Audit Report

OIG-22-012

FINANCIAL MANAGEMENT

Audit of the Department of the Treasury's Consolidated Financial Statements for Fiscal Years 2021 and 2020

November 15, 2021

Office of Inspector General
Department of the Treasury

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OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D. C. 20220

November 15, 2021

INFORMATION MEMORANDUM FOR SECRETARY YELLEN

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

SUBJECT: Audit of the Department of the Treasury's Consolidated Financial Statements for Fiscal Years 2021 and 2020

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, 2021 and 2020, and for the years then ended. 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. 21-04, *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; conclusions about the effectiveness of internal control; whether Treasury's financial management systems substantially complied with FFMIA; and compliance with laws, regulations, contracts, and grant agreements. KPMG is responsible for the attached auditor's report dated November 15, 2021, 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: J. Trevor Norris
Acting Assistant Secretary for Management

Carole Y. Banks
Acting Chief Financial Officer

SECTION I –

Independent Auditors’ Report and Management’s Response

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

Independent Auditors' Report

Acting Inspector General
Department of the Treasury:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Department of the Treasury (Department), which comprise the consolidated balance sheets as of September 30, 2021 and 2020, 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 $318.7 billion and $247.5 billion, net cost of operations of $14.8 billion and $13.6 billion before applicable eliminating entries, budgetary resources of $16.6 billion and $14.1 billion, and custodial activity of $4,178 billion and $3,585 billion, as of and for the years ended September 30, 2021 and 2020, 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 $14.6 billion and $15.0 billion, net cost of operations of $388 million and $683 million before applicable eliminating entries, and budgetary resources of $210 million and $303 million, as of and for the years ended September 30, 2021 and 2020, 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. 21-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 21-04 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

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the KPMG global organization of independent member firms affiliated with
KPMG International Limited, a private English company limited by guarantee.

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, 2021 and 2020, 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, 2021 and 2020, 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 consolidated 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 Acting Assistant Secretary for Management and Acting 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, 2021, 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.

However, Fiscal Service had unresolved 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. The unresolved 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) vulnerabilities identified by management were addressed timely; (6) inactive application user accounts are monitored and removed timely; (7) application backups are configured by management in accordance with policy; and (8) baseline policies and procedures for security configuration controls, including audit logging controls, were adequately documented and fully implemented for all platforms; (9) a complete and accurate inventory of information system components is maintained; and (10) incompatible duties are separated effectively so that users cannot control entire processes. Fiscal Service continues to prioritize the remediation of unresolved control deficiencies and 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 general 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 and configuration management. Fiscal Service made some progress by strengthening segregation of duties controls over certain administrator accounts and took steps toward remediating other previously reported control deficiencies. However, Fiscal Service continued to have deficiencies where known information system vulnerabilities and deviations from baseline security requirements were not remediated on a timely basis. Additionally, Fiscal Service's controls for an information system did not properly restrict access to individuals requiring access and documentation describing the security architecture of the system needs improvement. Further, control deficiencies within Fiscal Service's change management process continue to exist.

Recommendation

Separate reports with additional details and recommendations for corrective action will be provided to Fiscal Service management. We recommend that the Acting Assistant Secretary for Management (Acting ASM) and Acting Chief Financial Officer (Acting CFO) ensure that Fiscal Service implements 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. As in prior years, 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 Fiscal Year 2021, IRS recorded adjustments totaling about $18 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 the 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

   IRS made progress addressing certain previously reported control deficiencies within (1) security management, (2) patch management, and (3) boundary protection. However, IRS continued to have unresolved and newly identified control deficiencies related to its business process application controls and general controls. Specifically, control deficiencies continue to exist concerning (1) improper configuration of security settings, (2) inadequate implementation of access controls, and (3) inadequate enforcement of encryption mechanisms to protect systems and data. Continued and consistent management commitment and attention are essential to addressing existing system deficiencies and continually improving IRS's information system security controls.

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 Acting ASM and Acting CFO 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, 2021 are free from material misstatement, we 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 consolidated 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. 21-04.

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 Acting ASM and Acting CFO 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 responded 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 identified. The Department's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

Washington, DC
November 15, 2021

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

November 15, 2021

KPMG LLP
1801 K Street, NW
Washington, DC 20006

Ladies and Gentlemen:

On behalf of Secretary Yellen, we are responding to your audit report on the Department of the Treasury's fiscal year 2021 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 22nd 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 2021 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.

J. Trevor Norris
Acting Assistant Secretary for Management

Carole Y. Banks
Acting Chief Financial Officer

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SECTION II –

Department of the Treasury
Agency Financial Report
Fiscal Year 2021

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DEPARTMENT OF THE TREASURY

AGENCY FINANCIAL REPORT

FISCAL YEAR 2021

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
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Special Inspector General for the Troubled Asset Relief Program	www.sigtarp.gov
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DEPARTMENT OF THE TREASURY

AGENCY FINANCIAL REPORT

FISCAL YEAR 2021

About This Report

Our *Agency Financial Report* (AFR) for Fiscal Year (FY) 2021 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 November 15, 2021, and *(ii)* an *Annual Performance Report* (APR) submitted with Treasury's congressional budget justification, to be issued by February 1, 2022. 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, 2020, and ending on September 30, 2021, 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, Janet L. Yellen. 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 Acting Assistant Secretary for Management and Acting 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.

This year's Agency Financial Report offers us a dual opportunity—a chance to take stock of our Department's progress in achieving our mission and to look ahead at our work in Fiscal Year 2022 and beyond.

The past 20 months have been a turbulent chapter in the lives of so many Americans. Waves of COVID-19 crashed down across the country. Millions of companies—in fact, whole industries—approached the brink of collapse. For a time, our economic outlook felt fragile, and there was legitimate worry that we'd slip into a prolonged recession worse than any in the past century. Fortunately, that did not happen.

Since the beginning of 2021—and the Biden-Harris Administration—our economy has changed faster than any point in recent memory. GDP now exceeds pre-pandemic levels and we are on track for full employment by next year. This isn't to say that our recovery is without challenges. There are many, including the Delta variant. Still, we should be optimistic about America's medium-term economic outlook.

Our recovery has not happened by default. It is the result of policy choices, including sweeping relief packages like The American Rescue Plan, which was enacted last March. The American Rescue Plan helped businesses re-open safely. It put expanded unemployment benefits and child tax credits into people's bank accounts. It provided billions to local and state governments, allowing them to fund critical services communities rely on—fire, police, public education—while funding public health programs.

One recent study projected that the expanded relief measures kept 50 million Americans from slipping below the poverty line—and raised 20 million above it. The projections suggest that this year poverty rates could hit the lowest levels on record, especially among children.

Economists search for lessons in our history, and the past year has provided a crucial one: Bold fiscal policy matters. A government that can execute it well matters. Together, they can improve American lives on a mass scale, and shift our economic trajectory in a better direction.

Now, we need to apply that lesson to another set of problems.

Long before a single American was infected with COVID-19, our economy was suffering beneath the surface. During the postwar years, the United States was almost certainly the best place to start a business or a family. But about a generation ago, economists observed a set of worrying trends. The percentage of prime-age workers who participated in the labor force started declining. Wages diverged. Pay for high-earners increased, while it stagnated for lower-earners. The racial wealth gap remained stubbornly persistent. When I started studying economics in 1963, the average Black family's wealth was roughly 15 percent of the average white family's. Six decades later, the data point is the same.

At the same time, our investment in the crucial ingredients for economic growth—education, infrastructure, childcare—has been declining. Our funding for them has been on a downward trajectory for nearly forty years. In 2019, it was about three-quarters of what it was in the 1970s.

This is the motivation behind President Biden's Build Back Better Agenda. In the same way that ambitious fiscal policy is accelerating our recovery from the pandemic, it can start unwinding some of these destructive trends and spur growth.

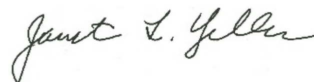
This administration's goal is to change the shape of the American economy for the better, from the highest-level data down to the way people experience it every day. Projections show our policy proposals in areas like childcare, education, and infrastructure would increase labor force participation and lift the upper limit on how productive and prosperous our economy can be. They would also let parents afford daycare for their kids, begin the job hunt again, find higher-paying places to work, and drive on good roads to get there.

To pay for this, we would make our tax system fairer, leveling the playing field for workers and small business. One way is by increasing tax enforcement and closing the multi-trillion-dollar tax gap that deprives our country of revenue and allows those at the top to avoid paying what they owe.

We are now engaged in the most important economic project in recent history—repairing the broken foundations of our economy, and building something stronger and fairer than what came before.

As for our financial performance, I'm very pleased to report that Treasury has received an unmodified audit opinion of its consolidated financial statements for Fiscal Year 2021 and that our financial and performance data have been validated as complete and reliable.

I would like to thank all of Treasury's workforce for their unwavering commitment to work towards a more secure and prosperous future for all Americans.



Janet L. Yellen
Secretary of the Treasury
November 15, 2021

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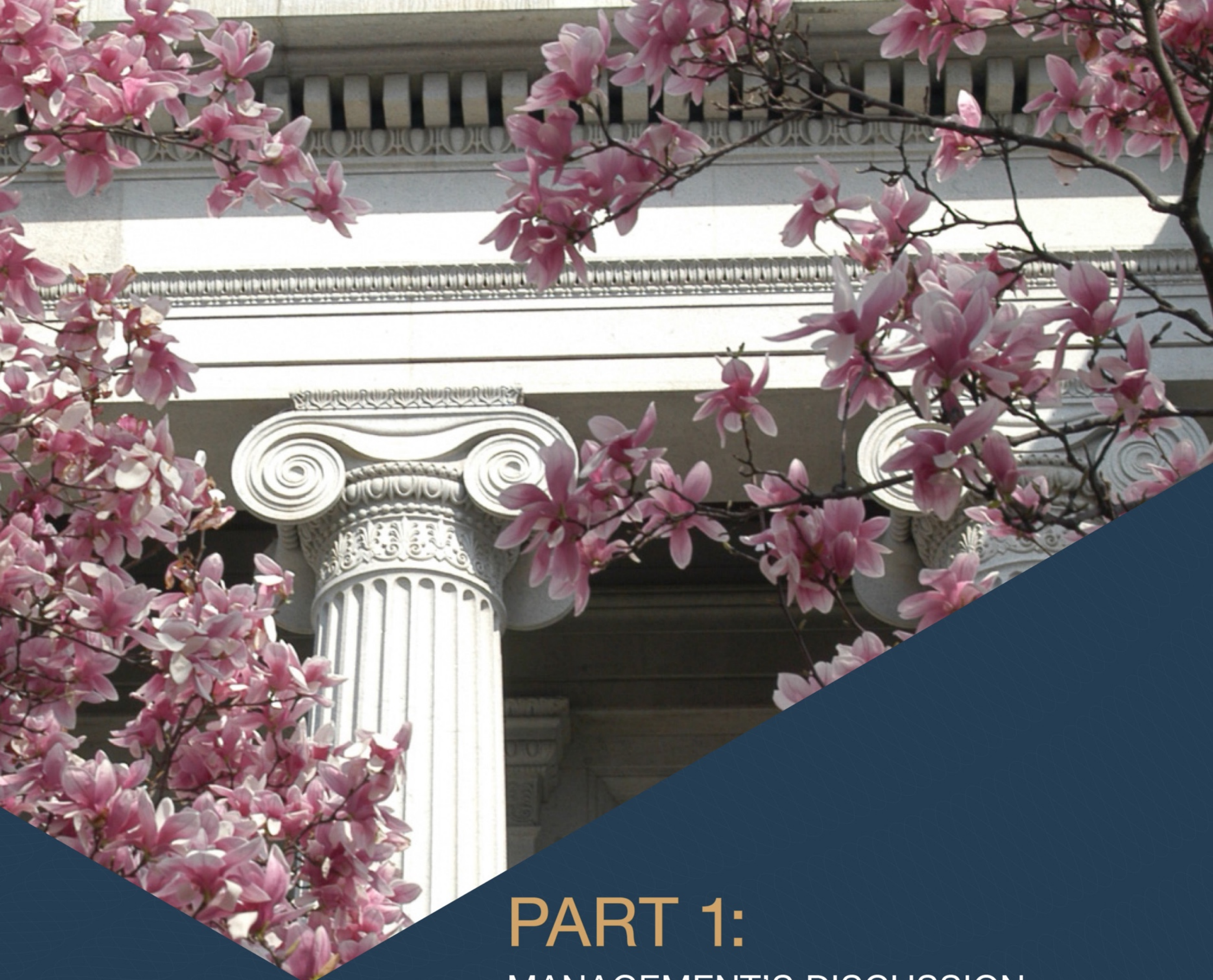

PART 1:

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

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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, more than 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 traffic on 15th Street as bicyclists 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 by targeting rogue regimes, terrorist networks, and other illicit actors. We do this by deploying the Department's national security tools and authorities—including sanctions—to identify, disrupt, and dismantle national security and foreign policy threats, while also protecting the U.S. and international financial system from abuse by illicit actors.

We also leverage our relationships with our federal partners and work closely with the private sector to identify cutting-edge technologies to identify, detect, and prevent threats to our economic stability.

