FIRPTA reporting and payment noncompliance.[38] TIGTA identified 2,988 buyers with discrepancies of more than $688 million between the withholding reported on Forms 8288-A, Statement of Withholding on Dispositions by Foreign Persons of U.S. Real Property Interests, filed during Processing Year 2017 and the withholding assessed to the buyer's tax account. Extensive data inaccuracies in the

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[31] A foreign individual is any person that is not a U.S. person, including a nonresident alien, a foreign corporation, a foreign partnership, a foreign trust, or a foreign estate.

[32] A reduced rate, including exemption, may apply when there is a tax treaty between the United States and the country of residence for the foreign individual.

[33] A withholding agent is any U.S. or foreign entity (individual, corporation, partnership, *etc.*) that takes receipt of, has control or custody of, or disposes of or makes a payment of any income to a foreign individual that is subject to withholding.

[34] TIGTA, Ref. No. 2020-40-021, *Continued Efforts Are Needed to Address Billions of Dollars in Reporting and Payment Discrepancies Relating to Tax Withheld From Foreign Persons* (June 2020).

[35] A foreign partner can be a foreign corporation, foreign partnership, and any other person who is not a U.S. citizen.

[36] TIGTA, Ref. No. 2020-30-026, *Withholding Compliance Efforts for Partnerships With Foreign Partners Can Be Improved* (June 2020).

[37] Enacted as Subtitle C of Title XI (the Revenue Adjustments Act of 1980) of the Omnibus Reconciliation Act of 1980, Pub. L. No. 96-499, 94 Stat. 2599, 2682 (Dec. 5, 1980).

[38] TIGTA, Ref. No. 2020-40-014, *Millions of Dollars in Discrepancies in Tax Withholding Required by the Foreign Investment in Real Property Tax Act Are Not Being Identified or Addressed* (Mar. 2020).

FIRPTA database, incorrect and unclear guidelines, and employee errors contributed to these discrepancies.

The IRS also has not established processes to use Form 1099-S, Proceeds from Real Estate Transactions, to identify buyers that do not report and pay FIRPTA withholdings. TIGTA's analysis of Forms 1099-S for Tax Year 2017 identified approximately $22 million in FIRPTA withholding that was not reported and paid to the IRS. Finally, employee errors resulted in 1,835 foreign individuals potentially receiving more than $60 million in FIRPTA withholding credits than they were entitled.

PROTECTING TAXPAYER RIGHTS

The IRS must balance tax compliance activities to enforce the tax code while at the same time upholding taxpayer rights. 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.[39]

The IRS Restructuring and Reform Act of 1998 requires TIGTA to audit certain taxpayer rights provisions and report whether the IRS complied with those provisions. While overall compliance has improved, TIGTA continues to identify areas in which the IRS can improve. For example, during the review of the IRS's compliance with the prohibition against referring to taxpayers as Illegal Tax Protesters or similar designations, TIGTA found that IRS employees used these designations in some case narratives or case review comments.[40] Also, during the audit to determine whether the IRS improperly withheld information requested by taxpayers, we found that for 15 (17 percent) of the 87 cases reviewed, the IRS did not follow Freedom of Information Act[41] requirements when redacting information, even though managers had reviewed these cases for accuracy.[42]

TIGTA also evaluated the IRS's compliance with asset seizure legal provisions.[43] TIGTA reviewed 205 (60 percent) of the 342 seizures the IRS conducted from July 1, 2018, through June 30, 2019. TIGTA identified instances in which the IRS did not comply with a particular Internal Revenue Code section or internal procedure and identified IRS procedures that are problematic and result in potentially unfair outcomes.

Additionally, Collection Due Process hearing provisions are designed to give taxpayers an opportunity for an independent review to ensure that the levy action that has been proposed or the Notice of Federal Tax Lien that has been filed is warranted and appropriate. During the review of the IRS Office of Appeals Collection Due Process Program, TIGTA identified some hearing processing errors that were similar to errors identified in prior reports.[44] We determined that the IRS did not always classify taxpayer requests properly and, as a result, some taxpayers received the wrong type of hearing. In addition, the Collection function did not timely forward misdirected cases to the correct location, and taxpayer accounts had Collection Statute Expiration Date[45]

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[39] Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 19 U.S.C., 22 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C. and 49 U.S.C.).
[40] TIGTA, Ref. No. 2020-30-057, *Fiscal Year 2020 Statutory Audit of Compliance With Legal Guidelines Prohibiting the Use of Illegal Tax Protester and Similar Designations* (Sept. 2020).
[41] 5 U.S.C. § 552.
[42] TIGTA, Ref. No. 2020-10-038, *Fiscal Year 2020 Mandatory Review of Compliance With the Freedom of Information Act* (July 2020).
[43] TIGTA, Ref. No. 2020-30-058, *Fiscal Year 2020 Review of Compliance With Legal Guidelines When Conducting Seizures of Taxpayers' Property* (Sept. 2020).
[44] TIGTA, Ref. No. 2020-10-054, *Review of the Independent Office of Appeals Collection Due Process Program* (Aug 2020).
[45] The Collection Statute Expiration Date is the expiration of the time period established by law to collect taxes.

errors due to incorrectly input suspension start and stop dates. In some cases, TIGTA determined that the incorrect Collection Statute Expiration Date allowed the IRS additional time to collect delinquent taxes.

CONCLUSION

This memorandum is provided as our annual summary of the major management and performance challenges confronting the IRS in FY 2021. TIGTA's *Fiscal Year 2021 Annual Audit Plan* and *Fiscal Year 2021 Inspections and Evaluations Program Plan* contain 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.

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: COVID-19 Pandemic Relief: *Treasury has been instrumental in implementing and/or supporting other Federal agencies in implementation of economic relief provisions of The Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Some of these efforts include administering loans, loan guarantees, and other investments to businesses, States, and municipalities; directing hundreds of billions of dollars to workers and households; and assisting the Small Business Administration in carrying out the Payroll Protection Program. In addition to administering these programs and activities, Treasury must manage the unprecedented oversight that CARES Act funding is subject to as it continues to navigate through this challenging time.*

The COVID-19 pandemic created many challenges for the Nation in 2020. From the beginning, Treasury played a key role in ensuring that the economic prosperity gained over the previous three years was not lost due to the pandemic. While implementing the CARES Act, Treasury ensured that $275 billion in Economic Impact Payments were distributed to the American public, and coordinated on policy development with the Small Business Administration to enable over $525 billion in Paycheck Protection Program loans for small businesses. In addition, Treasury made available $500 billion for loans and loan guarantees for passenger air carriers, cargo air carriers, businesses critical to maintaining national security, and investments in programs of facilities established by the Federal Reserve to support lending to eligible businesses, states, or municipalities. We also made direct payments of nearly $150 billion to state, local and tribal governments for COVID-19 related expenses and provided $32 billion in financial assistance to air carriers and certain contractors to support employee payroll and benefits.

Treasury executed these programs with unprecedented speed and has managed these challenges with unprecedented transparency. Our web site contains a wealth of information about the program we administer, including program rules and guidance; forms and agreements; and reports about the entities that received funds, the amounts they received, and the terms governing those arrangements. Treasury makes reports as required to Congress and USAspending.gov, routinely responds to information requests from multiple oversight bodies, and has answered hundreds of letters and information requests from members of Congress. Treasury has staff dedicated to meeting the needs of oversight bodies, and has established the CARES Operations office within the Office of the Assistant Secretary for Management to carry out compliance, asset management, and reporting functions relating primarily to the loan and financial assistance programs under Division A, Title IV of the CARES Act. Treasury recognizes the importance of transparency and oversight for CARES Act funds, and has implemented specific and robust measures to meet the challenge.

OIG Challenge 2: Operating in an Uncertain Environment: *The COVID-19 outbreak presented unique complexities for Treasury to include, among other things, implementing measures for the health and safety of its workforce, as well as, administering more than two trillion dollars in financial assistance. While facing these unforeseen challenges, Treasury continues to face other ongoing challenges, including the recurring cycle of budget and debt ceiling stopgaps, recruiting highly-skilled individuals to fill critical positions across the Department, and the potential impact of the Government-wide Reform Plan on the administration of certain of the Department's programs and operations. Legislation is pending authorizing the potential transfer of the United States Secret Service (Secret Service), a high-profile component to Treasury, and the transfer is dependent on legislative action.*

The COVID-19 Pandemic created new operational complexities for Treasury and exacerbated ongoing operational challenges. In June, the Department issued the Treasury Opening Up Playbook and Phased Reopening Guidelines. These documents provide a framework for ensuring the health and safety of Treasury's approximately 100,000 employees and 600 offices during the pandemic. Treasury dramatically expanded the use of telework to keep employees who are capable of working remotely safe. We also leveraged workspace modifications, employed new sanitation and hygiene protocols, utilized health screenings, and purchased new personal protective equipment to protect the large segments of the workforce that require access to the workplace to accomplish their mission, particularly in the areas of currency manufacturing, paper form processing, and taxpayer services.

Recruiting and retaining a highly skilled workforce remains critical to achieving Treasury's mission. In response to COVID-19, a virtual onboarding process was launched in March 2020, which allowed Treasury Departmental Offices to onboard over 200 new employees since the pandemic began. This included ongoing staffing growth in Terrorism and Financial Intelligence and support for the Committee on Foreign Investment in the United States in recognition of their important national security missions. Treasury also implemented process improvements and a new tracking tool to streamline the processing of background investigations for new employees and contractors. Treasury also expanded support for employees through work schedule flexibilities, a Dependent Care Leave pilot, and providing timely training and resources on topics like virtual teamwork, online collaboration tools, work-life balance, and self-care.

In anticipation of increased transaction reviews, the Office of Investment Security and the Office of the Assistant General Counsel for International Affairs have been aggressively hiring for approximately 35 positions. Treasury plans to decrease reliance on contractors over time as new employees are hired. While management anticipates being close to filling 81 positions (including contractors) approved for fiscal year 2020, it requested another 39 positions as part of its fiscal year 2021 budget justification.

Legislation has been introduced in both the Senate and the House to return the Secret Service to Treasury consistent with the key recommendations of a Protective Mission Panel from 2014 formed to improve operations, and the recommendation of two former career Secret Service Directors. A 2019 feasibility study determined a transfer back to Treasury could better align the Secret Service's financial mission with that of its former parent department. Improved mission alignment under Treasury could result in heightened focus on financial crimes investigations, resulting in enhanced protection for the American public and businesses against criminals targeting our financial institutions and currency and greater consumer confidence in the Nation's financial institutions and integrity.

The Secret Service's investigative mission, operations, and capabilities also align well with Treasury's strategic priorities. Treasury is committed to both the protective and investigative mission of the Secret Service. Treasury's most recent Strategic Plan, in effect for the 2018 – 2022 timeframe, illustrates the potential synergies between the Secret Service and Treasury. Of the five Strategic Goals outlined in the document, the Secret Service may closely map its activities to three: Boost U.S. Economic Growth, Promote Financial Stability, and Enhance National Security. Treasury and the Secret Service have as a common goal the stability, security, and advancement of the Nation's economy. Technological advancements in recent decades, such as cryptocurrencies and the increasing interconnectedness of the international financial marketplace resulted in more complex issues facing our country. Criminal organizations employ varied means to obtain financing, and we continue to observe stronger links between financial and electronic crimes and the financing of terrorists and rogue state actors.

Relocating the Secret Service to Treasury will most likely result in additional senior policy level attention, resulting in more optimal levels of management attention and focus on the Secret Service, as well as enhanced programmatic and operational oversight. The Secret Service anticipates the expected impact of the transition on operational personnel will be minimal. Treasury and the Secret Service have been preparing for the transition through a series of meetings between IT, human capital, planning, budget, and other staff to prepare for a smooth transfer.

OIG Challenge 3: Cyber Threats: *Attempted cyber-attacks against Federal agencies, including Treasury, and financial institutions continue to increase in frequency and severity. As these 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. This is vital to the Nation's national security and economic stability. While managing known risks is an ongoing challenge, Treasury must also be ready to reinforce and/or redirect cybersecurity efforts when unforeseen events occur such as the COVID-19 global pandemic.*

Treasury maintained an overall rating of "Managing Risk" on the OMB Cybersecurity Risk Management Assessment for all four quarters of the fiscal year. Treasury implemented several programs and activities during FY 2020 to further strengthen cyber security.

Treasury Cybersecurity established the Enterprise Cyber Risk Management (ECRM) program to manage the vulnerabilities and threats that can be exploited to affect Treasury assets and cause disruption in the delivery of services. In FY 2020, the program consolidated risks from multiple sources to create the centralized Risk Reporting Analytical Cybersecurity System, managed threat advisories for 14 vulnerabilities, and developed the Supply Chain Risk Management (SCRM) program for Cybersecurity. Treasury implemented a new assessment methodology, the High Value Asset (HVA) Assessment, that combines the Risk and Vulnerability Assessment (RVA) and the Security Architecture Reviews (SARs) into a single assessment focused primarily within the boundary of the HVA. These reviews provide great value and Treasury has set aside resources to increase the number of HVA assessments conducted annually. Additionally, Treasury created enhanced risk profiles for all 19 Departmental HVAs. This allows Treasury senior leadership greater visibility into the risks associated with the Department's most critical systems by incorporating multiple metrics, including the application of common FY 2020 Treasury RVA/SAR assessment findings, to these systems in order to identify if protection measures have been proactively put in place.

During FY 2020, Treasury completed the second year for Continuous Diagnostics and Mitigations (CDM) Dynamic and Evolving Federal Enterprise Network Defense (DEFEND) activities across the Department. These activities help the Department prioritize mitigation activities to drive efficiency by concentrating effort on resolving the most critical elements first. Also, in adopting a "Defense-in-Depth and Breadth" approach for 24/7/365 Operations, the Department has implemented layered controls and established an incident response capability that performs and mitigate emerging threats or fraudulent access/transactions.

Treasury's Government Security Operations Center (GSOC) engineered a custom implementation of a new repository for all consumed threat intelligence. This repository allows for automated ingest of indicator and cyber threat reporting from trusted sources. GSOC also developed a tool that leverages this repository for automation of actions removing the need for analysts to manually parse new threat information and then manually run historical queries against our Treasury network data to search for evidence of compromise related to that new information. GSOC also completely redefined its approach to developing and categorizing its custom malware signatures to meet the demands of new technology solutions. Finally, GSOC completely reengineered its email signature detection, malware detonation and Security Information and Event Management (SIEM) alerting process. The new design delivers results in near real-time where the results of that analysis are provided as SIEM alerts to the 24/7 operations detection team.

Fiscal Service continues to take several steps to address cyber threats. Some successes and ongoing efforts include modifying current contracts to include clauses in support of the Executive Order on Securing the Information and Communications Technology and Services Supply Chain, requiring all solicitations to adhere to Treasury's security requirements, and leveraging FedRAMP to accelerate the authorization of cloud-based systems and services. Fiscal Service also works closely with public and private organization to ensure that the latest threat intelligence information is available to the bureau for risk-based decision making.

OIG Challenge 4: 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 a challenge for Treasury. This challenge is increased as Treasury's role to counter these financial networks and threats has grown and criminals and other bad actors evolve and continue to develop more sophisticated money laundering methods to avoid detection. A specific 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.*

To address these challenges, all FinCEN systems are assessed for vulnerability and configuration compliance in near real-time by their participation in DHS's Continuous Diagnostic and Mitigation (CDM) initiative. Additionally, an independent third-party assessment team conducts security assessments annually (or whenever there is a significant change within an application requiring a new accreditation) to test and validate that appropriate security controls are in place.

FinCEN has improved its SIEM capabilities by improving its anomaly detection and providing better forensic capabilities. FinCEN is also upgrading the query audit log technology that allows FinCEN to monitor logs that track user's usage of Bank Secrecy Act (BSA) data. The upgrade will provide FinCEN more advanced reporting capabilities. IT Systems (FinCEN Portal, Query, SISS) are undergoing technical refresh efforts which are implementing new identity and access control mechanisms. The new security architecture allows for enhanced authentication processes such as One Time Passwords (one-time login code sent to email or phone) and system software adopting more of a "Zero-Trust"/"Verified Source" security methodology.

OIG Challenge 5: Efforts to Promote Spending Transparency and to Prevent and Detect Improper Payments: *Under the Digital Accountability and Transparency Act of 2014 (DATA Act), the Department faces renewed challenges to ensure transparency to the taxpayer and other stakeholders on the use of funds distributed under economic relief packages enacted to address individuals and industry sectors impacted by COVID-19. In addition, the effectiveness of the Department's Do Not Pay Business Center in detecting and preventing improper payments continues to be impacted by the need to obtain better death information.*

Fiscal Service launched the FiscalData.Treasury.gov website in July 2020 to provide citizens with centralized access to Fiscal Service published Treasury financial data. In addition, to the release of the DATA Act Information Model Schema 2.0, Fiscal Service updated the practices and procedures document in FY 2020 that expands upon the data standards used in reporting. To increase the use of spending data on USAspending.gov, Fiscal Service Data Lab's *Your Guide to America's Finances* (Your Guide) will be refreshed with FY 2020 data. Your Guide provides a high-level overview of the federal government's revenue, spending, deficit, and debt. In addition, USAspending.gov search capabilities will be enhanced into one comprehensive tool for users that is intuitive and easy to navigate.

Treasury continues to make progress at the government-wide and Departmental level to identify reporting discrepancies and improve overall DATA Act reporting quality. From an agency perspective, Treasury successfully implemented new government-wide reporting requirements as a result of OMB Memorandum M-20-21, *Implementation Guidance for Supplemental Funding Provided in Response to the Coronavirus Disease 2019* (COVID-19). Our successful implementation allows the public to obtain valuable information on how tax dollars are supporting the economic recovery in relation to the Department's coronavirus response on a monthly basis.

In regard to the Do Not Pay (DNP) program, we received temporary access to SSA's Full Death Master File (DMF) to support EIP payment screening for deceased individuals. This allowed DNP to assist IRS in stopping over $600 million in improper EIPs from being issued. Fiscal Service has requested legislative authority to receive access to the full Death Master File for improper payment purposes along with other proposals to further strengthen the Do Not Pay program.