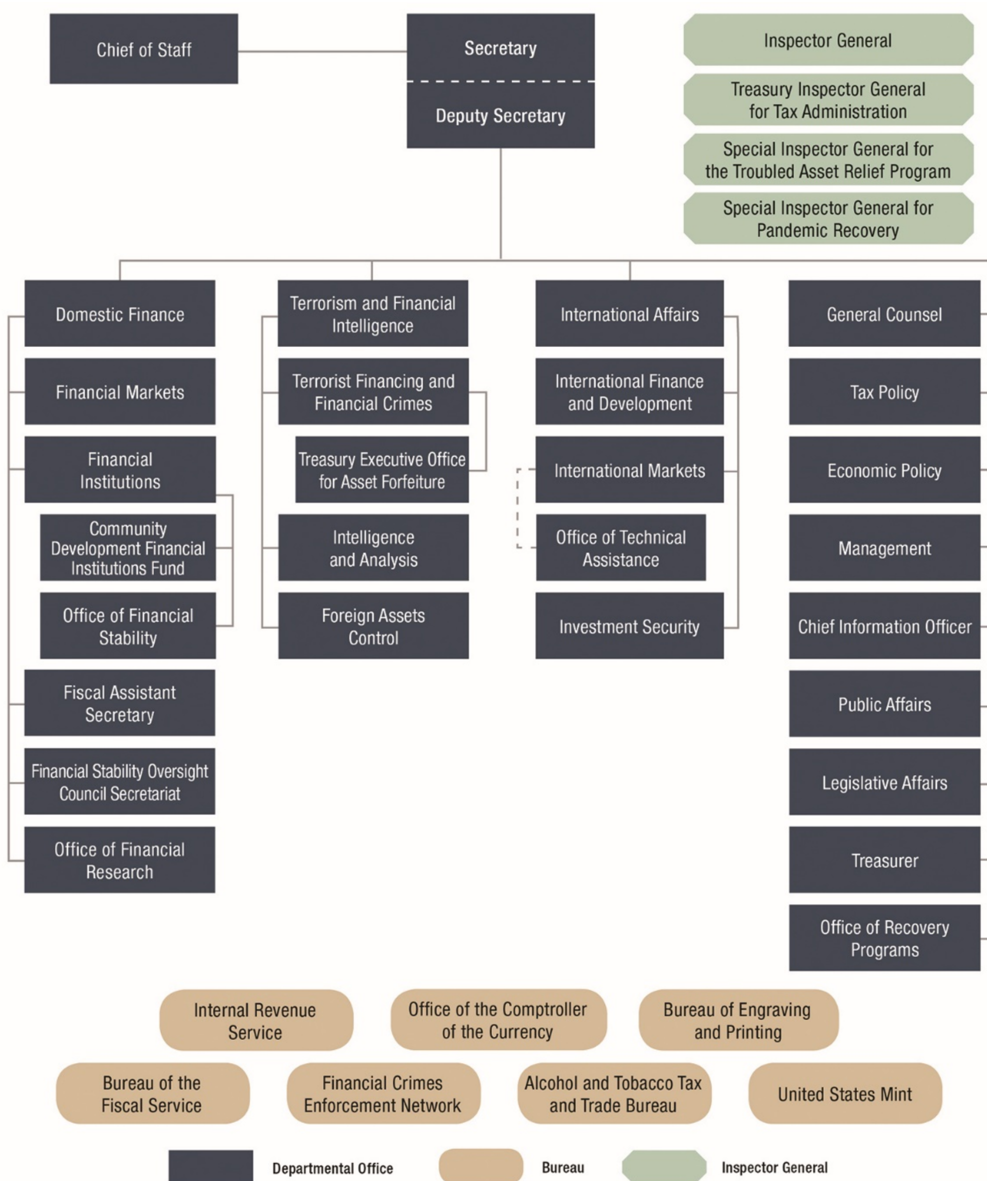
Furthermore, we work to increase opportunities for small businesses, which are the backbone of our economy. We create jobs to improve the well-being of U.S. citizens and to safeguard and grow our national economy. We also continue to play a key and influential role in the government's service to the 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 (G7) and the Group of Twenty (G20), which hold annual summits with heads of state to discuss global economic and 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.

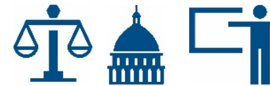
Tax Policy develops and implements tax policies and programs, reviews regulations and rulings to administer the Internal Revenue Code, provides revenue estimates for proposals, and receipt estimates for the President's Budget.

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, including sometimes 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 data.

The Office of Recovery Programs is principally focused on efficiently establishing and administering Treasury's programs to support an equitable and swift recovery from the economic challenges precipitated by the COVID-19 pandemic.



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.

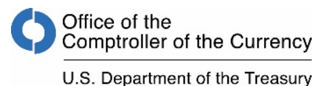
The Bureau of Engraving and Printing (BEP) develops and produces U.S. currency notes, as well as secure documents for government use.

The Financial Crimes Enforcement Network (FinCEN) safeguards the financial system from illicit use, combats money laundering and its related crimes—including terrorism—and promotes 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, we 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, we approached the implementation of the evidence-building requirements by leveraging our 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. We describe our process and framework for managing to our strategic objectives and performance outcomes 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	**Bureau Performance & Priorities**	**Strategic Objective Annual Review (SOAR)**	**Cross-cutting Risks/Challenges; Critical Programs**	**Budget**
Chair	Assistant Secretary for Management/Performance Improvement Officer (ASM/PIO); Strategic Goal Leads	Strategic Goal Leads	ASM/PIO	ASM/PIO and Budget Officer, Strategic Goal Leads
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 • 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 attention.	• 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 2021 PRIORITY AREAS

Table 2 below shows the alignment of our FY 2021 priority areas discussed in the following Performance Overview section to the major programs as presented in our Consolidated Statements of Net Cost.

TABLE 2: CONSOLIDATED STATEMENTS OF NET COST BY MAJOR PROGRAM ALIGNMENT

	Priority Area	FY 2021 Areas of Focus
Economic	Equitable Economic Growth and Recovery	Office of Recovery Programs Stand-up/American Rescue Plan Implementation
		Equity Assessment
		Enhance Child Tax Credit
	Combating Climate Change	Leading Global Commitments/Action
		Sustainable Treasury Operations
Security	National Security	Sanctions Review
		Targeted Financial Measures
		Financial System Transparency
		Strengthen Cybersecurity
Financial	Financial Stability	Resilient Markets
		Financial Innovation
Management	Modernizing Treasury Operations	Recruit/Retain Diverse and Inclusive Workforce
		Work Re-Entry/Future Work Routines
		Better Use of Data
		Improve Customer Experience

PERFORMANCE OVERVIEW

We carry great responsibility for fostering prosperity and security for the American people, play a critical role in U.S. and global economies, and continue to make progress in our mission to meet the needs of the nation. The *FY 2022 – 2026 Treasury Strategic Plan* will chart a course to guide our responsibilities to taxpayers. The following performance overview reflects the accomplishments and challenges in achieving the goals of equitable economic growth and recovery, national security, financial stability and resiliency, combating climate change, and modernizing Treasury operations in service to our country.

Equitable Economic Growth and Recovery

The COVID-19 pandemic has exacerbated the pre-existing inequities in America's economic system and created a slowdown in global trade. We must address systemic issues in the economic system and strengthen resiliency for all Americans while taking the lead, internationally, to partner with foreign countries to advance ambitious policies for an equitable global recovery and sustainable growth.

As part of our implementation of the *American Rescue Plan Act of 2021* (ARP), we supported the expansion of the Child Tax Credit, which will substantially reduce child poverty by supplementing the earnings of families receiving the tax credit.

Finally, in FY 2021, we submitted a 200-day Progress Report on Treasury's Equity Assessment per Executive Order 13985*, Advancing Racial Equity and Support for Underserved Communities*, which assessed our ability to develop policies and programs that deliver resources and benefits equitably to all.

OFFICE OF RECOVERY PROGRAMS STAND-UP/AMERICAN RESCUE PLAN IMPLEMENTATION

The current public health crisis and resulting economic crisis have devastated the health and economic well-being of millions of Americans. From big cities to small towns, Americans—particularly people of color, immigrants, and low-wage workers—are facing a deep economic crisis. The ARP, one of the most progressive pieces of legislation in history, is delivering immediate and direct relief to families and workers impacted by the COVID-19 crisis and is building a bridge to an equitable economic recovery.

Source: Adobe Stock

Office of Recovery Programs Established

In FY 2021, we established the Office of Recovery Programs to lead our implementation of economic relief and recovery programs, including nearly $420 billion in programs from the *American Rescue Plan Act of 2021* (ARP). The Office of Recovery Programs also oversees programs authorized through the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act), and the *Consolidated Appropriations Act, 2021* (CAA).

The Office of Recovery Programs, led by the Chief Recovery Officer, reports to Treasury's Deputy Secretary, and is principally focused on efficiently establishing and administering our programs to support an equitable and swift recovery from the economic challenges precipitated by the COVID-19 pandemic. In FY 2021, the Office of Recovery Programs focused on implementing an effective, cohesive model for recovery programs to help get relief distributed quickly and into the hands of those who need it the most, while ensuring public trust.

We are responsible for managing over $1 trillion in ARP programs and tax credits and have already distributed approximately $700 billion. For example, Treasury has sent over $240 billion in fiscal support to state, territorial, local, and Tribal governments that is being used to fight the pandemic and accelerate local economic recovery. Over 99 percent of currently available State and Local Fiscal Recovery Funds are in the hands of governments across the country, which are using these resources not only to meet immediate pandemic response needs but to make long-term investments in the recovery, equity, and prosperity of their local communities.

Equity Assessment

The COVID-19 pandemic has exposed long-standing disparities in our laws, public policies, and institutions, which disproportionately affect people of color and members of underserved communities. As we implement the ARP, we are working to ensure the economic recovery includes those who have been historically underserved and affected by persistent poverty long before the pandemic. We view this equity assessment as an opportunity to identify and remove any barriers that would prevent any member of the American public from having equal access to our programs and services and procurement and contracting opportunities, as well as the nation's financial systems.

We completed the following activities per Executive Order 13985*, Advancing Racial Equity and Support for Underserved Communities Through the Federal Government*:

- Issued a joint video with the Secretary and Deputy Secretary to announce the kickoff of the Equity Assessment Process and its intended goals.
- Provided recommendations on FY 2023 funding levels for program offices responsible for advancing diversity, equity, inclusion, and accessibility as part of the internal Departmental budget process.
- Met with members of the Department of Labor Equity Review Team to learn more about each agency's equity assessment effort.
- Published a blog post to mark the six-month anniversary of the ARP and highlight the central role of equity in programmatic implementation.
- Appointed a Counselor to the Secretary for Racial Equity.
- Announced the creation of a racial equity advisory committee to more regularly solicit opinions and guidance from external racial equity subject matter experts in our ongoing efforts to advance equity.
- Completed the required 60-Day, 90-Day, and 200-Day Progress Reports.

Our Equity Assessment Team worked with the IRS, Office of Tax Policy, Fiscal Service and ORP to develop ambitious, yet manageable, proposals for the equity assessment process. We also worked to identify actionable opportunities to: (1) identify and remove any barriers that members of underserved communities may have to our contracting and procurement opportunities; and (2) improve access to data collection, use, and sharing, including data disaggregation, which improves the ability to deliver services more equitably, and better understand how our programmatic and policy decisions impact underserved communities.

Enhance Child Tax Credit

Since President Biden signed the ARP in March 2021, the White House has led a cross-agency effort to ensure the expanded Child Tax Credit reaches the families who need it most. The ARP's expansion of the Child Tax Credit will substantially reduce child poverty by supplementing the earnings of families receiving the tax credit.

Within months, the IRS launched a Non-filer Sign-up Tool and published step-by-step guides in multiple languages. Since then, the White House, Treasury, and the IRS have worked in collaboration with advocacy groups and public figures to direct consumers to the tool. The IRS's efforts also included public awareness programs, including free tax preparation days in more than 30 cities where data showed large pockets of children in households that do not normally file a tax return.

Source: Adobe Stock

Expanded Child Tax Credit

Experts have projected the ARP has the potential to lift more than five million children out of poverty in 2021, cutting child poverty by more than half. The expanded Child Tax Credit is the largest single contributor to this historic reduction. Prior to the expansion by the ARP, lower-income families often received a smaller Child Tax Credit than families with higher earnings because the tax credit was only partially refundable.

The ARP's advance payment of the expanded Child Tax Credit (AdvCTC) presented unique challenges across the IRS, including resource competition with the information technology experts needed to deliver the third round of Economic Impact Payments in parallel with planning and implementing the AdvCTC. Implementing the new legislation also challenged the IRS to develop systems, processes, and procedures quickly. This included developing and deploying new web tools, implementing system programming changes, educating IRS employees on new processes and procedures, creating new taxpayer letters and notices, and communicating extensively to taxpayers to ensure they had necessary information.

The IRS successfully met these challenges in just over four months following enactment of the ARP. Beginning in July 2021, eligible families received an advance payment of up to $300 per month for each child under age 6 and up to $250 per month for each child ages 6 to 17. In July 2021, the IRS sent roughly $15 billion to families, which included nearly 60 million eligible children. As of September 30, 2021, the IRS issued more than $46 billion AdvCTC payments to over 37.8 million individuals.

National Security

An expanding array of transnational threats, continued instability in weak states, and the malicious use of critical and emerging technologies by adversaries, present security concerns for the U.S. that may impact the integrity of the U.S. financial system, which is foundational to our national security. As foreign and domestic actors threaten American economic and national security, we must apply our tools and strengthen bi-lateral and multi-lateral partnerships to defeat these threats and take a leading role in protecting the U.S. and international financial systems from abuse. In FY 2021, we leveraged our tools and authorities to combat malicious actors, strengthened the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regime, advanced reform efforts, ensured foreign investments in the U.S. did not give rise to unresolved national security risks, and enhanced collaboration with allies and partners on investment screening best practices.

Sanctions Review

Sanctions are a key tool for the U.S. government to address critical national security and foreign policy threats. For this tool to be effective and fit to purpose for years to come, the authorities and processes we use to deploy sanctions should be continuously reviewed and updated to address emerging challenges. Further, we must effectively leverage our sanctions workforce across the Department, addressing recruitment and retention of high-skilled talent to meet the data and analytical needs required to support the growing array of work in the sanctions arena. If we do not commit to using the most updated analytic and collaborative technologies, we may not be able to stay abreast of, or effectively respond to, increasing stakeholder demands. This includes the ability to analyze complex financial and *Bank Secrecy Act* (BSA) data to identify emerging threats, identify new trends, and support national security events.