OIG Challenge 6: Information Technology Acquisition and Project Management: *While the Federal Information Technology Acquisition Reform Act (FITARA), enacted in December 2014, was intended to help 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.*

In many areas of the FITARA scorecard Treasury has scored well, including data center consolidation, portfolio review, modernizing government technology and software asset management. As of the July 2020 scorecard, Treasury's overall score has improved to a "B". While the FITARA scorecard is a helpful tool for comparing agencies' progress in implementing FITARA, Treasury has achieved successes that, while not always captured by the scorecard, ultimately further the goals and intent of FITARA. For example, Treasury increased its usage of Government-wide Acquisition Contracts and Best-in-Class (BIC) Contracts, to become the leading agency to leverage BIC contracts for acquisition development and procurement in FY 2020.

To help facilitate the alignment of IT investment decisions with the Bureau of Fiscal Service's strategy, several new governance entities and metrics have been established. Specifically, Fiscal Service has begun publishing (via an IT Portfolio Dashboard) metrics related to the health, quality of service, and mission impact of specific IT initiatives. Furthermore, Fiscal Service has established multiple IT architecture review boards responsible for ensuring the consistent and effective usage of key technologies and services.

Lastly, Fiscal Service plans to improve the frameworks used to assess the Return On Investment (ROI) of proposed investments within the context of the Fiscal Service mission. These improvements will provide greater transparency into IT investment decision making, greater accountability for those decisions, and a clearer alignment with Fiscal Service's strategic objectives.

Matters of Concern

OIG Concern 1: Coin Redemption: *The Mint's internal control issues related to safeguarding and ensuring the integrity of U.S. coinage is a concern.*

The Mint is aware of the potential impact that counterfeit coinage would have in both the bullion market and the Nation's circulating coin system. The Mint has meaningfully invested resources to develop the in-house expertise necessary to identify counterfeit circulating coins and establish new security safeguards. Currently the percentage of coins deemed to be counterfeit is minimal and well below the threshold that would undermine the integrity of our coinage system. Current estimates are that roughly .05 percent of circulating quarters may be counterfeit. The Mint established a state-of-the-art anti-counterfeiting lab and dedicated 3 FTEs to advance the Mint's anti-counterfeiting capabilities and collaborate with Secret Service and Customs and Border Patrol to refine counterfeit identification practices. The Mint's collaboration with Secret Service and CBP is expected to greatly increase the effectiveness of the latter agencies' ability to prevent the importation of counterfeit coins and/or their introduction into circulation. With respect to bullion coins, the Mint is currently developing counterfeit-resistant features that are expected to be introduced in the American Eagle gold and silver bullion coins in mid-year 2021.

Under the authority of 31 U.S.C § 5120, the Mint established a program by which individuals and businesses may exchange bent or partial coins for reimbursement. This is commonly referred to as the "mutilated coin redemption program" (Program). In late 2018, after the discovery of anomalies in some materials submitted for reimbursement, the Mint suspended the processing of applications and materials submitted to the Program. The Program remains suspended at this time. The Mint is working with new technology to identify counterfeits and develop appropriate safeguards for the Program to reduce the risk of fraudulent submissions. The Mint will publish for public comment proposed amendments to the Program's regulations that aim to deter fraudulent schemes on the program. Prior to resuming the Program, the Mint will have revised internal controls and appropriate staffing in place to maintain continued integrity and sustainability of U.S. 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.*

OIG has provided input in recent years raising concerns about the overhead allocation methodology in Treasury's Departmental Offices. In response, Treasury hired an independent third party to evaluate the methodology used in the FY 2020 overhead billing. That assessment was completed on August 27, 2020. While the vendor provided a few areas for improvement and maturity of the methodology, there was no finding that the FY 2020 methodology was invalid, inappropriate or unreasonable. In fact, the difference between the original methodology and the revisions recommended by the vendor reflect a net difference of 0.15%, or approximately $3,000. Treasury implemented the recommendations of the vendor as part of the annual reconciliation process in FY 2020. The vendor concluded their report with a review of the FY 2020 reconciliation

OIG Concern 3: Internal Control Issues at BEP: *The Bureau of Engraving and Printing's fiscal year 2019 financial statement audit resulted in 22 internal control deficiencies identified with nine of them collectively reported as two significant deficiencies related to financial reporting and information technology controls*.

As a result of the FY 2019 BEP financial statement audit, BEP has initiated multiple actions to strengthen its financial management, internal controls and reporting processes. For example, BEP hired external contractors to assist in expediting the remediation of the audit findings, to provide financial support services, and to assist with conducting internal control reviews in accordance with requirements of the OMB Circular A-123. This partnership enabled BEP to successfully address all of the findings and recommendations identified in the FY 2019 financial statement audit report. The corrective actions undertaken included developing or updating standard operating procedures and related documentation, as well as providing training to staff members as appropriate. As noted in the independent auditor's report, BEP experienced significant turnover in key positions which contributed to the conditions cited. To address this challenge, BEP has recently filled key managerial and staff positions within the Office of Financial Management, including hiring a Budget Officer and Accounting Officer. BEP plans to continue filling vacancies in the CFO Directorate to address staffing challenges. Finally, BEP continues to evaluate and improve upon the maintenance and repository of its contract files in response to the OIG's ongoing corrective action verification of recommendations related to a FY 2013 audit report. BEP converted to a 100 percent electronic contract file management system in accordance with Treasury guidance since that report was issued. Other improvements include the expansion of file size limits and improved connectivity via automatic reconfigurations of system settings. BEP is also aggressively hiring additional staff within the Office of the Chief Procurement Officer including staff who will further enhance and maintain our contract file management.

IRS Management Response to TIGTA Identified Challenges

TIGTA Challenge 1: Responding to the COVID-19 Pandemic; *After passage of the CARES Act, there was an increase in related illicit scams and schemes with various objectives, such as manipulation of IRS online applications, theft of the EIPs, and efforts to steal sensitive taxpayer information.*

The Coronavirus Disease 2019 (COVID-19) pandemic and the passage of the CARES Act created numerous avenues for fraud and false claims against the U.S. Treasury. Using its unique authority and financial expertise to investigate criminal violations of the Internal Revenue Code, the IRS Criminal Investigation (CI) organization responded by investigating violations such as identity theft, false claims, and the theft of Economic Impact Payments. IRS-CI Special Agents around the country worked in concert with the Department of Justice as well as other federal law enforcement agencies and participated on task forces investigating COVID-related frauds. As a result, the IRS identified and investigated several fraudulent schemes perpetrated by those taking advantage of the need for personal protective equipment and abusing financial assistance provided by the government to both businesses and individuals.

In addition to its existing initiatives, the IRS-Nationally Coordinated Investigations Unit used data-driven methodologies extensively to identify and refer for criminal investigation numerous COVID-19 related fraud schemes and helped create a one-stop portal containing over five million COVID-specific documents in order to develop leads and avoid duplicate investigative efforts.

TIGTA Challenge 2: Enhancing Security of Taxpayer Data and Protection of IRS Resources: *The IRS must complete improvements to its public-facing applications to ensure that taxpayers who want access to IRS's online services have verified their identities and can securely access IRS resources. In addition, the IRS must ensure that taxpayer data is secure from internal and external threats.*

Advances in technology have provided the IRS an opportunity to be more responsive to taxpayers' needs for its services. During 2020, the IRS continued improving its public-facing applications to ensure that taxpayers who access IRS's online services verify their identities to access IRS resources securely.

The IRS has progressed toward meeting National Institute of Standards and Technology (NIST) Special Publication (SP) 800-63-3 guidelines on identity proofing by developing and using a five-step process to determine the required assurance level for each of its applications. The IRS completed the first five steps in the Digital Identity Risk Assessment (DIRA) process, to enhance IRS compliance with the NIST guidelines for identity proofing for all existing public-facing applications. Moreover, the IRS has completed and approved, as needed, Digital Identity Acceptance Statements for each DIRA. In addition, the IRS uses a federated approach in their Secure Access registration process employing Credential Service Providers to comply with NIST SP 800-63-3. The Secure Access registration process includes ways in which states, territories, and federal agencies that issue identifications can assist the IRS with identity proofing users of its public-facing applications that require Identity Assurance Level 2.

Finally, the IRS plans to review and revise the current Privacy Impact Management System to clearly identify applications that store, process, and/or transact federal tax information for the purpose of detecting improper cyber activities and to reconstruct events for potential criminal investigations. This inventory will be updated at least annually.

TIGTA Challenge 3: Implementing Tax Law Changes: *The IRS faces continuing challenges due to legislative developments related to tax reform and tax policy.*

The passage of the *Taxpayer First Act* (TFA), signed July 1, 2019, created a new congressional mandate for the IRS. The IRS has not had a major reorganization of this magnitude since the implementation of the Internal Revenue Service

Restructuring and Reform Act of 1998. The TFA requires the submission of a comprehensive proposal to Congress for three areas: Comprehensive taxpayer service strategy; Proposal to update the IRS organizational structure; and Comprehensive training strategy. The TFA also includes another 41 provisions designed to improve taxpayer service and ensure the IRS continues to enforce the tax law in a fair and impartial manner.

The IRS developed robust and effective TFA strategies that reflect taxpayers' input. The IRS engaged with a wide range of stakeholders and staff with first-hand insights into how the IRS can evolve. This engagement, along with extensive research and analysis of best practices, set the foundation for the Taxpayer Experience Strategy, Training Strategy, and Organization Redesign Plan.

In preparation for the 2020 filing season, the IRS updated its processes and procedures to address new legislative requirements. These updates included making extensive revisions to Form 1040, U.S. Individual Income Tax Return, and its related schedules and making obsolete three of the six Form 1040 schedules that were new for TY 2018. In addition, the IRS developed the Form 1040-SR, U.S. Tax Return for Seniors. The IRS will continue its efforts to implement various actions required to meet the intent of theses and future tax laws.

TIGTA Challenge 4: Addressing Emerging Threats to Tax Administration: *Because fraud patterns are constantly evolving, the IRS needs to continuously adapt its processes to detect and prevent tax scams involving identity theft and telephone calls from criminals impersonating IRS agents.*

The Security Summit, which is a public-private sector partnership between the IRS, state revenue departments, software developers, tax professionals, and financial services groups, continued to implement measures to combat tax-related identity theft. Security Summit members continue to meet regularly to discuss action items, emerging issues, and new initiatives in combating identity theft and refund fraud. An important Security Summit initiative has been the Identity Theft Tax Refund Fraud Information Sharing and Analysis Center, commonly referred to as the ISAC. This is an important platform for the IRS and its partners in their day-to-day efforts to combat identity theft by helping them gain timely data on emerging trends.

The IRS continued to explore programs and processes to further improve the detection and prevention of tax-related identity theft. For example, 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 Form W-2 Verification Code Program. The analysis takes into consideration the reduced benefit of the program as a result of the accelerated receipt of W-2s as required by the *Protecting Americans from Tax Hikes Act* (PATH). The PATH Act requires employers to file third-party income information to the IRS by January 31 and requires the IRS to delay refund issuance on returns claiming the Earned Income Tax Credit/and the Additional Child Tax Credit until February 15th. These changes allow the IRS additional time to perform document matching. The IRS found that these PATH Act requirements do help to mitigate the tax-related identity theft risk as intended by the Form W-2 Verification Code Program.

TIGTA Challenge 5: Supporting an Enhanced Taxpayer Experience: *IRS needs to improve its customer service to better assist identity theft victims and to increase awareness and understanding the Free File Program and timely tax return processing. In addition, IRS must continue to resolve the significant backlog of work resulting from the closure of the processing sites due to the COVID-19 pandemic, which has impacted its ability to provide timely customer service and tax return processing.*

To protect taxpayers from identity theft from known incidents, such as data breaches, the IRS proactively identifies those accounts that require additional review and quickly works with preparers to ensure prompt reporting.

To further improve taxpayer protections, during FY 2020 the IRS expanded the Identity Protection Personal Identity Number (IP PIN) Opt-in program by adding 10 more locations, bringing the total number of eligible locations to 20. This expansion of the IP PIN Opt-in program moves the IRS a step closer to fully implementing TFA Section 2005, which requires the expansion of the IP PIN Opt-in program to all taxpayers. The IP PIN is a six-digit number that helps the IRS verify a taxpayer's identity and accept their electronic or paper tax return and prevents someone else from filing a tax return with the taxpayer's Social Security Number. In FY 2020, more than 70,000 taxpayers within the 20 locations obtained an IP PIN.

In preparation for the 2021 filing season, the IRS will use various means to publicize this program, to include creation of a how-to video for taxpayers, updating publications, such as Publication 5367, Identity Protection PIN Opt-In Program for Taxpayers, and using traditional and social media platforms to generate nationwide publicity for the IP PIN. Finally, the IRS will leverage its relationships with tax professionals and service providers, states, congressional offices, and businesses to provide them with information they may share with stakeholders.

Additionally, the IRS worked to make the Free File program more taxpayer friendly and to protect taxpayers. Following the changes made to Free File for the 2020 filing season, IRS Free File online products saw a 50 percent usage increase, with more than 4.1 million taxpayers using one of the free online partner products, compared to 2.7 million in FY 2019.

TIGTA Challenge 6: Modernizing IRS Operations: *The IRS's reliance on legacy computing infrastructure and business operations pose significant risks to the IRS's ability to deliver its mission. These legacy systems carry significant risks, including increased cybersecurity threats and maintenance costs. In addition, successful implementation of IRS's Integrated Modernization Business Plan is dependent on several legislative proposals and regulatory authorities, as well as funding for multiple fiscal years at somewhat predictable intervals.*

The IRS Integrated Modernization Business Plan, published in April 2019, describes a six-year modernization roadmap for achieving IRS enterprise modernization goals. In FY 2020, the IRS delivered 19 new or expanded capabilities, which provided a solid foundation to continue accelerating modernization progress in FY 2021. Modernization accomplishments included a Next Generation Infrastructure that provides a more efficient, scalable and flexible architecture by implementing advanced IT infrastructure tools and technologies which will further automate and modernize the technology infrastructure and convert legacy code to modern programming languages.

In FY 2020, the IRS deployed a set of components via an automation tool to provision virtual servers with the latest patches, security compliance, and server domains. This reduced provision times from five days (120 hours) to 28 minutes. In addition, the IRS delivered a strategy to reduce the legacy application code footprint that will reduce dependency on obsolete legacy development languages. The IRS also began building out the cloud infrastructure for the Enterprise Case Management program and developing capabilities around user authentication and authorization, roles and permissions, the creation and assignment of cases, and end-to-end monitoring. This set of capabilities will be critical to stabilizing the cost of operations and maintenance and further enhancing the agency's security posture. The IRS will continue to execute its systems modernization plan as the level of funding permits.

TIGTA Challenge 7: Improving Tax Reporting and Payment Compliance: *Improving taxpayers' compliance with the tax law to reduce the Tax Gap remains a serious and persistent challenge.*

The IRS continues to be extremely active in the enforcement area through a variety of activities, including investigations of tax noncompliance and the millions of notices sent each year to taxpayers when issues are discovered on their returns, such as failing to report income from Forms W-2 or 1099. The IRS will continue its focus to reduce the tax gap through its various compliance programs.

TIGTA Challenge 8: Reducing Fraudulent Claims and Improper Payments: *IRS faces ongoing challenges to significantly reduce the improper payments from refundable credits*

The IRS's Automated Questionable Credit program has added three sub rules (automated controls) derived from a research effort to point to selections with the greatest potential for revenue protection. The IRS's Return Integrity & Compliance Services examination program uses filters to identify the potential non-compliant taxpayers, including those with the recertification indicator to select for audit.

In FY 2021, the IRS plans a balanced compliance strategy by selecting recertification cases along with cases from other project codes that are identified by our filters to ensure coverage across all programs.

TIGTA Challenge 9: Increasing International Tax Compliance: *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 foreign persons subject to U.S. taxes on U.S. source income.*

New patterns and trends emerging in complex international tax avoidance schemes and cross-border transactions have heightened the IRS's concern regarding the lack of tax compliance by individuals and entities with an international footprint. As international tax and money laundering crimes have increased, the IRS continues to protect the integrity of the U.S. tax system by helping the American taxpayer understand and meet their tax responsibility and enforce the law with integrity and fairness, worldwide.

The partnership initiative of the Joint Chiefs of Global Tax Enforcement (J5), between the criminal tax authorities of the United States, the United Kingdom, Canada, Australia, and the Netherlands continued to play a major role in combatting international tax and financial crimes through proactive collaboration using each country's collective resources. On January 23, 2020, the IRS participated in the J5's first major operational activity, the J5 Global Day of Action. The J5 coordinated this global enforcement activity with the goal of stopping suspected facilitation of offshore tax evasion in the J5 nations. The action occurred as part of a series of J5 investigations into an international financial institution located in Central America that facilitates its clients use of a sophisticated system to conceal and transfer wealth.

To further its goal to address global tax administration concerns, through expanded partnerships with foreign governments and international organizations, the IRS is expanding partnerships through interactions with two international organizations, the Organization for Economic Cooperation and Development (OECD) and the Inter-American Center of Tax Administrations (CIAT). At the OECD, the IRS is an active member of the Forum on Tax Administration (FTA). The FTA's key aim is to improve taxpayer service and tax compliance by helping tax administrations increase the efficiency, effectiveness and fairness of tax administration and reduce the costs of compliance. The IRS supports CIAT's efforts to promote international cooperation and the exchange of experiences and know-how, thus contributing to the strengthening of the tax administrations of all CIAT's member countries. CIAT is a regional tax organization focusing primarily, but not exclusively, on countries in North, Central, and South America and the Caribbean.

TIGTA Challenge 10: Protecting Taxpayer Rights: *The IRS must balance its tax compliance activities against the rights of taxpayers to receive fair and equitable treatment.*

The IRS continues to balance tax compliance activities against taxpayers' rights to receive fair and equitable treatment. For example, the IRS provides taxpayers with the Taxpayer Bill of Rights in many notices and in in-person interviews to inform them about their rights with respect to examinations, appeals, collections, and refunds. In addition, in FY 2020, the IRS revised its policy and procedures regarding the handling of mis-directed Collection Due Process and Equivalent Hearing requests to ensure taxpayer accounts had correct Collection Statute Expiration Dates.

SECTION C: 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	Resolved	Consolidated	Reassessed	Ending Balance
Fiscal Service's Cash Management Information Systems [1]	1	0	0	0	0	1
Fiscal Service's Federal Debt Information Systems [1]	1	0	0	0	0	1
IRS's Unpaid Tax Assessments [1]	1	0	0	0	0	1
IRS's Financial Reporting Systems [1]	1	0	0	0	0	1
Total non-conformances	4	0	0	0	0	4

[1] 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, 2020, we had no material weaknesses under Section 2 or Section 4 of the FMFIA. However, we have four instances of non-conformance with the federal financial management systems requirements of Section 4 of the FMFIA. These non-conformances also constitute a lack of compliance with federal financial management system requirements, as reported above under FFMIA Section 803(a).