To overcome these challenges, we completed a comprehensive sanctions review and provided recommendations designed to promote a warranted, strategic, and judicious use of sanctions. Our review found that while sanctions remain an essential and effective policy tool, they also face new challenges, including rising risks from new payments systems, the growing use of digital assets, and cybercriminals, as well as situations where careful calibration can help limit the impact of sanctions on the flow of legitimate humanitarian aid to those in need.

We will also modernize and strengthen internal Treasury, U.S. government, and international coordination and engagement on sanctions to enhance effectiveness.

Targeted Financial Measures

Since the beginning of FY 2020 and continuing through FY 2021, we have established four new and six modified sanctions programs. This included the use of tools and authorities to deter Iran's nuclear and ballistic missile program, hindering Iran's support of global terrorism, and offsetting efforts to destabilize the Middle East, Burma, Hong Kong, Venezuela, and others.

On Iran, we targeted terrorist financing and money laundering activity and imposed a series of sanctions designed to disrupt Iran's nuclear program and its ability to acquire and sell conventional arms. We imposed sanctions on the Iranian ambassador to Iraq responsible for coordinating the activity of Iran's Islamic Revolutionary Guard Corps Quds Force (IRGC- QF) throughout Iraq. Additionally, we imposed sanctions on a huge network of 150 targets, in addition to metals and petrochemical companies. Through the Terrorist Financing Targeting Center's partnership with seven Gulf nations, joint sanctions against the Islamic State of Iraq and Syria, Hizballah, and Iran's IRGC-QF were successfully taken.

Additionally, we applied our tools and authorities against Venezuela's Maduro regime to deny the regime revenue and sanctioned members of the regime for human rights violations and corruption. We used sanctions to place pressure on North Korea, including designations focused on North Korea's continued supply of unlawful labor to overseas markets, which is used to generate income in contravention of United Nations sanctions. We countered Russian illicit financing by working with foreign partners and through strategic use of sanctions authorities.

On China, TFI realigned analytic resources to anticipate and analyze more thoroughly the security threats China poses and took action to impose costs on China for human rights abuses in Xinjiang and for undermining Hong Kong's autonomy. On Burma, we implemented a new sanctions regime in response to the Burmese military's coup against the democratically elected civilian government of Burma. In coordination with the issuance of a new Executive Order 14014, *Blocking Property with Respect to the Situation in Burma*, we designated, pursuant to that Executive Order, approximately 10 individuals and three entities connected to the military apparatus responsible for the coup. We took the actions quickly and at the direction of the White House, in response to violence and suppression of peaceful protests over the weekend of February 21, 2021.

Financial System Transparency

To protect the integrity of markets and of the global financial framework, we have taken steps to increase transparency in the domestic and international systems by strengthening the U.S. AML/CFT regulatory framework and addressing the proliferation of virtual currency and new technologies that create potential vulnerabilities.

Permitting illicit actors to benefit from the stability and security of the U.S. financial system weakens financial transparency, distorts markets, and hurts ordinary Americans. Financial technology is growing and transforming the landscape of the financial industry, which is interconnected at a global level. Rapid evolution and adoption of new technologies can yield economic and social benefits and also present new potential for illicit financial activity.

U.S. financial institutions' resources may not be leveraged to their fullest potential. Treasury seeks to enhance financial institutions' ability to enhance the effectiveness of their BSA/AML programs and report robust, contextual, and timely information on the highest priority threats to support investigations.

The *Anti-Money Laundering Act of 2020* will strengthen and adapt the U.S. AML/CFT regulatory framework to collect beneficial ownership information and address emerging challenges and evolving regulatory requirements. We will also engage domestic and international partners to develop and implement financial transparency standards, enhance anticorruption efforts, and expand financial access and inclusion. In addition to the national AML/CFT priorities we published to inform risk-based supervision, we will publish a national illicit finance strategy to address priority threats.

Strengthen Cybersecurity

Technology is a core facet of the financial sector's functioning and faces an increasingly diverse and sophisticated array of cyber threats, including from trusted third parties. As the financial industry and federal government further rely on information and operational technology and computer networks, which can be vulnerable throughout the entire IT supply chain, we must address our own cybersecurity vulnerabilities and demonstrate leadership, ensure operational resiliency, and provide support to external stakeholders. This will help to ensure that the U.S and global financial system and Treasury's infrastructure are hardened against cyber incidents and our full range of tools is deployed to counter malicious cyber actions.

Treasury and the financial services sector face increasing attacks from cyber criminals and state actors attempting to disrupt operations or steal data from sensitive systems. The tactics, techniques, and procedures perpetrators of these incidents use are constantly evolving. There is a risk that a successful cyberattack may seriously affect our operations or the operations of the financial sector more broadly. A breach of or inability of any of our high-value

asset systems to execute core functions within established performance metrics could have nationwide and international ramifications.

To overcome these challenges, we are engaging domestic and international partners to enhance sector cyber hygiene. This includes efforts to improve resilience, continuity, and emergency preparedness, while also identifying and addressing technology vulnerabilities, including the use of third-party service providers. We are also protecting financial infrastructure by leveraging existing authorities to detect, deter, and disrupt malicious cyber activities. Finally, we are upgrading, securing, and scaling technology resources to effectively support our current role in national security matters, and in accordance with the Presidential Executive Order 14028, *Improving the Nation's Cyber Security*.

Financial Stability

The COVID-19 pandemic exposed existing vulnerabilities in the financial system, especially in the nonbank financial sector and created stress to global and domestic economies. To improve financial resiliency ahead of the next crisis, and reduce associated costs to the economy, the financial sector must address vulnerabilities in financial markets through responsible regulatory reforms. These reforms include improved liquidity risk management and adjustments to the financial market infrastructure in light of changes in technology and investor demand.

Resilient Markets

Treasury and municipal securities markets have evolved significantly as the industry, regulatory environment, trading practices and investor demands have changed. Some elements have not kept pace, raising risks that these critical markets are vulnerable to stresses, which could have significant consequences for economic growth and financial stability. We can help mitigate vulnerabilities by supporting developments that improve the resilience of these markets to stresses and reducing government borrowing costs over time. With federal, state, and local government debt now exceeding $32 trillion, ensuring that these markets remain resilient and able to support all other priorities outlined in this plan, including equitable economic growth and addressing climate change, is a critical component of sound fiscal policy.

To overcome these challenges, we will evaluate structural changes in the Treasury securities markets, and put forward recommendations to make the markets more resilient to future disruptions, and promote the central role of U.S. Treasury securities in global finance. We will also evaluate structural changes in the municipal securities market and make recommendations to promote greater efficiency, liquidity, and transparency.

Financial Innovation

Treasury promotes a financial system that delivers inclusive access to financial services that effectively meet the needs of market participants, while maintaining financial stability and market integrity. Emerging financial technologies have accelerated aspirations for a more equitable and inclusive financial system.

Many innovations in digital finance (*e.g.*, digital assets) remain nascent, with both risks and benefits that have yet to be assessed. Other innovations, such as mobile money, digital lending, and consumer data analytics, are relatively more mature and have already demonstrated the potential to improve the delivery of payments and other financial services for many Americans. But more can and should be done to reach those whose financial needs remain unmet by the financial services sector. Expanding access to digital financial services (payments, credit, saving, insurance) is a key component to increasing financial inclusion, domestically and internationally.

We encourage the responsible use of innovative financial technology, both across the financial sector and in our own programs, to deliver affordable and secure financial services that better serve consumers and small businesses. Keeping pace with private sector developments in digital finance could help ensure an informed approach across the federal government to facilitating a stable and accessible financial system. Failing to do so could result in financial regulation becoming unresponsive to the needs and expectations of the public.

Similarly, we are improving our own financial activities by leveraging private sector technology to better execute federal financial management services, secure U.S. currency from counterfeiting, and deliver payments to the public. Our commitment to transition to electronic payments from physical payments (*e.g.*, checks) has the potential to advance both our financial inclusion and net-zero carbon goal.

Combating Climate Change

The U.S. and the world face a climate crisis and a narrowing window to act to avoid the worst impacts of climate change. At the same time, the transition to a low-carbon economy presents a historic economic opportunity for the U.S. and global economy. The U.S. federal government must work alongside our domestic and international partners to respond ambitiously to tackle the challenges of climate change, adapt to an already changing climate, mitigate the risks, and position the global economy for clean and sustainable growth.

In April 2020, we created a new Climate Hub and appointed a Climate Counselor to coordinate and lead efforts to address climate change. The Climate Hub will focus on the broad range of our climate-related policy work connected to 1) climate transition finance; 2) climate-related economic and tax policy; and 3) climate-related financial risks.

In July 2021, we published the first edition of Climate Action Plan as a response to Executive Order 14008, *Tackling the Climate Crisis at Home and Abroad*. It focuses on our efforts on a wide range of international and domestic policy fronts, as well as our management of facilities, operations, procurements, and financial investments to bolster adaptation and increase resilience to the impacts of climate change.

Pursuant to Executive Order 14030, *Climate-Related Financial Risk*, we are also supporting the development of a government-wide Climate-Related Financial Risk Strategy and engaging with Financial Stability Oversight Council member agencies to advance efforts to provide financial regulators, financial institutions, and investors with the best information and data to measure climate-related financial risks. The Federal Insurance Office is also assessing climate-related issues in the supervision of insurers, as well as further assessing the potential for major disruptions of private insurance coverage in U.S. markets that are particularly vulnerable to climate change impacts.

Source: Adobe Stock

Climate Action

In 2021, we joined the Coalition of Finance Ministers for Climate Action, assumed co-chairmanship of the G20 Sustainable Finance Working Group, and established bilateral sustainable finance framework discussions with South Africa, Indonesia, and India.

Leading Global Commitments/Action

Climate change is an economic, financial, humanitarian, and national security issue. Failure to take swift steps to address its effects will be devastating to the global community. Executive Order 14008, *Tackling the Climate Crisis at Home and Abroad*, calls for international engagement to go hand-in-hand with domestic action to address climate change. In addition, the EO called for the development of the first-of-its kind U.S. International Climate Finance Plan, which was released in April 2021 and outlines a series of actions we will take to respond to the Executive Order. Recognizing the potential future effects of climate change, an already changing climate, and the need to act swiftly, we are re-engaging with international partners, both bilaterally and multilaterally, to act and put the world on a sustainable climate pathway.

We will also promote global efforts to phase out public finance of carbon-intensive fossil fuels by scaling back support for international investments in carbon-intensive projects and setting an example by eliminating domestic subsidies. In August 2021, we issued Fossil Fuel Energy Guidance for Multilateral Development Banks (MDBs), which we advocate for MDB investments prioritizing

clean energy, innovation, and energy efficiency. This will help achieve a clean and sustainable future consistent with the development goals of the Paris Agreement.

Multilateral institutions are invaluable partners to the pursuit of sustainable, inclusive, and resilient development. President Biden announced ambitious climate finance pledges in April and September 2021. To support the U.S. pledge, we requested in our FY 2022 Budget $1.25 billion for the Green Climate Fund to, in part, make good on our $2 billion outstanding pledge, $485 million to support other multilateral climate initiatives, and increased support for the multilateral development banks. Looking ahead, we will consider requesting funds for additional new contributions to the Green Climate Fund and other initiatives.

Sustainable Treasury Operations

Our mission, facilities, operations, and services are being impacted by climate disruptions, including global warming, sea level rise, more intense and frequent major weather events, and disruptions to energy availability. To address these impacts, we must improve mitigation efforts to reduce our greenhouse gas emissions, while adapting to a changing environment by making our facilities, operations, and critical supply chains more resilient to climate disruptions. We need to improve our workforces' knowledge and awareness of climate change, the science that supports climate policies, and the means to address the impacts of climate change on our mission and operations. To combat these challenges, we will use our purchasing power to reduce greenhouse gas emissions across our operations.

We will also make our real property portfolio more resilient to address the impacts of climate change. In FY 2022, each Bureau will perform an updated facility risk assessment, update its existing (or identify a new) adaptation action plan to address the highest risks, develop a timeline for each of its respective action plans, and identify any resource requirements. We will collectively assess common actions across Bureaus to minimize resources and efforts. The Treasury Operations Executive Council TOEC working group is already in place to collaborate on best practices and use common efforts.

We will transform our procurement policies and processes to consistently prioritize climate change considerations in purchasing decisions. Specific focus will include developing source selection sustainability evaluation factors, leveraging strategic sourcing opportunities to enable cost-effective purchasing of services and products that support climate adaptation and resilience, identifying Treasury-wide procurement strategies to make federal facilities and operations more climate-ready and resilient, establishing meaningful metrics to track progress, and prioritizing opportunities to support disadvantaged communities.

Finally, we will work to increase climate-change knowledge and expertise through capability-building efforts in climate literacy and engagement and, where applicable, data strategies, coordination, or relevant process improvement efforts.

In response to Executive Order 14008's Section 211 *Climate Action Plans and Data and Information Products to Improve Adaptation and Increase Resilience*, we published the first edition of the Treasury Climate Action Plan, which prioritizes our efforts regarding our facilities and operations to bolster adaptation and increase resilience to the impacts of climate change.

Our Bureaus have undertaken many climate adaptative and resiliency actions, as well as environmental sustainability and energy management initiatives that are documented in annual Treasury Sustainability Plans. Our Bureaus will develop Bureau Climate Action Plans, as well as bureau-level climate action assessments and planning processes with a continual improvement management tool that is ready for deployment.

Modernizing Treasury Operations

Modernizing Treasury's operations is critical to achieving our mission and strategic priorities. In particular, we will focus on a narrow set of enterprise-level improvements that, if made, will improve mission delivery across all organizations and strategic objectives. These include building and retaining a workforce that represents the diverse people and communities we serve, enabling the work routines of the future to capitalize on the lessons we learned from the pandemic work environment, strengthening decision-making through improved use of data, and increasing trust in government by building consistent customer experience. In FY 2021, we adopted strategies to prioritize employee safety during the pandemic, completed foundational work to both improve customer experience and promote data-driven decision making, and had mixed success in modernizing infrastructures.