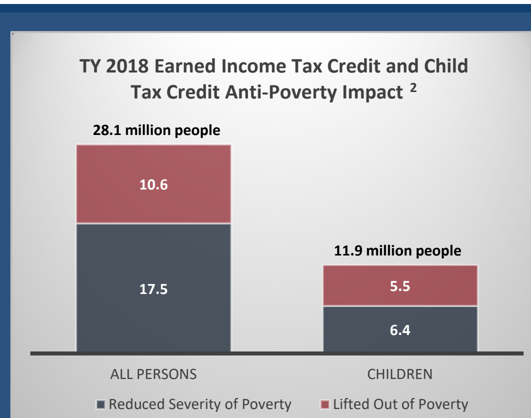
Fiscal Service has two non-conformances related to the deficiencies in its cash management and federal debt management information systems. The IRS has two non-conformances related to the deficiencies in unpaid tax assessments and financial reporting systems. Refer to the section in Part 1 entitled *Systems, Controls and Legal Compliance* and the section in Part 2 entitled *Independent Auditors' Report* for additional information on the non-conformances.

SECTION D: PAYMENT INTEGRITY

Our FY 2020 Payment Integrity reporting includes information required by the *Payment Integrity Information Act of 2019* (PIIA); 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. PIIA rescinded the *Improper Payments Information Act* of 2002 (IPIA), the *Improper Payments Elimination and Recovery Act* of 2010 (IPERA), and *Improper Payments Elimination and Recovery Improvement Act* of 2012 (IPERIA), however many of the requirements for reporting Payment Integrity information remain in place. Additional information on current and prior year reported improper payments, including information on risk assessments and recovery auditing, can be found at https://paymentaccuracy.gov/.

For FY 2020, in compliance with OMB Circular A-123, Appendix C, we are reporting improper payment estimates for three refundable tax credits[1] – the EITC, AOTC, and ACTC – which are "susceptible to significant improper payments." However, 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 of these refundable tax credits 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 PIIA 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. 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.



DEPARTMENT OF THE TREASURY

In Tax Year 2018, it is estimated that American taxpayers claimed RTCs totaling

$104 BILLION

Over 25 million taxpayers received more than $63 billion in EITC
Nearly 20 million taxpayers received more than $35 billion in ACTC
Nearly 7 million taxpayers received more than $6 billion in refundable AOTC

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

[1] In FY 2019, net Premium Tax Credits (PTC) was determined to be susceptible to significant improper payments. However, Treasury notified OMB that it will delay the annual reporting of improper payments for PTC for FY 2020. The notification was made pursuant to OMB's June 17, 2020 memorandum, *Risk Based Financial Audits and Reporting Activities in Response to COVID-19*, which OMB issued in response to the significant new demands placed upon agencies in connection with implementing the CARES Act and other COVID-19 related programs.

[2] The data for "Reduced Severity of Poverty' is from Center on Budget and Policy Priorities (CBPP), Policy Basics: The Earned Income Tax Credit and CBPP, Policy Basics: The Child Tax Credits, both dated December 10, 2019.

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).

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 2018, there were approximately 52 million claims for RTCs, totaling more than $104 billion. For the same year, the EITC was credited with lifting approximately 5.6 million people out of poverty, including approximately 3 million children; while the ACTC was credited with lifting approximately 4.3 million people out of poverty, including roughly 2.3 million children.[3] 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 issue 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

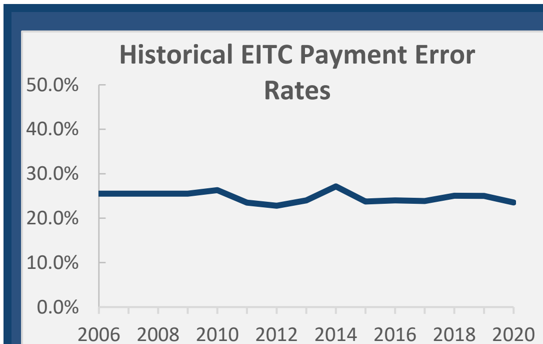
[3] These amounts are from CBPP, Policy Basics: The Earned Income Tax Credit and CBPP, Policy Basics: The Child Tax Credits, both dated December 10, 2019. These two programs combined lift more persons out of poverty than the sum of persons in each program.

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 the improper payment statute. PIIA 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." [4] 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 PIIA.

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 significant 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.



DEPARTMENT OF THE TREASURY

Estimated Error Rates Have Remained Steady Despite Efforts to Reduce Error Rates

EITC estimated error rates have ranged from 22.8% to 27.2% between FY 2006 and FY 2020, with an average annual error rate estimate of 24.7%

Internal Control Issues are not the Root Cause of RTC Overclaims

PIIA'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

[4] Pub. L. No. 116-117, 375 Stat. 3351.

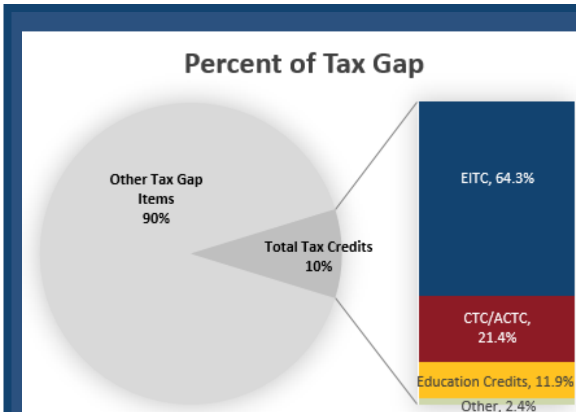
management for purposes of managing payment integrity risk and reducing improper payment rates.[5] However, as we have determined repeatedly through qualitative risk assessments, RTC overclaims are not primarily rooted in internal control deficiencies, but instead are the result of factors beyond Treasury's 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.

The IRS utilizes a variety of compliance tools and activities in an attempt to reduce identified RTC errors rates, which are summarized in the Corrective Action Section of this report. 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.

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. These legislative proposals are outlined in the Corrective Action Section of this report. 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. If the IRS significantly increased the amount of resources allocated to auditing these returns, it would run the risk of not providing an appropriate level of enforcement in other less compliant (higher potential revenue) areas. 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.



DEPARTMENT OF THE TREASURY

RTCs Within The Tax Gap

Tax credits account for approximately 10% of the gross tax gap (with EITC representing 6%, refundable and non-refundable child tax credits representing 2% and refundable and non-refundable education credits representing 1%).

Due to the limited IRS resources, the amount of revenue protected and collected through the current level of enforcement activities on RTC returns is small relative to the estimated amount of improper payments. To reduce overclaim rates to less than 10 percent, to meet PIIA compliance standards, the IRS estimated that it would need additional or reallocated resources of $2.5 billion, equal to nearly half the IRS's current total enforcement budget, to audit 4.2 million additional RTC returns in the pre-refund environment. If the IRS must reallocate enforcement resources to be compliant with PIIA, a substantial loss in enforcement revenue, estimated at $6.4 billion, would result

[5] OMB, M-18-20, *Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement*, Part 3(B)(1).

because the IRS would divert resources from more valuable programs and tax gap elements to audits of RTC returns. Moreover, such enforcement actions would place substantial burden on low-income taxpayers through increased audits and delayed refunds, violating the IRS requirement of enforcing the tax law with integrity and fairness.

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.

PAYMENT REPORTING

Improper Payment Estimate

PIIA requires agencies each year to identify programs and activities vulnerable to significant improper payments, to annually report an estimated improper payment rate for these programs and activities, and to report on steps taken to reduce such payments. The total estimated FY 2020 RTC claims, improper payment rates, and estimated amounts of improper payments are provided in the Improper Payment Reduction Outlook table below. Similar to prior years, 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 2020 Outlays [1]	FY 2020 Proper Payment Amount	FY 2020 Proper Payment Rate	FY 2020 Improper Payment Amount [2] [3]	FY 2020 Improper Payment Rate [4]
EITC	$68,195.15	$52,152.21	76.47%	$16,042.94	23.53%
AOTC	$8,924.84	$6,602.12	73.97%	$2,322.72	26.03%
ACTC	$39,176.27	$34,671.53	88.50%	$4,504.74	11.50%
Total	**$116,296.26**	**$93,425.86**		**$22,870.40**	

[1] FY 2020 Outlays: Consistent with prior improper payment estimates, this table reports estimated claims instead of outlays. FY 2020 estimated totals are based on outlays reported in the FY 2021 President's Budget plus imputed tax expenditures adjusted to reflect claims.

[2] FY 2020 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 2020 Improper Payment Amounts reported were made directly by the government.

[4] FY 2020 Improper Payment Rate: The FY 2020 estimated improper payment rate was estimated using a statistically valid random sample of TY 2016 individual income tax returns that claimed the EITC, AOTC, or ACTC. Like the FY 2019 improper payment rate estimates, the FY 2020 estimated improper payment estimate does not subtract projected recovered improper payments prior to calculating the rate.