Recruit/Retain Diverse and Inclusive Workforce

Employment opportunities and leadership roles within Treasury must represent the American people, including with respect to race, ethnicity, religion, sex, gender identity, sexual orientation, age, and disability. In addition to ensuring we are able to carry out our mission effectively and equitably, our efforts to become a more diverse and inclusive organization will also aid in fostering creativity, innovation, productivity, and higher levels of employee engagement.

To accomplish this, we need to increase our focus on developing a diverse pipeline for hiring and promotions and investing in training and development opportunities to improve retention and inclusion in our workforce. Different levels of funding and varied maturity levels in strategic human capital management across Treasury and our bureaus, combined with human resources challenges in the face of accelerating changes to mission and skill requirements, could erode our ability to meet our mission. Investing in recruitment and employee development, while creating a modernized environment (physical, virtual, and cultural) that best supports the workforce, will advance efforts to retain top talent and enable employees to focus on accomplishing our mission.

To address these challenges, we will employ measures to reach previously inaccessible talent. We will identify and mitigate sources of bias in selection and promotion processes. We will take steps to expand on a culture that demonstrates leadership commitment to a culture of inclusion, diversity, equity, and accessibility. Finally, we will take steps to provide a modern, equitable, and inclusive work experience.

Work Re-entry/Future Work Routines

The convergence of the COVID-19 pandemic and climate crisis has resulted in a critical decision point for Treasury about our immediate and long-term physical needs, such as facilities and office spaces and IT, as well as our human capital infrastructure. As the pace of change accelerates and we play a growing role in responding to national crises—foreseen and unforeseen—we must increase our agility, flexibility, and resilience.

How we work together is changing. Failure to support and empower the workforce will stifle the innovation needed to transform and meet the evolving needs of our customers. Technology advances have the potential to enable a more distributed and diverse workforce that can access the best talent anywhere, and a more sustainable and resilient infrastructure. We will also need to evolve our culture and provide equitable access to best-in-class tools, training, and facilities. To achieve this integrated vision, we must modernize our workplace infrastructure and work routines to meet a "whole person" culture, maintain competitiveness, and enable a "new normal" for an engaged and inclusive workforce of the future.

To overcome these challenges, we will equip the workforce with the skills, competencies, and flexibility to succeed in the future. We will transform work routines to meet changing customer and employee needs by fostering a culture of innovation and continuous improvement. Finally, we will modernize the physical and virtual workplace to provide an improved employee experience.

BETTER USE OF DATA

We seek to fully unlock the value of our data for mission, service, and the public good. The *Foundations for Evidence-based Policymaking Act of 2018* required agencies to designate a Chief Data Officer, Evaluation Officer, and Statistical Official, and to assess their data maturity and capacity for evidence-building. Through these assessments, we identified many "pockets of excellence" where evidence generated through research, evaluation, analysis, and statistical activities is routinely used to inform decision-making. However, we lack maturity at the enterprise-level. Silos, inconsistent data standards, and resource constraints make it difficult to share data across the department and with other federal partners.

Our ability to support critical decisions across mission areas and detect emerging issues with data may be impeded by a lack of data accessibility and reliability, inability to successfully use and interpret the data, and/or capability to process or analyze data. To develop and maintain a culture where we generate high quality data products and evidence that are easy to consume and share, we must strengthen our data infrastructure, data governance, and analytic capabilities within our workforce.

To overcome these challenges, we will strengthen our ability to develop and use high-quality data through enterprise data governance and by adopting data standards. We will improve data infrastructure by modernizing our legacy systems, advancing the use of secure cloud services, and harnessing new and emerging technologies. We will also strengthen analytic capabilities across our workforce by improving data literacy. Finally, we will advance equity in our programs and services by increasing access to data that we can use to assess and measure equity and inform program policy and decision-making.

IMPROVE CUSTOMER EXPERIENCE

We provide many critical services to the American people—from Main Street to Wall Street—and federal agencies. According to the American Customer Satisfaction Index, the federal government ranks among the bottom of all industries in the U.S. in customer satisfaction.

We are designated as a federal High Impact Service Provider due to the scale and impact of our public-facing services. In FY 2021, the IRS processed returns from 225.3 million individuals and businesses and assisted 68.6 million customers on the phone or in person. When the agency provides a modern, efficient customer experience, it increases Americans' trust in government. When it develops cumbersome regulations or fails to deliver programs equitably, it negatively impacts perceptions of government services.

We must create a culture that focuses on the customer, leveraging the latest research and modern approaches to improving customer experience to improve its overall capabilities and practices. Failure to do so reduces program effectiveness and disrupts the efforts of other federal agencies we serve to better serve their customers.

To overcome these challenges, our managers have launched and communicated a Department-wide customer experience vision. We will use advanced analytic tools, research methods, and outreach to better understand our customers and potential disparate impacts. We will also create and update annually an inventory of high-impact services/journeys to enable a 360-degree view of the customer and prioritize service improvements across all of our customers. Finally, we will put the customer at the center of improvements across high-impact services/journeys using human centered design and continuous process improvement.

FY 2021 Operational Performance Measures

In FY 2021, we continued to deliver value to our customers, the American taxpayer. Our performance measures present data on service and operational outcomes for our core programs. Table 3 contains trend information for key measures we use to assess our performance in core services and operations—programs that are critical to the proper functioning of the U.S. government. For each measure, we provide definitional information and briefly explain the trend in performance over the last four years. A full discussion of performance trends for all of our programs is included in the APR.

TABLE 3: SELECT PERFORMANCE MEASURES

Bureau/ Office	Measure	FY 18	FY 19	FY 20	FY 21	FY 21 Target	FY 21 Result vs Target
BEP	**Manufacturing costs for currency—dollar costs per thousand notes produced**	$47.41	$51.01	$56.19	$61.81	$63.64	Met
BEP	This measure calculates the actual manufacturing cost for currency notes, which include direct labor costs, the cost of raw materials used, and related manufacturing overhead charges. The FY 2021 cost was lower than anticipated due to savings resulting from decreased spoilage, as well as the recovery of Series 2009 $100 notes through the Single Note Inspection process.						
BEP	**Currency Notes Delivered Returned Due to Defects—Parts per million**	.0031	.09	.02	.016	1	Met
BEP	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.						
U.S. Mint	**Circulating On-Time Delivery—percentage**	100%	100%	100%	100%	97.5%	Met
U.S. Mint	On-time delivery to the Federal Reserve Banks (FRB) is the percentage of total scheduled orders shipped on time to the FRB. The United States Mint is responsible for providing the Nation's coinage in sufficient quantity to meet the needs of commerce. To accomplish this mission, the United States Mint must supply coinage in the quantities and timelines specified by the FRB. The FRB is then responsible for distributing coinage to the commercial banking sector.						
U.S. Mint	**Numismatic Sales Units—million units**	3.3	4.3	3.4	3.6	3.6	Met
U.S. Mint	This measure indicates the number of coin products sold to the public from numismatic operations. It quantifies the demand for the Nation's official numismatic products.						
U.S. Mint	**Seignorage per dollar issued**	$0.37	$0.40	$0.47	$0.37	$0.41	Unmet
U.S. Mint	Seigniorage per dollar issued is the seigniorage generated from each dollar of circulating coinage face-value shipped to the Federal Reserve Banks. FY 2021 results fell below the target as a result of a decrease in circulating demand coupled with increased metal costs.						
TTB	**Percent of permit applications processed within service standards**	71.2%	57.6%	84.1%	92.2%	85%	Met
TTB	This measure represents the overall rate at which TTB is meeting its annual service standard (75 days for FYs 2018 – 2021) 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 2021, TTB issued 92 percent of applications within its 75-day service standard, surpassing its 85 percent target. To sustain these improvements, TTB is undertaking process and system enhancements, including an effort to streamline permit application requirements.						
Fiscal Service	**Percentage of Treasury Payments Made Electronically**	95.4%	95.6%	96.0%	96.2%	96.1%	Met
Fiscal Service	This measure provides the portion of the total volume of payments that is made electronically. FY 2020 and FY 2021 data does not include pandemic-related relief payments such as economic impact payments and advance child tax credit payments.						
Fiscal Service	**Number of paper checks printed FYTD (millions)**	56.0	54.2	50.5	48.8	49.0	Met
Fiscal Service	This measure provides the number of payments made via paper checks. FY 2020 and FY 2021 data does not include pandemic-related relief payments such as economic impact payments and advance child tax credit payments.						

Bureau/ Office	Measure	FY 18	FY 19	FY 20	FY 21	FY 21 Target	FY 21 Result vs Target
IRS	**Customer Service Representative Level of Service (LOS)**	75.9%	65.4%	53.1%	18.5%	32%	Unmet
	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 2021 the CSR LOS was 18.5 percent, falling short of the target. New legislation resulted in added, unplanned demand for the toll-free phone lines. Total Assistor Demand was more than 200 percent higher than in FY 2020 with some lines seeing increases of more than 2 million calls. Call disconnects were 1,477 percent higher in FY 2021 at 4.1 million compared to 260,000 in FY 2020. Through all of this, IRS was able to answer 3.8 million more calls in FY 2021 than the prior year. IRS continues to monitor demand in real time, allocating resources and shifting between telephones and paper processing to address demand during times of unprecedented call volume.						
	Enterprise Self Assistance Participation Rate (ESAPR)	82.0%	85.4%	90.6%	92.3%	89%	Met
	This measure represents the percent 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). In FY 2021, the ESAPR was 92.3 percent, exceeding the target of 89.0 percent and 1.9 percent higher than the prior year. Compared to FY 2020, total services increased 36.4 percent, self-assisted services increased 38.9 percent, and assisted services rose 12.4 percent.						
	Timeliness of Critical Individual Filing Season Tax Products to the Public	59.6%	92.6%	78.4%	92%	85%	Met
	This measure represents the percentage of Critical Individual Filing Season (CIFS) tax products available to the public seven calendar days before the official IRS start of the filing season. CIFS tax products include tax forms, schedules, instructions, publications, tax packages, and certain notices required by numerous filers to prepare a complete and accurate return. The timeliness of CIFS tax products ended the fiscal year at 92.0 percent, exceeding the FY 2021 target of 85.0 percent. This accomplishment was partially due to the enactment of the P.L. 116-260, Consolidated Appropriations Act, 2021, which determined the February 12 filing season start date. The legislation provided more time to meet the annual goal. Additional factors that contributed to exceeding this year's target include prioritizing work on the release of critical products; planning for legislative changes to quickly re-prioritize work targeted to critical products impacted by the law; granting of overtime, credit, and compensatory time during workdays, weekends and holidays; and workload planning and monitoring by management as well as the efforts of our employees.						
FinCEN	**Percentage of Domestic Law Enforcement and Foreign Financial Intelligence Units finding FINCEN's Analytic Products Valuable to the detection and deterrence of illicit activity**	95%	92%	97%	96%	90%	Met
	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 financial intelligence information 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 informational demands of its domestic and international stakeholders.						
Management	**Treasury-wide EVS Satisfaction Index**	63%	66%	75%	TBD	75%	TBD
	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 2021 FEVS results will not be available until February 2022.						
	Percent of Procurement Dollars Spent of Small Business	42.6%	40.4%	45.0%	39.9%	36%	Met
	This goal measures the percentage of procurement dollars obligated toward small businesses (or Treasury's overall small business goal) and highlights Treasury's efforts to ensure that small businesses have the maximum practicable opportunity to provide goods and services to the federal government.						

Bureau/ Office	Measure	FY 18	FY 19	FY 20	FY 21	FY 21 Target	FY 21 Result vs Target
Office of International Affairs	**Percentage of Committee on Foreign Investment in the United States (CFIUS) Cases Reviewed within Statutory Timeframes, reported by calendar year**	100%	100%	100%	TBD	100%	TBD
	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.						
Office of Terrorism and Financial Intelligence	**Number of New or Modified Sanctions Programs Established by Executive Order or Congressional Mandate**	5	7	6	7	N/A	N/A
	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.						

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 more than 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 bi-monthly to discuss common risks and various methods of implementing the guidelines of the Circular.

Enterprise Risks and Challenges

Through the FY 2021 SOAR and enterprise risk management process, we identified the following cross-cutting operational risks.

Evolving Cyber Climate: Treasury and the financial services sector face increasing attacks from cyber criminals and state actors attempting to disrupt operations or steal data from sensitive systems. The tactics, techniques, and procedures perpetrators of these incidents use are constantly evolving.

Workforce Management: Our 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: Our 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.

Prioritizing Objectives to Effectively Leverage Limited Resources: We have many extremely important ongoing missions and are also at the forefront of several new initiatives to improve our economy and return it to a stable footing. Due to uncertain funding amounts and timing, new or changing legislative requirements, and reduced capacity, we may not be agile enough to sufficiently balance new initiatives with existing requirements or projects.

Significant Disruptions to Operations: We may face significant disruptions to operations, due to climate change, natural disasters, terrorist events, pandemics, or a lapse in appropriations, resulting in our inability to successfully deliver our mission, constrained progress in critical areas, and/or challenges for employees, contractors, customers, and taxpayers.

Procurement, Acquisition, and Vendors: We may be unable to timely 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.

FY 2022 OUTLOOK

Our FY 2022 – 2026 Strategic Plan will be published in February 2022. In this plan, we will describe the long-term goals and objectives we aim to achieve during this Administration, building from the progress made and challenges identified in FY 2021.

Our FY 2021 SOAR outlined several focus areas that will shape the development of our future priorities: (1) tax administration and policy; (2) strategic threat disruption; (3) cyber resiliency of financial systems and institutions; (4) resilient government securities markets; and (5) customer experience practices.

Looking ahead, we will shape our strategic goals around five key priority areas: (1) promoting equitable economic growth and recovery; (2) enhancing national security; (3) protecting financial stability and resiliency; (4) combating climate change; and (5) modernizing Treasury operations.