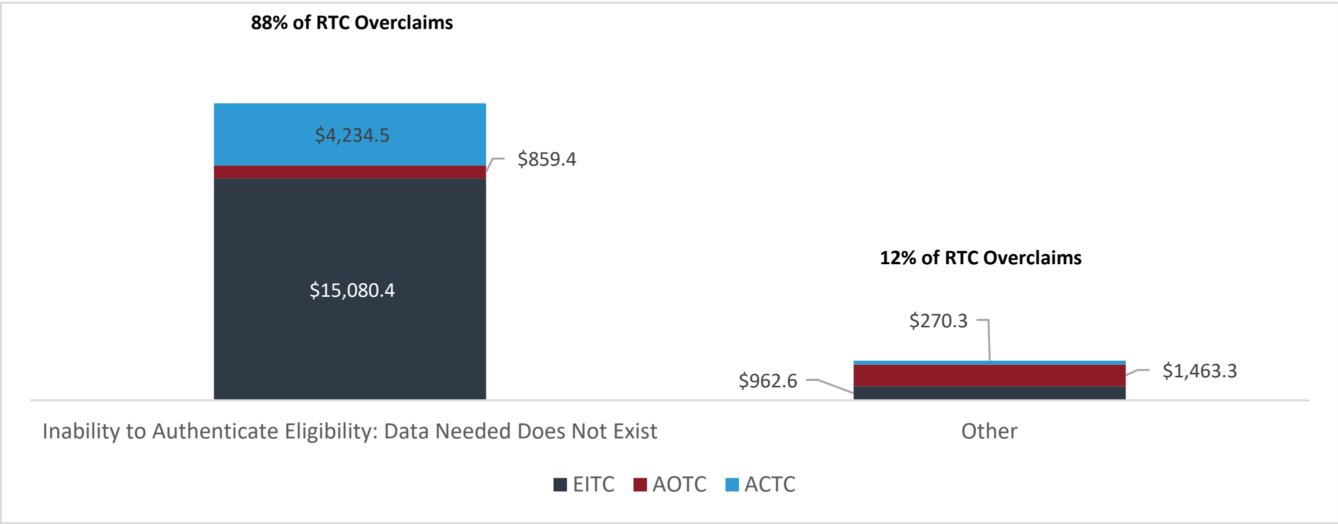
Improper Payment Root Cause(s)

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) other. The overclaims categorized under the "other" root cause category were categorized under the "program design or structural issue" root cause in previous years. Per OMB instruction, these overclaims are now categorized as "other" because the statutory limits and program design enables many potential causes for overclaims.

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

Approximately $20.1 billion, or 88 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 before refunds are made, the IRS is unable to reduce the overclaims reported in this root cause category.

Other

Nearly $2.7 billion, or 12 percent, of all RTC overclaims are categorized as "other". These overclaims are not caused by any lack of internal controls or factors with the Department's controls. Instead, these overclaims are classified as the "other" root cause category because statutory limits and program design enables many potential causes for overclaims. Errors categorized as the "other" root cause 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 Act* (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 wages fully 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.

Errors categorized as "other" 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. Other 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 2020, 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 RTCs.

RTC 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
Other	X		X[5]	X	X	X	X	X	X	X	

(5) Applicable to EITC and AOTC only.

In addition to the compliance activities described above, the following efforts contributed to the IRS's strategy of identifying and reducing EITC, ACTC, and AOTC overclaims in FY 2020:

Corrective Actions	
Base Enforcement Efforts	Delivered key compliance activities including 179,160 audits, 242,639 misreported income cases, and an estimated 488,243 math error adjustments, protecting revenue of nearly $2.4 billion.
Two and 10-Year Bans	Imposed 1,233 two-year bans and 214 10-year bans for cases where the IRS determined during an audit that the taxpayer intentionally disregarded the rules and regulations or committed fraud.
Identity Theft and Fraud	Detected and stopped over 617,949 fraudulent returns from being processed through our fraud detection filters, preventing over $3.1 billion in erroneous refunds.
Criminal Investigations	Continued to stop fraudulent EITC refund claims through our Criminal Investigation (CI) division indictments. CI issued 59 new EITC Questionable Refund Program scheme indictments and secured 61 convictions. CI also issued 66 new EITC Return Preparer indictments and secured 57 convictions.
Soft Notices	Sent 66,832 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 2020 Refundable Credits Return Preparer Strategy, IRS completed activities associated with a suite of progressive preparer treatments, addressing 18,514 EITC, ACTC, and AOTC preparers selected through our risk-based scoring model, before and during the filing season. - The IRS closed 687 pre-filing season Due Diligence Visits (DDVs) with a penalty rate of 93 percent and nearly $34 million in proposed penalties. Criminal Investigation and revenue agents completed 141 educational Knock-and-Talk Visits (KTV) visits. The IRS also mailed 28,861 educational letters before the FY 2020 filing season. - The IRS closed 296 correspondence DDVs with a penalty rate of 97 percent and over $18 million in proposed penalties. The IRS also mailed 10,436 educational letters and successfully made 505 calls to preparers during the 2020 filing season. - The analysis of the FY 2020 Refundable Credits Return Preparer Strategy revealed that, in addition to the penalties proposed above, the preparer treatments protected approximately $403 million (nearly $288 million in EITC, nearly $81 million in ACTC[7] and nearly $34 million in AOTC).
Return Preparer Penalties	The IRS sent 99 warning letters and 1,950 electronic alerts to warn preparers who did not attach Form 8867, Paid Preparer's Due Diligence Checklist, to TY 2019 taxpayer returns. IRS subsequently proposed over $850,000 in penalties to 23 EITC, ACTC and AOTC return preparers for failure to exercise due diligence by attaching the form, as authorized by IRC §6695(g) and Treas. Reg. §1.6695–2.

[7] Includes Child Tax Credit and Credit for Other Dependents.

Return Preparer Outreach and Education	The IRS focused its outreach and education efforts on return preparers to educate them on refundable credits and due diligence requirements. Over 12,400 preparers received a certificate of completion for the English and Spanish interactive Due Diligence Training module. Additionally, over 8,550 preparers attended a webinar entitled Understanding Paid Preparer Due Diligence prior to filing season; and nearly 15,000 preparers attended virtual seminars 'Be Tax Ready – Understanding Eligibility Rules for EITC, CTC, ODC, AOTC and Head of Household' and 'Keys to Mastering Due Diligence Requirements and Audits' at the 2020 National Tax Forums.
Servicewide Refundable Credit Strategy	The IRS continued activities to evaluate potential new solutions identified to address overclaims.
Software Developer Working Group	The IRS continued its partnership with members of key tax software associations to reduce refundable credits errors and assist preparers in meeting their due diligence requirements.
Taxpayer Outreach and Education	IRS conducted its EITC outreach campaign, including the fourteenth annual EITC Awareness Day, which centered on EITC underserved populations and included focused compliance messages. Through collaboration with IRS national, state, and local partners as well as Congressional and government officials, the IRS held 240 nationwide events, resulting in media coverage that helped spread the word about EITC. The IRS also issued a news release to over 363,000 and 59,800 subscribers in English and Spanish, respectively, and issued two tax tips to over 749,000 subscribers. Social media outreach continued with Twitter EITC messages reaching over 3.6 million people. Also, for the year, over 642,000 taxpayers visited the EITC Assistant on IRS.GOV, a tool that allows taxpayers to determine whether they qualify for the credit.
Protecting Americans Against Tax Hikes (PATH) Integrity Provisions	The IRS continued applying tools provided by the PATH Act to refundable credit 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 2021 budget request included the following legislative proposals that may improve compliance and reduce erroneous payments: - Provide greater flexibility to address correctable errors to help IRS deny certain erroneous EITC, ACTC, and AOTC 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 its annual summit attended by over fifty stakeholders including representatives from various tax professional industries, federal agencies, consumer advocacy groups, and non-governmental organizations. The objective was to share information on IRS current compliance and outreach activities and to solicit input on ways to increase participation, improve administration and reduce overclaims with respect to refundable credits. The FY 2020 Summit focused primarily on the Refundable Credits Return Preparer Strategy and paid preparer due diligence requirements.

Enterprise Research	The IRS assessed the results of the FY 2020 enterprise research strategy and developed the FY 2021 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 - EITC claimants account for more than 40 percent of audits conducted on 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.

SECTION E: FRAUD REDUCTION REPORT

BACKGROUND

The *Payment Integrity Information Act* (PIIA) of 2019 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 *Fraud Reduction and Data Analytics Act* of 2015, the predecessor legislation to the PIIA, 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 Treasury's bureaus and offices (or components) have a shared responsibility in preventing, detecting, and responding to potential fraud, including improper payments. Treasury's components have ownership and responsibility for managing fraud risk. The Office of Risk Management is responsible for providing expertise and guiding principles to assist Treasury's 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 Investigations (OI) is responsible for receiving and assessing complaints and investigating potential fraud cases.

First Line of Defense

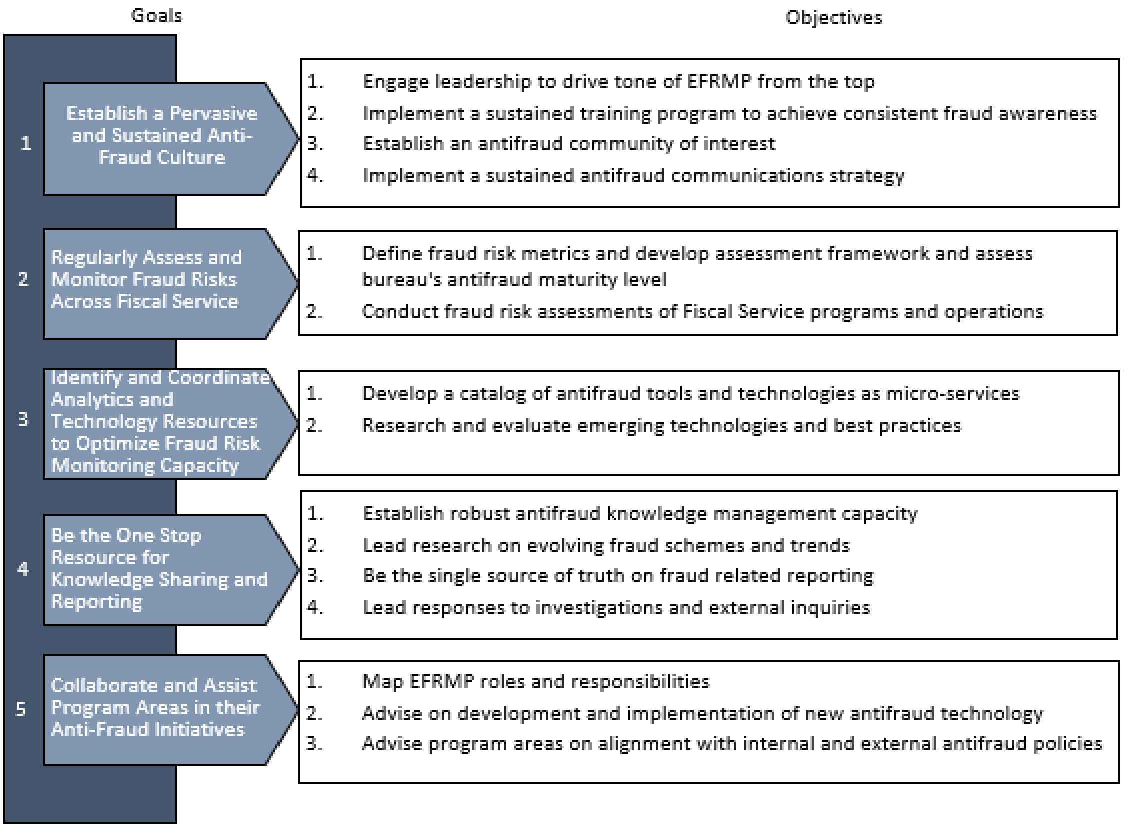
Treasury's components are the first line of defense to prevent, detect, and respond to potential fraud. They are the risk owners for their programs and have responsibility for mitigating fraud risk and enhancing program integrity, by designing and implementing processes and controls that effectively prevent and detect potential fraud, both internal and external to Treasury. Components must establish policies, procedures, techniques, and mechanisms to assess and manage risk 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.

Mechanisms 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.
- All Treasury components provide in-depth training and monthly audits of all purchase and travel card transactions.

[1] GAO-14-704, *Standards for Internal Control in the Federal Government*.

- The Bureau of the Fiscal Service (Fiscal Service) established an enterprise fraud risk management program (EFRMP) in June 2019. The EFRMP was established with 5 goals and 15 objectives as shown in the figure below.



The EFRMP program manager executes priority tasks supporting these goals. Specifically, Fiscal Service has developed its first enterprise fraud risk profile, conducted a fraud risk assessment of a program area (TreasuryDirect), spread fraud awareness through communities of practice and developed a knowledge management SharePoint Portal.

- The Fiscal Service 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 offices.

- The Fiscal Service Security Program Office manages centralized fraud risks 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” coordinated by the Internal Control Branch, consistent with OMB Circular A-123, Management’s Responsibility for Enterprise Risk Management and Internal Controls, and the PIIA. Results from the assessable unit risk assessment are factored into the enterprise fraud risk profile analysis. EFRMP works closely with Fiscal’s Office of Enterprise Risk Management to incorporate any material fraud risks the EFRMP identifies into the Bureau’s enterprise risk profile

- The IRS implemented programs to reduce issuance of fraudulent refunds and to review fraud trends and patterns to inform fraud prevention techniques and uses predictive and forensic analytics to detect and prevent fraudulent activity.

- The IRS created the Fraud Enforcement Office and selected a former Criminal Investigation executive to lead IRS’s efforts to detect and deter tax fraud while strengthening the National Fraud Program. In addition, this executive will serve as principal advisor to IRS Division Commissioners and Deputy Commissioners on all issues involving Tax Fraud Enforcement strategic plans, programs and policy.

- The IRS conducted an analysis of COVID-19 impacts to the IRS Fraud Risk Profile. The analysis, including discussions with the Risk Working Group and Executive Risk Committee, promoted cross-functional awareness of how COVID-19 may create opportunities and/or incentives for fraud; served as an input into the IRS's Enterprise Risk Assessment; and will serve as input into a future update of the IRS's Fraud Risk Profile.

At the government-wide level the Treasury Do Not Pay (DNP) program benefits multiple agencies in achieving fraud reduction. The DNP program focuses on identifying, preventing and detecting improper payments. Many of the tools and data analytics implemented through DNP 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 method for detecting improper payments—which could be due to fraud—is to match 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 to that individual or quickly move to reclaim payments. Data matching is used both in the DNP's online portal as well as in its analytical 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 2020, DNP data matching helped ensure that no Treasury program disbursements were improper.

The DNP analytics team also conducts payment integrity checks for customer agencies to detect anomalies through its Agency Insight Reports, which include 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 Treasury's 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 2020, all components reported that they met the requirements of Principle 8.

All of Treasury's components are required to integrate the GAO definition 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 the design of Treasury components' internal control systems 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 Circular A-123, 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 Treasury's improper payment reporting and recovery activities as part of OMB Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement*. Through Treasury's improper payment reporting efforts, Treasury's components identify the programs deemed most susceptible to significant 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 instances of fraud. Additional information on Payment Integrity can be found in Part 3, Section D, 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. Treasury's leadership team provides an 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 component-level risk management contacts to discuss various risk topics, including fraud risk. Fraud risk is considered when components develop and update their annual risk profiles to share with the ORM.

Investigations

Complaints are received by 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.

The OI investigates subjects that are not employees of Treasury if there is a loss to Treasury from fraudulent activities that are prosecutable. The OI also investigates all criminal activity alleged against Treasury employees, particularly senior Treasury employees.

SECTION F: REAL PROPERTY

Treasury's real property portfolio consists of Treasury owned property, General Services Administration (GSA) owned property, as well as Treasury leased space and GSA leased space. Our real property portfolio also includes operations and maintenance costs for our owned property and leased space. Detailed information related to our real property portfolio can be found on GSA's Federal Real Property Public Data Set website https://www.gsa.gov/policy-regulations/policy/real-property-policy/asset-management/federal-real-property-profile-frpp/federal-real-property-public-data-set.

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	2020	$90,743	DO (OFAC)	85 Federal Register 19884 (April 9, 2020) https://www.govinfo.gov/content/pkg/FR-2020-04-09/pdf/2020-07509.pdf
50 USC 1705 International Emergency Economic Powers Act, Section 206	Sanctions violation	1977	2020	The greater of $307,922 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	2020	The greater of $81,283 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	2020	$1,529,991	DO (OFAC)	Same as above
19 USC 3901-3913 Clean Diamond Trade Act	Sanctions violation	2003	2020	$13,910	DO (OFAC)	Same as above
15 USC 6701 note Terrorism Risk Insurance Act, as amended	Civil Penalty	2002	2020	$1,419,442	DO (Federal Insurance Office)	85 Federal Register 10063 (February 21, 2020) https://www.govinfo.gov/content/pkg/FR-2020-02-21/pdf/2020-02712.pdf
12 USC 1829b(j) Bank Secrecy Act, as amended	Recordkeeping Violations for Funds Transfers	1988	2020	$21,410	FinCEN	85 Federal Register 9370 (February 19, 2020) 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
						2020-02-19/pdf/2020-02526.pdf
12 USC 1955 Bank Secrecy Act, as amended	Willful/Grossly Negligent Recordkeeping Violations	1988	2020	$21,410	FinCEN	Same as above
31 USC 5318(k)(3)(C) Bank Secrecy Act, as amended	Failure to Terminate Correspondent Relationship with Foreign Bank	2001	2020	$14,482	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	2020	$58,328 to $233,313	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	2020	$13,481	FinCEN	Same as above
31 USC 5321(a)(5)(C)(i)(I) Bank Secrecy Act, as amended	Foreign Financial Agency Transaction - Willful Violation of Transaction	2004	2020	$134,806	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	2020	$1,166	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	2020	$90,743	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	2020	$1,448,191	FinCEN	Same as above
31 USC 5330(e) Bank Secrecy Act, as amended	Civil Penalty for Failure to Register as Money Transmitting Business	1994	2020	$8,606	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	2020	$10,245	OCC	84 Federal Register 71735 (December 30, 2019) https://www.govinfo.gov/content/pkg/FR-2019-12-30/pdf/2019-28053.pdf
12 USC 93(b) Section 5239(b) of the Revised Statutes	Tier 2 Violation of Various Provisions of the National Bank Act	1978	2020	$51,222	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	2020	$2,048,915	OCC	Same as above
12 USC 164 Section 5213 of the Revised Statutes	Tier 1 Violation of Reporting Requirements	1869 (2)	2020	$4,098	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)	2020	$40,979	OCC	Same as above
12 USC 164 Section 5213 of the Revised Statutes	Tier 3 Violation of Reporting Requirements	1869(2)	2020	$2,048,915	OCC	Same as above
12 USC 481 Section 5240 of the Revised Statutes	Refusal of Affiliate to Cooperate in Examination (National Banks)	1864(2)	2020	$10,245	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	2020	$10,245	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	2020	$51,222	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	2020	$2,048,915	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	2020	$10,245	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	2020	$51,222	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	2020	$2,048,915	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	2020	$10,245	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	2020	$51,222	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	2020	$2,048,915	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	2020	$337,016	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	2020	$2,976	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	2020	$2,705	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	2020	$297	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	2020	$10,245	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	2020	$51,222	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	2020	$2,048,915	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	2020	$46,825	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	2020	$3,747	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	2020	$37,458	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	2020	$1,872,957	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	2020	$2,549	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	2020	$9,639	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	2020	$96,384	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	2020	$96,384	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	2020	$481,920	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	2020	$192,768	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	2020	$963,837	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	2020	$11,767	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	2020	$23,533	OCC	Same as above
42 USC 4012a(f)(5) Section 102(f)(5) of the Flood Disaster Protection Act of 1973	Flood Insurance	1994	2020	$2,226	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	2020	$4,098	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	2020	$40,979	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	2020	$2,048,915	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	2020	$10,245	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	2020	$4,098	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	2020	$40,979	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	2020	$2,048,915	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(3)	$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	2020	$8,116	Department Wide	85 Federal Register 10063 (February 21, 2020) https://www.govinfo.gov/content/pkg/FR-2020-02-21/pdf/2020-02712.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	2020	$40,576	Department Wide	Same as above
31 USC 3802 Program Fraud Civil Remedies Act	Program Fraud Civil Remedies Act	1986	None(4)	Up to $5,000 for each claim plus 2 times the amount of the claim	Department Wide	N/A(4)