To achieve progress on these priorities, we will continue to manage the Department's programs under the CARES Act, CAA, and ARP. We will also pursue priorities as described in Executive Order 14008: *Tackling the Climate Crisis at Home and Abroad*, Executive Order 14030: *Climate-Related Financial Risk*, and Executive Order 13985 *Advancing Racial Equity and Support for Underserved Communities through the Federal Government*.

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, 2021 compared to September 30, 2020.

Summary Financial Information (*dollars in billions*)

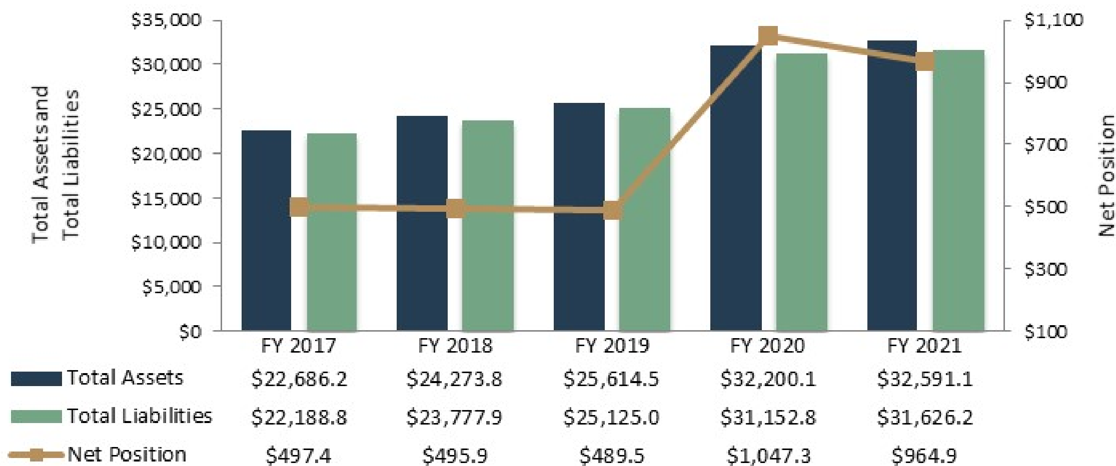
		2021		2020		$ Change	% Change
Total Assets	$	**32,591.1**	$	32,200.1	$	391.0	1.2 %
Total Liabilities	$	**31,626.2**	$	31,152.8	$	473.4	1.5 %
Total Net Position	$	**964.9**	$	1,047.3	$	(82.4)	(7.9)%
Total Net Cost of Treasury Operations	$	**137.0**	$	128.5	$	8.5	6.6 %
Federal Debt Interest Costs, Net	$	**525.9**	$	473.4	$	52.5	11.1 %
Other Federal Costs, Net	$	**23.6**	$	32.7	$	(9.1)	(27.9)%
GSEs Non-Entity Cost (Revenue), Net	$	**(112.0)**	$	3.2	$	(115.2)	3,600.0%
COVID-19 Non-Entity Revenue, Net	$	**(8.9)**	$	(5.8)	$	(3.1)	53.4 %
Total Net Cost of Treasury Operations and Non-Entity Costs	$	**565.3**	$	631.2	$	(65.9)	(10.4)%
Total Budgetary Resources	$	**1,550.0**	$	1,805.8	$	(255.8)	(14.2)%
Agency Outlays, Net	$	**832.6**	$	718.3	$	114.3	15.9 %
Net Revenue Received (Custodial)	$	**3,100.8**	$	2,863.6	$	237.2	8.3 %

Financial Overview. Our financial performance as of and for the fiscal year ended September 30, 2021, reflects several major trends. Most significantly, we continued to oversee and implement economic relief and recovery programs, authorized through the *American Rescue Plan Act of 2021* (ARP), *Consolidated Appropriations Act, 2021* (CAA), and the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) enacted in 2020. We received over $1 trillion in FY 2021 and approximately $1 trillion in FY 2020 in authority program funding in response to the pandemic. During FY 2021 and FY 2020, pursuant to these three legislations, we had distributed over $900 billion and $450 billion, respectively, to individuals, state, territorial, local, and Tribal governments, and certain businesses to accelerate our nation's economic recovery. In FY 2020, we also disbursed $112.5 billion to the Federal Reserve in support of its emergency programs to enhance the liquidity of our U.S. financial system.

The outstanding federal debt, including interest, rose by $1.5 trillion to $28.6 trillion to finance the U.S. government's operations that included support of the economic relief and recovery efforts. We also incurred a liability at September 30, 2021 totaling $217.6 billion in connection with extraordinary debt management measures that we took during a delay in raising the statutory debt limit (referred hereinafter as the "Delay"). Specifically, these measures included, among other things: *(i)* suspending investments in Treasury debt securities by the Government Securities Investment Fund of the Federal Employees' Retirement System Thrift Savings Plan (TSP), Civil Service Retirement and Disability Trust Fund (Civil Service Fund), and the Postal

Service Retiree Health Benefits Fund (Postal Benefits Fund); and *(ii)* redeeming early a certain amount of Treasury debt securities held by the Civil Service Fund. The $217.6 billion liability reflects our obligation by statute as of September 30, 2021, to restore to these funds the accumulated principal balance of Treasury debt securities bearing the same interest rates and maturity dates that would have been invested by these funds had the Delay not occurred (uninvested principal), as well as pay these funds the related lost interest on the uninvested principal (refer to Note 16 of the Consolidated Financial Statements).

Additionally, our "Total Net Cost of Treasury Operations and Non-Entity Costs" for FY 2021 decreased by $65.9 billion in fiscal year 2021 primarily stemming from non-entity activity, including $115.2 billion of higher revenue from our investments in two Government-Sponsored Enterprises (GSEs) – the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) – pursuant to our Senior Preferred Stock Purchase Agreements (SPSPAs), as amended (refer to Note 11 of the Consolidated Financial Statements). This increase in revenue was partially offset by $47.8 billion of higher federal debt interest costs which correlates to the increase in federal debt as mentioned above.



	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Total Assets	$22,686.2	$24,273.8	$25,614.5	$32,200.1	$32,591.1
Total Liabilities	$22,188.8	$23,777.9	$25,125.0	$31,152.8	$31,626.2
Net Position	$497.4	$495.9	$489.5	$1,047.3	$964.9

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

Total Assets of $32.6 trillion at September 30, 2021 consist of a receivable due from the General Fund of the U.S. government (General Fund) of $28.8 trillion, intra-governmental loans and interest receivable of $1.8 trillion, and fund balance and various other assets, which totaled $2.0 trillion (Figure 2).

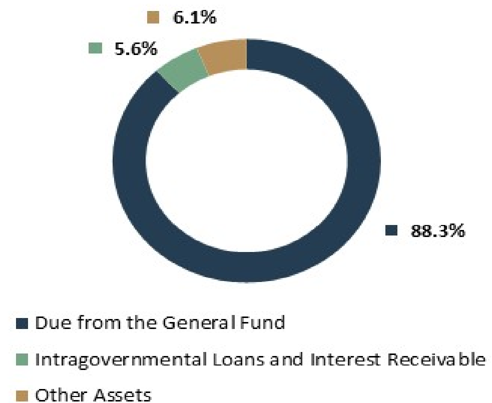


Figure 2: FY 2021 Total Assets (Composition)

The $391.0 billion (or 1.2 percent) increase in total assets at the end of FY 2021 over the prior year is primarily due to a $1.7 trillion increase in our receivable, "*Due from the General Fund,*" which corresponds to increases in the following liabilities: *(i)* a $1.5 trillion increase in federal debt and interest payable and *(ii)* a $217.6 billion additional liability for the restoration of federal debt principal and interest in connection with the Delay. The net addition to our liabilities at September 30, 2021 caused a corresponding rise in the "*Due from the General Fund*" asset—which represents future funds required from the General Fund to pay borrowings from the public and other federal agencies.

Intra-governmental *"Loans and Interest Receivable"* represent loans issued primarily by the Fiscal Service to other federal agencies for their own use or for the agencies to loan to private sector borrowers whose loans are guaranteed by the federal agencies. This receivable grew only moderately by $59.5 billion (or 3.4 percent) during FY 2021 due to increased borrowings by various federal agencies—such as Small Business Administration and Department of Housing and Urban Development—to fund their programs.

Other assets include, among other things, *"Fund Balance," "Taxes Interest, and Other Receivables, Net," "COVID-19 Investments, Advances, Receivables, and Other,"* and "*Investments in Government Sponsored Enterprises*." Other assets totaling $2.0 trillion decreased by $1.4 trillion or (41.1 percent) largely reflecting a $1.5 trillion and $270.0 billion decreases in our "*Cash, Foreign Currency, and Other Monetary Assets*" and "*Fund Balance,"* respectively. Cash, foreign currency, and other monetary assets represent, among other things, operating cash balances (held on behalf of the U.S. government) from federal debt, tax collections, and other receipts. The $1.5 trillion decrease in operating cash is the result of ending FY 2020 with a historically high level of operating cash balance to maintain prudent liquidity in light of the size and relative uncertainty of COVID-19 related outflows, combined with needing to reduce the cash balance to well under our prudent policy level at the end of FY 2021 due to debt ceiling constraints. The $270.0 billion decrease in "*Fund Balance*" is largely due to a rescission of $478.8 billion in appropriation provided under the CARES Act to make loans and investments (refer to Total Budgetary Resources section below). The decrease in fund balance was, in part, offset by a $159.4 billion year-over-year increase in the remaining fund balance available to primarily make financial assistance payments to state, territorial, local, and Tribal governments, pursuant to the COVID-19 legislations.

The *"Taxes, Interest, and Other Receivables, Net"*, primarily comprised of federal taxes receivable, increased by $67.0 billion principally because of a two-year deferral on employers' portion of FICA Social Security taxes due to the U.S. government as provided for by the CARES Act (refer to Note 8 to the Consolidated Financial Statements entitled *Taxes, Interest, and Other Receivables, Net*).

Other assets also reflect a $111.6 billion increase in COVID-19 related assets realized in our response to the pandemic and economic recovery. The *"COVID-19 Investments, Advances, Receivables, and Other,"* line item primarily includes advances paid to state, local, territorial, and Tribal governments who will administer future payments to individuals and businesses to cover eligible costs incurred in connection with financial assistance recovery programs, along with our investments and loans made in support of businesses and the U.S. airline industry. Advances paid to these governments increased $187.2 billion in FY 2021 primarily pursuant to the COVID-19 related legislations enacted in FY 2021. During FY 2021, we advanced $276.7 billion of financial assistance to these governments, and estimated that these governments disbursed $89.5 billion of this funding to cover eligible expenses (refer to Note 10 within the Consolidated Financial Statements). COVID-19 related assets primarily consisted of equity investments in Special Purpose Vehicles (SPVs) of $25.6 billion and $107.9 billion as of September 30, 2021 and 2020, respectively. The decrease in SPV investments is primarily attributable to an aggregate of $86.1 billion of our capital contributions that was returned to us by the Federal Reserve in connection with interim and final distributions made pursuant to the amended SPV LLC Agreements (refer to Note 10 within the Consolidated Financial Statements).

Our *"Investments in Government Sponsored Enterprises,"* (GSE Investments) are comprised of the estimated fair value of our senior preferred stock and warrants to purchase common stock of two GSEs: Fannie Mae and Freddie Mac. The value of our investment increased by $112.0 billion principally due to fair value gains of $80.1 billion primarily driven by the GSE's higher projected cash flows, a decrease in the market value of the GSE's other equity securities that comprise its total equity, and a lower discount rate. The liquidation preference of our senior preferred stock also increased in value by $31.8 billion in FY 2021 compared to $17.4 billion in FY 2020 pursuant to the amended SPSPAs (refer to Notes 1I and 11 within the Consolidated Financial Statements).

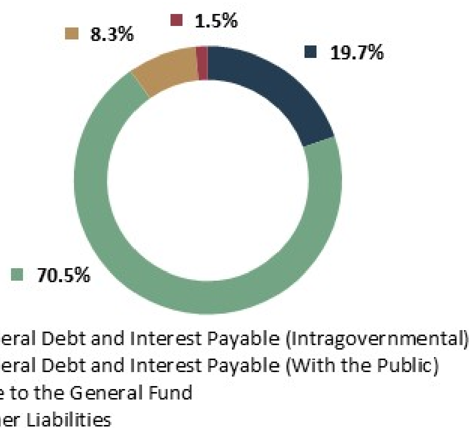


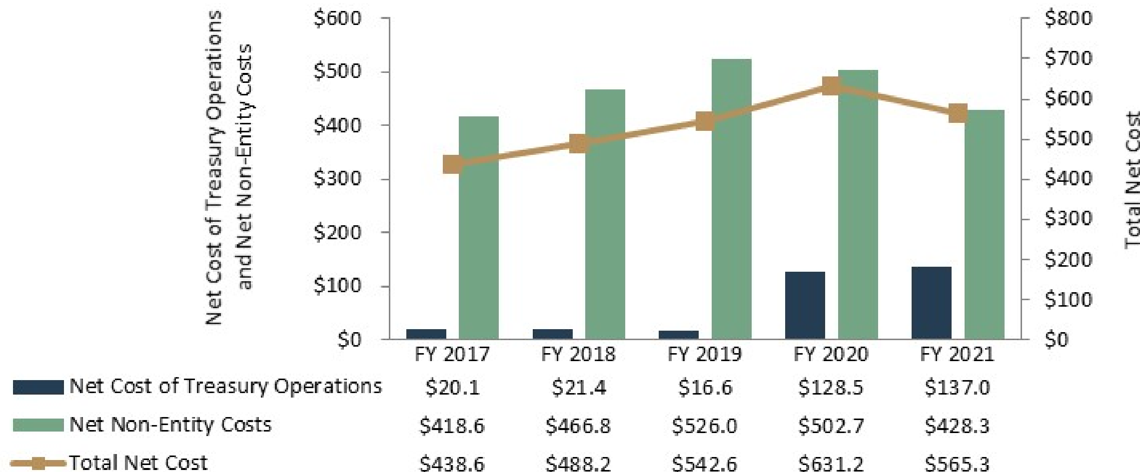
Figure 3: FY 2021 Total Liabilities (Composition)

Total Liabilities of $31.6 trillion at September 30, 2021 principally consist of the federal debt held by the public, including interest, of $22.3 trillion (Figure 3), which was mainly issued as Treasury Notes and Bills. Liabilities also include intra-governmental liabilities totaling $8.9 trillion (of which $6.2 trillion represent principal and interest of federal debt in the form of Treasury securities held by other federal agencies), and various other liabilities totaling $358.5 billion. Federal debt, including interest, held by the public and other federal agencies together totaled $28.6 trillion at the end of FY 2021, an increase of $1.5 trillion over the prior year. The $473.4 billion (or 1.5 percent) increase in total liabilities over the prior year is primarily attributable to the $1.5 trillion increase in federal debt that was needed to finance the U.S. government's operations, including our financial support of the COVID-19 recovery efforts. An additional $217.6 billion of the increase is attributable to a liability incurred as of September 30, 2021 for the restoration of federal debt principal and interest owed due to the extraordinary measures we took during the Delay (refer to Note 16 of the Consolidated Financial Statements).