(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) We are in the process of updating the regulation for the 2020 inflation adjustments to this CMP. Our 2020 update has been delayed due to unanticipated priorities and challenges related to COVID-19.

(4) We issued regulations at 31 CFR Part 16 implementing the Program Fraud Civil Remedies Act of 2006. We have not imposed penalties under this statute. We are currently drafting regulations to update the penalty level for inflation adjustments.

SECTION H: GRANTS PROGRAMS

The summary table below shows the total number and balances of federal grants and cooperative agreements that we awarded for which closeout has not yet occurred and the period of performance has elapsed by more than two years.

CATEGORY	2-3 Years	3-5 Years	More than 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	-	220	-
Number of Grants/Cooperative Agreements with Undisbursed Balances	92	57	-
Total Amount of Undisbursed Balances	**$ 159,429.68**	**$ 629,325.37**	**$ -**

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
BIC	Best-In-Class
BSA	Bank Secrecy Act
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CCF	Corporate Credit Facilities, LLC
CDFI	Community Development Financial Institutions
CDM	Continuous Diagnostic Monitoring
CEG	G-7 Cyber Expert Group
CFIUS	Committee on Foreign Investment in the United States
CFO	Chief Financial Officer
CI	Criminal Investigation
CIFS	Critical Individual Filing Season
CIO	Chief Information Officer
Civil Service Fund	Civil Service Retirement and Disability Trust Fund
CMP	Civil Monetary Penalties
CMS	Case Management System
Compliance Framework	FFMIA Compliance Determination Framework
COVID-19	Coronavirus Disease 2019
CPFF	Commercial Paper Funding Facility II LLC
CPI	Consumer Price Index
CRO	Chief Risk Officer
CSRS	Civil Service Retirement System
CTC	Child Tax Credit
CTR	Currency Transition Reports
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
DAS	Discriminant Analysis System
DASHR/CHCO	Office of the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer

Abbreviation	Description
DATA Act	Digital Accountability and Transparency Act
DDV	Due Diligence Visits
DFF	Departmental Franchise Fund
DHS	Department of Homeland Security
DMF	Death Master File
DNP	Do Not Pay
DO	Departmental Offices
DOD	Department of Defense
DOJ	Department of Justice
DOL	Department of Labor
DOT	Department of Transportation
ECRM	Enterprise Cyber Risk Management Program
EFRMP	Enterprise Fraud Risk Management Program
EFTPS	Electronic Federal Tax Payment System
EIN	Employer Identification Number
EIP	Economic Impact Payment
EIS	Environmental Impact Statement
EITC	Earned Income Tax Credit
ERM	Enterprise Risk Management
ESA	Exchange Stabilization Agreement
ESF	Exchange Stabilization Fund
Evidence Act	Foundations for Evidence-Based Policymaking Act of 2018
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
FDIC	Federal Deposit Insurance Corporation
FECA	Federal Employees' Compensation Act
Federal Reserve Board or Board	Federal Reserve Board of Governors
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
FFRCA	Families First Coronavirus Response Act of 2020
FFMIA	Federal Financial Management Improvement Act of 1996
FHFA	Federal Housing Finance Agency
FICA	Federal Insurance Contributions Act
FinCEN	Financial Crimes Enforcement Network

Abbreviation	Description
FIRPTA	Foreign Investment in Real Property Tax Act
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
FRBB	Federal Reserve Bank of Boston
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
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
GDP	Gross Domestic Product
General Fund	General Fund of the U.S. Government
GERD	General Ethiopian Renaissance Dam
GLN	General Lockbox Network
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
HIPF	Health Insurance Provider Fee
HR	Human Resources
HVA	High Value Assets
IAM	Identity Access Management
IAP	International Assistance Programs

Abbreviation	Description
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
ITIN	Individual Taxpayer Identification Number
Judicial Retirement Fund	District of Columbia Judicial Retirement and Survivors' Annuity Fund
MDB	Multilateral Development Bank
MLF	Municipal Liquidity Facility LLC
MMLF	Money Markey Mutual Fund Liquidity Facility
MSELF	Main Street Extended Loan Facility
MSF	Main Street Facilities LLC
MSNLF	Main Street New Loan Facility
MSPLF	Main Street Primary Loan Facility
NAB	New Arrangements to Borrow
NAFA	North American Framework Agreement
NIBP	New Issue Bond Program
NIST	National Institute of Standards and Technology
NOELF	Main Street Nonprofit Organization Expanded Loan Facilities
NONLF	Main Street Nonprofit Organization New Loan Facility
NRP	National Research Program
OAS	International Assistance Programs
OASM	Office of the Assistant Secretary for Management
OBT	Office of Budget and Travel
OCC	Office of the Comptroller of the Currency
OCCIP	Office of Cybersecurity and Critical Infrastructure Protection
ODCP	Office of D.C. Pensions
OFAC	Office of Foreign Assets Control
OFP	Office of Fiscal Projections
OFR	Office of Financial Research
OFS	Office of Financial Stability
OI	Office of Investigation
OIA	Office of Intelligence and Analysis
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPE	Office of the Procurement Executive
OPEB	Other Post-Employment Benefits
OPM	Office of Personnel Management

Abbreviation	Description
OPM Funds	Civil Service Fund and Postal Benefits Fund
ORB	Other Retirement Benefits
ORM	Office of Risk Management
OSPPI	Office of Strategic Planning and Performance Improvement
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
PIIA	Payment Integrity Information Act of 2019
PIK	Payment-In-Kind
PIO	Performance Improvement Officer
PMCCF	Primary Market Corporate Credit Facility
PMIAA	Program Management Improvement Accountaility Act
Postal Benefits Fund	Postal Service Retiree Health Benefits Fund
PP&E	Property, Plant, and Equipment
PPP	Paycheck Protection Program
PRAC	Pandemic Response Accountability Committee
PSP	Payroll Support Program
PTC	Premium Tax Credit
PTIN	Preparer Tax Identification Number
QPR	Quarterly Performance Review
QSMO	Quality Service Management Organization
RTC	Refundable Tax Credits
RRTA	Railroad Retirement Tax
SAR	Security Architecture Review
SBA	Small Business Administration
SBLF	Small Business Lending Fund
SBR	Statement of Budgetary Resources
SCRM	Supply Chain Risk Management Program
SDR	Special Drawing Rights
Secret Service	United States Secret Service
Secretary	Secretary of the Treasury
SFFAS	Statement of Federal Financial Accounting Standards
SIEM	Security Information and Event Management
SIGPR	Special Inspector General for Pandemic Recovery
SIGTARP	Special Inspector General for the Troubled Asset Relief Program
SLGS	State and Local Government Series
SMCCF	Secondary Market Corporate Credit Facility
SOAR	Strategic Objective Annual Review

Abbreviation	Description
SOMA	System Open Market Account
SPSPA	Senior Preferred Stock Purchase Agreements
SSA	Social Security Administration
SSN	Social Security Number
TAAPS	Treasury Automated Auction Processing System
TALF	Term Asset-Backed Securities II LLC
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
TFA	Taxpayer First Act
TFF	Treasury Forfeiture Fund
TFI	Terrorism and Financial Intelligence
TFS	TIER Financial Statements
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
USMCA	United States – Mexico – Canada Agreement
USPS	United States Postal Service
USSS	United States Secret Service
USVSST	United States Victims of State Sponsored Terrorism Fund
WSS	Wholesale Securities Services

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