Total liabilities also increased by $112.8 billion due to the increased allocations of Special Drawing Rights (SDRs). The SDR allocations represent permanent resources issued to the U.S. by the International Monetary Fund (IMF), which we account for as a liability since the U.S. is obligated to repay the allocation amount to the IMF under certain circumstances. During FY 2021, we increased our commitment to hold additional SDRs to help provide liquidity to the global economic system in response to the stress caused by the COVID-19 pandemic.

The increase in total liabilities is, in part, offset by a $1.3 trillion decrease in our payable "*Due to the General Fund,*" which corresponds primarily to the decreases in the operating cash balance, as discussed above.

Total Net Position of $964.9 billion at September 30, 2021 represents the combined total of our cumulative results of operations and unexpended appropriations at the end of the fiscal year. The $82.4 billion decrease in the net position at the end of FY 2021 was principally attributable to a $149.4 billion decrease in appropriations received in FY 2021 primarily in connection with non-tax-related pandemic relief programs.



	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Net Cost of Treasury Operations	$20.1	$21.4	$16.6	$128.5	$137.0
Net Non-Entity Costs	$418.6	$466.8	$526.0	$502.7	$428.3
Total Net Cost	$438.6	$488.2	$542.6	$631.2	$565.3

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

Total Net Cost of Treasury Operations and Non-Entity Costs, is presented on our Consolidated Statements of Net Cost (Figure 4). "*Net Cost of Treasury Operations*" represents the gross costs, net of earned revenues, we incurred related to our own entity activities comprising both operating bureaus and Departmental Offices that are consolidated with the Department. "*Net Non-Entity Costs*" represent the gross costs, net of earned revenues, we incurred on behalf of the U.S. government (or General Fund), and primarily include *"Federal Debt Interest Costs, Net"* (net of interest revenue from loans), *"Other Federal Costs, Net," "GSE Non-Entity Costs (Revenue), Net," "COVID-19 Non-Entity Revenue, Net,"* and other federal costs and revenues.

"*Total Net Cost of Treasury Operations and Non-Entity Costs"* totaled $565.3 billion and $631.2 billion for FY 2021 and FY 2020, respectively, a decrease of $65.9 billion (or 10.4 percent) over the prior year. Net costs associated with our entity operations (*"Net Cost of Treasury Operations"*) totaled $137.0 billion, an increase of $8.5 billion year-over-year. As further discussed below, net costs associated with our non-entity operations ("*Net Non-Entity Costs*") decreased by $74.4 billion year-over-year, primarily driven by an increase in revenue from our GSE investments, partially offset by higher federal debt interest costs.

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 $137.0 billion for FY 2021 compared to $128.5 billion for FY 2020, an increase of $8.5 billion (or 6.6 percent). This increase primarily stems from the year-over-year $10 billion increase in costs recognized for financial assistance payments made to affected states, local, territorial, and Tribal governments in response to COVID-19 (refer to Note 10 of the Consolidated Financial Statements).

Federal Debt Interest Costs, Net (*a non-entity cost*) totaling $525.9 billion for FY 2021 primarily reflect interest expense on the federal debt, net of interest income on loans. This net cost increased $52.5 billion (or 11.1 percent) from the prior year, primarily attributable to an increase in inflation adjustments and an increase in outstanding debt held by the public.

Other Federal Costs, Net (*a non-entity cost*) of $23.6 billion in FY 2021 decreased by $9.1 billion primarily due to an $8.5 billion decrease in interest expense incurred on uninvested credit program funds held on behalf of other federal agencies. The lower cost was primarily attributable to a decrease in interest earned by federal agency credit programs across the U.S. government compared to FY 2020.

GSEs Non-Entity Cost (Revenue), Net *(a non-entity cost or revenue)* is reported as a net revenue totaling $112.0 billion for FY 2021 compared to net cost of $3.2 billion reported for FY 2020. GSE non-entity revenue is driven by fair value changes to our GSE investments and changes to the liquidation preference of our GSE senior preferred stock. The $115.2 billion year-over-year change in this line item was driven by a $100.7 billion increase in the estimated fair value of our GSE investments and an increase of $14.5 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 increase in our GSE senior preferred stock fair value is primarily a result of GSE higher projected cash flows and a decrease in the market value of GSEs' other equity securities that comprise its total equity. This was only partially offset by a decrease in the fair value of our warrants due to a decrease in the market value of GSE common stock.

Pursuant to amendments to the SPSPAs that, among other things, increased the GSEs' capital reserve amounts, the GSEs will not pay a quarterly dividend until they achieve their regulatory minimum capital requirement. We received no cash dividends for the fiscal years ended September 30, 2021 and 2020 as the GSEs' had not achieved their capital requirement as of the fiscal years ended (refer to Note 11 to the Consolidated Financial Statements).

The liquidation preference of our senior preferred stock increased in value by $31.8 billion in FY 2021 compared to $17.4 billion in FY 2020, pursuant to the amended SPSPA. The GSEs agreed that, at the end of each fiscal quarter, through and including the capital reserve end date, our liquidation preference will be increased by an amount equal to the increase in the GSEs' net worth amount, if any, during the immediately prior fiscal quarter.

COVID-19 Non-Entity Revenue, Net (*a non-entity revenue*) of $8.9 billion reflects revenue recognized in FY 2021 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 in FY 2020, and further extended by the ARP and CAA, the U.S. government received promissory notes and common stock warrants valued at $8.9 billion and $5.8 billion as of September 30, 2021 and 2020, respectively, for providing $30.7 billion and $28.2 billion, respectively, of financial support to the aviation industry.

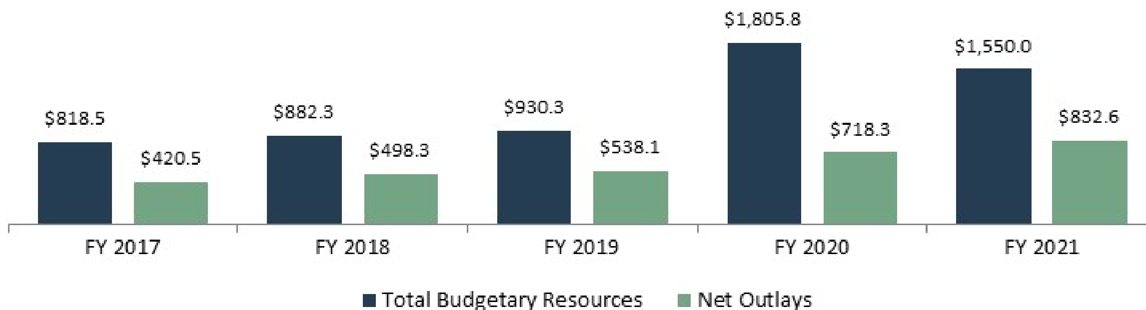


Figure 6 : Total Budgetary Resources and Agency Outlays, Net (*in billions*)

Total Budgetary Resources of $1.6 trillion in FY 2021 (Figure 6) decreased by $255.8 billion (or 14.2 percent) primarily due to a $382.6 billion year-over-year reduction in appropriations and borrowing authority received to finance pandemic-related programs. In FY 2021, we received $473.5 billion and $15.1 billion in appropriations and borrowing authority, respectively, primarily to make financial assistance payments to state, territorial, local, and Tribal governments pursuant to the ARP and CAA. This compares to $682.0 billion and $188.7 billion received in FY 2020 in appropriations and borrowing authority, respectively, to make direct loans and investments to assist eligible businesses, states and municipalities, and to enhance the liquidity of the U.S financial system. Partially offsetting this decrease in budgetary resources were $112.8 billion of new resources we obtained upon the IMF's allocation to us of new SDRs in response to the global economic stress caused by the COVID-19 pandemic.

During FY 2021, the CAA rescinded $478.8 billion of the appropriation we received in FY 2020 pursuant to the CARES Act, which eliminated our ability to make new loans and investments effective January 9, 2021, and which prohibited 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.* 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 CAA rescission.

Agency Outlays, Net of $832.6 billion were higher in FY 2021 (Figure 6) by $114.3 billion (or 15.9 percent) primarily due to an increase in outlays in the form of financial assistance payments to state, territorial, local, and Tribal governments, as well as to the air carrier industry, in reponse to the COVID pandemic.

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

Net Revenue Received (Custodial), representing the net revenue we collected on behalf of the U.S. government, includes various taxes, primarily income taxes, as well as user fees, fines and penalties, and other revenue (Figure 7). Over 90 percent of these revenues (before refunds) are related to income and social security taxes. Net revenue received was $3.1 trillion for FY 2021, an increase of $237.2 billion (or 8.3 percent) over the prior fiscal year. This increase is attributable mainly to an overall growth in income taxes collections, partially offset by increased refunds and other payments issued to individuals pursuant to the ARP, CAA, and CARES Act to help stimulate the economy through taxpayer support payments. In FY 2021 and FY 2020, the IRS disbursed $625.8 billion and $275.4 billion in taxpayer support 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*).

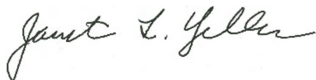
MANAGEMENT ASSURANCES

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, 2021. In addition, we can provide reasonable assurance that, as of September 30, 2021, 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, 2021. 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.



Janet L. Yellen
Secretary of the Treasury
November 15, 2021

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, 2021.

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, 2021, 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 2021 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). Our 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 to support 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.

Nineteen 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). Additionally, the Treasury Executive Office for Asset Forfeiture (TEOAF) made the decision in February 2021 to migrate to ARC's shared services in October 2023. This effort will modernize and update TEOAF's core financial management system, procurement system, and related support services. The 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 Treasury's 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 2021, we continued refining the FARS to meet evolving priorities, such as implementing single sign-on functionality and planning for transitioning to cloud hosting. 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), including updating and adhering to Treasury's Data Quality Plan as stipulated by the OMB Circular A-123, Appendix A guidelines.

In FY 2021, Treasury implemented changes in financial management systems required by OMB Memorandum M-21-20, Promoting Public Trust in the Federal Government through Effective Implementation of the American Rescue Plan Act and Stewardship of the Taxpayer Resources (March 19, 2021), which included tracking and reporting on American Rescue Plan (ARP) related funding through the monthly Government-wide Treasury Account Symbol Adjusted Trial Balance System reporting and to the DATA Act Broker for display on USAspending.gov.

Treasury continues to focus on financial innovation and transformation. In FY 2021, ARC implemented over 16 Robotic Process Automations (RPAs) to improve efficiency, timeliness, and quality in its service operations and business processes, for a total of 80 RPAs, in effect. Furthermore, the IRS implemented several changes to its financial systems in FY 2021 to improve internal controls, increase transparency, streamline transaction reconciliation, and automate processes for third party payments, invoicing, legislative mandates, and tax withholding postings.

Separately, we continue to make progress with agency implementation of G-Invoicing. The G-Invoicing initiative focuses on brokering federal buy-sell transactions through a new platform that will enable more accurate and streamlined financial management by trading partners. Treasury, through its workgroup consisting of bureau representatives, intends on meeting the G-Invoicing deadline of October 1, 2022.

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 assessments, and security weaknesses identified through those assessments 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

During FY 2021, a probable anti-deficiency act violation was identified in the Guam World War II claims fund. In FY 2020, claims were paid in advance, and in excess, of approved apportionments and, in FY 2021, claims were paid prior to issuance of an apportionment. Other than this probable anti-deficiency act violation noted above, we are not aware of any other 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 2021, we completed a full program inventory and performed risk assessments to identify programs that have a significant risk of improper payments. We perform our assessment of each program on a three-year rotational schedule, 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 eleven 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 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 2021, 27.8% ($19.0 billion) of the total EITC payments of $68.3 billion were improper. For the AOTC, the IRS estimates that for FY 2021, 26.3% ($1.9 billion) of the total payments of $7.1 billion were improper. For the ACTC, the IRS estimates that for FY 2021, 13.3% ($5.2 billion) of the total payments of $39.4 billion were improper. The IRS is not reporting an estimate for FY 2021 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 on https://paymentaccuracy.gov/.

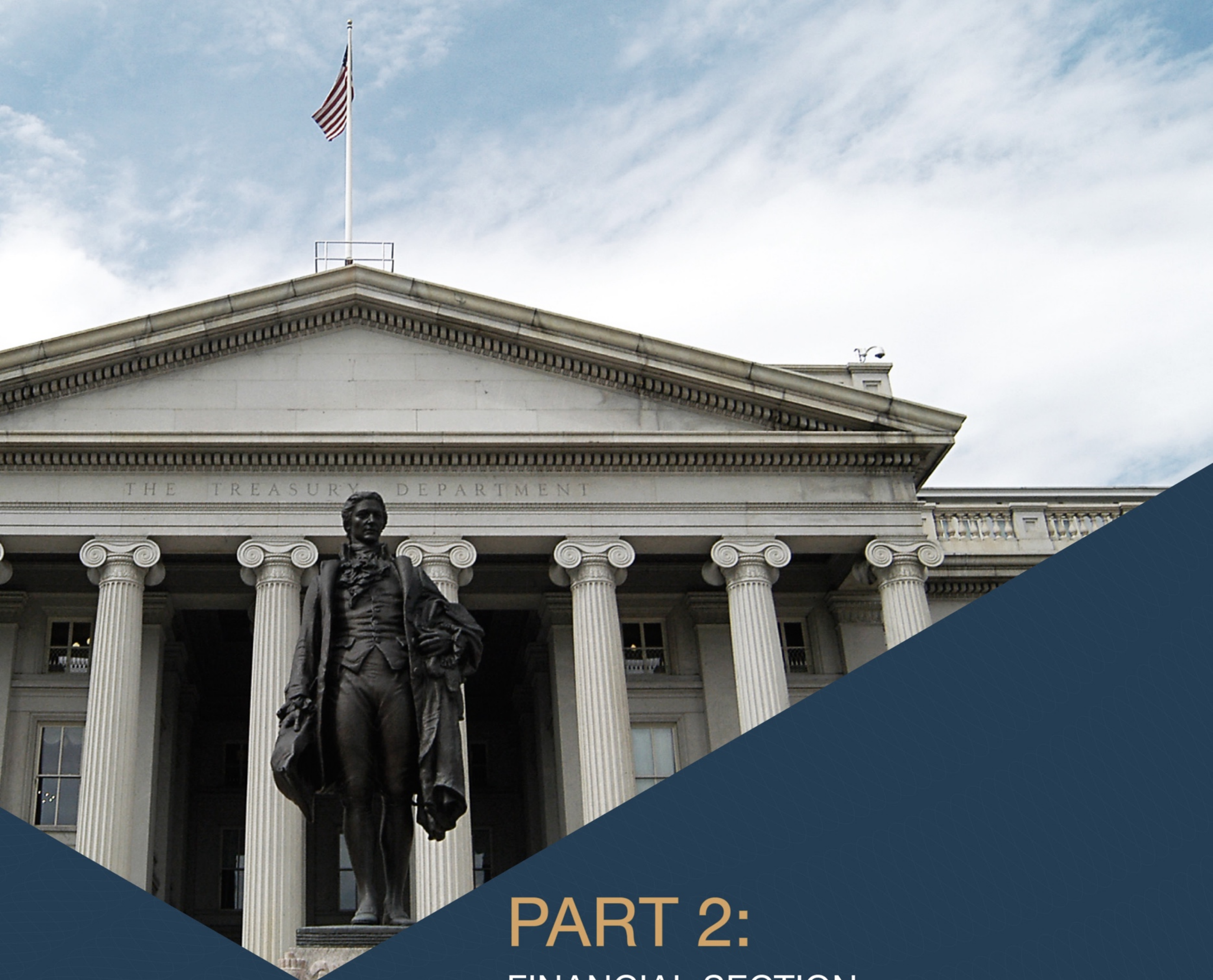
Do Not Pay Business Center and Payment Integrity Center of Excellence

The Do Not Pay (DNP) Initiative and Fiscal Service's DNP Business Center and Payment Integrity Center of Excellence (PICOE) are chief components of efforts designed to prevent and detect improper payments to individuals and entities. The DNP Business Center is comprised of the DNP Portal and the Data Analytics Services. The DNP Portal is intended to provide users with a single-entry point to search eligibility data sources. The PICOE is a community of experts facilitated by the Fiscal Service with a mission to provide government-wide partnership, guidance, and customer-centric solutions that aid in the prevention and recovery of improper payments due to fraud, waste, and abuse.

In FY 2021, the DNP Business Center received OMB approval and official designation to add 12 new data sets to DNP. The DNP Business Center is implementing these data sets for immediate analytic use. The DNP Business Center also submitted and received initial approval (pending designation) to implement the Electronic Verification of Vital Events Fact of Death Service from the National Association for Public Health Statistics and Information Systems as a death data source in DNP.

In FY 2021, PICOE launched a pilot program called the Account Verification Service (AVS) that quickly demonstrated its value with the third round of Economic Impact Payments. AVS was used in some cases to verify that a bank account was open and owned by the intended eligible payee. AVS is also being used for the Federal Emergency Management Agency's (FEMA) COVID-19 Funeral Assistance Program and FEMA's Individuals and Households Program.

Treasury is not just a provider of payment integrity services but also a consumer. Our shared service provider, the ARC within Fiscal Service, compares our records in the financial system with payee records in the DNP System. We review potential matches on an ongoing basis to prevent improper payments and incorporate a pre-award check on potential contractors against the DNP System.



PART 2:

FINANCIAL SECTION

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THE TREASURY DEPARTMENT

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

J. Trevor Norris
Acting Assistant Secretary for Management

Carole Y. Banks
Acting Chief Financial Officer

In fiscal year 2021, despite additional challenges brought on as a result of the pandemic and continued work to implement multiple recovery programs, Treasury pursued an aggressive agenda to improve worker safety, increase diversity, equity and inclusion, and proactively conceive the future of work. We continued to take 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 2021, we also demonstrated effective fiscal and management leadership by:

- standing up complex accounting and internal controls in support of economic recovery programs under the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act), *Consolidated Appropriations Act, 2021* (CAA), and the *American Rescue Plan Act of 2021* (ARP) and developing formulation models to ensure funding;
- establishing the Office of Recovery Programs to have a single executive leader to manage economic recovery programs;
- responding to multiple Executive Orders to identify challenges and develop improvements to increase diversity, equity, inclusion, and accessibility within the Treasury workforce and among our supplier network;
- refocusing our efforts to respond to climate-related financial risk; and
- receiving an A+ rating for small business programs compliance efforts that met all requirements pertaining to the Small Business Act Section 15(k).

We received an unmodified audit opinion on its consolidated financial statements for the 22nd 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 we can deliver our mission effectively and efficiently and provide the best value to the American people.

J. Trevor Norris
Acting Assistant Secretary for Management
November 15, 2021

Carole Y. Banks
Acting Chief Financial Officer
November 15, 2021

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Pages 51 - 59 have been moved to the front of this report prior to Section II:
For the Memorandum for the Secretary (pages E - F);
For the Independent Auditors' Report (pages I - N); and
For Management's Response (page O).

Consolidated Balance Sheets

As of September 30, 2021 and 2020

(in millions)	2021	2020
ASSETS		
Intra-Governmental		
Fund Balance (Note 2)	$ **626,456**	$ 896,385
Loans Receivable:		
Loans and Interest Receivable (Note 3)	**1,794,390**	1,734,916
Advances to Trust Funds (Note 4)	**91,378**	37,166
Other Assets:		
Due From the General Fund (Note 4)	**28,810,092**	27,093,930
Accounts Receivable and Other	**1,328**	1,218
Total Intra-Governmental	**31,323,644**	29,763,615
Other Than Intra-Governmental		
Cash and Other Monetary Assets:		
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	**379,105**	1,838,365
Gold and Silver Reserves (Note 6)	**11,062**	11,062
Reserve Position in the International Monetary Fund (Note 7)	**32,743**	31,211
Accounts Receivable, Net:		
Taxes, Interest, and Other Receivables, Net (Note 8)	**304,629**	237,590
Loans Receivable, Net:		
Credit Program Receivables, Net (Note 9)	**2,762**	3,704
Loans and Interest Receivable, Net (Note 7)	**944**	1,708
COVID-19 Investments, Advances, Receivables, and Other: (Note 10)		
Investments, Net	**26,426**	108,433
Advances, Net	**256,060**	68,889
Notes and Interest Receivable, Net	**13,677**	5,320
Credit Program Receivables, Net	**1,311**	1,580
Other	**-**	1,619
Investments in Government Sponsored Enterprises (GSEs) (Note 11)	**220,860**	108,910
Investments in Multilateral Development Banks (Note 12)	**8,466**	8,205
Other Investments, Net (Note 13)	**5,317**	5,822
General Property, Plant, and Equipment, Net (Note 14)	**2,996**	2,958
Other Assets	**1,070**	1,103
Total Other Than Intra-Governmental	**1,267,428**	2,436,479
Total Assets	$ **32,591,072**	$ 32,200,094

Heritage Assets (Note 14)

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

Consolidated Balance Sheets

As of September 30, 2021 and 2020

(in millions)	2021	2020
LIABILITIES		
Intra-Governmental		
Federal Debt and Interest Payable:		
Federal Debt and Interest Payable (Notes 4 and 16)	$ **6,225,208**	$ 6,005,252
Other Federal Debt and Interest Payable (Note 17)	**6,093**	7,310
Other Liabilities:		
Due To the General Fund (Note 4)	**2,649,003**	3,991,781
Liability for Restoration of Federal Debt Principal and Interest (Notes 4 and 16)	**60,562**	-
Other (Note 19)	**1,675**	726
Total Intra-Governmental	**8,942,541**	10,005,069
Other Than Intra-Governmental		
Federal Debt and Interest Payable (Notes 4 and 16)	**22,325,218**	21,062,850
Accounts Payable:		
Refunds Payable (Note 4)	**6,249**	3,751
Other Liabilities:		
Special Drawing Right Certificates Issued to the Federal Reserve (Note 5)	**5,200**	5,200
Allocation of Special Drawing Rights (Note 5)	**161,825**	49,709
Gold Certificates Issued to the Federal Reserve Banks (Note 6)	**11,037**	11,037
D.C. Federal Pension and Judicial Retirement Actuarial Liability (Note 18)	**8,010**	8,272
Liability for Restoration of Federal Debt Principal and Interest (Notes 4 and 16)	**157,035**	-
Other (Note 19)	**9,101**	6,865
Total Other Than Intra-Governmental	**22,683,675**	21,147,684
Total Liabilities (Note 19)	**31,626,216**	31,152,753
Commitments and Contingencies (Note 27)		
NET POSITION		
Unexpended Appropriations		
Funds from Dedicated Collections (Combined) (Note 24)	**200**	200
Funds from Other than Dedicated Collections (Combined)	**878,410**	903,758
Total Unexpended Appropriations	**878,610**	903,958
Cumulative Results of Operations		
Funds from Dedicated Collections (Combined) (Note 24)	**49,178**	48,844
Funds from Other than Dedicated Collections (Combined)	**37,068**	94,539
Total Cumulative Results of Operations	**86,246**	143,383
Total Net Position (Note 20)	**964,856**	1,047,341
Total Liabilities and Net Position	$ **32,591,072**	$ 32,200,094

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

Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2021 and 2020

(in millions)	2021	2020
Cost of Treasury Operations:		
Financial Program		
Gross Cost	**$ 5,598**	$ 6,187
Less Earned Revenue	**(2,856)**	(3,749)
Net Program Cost	**2,742**	2,438
Economic Program		
Gross Cost (Note 10)	**148,825**	137,590
Less Earned Revenue	**(15,300)**	(12,200)
Net Program Cost	**133,525**	125,390
Security Program		
Gross Cost	**515**	355
Less Earned Revenue	**(26)**	(7)
Net Program Cost	**489**	348
Total Program Gross Costs	**154,938**	144,132
Total Program Gross Earned Revenues	**(18,182)**	(15,956)
Total Net Program Cost before Changes in Actuarial Assumptions	**136,756**	128,176
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	**243**	311
Total Net Cost of Treasury Operations (Note 21)	**136,999**	128,487
Non-Entity Costs:		
Federal Debt Interest	**574,594**	526,814
Restoration of Foregone Federal Debt Interest (Note 16)	**-**	116
Less Interest Revenue from Loans	**(48,665)**	(53,561)
Federal Debt Interest Costs, Net	**525,929**	473,369
Accrued Restoration of Foregone Federal Debt Interest (Note 16)	**409**	-
Other Federal Costs, Net (Note 21)	**23,566**	32,749
GSEs Non-Entity Cost (Revenue), Net (Note 11)	**(111,950)**	3,160
COVID-19 Non-Entity Revenue, Net (Note 10)	**(8,937)**	(5,832)
Other, Net	**(721)**	(690)
Total Net Non-Entity Costs	**428,296**	502,756
Total Net Cost of Treasury Operations and Non-Entity Costs	**$ 565,295**	$ 631,243

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, 2021 and 2020

(in millions)	2021	2020
UNEXPENDED APPROPRIATIONS (Notes 20 and 24)		
Beginning Balance	$ **903,958**	$ 419,596
Appropriations Received (Note 10)	**1,124,489**	1,273,854
Appropriations Transferred In/Out	**50**	60
Other Adjustments (Note 10)	**(488,673)**	(12,802)
Appropriations Used (Note 10)	**(661,214)**	(776,750)
Net Change in Unexpended Appropriations	**(25,348)**	484,362
Total Unexpended Appropriations: Ending Balance	**878,610**	903,958
CUMULATIVE RESULTS OF OPERATIONS (Notes 20 and 24)		
Beginning Balance	**143,383**	69,980
Appropriations Used (Note 10)	**661,214**	776,750
Non-Exchange Revenue	**441**	481
Donations and Forfeitures of Cash/Equivalent	**285**	239
Transfers In/Out Without Reimbursement	**(644)**	(187)
Donation/Forfeiture of Property	**185**	93
Accrued Interest and Discount on Debt	**22,591**	1,505
Accrued Interest on Restoration of Federal Debt Principal (Note 16)	**409**	-
Imputed Financing Sources (Note 21)	**762**	666
Transfers to the General Fund and Other	**(177,085)**	(74,901)
Net Cost of Treasury Operations and Non-Entity Costs	**(565,295)**	(631,243)
Net Change in Cumulative Results of Operations	**(57,137)**	73,403
Cumulative Results of Operations: Ending Balance	**86,246**	143,383
Net Position	$ **964,856**	$ 1,047,341

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

Combined Statement of Budgetary Resources
For the Fiscal Year Ended September 30, 2021

(in millions)	Budgetary	Non-Budgetary Financing	2021 Total
BUDGETARY RESOURCES			
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 22)	$ 905,903	$ 12,291	$ 918,194
Appropriations (discretionary and mandatory) (Notes 10 and 20)	605,071	-	605,071
Borrowing authority (discretionary and mandatory) (Note 22)	-	15,008	15,008
Spending authority from offsetting collections (discretionary and mandatory)	23,140	(11,405)	11,735
Total Budgetary Resources	$ 1,534,114	$ 15,894	$ 1,550,008
STATUS OF BUDGETARY RESOURCES			
New obligations and upward adjustments (Note 10)	$ 1,045,397	$ 15,451	$ 1,060,848
Unobligated balance, end of year:			
Apportioned, unexpired accounts	443,193	18	443,211
Exempt from apportionment, unexpired accounts	1,806	-	1,806
Unapportioned, unexpired accounts	43,310	425	43,735
Unexpired unobligated balance, end of year	488,309	443	488,752
Expired unobligated balance, end of year	408	-	408
Unobligated balance, end of year	488,717	443	489,160
Total Status of Budgetary Resources	$ 1,534,114	$ 15,894	$ 1,550,008
OUTLAYS, NET, AND DISBURSEMENTS, NET			
Outlays, net (discretionary and mandatory)	$ 906,270	$ -	$ 906,270
Distributed offsetting receipts	(73,645)	-	(73,645)
Agency Outlays, Net (Discretionary and Mandatory)	$ 832,625	$ -	$ 832,625
Disbursements, net (mandatory)		$ (64,396)	$ (64,396)

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) (Notes 10 and 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.

Statements of Custodial Activity
For the Fiscal Years Ended September 30, 2021 and 2020

(in millions)	2021	2020
Sources of Custodial Revenue (Note 23)		
Individual Income and FICA Taxes	$ **3,594,002**	$ 3,127,540
Corporate Income Taxes	**419,009**	263,563
Estate and Gift Taxes	**28,046**	18,198
Excise Taxes	**78,534**	92,058
Railroad Retirement Taxes	**5,307**	5,173
Unemployment Taxes	**6,276**	6,282
Deposit of Earnings, Federal Reserve System	**100,054**	81,880
Fines, Penalties, Interest and Other Revenue	**7,843**	5,453
Total Revenue Received	**4,239,071**	3,600,147
Less Refunds and Other Payments (Note 10)	**(1,138,267)**	(736,532)
Net Revenue Received	**3,100,804**	2,863,615
Non-Cash Accrual Adjustment	**63,958**	90,818
Total Custodial Revenue	**3,164,762**	2,954,433
Disposition of Custodial Revenue (Note 23)		
Amounts Provided to Fund Non-Federal Entities	**528**	477
Amounts Provided to Fund the Federal Government	**3,100,276**	2,863,138
Non-Cash Accrual Adjustment	**63,958**	90,818
Total Disposition of Custodial Revenue	**3,164,762**	2,954,433
Net Custodial Revenue	$ -	$ -

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

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

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

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

Our reporting entities include DO and seven operating bureaus. For financial reporting purposes, DO is composed of: Community Development Financial Institutions (CDFI) Fund, Office of D.C. Pensions (ODCP), Exchange Stabilization Fund (ESF), Federal Financing Bank (FFB), Government Sponsored Enterprises (GSEs) Program, International Assistance Programs (IAP), Office of Financial Research (OFR), Office of Financial Stability (OFS), Office of Inspector General (OIG), Small Business Lending Fund (SBLF), Special Inspector General for 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) 2021 and 2020 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 primarily 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 2020 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.

Other Than Intra-Governmental

Other than intra-governmental (or public) loans and interest receivable include 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* (CARES Act), P.L. 116-136, *Consolidated Appropriations Act, 2021* (CAA), P.L. 116-260, and

American Rescue Plan Act of 2021 (ARP) P.L. 117-2 (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

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. These advances are recorded within the "*Advances to Trust Funds*" line of the Consolidated Balance Sheets. 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. These advances are recorded within the "*Advances to Trust Funds*" line of the Consolidated Balance Sheets. HHS repays advances over time from amounts collected from certain participants' increase in premiums until the balance due reaches zero.

Advances Related to Financial Assistance Programs

We issue advances to COVID-19 pandemic-related recovery programs directed through state, local, territorial, and Tribal governments (refer to Note 10). These advances are issued as direct payments for specified use to cover the recipient's anticipated qualified incurred costs. These advances are initially recorded within the "*COVID-19: Advances, Net*" line of the Consolidated Balance Sheets and subsequently recognized as expense within the "*Economic Program*" costs on the Consolidated Statements of Net Cost as the qualified costs are incurred.

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.

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 tax 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 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 on 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.
- Forecast Special Purpose Vehicles (SPVs) disbursements and historical preferred equity repayments

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, as initially established by the subsidy cost, 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

Pursuant to the CARES Act enacted in FY 2020 in response to the COVID-19 pandemic, we hold equity investments in SPVs established by the Board of Governors of the Federal Reserve System (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 (see the discussion below on *"Fair Value Measurement.")*. We record changes in the valuation of these investments as entity exchange transactions on the Consolidated Statements of Net Cost.

Pursuant to the CARES Act, coupled with the CAA and ARP enacted in FY 2021, *COVID-19: Investments, Net* also consists of warrants 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 (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 (see the discussion below on *"Fair Value Measurement.")*. 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.

The annual valuation as of September 30 of the "*COVID-19: Investments, Net*" line item 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 which calculates 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.

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 (see the discussion below on *"Fair Value Measurement.")*. 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.

The annual valuation as of September 30 of the preferred stock and warrants 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 (refer to Note 11).

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, Net

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 (see the discussion below on *"Fair Value Measurement.")*. 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.

Fair Value Measurement

Fair value is a market-based measurement. For certain assets and liabilities, observable market transactions or market information may be available. For other assets and liabilities, observable market transactions and market information may not be available. However, the objective of a fair value measurement in both cases is to estimate the price at which an orderly transaction to sell an asset or to transfer a liability between market participants at the measurement date occurs under current market conditions.

When a price for an identical asset or liability is not observable, a reporting entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk.

The measurement of fair value of an asset or a liability is categorized with different levels of fair value hierarchy as follows:

- Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2—Inputs other than quoted prices included within Level 1 inputs that are observable for the asset or liability, either directly or indirectly.
- Level 3—Unobservable inputs for the asset or liability.

The inputs or methodology used for valuing assets and liabilities are not necessarily indicative of the risks associated with those assets and liabilities.

J. General Property, Plant, and Equipment, Net

General

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 except for leasehold improvements and capital leases, which are depreciated over the term of the lease or the useful life of the improvement or asset, 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. 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*."

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 specified circumstances. 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 the following events in which the U.S. has a substantial or controlling voice: (1) withdrawal by the U.S. from IMF membership or termination of its position in the SDR Department of the IMF, (2) cancellation of the SDRs by the Board of Governors (pursuant to an 85 percent majority decision of the voting power of IMF members), (3) liquidation of the IMF or (4) liquidation of the 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.

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, 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. 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.

O. 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.

P. 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 15.5 percent and 17.3 percent for regular employees, and between 34.0 percent and 35.8 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 is also a participating employer in the Pentegra Defined Benefit Plan for Financial Institutions, a multiple employer plan that provides benefits for certain retired employees who meet eligibility requirements. In addition to the TSP, the OCC sponsors two 401(k) plans. Eligible OFR employees also participate in one of these two plans.

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.

Q. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

The estimated liability we record is either a specific amount or within a range of amounts. If some amount within the range is a better estimate than any other amount within the range, that amount is recognized. If no amount within the range is a better estimate than any other amount, we recognize the minimum amount in the range, and we disclose the range and a description of the nature of the contingency. We follow this policy in recording a contingent liability, if any, related to the GSE SPSPA program (refer to Note 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.

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, 2021 the effects of any new developments that may have occurred subsequent to September 30, 2021.

Credit program receivables are derived using credit reform modeling, which is subject to the use of estimates and forecasts that have inherent uncertainty. Refer to the accounting policy above entitled "*Credit Program Receivables, Net*" and Notes 9 and 10 for additional discussion related to the estimation of credit program receivables.

Our COVID-19 and GSE investments are estimated based on fair value and changes in these asset valuations, including impairment. Since the valuation is an annual process, we deem changes in valuation of our equity investments as usual and recurring. Refer to the accounting policy above entitled "Investments" and Notes 10 and 11 for additional discussion related to the fair value estimations of the "*COVID-19: Investments, Net*" and "*Investments in Government Sponsored Enterprises*."

For certain of our 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 other related 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).

Refer to the accounting policy above entitled "*Pension Costs, Other Retirement Benefits, and Other Post-Employment Benefits"* and Note 8 for additional discussion related to the estimation of actuarial liabilities and tax receivables, respectively.

W. Other-Than-Temporary Impairments

A decline in the market value (either due to credit, price or currency) of any investment below cost that is deemed to be other-than-temporary is accounted for as an impairment, and the carrying value is reduced to fair value for financial reporting purposes. To determine whether an impairment is other-than-temporary, we consider whether we have the ability and intent to hold the investment until a market price recovery, and consider whether evidence indicating 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 Department of Justice (DOJ), DOL, Department of Housing and Urban Development and HHS. Also, we receive allocation transfers, as the child, from HHS, Department of Transportation, DOJ, 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, 2021.

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 $100.1 billion and $81.9 billion for fiscal years ended September 30, 2021 and 2020, respectively, are reported as custodial revenues on our Statements of Custodial Activity. They constituted 2.4 percent and 2.3 percent of our total custodial revenues collected in FY 2021 and 2020, 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 and 7 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 canceled, 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, 2021 and 2020, the status of the fund balance consisted of the following:

(in millions)	2021	2020
Unobligated Balance - Available	**$ 445,017**	$ 749,049
Unobligated Balance - Not Available	**44,143**	22,132
Obligated Balance Not Yet Disbursed	**175,467**	176,989
Subtotal	**664,627**	948,170
Adjustment for ESF	**(207,601)**	(84,518)
Adjustment for Intra-Treasury Investments	**(9,906)**	(8,975)
Adjustment for Borrowing Authority	**(6,117)**	(99,676)
Adjustment for IMF	**163,962**	120,688
Adjustment for Authority Unavailable for Obligations	**17,188**	17,020
Other Adjustments	**4,303**	3,676
Total Status of Fund Balance	**$ 626,456**	$ 896,385

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 Unobligated Balance Not Available are primarily due to the FY 2021 rescission of our CARES Act appropriation resulting in our de-obligation of amounts previously obligated in response to the COVID-19 pandemic (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 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 $112.8 billion increase in SDR holdings (refer to Note 5), coupled with ESF reinvesting $11.5 billion of returned capital received from two liquidity facilities into overnight securities (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 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 decrease in borrowing authority is due to Treasury and the Federal Reserve amending the SPV agreements in FY 2021, which resulted in the cancellation of the borrowing authority provided to fund our investment in the SPVs (refer to Note 10);
- 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. The increase reflects a $39.8 billion growth in the New Arrangements to Borrow (NAB) commitment to the IMF to support the CARES Act (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, 2021 and 2020, 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, 2021 and 2020, entity intra-governmental loans (issued by FFB) and interest receivable consisted of the following:

(in millions)	Loans Receivable	Interest Receivable	2021 Total	Loans Receivable	Interest Receivable	2020 Total
Department of Agriculture	**$ 48,742**	**$ 30**	**$ 48,772**	$ 46,652	$ 29	$ 46,681
Department of Energy	**15,904**	**72**	**15,976**	15,807	74	15,881
United States Postal Service[1]	**11,000**	**35**	**11,035**	14,000	40	14,040
Department of Housing & Urban Development	**2,630**	**8**	**2,638**	2,364	7	2,371
Other Agencies	**476**	**2**	**478**	1,833	14	1,847
Total Entity Intra-Governmental	**$ 78,752**	**$ 147**	**$ 78,899**	$ 80,656	$ 164	$ 80,820

(1) The United States Postal Service (USPS) experienced an operating deficit in both FY 2021 and FY 2020. 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.

The CARES Act authorized the USPS to borrow up to $10.0 billion from the General Fund, through the Fiscal Service, to fund operating expenses, if it was determined by USPS that it would be unable to fund such expenses due to the COVID-19 pandemic. The CAA amended the CARES Act to relieve the USPS from the requirement to repay any portion of the $10.0 billion borrowing. During FY 2021, the USPS borrowed the authorized amount of $10.0 billion. Also, during FY 2021, in accordance with the CAA, we wrote-off this borrowing as a non-exchange loss that was recorded within the "*Transfers to the General Fund and Other*" line item on the Consolidated Statements of Changes in Net Position. An offsetting other financing source was recognized with the General Fund as part of the "*Transfers to the General Fund and Other*" line item on the Consolidated Statements of Changes in Net Position, therefore there was no impact to Treasury's overall net position.

As of September 30, 2021 and 2020, 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	2021 Total	Loans Receivable	Interest Receivable	2020 Total
Department of Education	$ **1,221,382**	$ **-**	$ **1,221,382**	$ 1,249,870	$ -	$ 1,249,870
Small Business Administration	**262,655**	**-**	**262,655**	176,174	-	176,174
Department of Agriculture	**84,049**	**-**	**84,049**	96,450	-	96,450
Department of Housing and Urban Development	**66,289**	**-**	**66,289**	51,852	-	51,852
Department of Homeland Security	**20,618**	**-**	**20,618**	20,596	-	20,596
Department of Transportation	**14,753**	**-**	**14,753**	16,682	-	16,682
Export Import Bank of the U.S.	**14,531**	**-**	**14,531**	15,388	-	15,388
US International Development Finance Corporation	**7,724**	**-**	**7,724**	4,678	-	4,678
Department of Energy	**6,968**	**28**	**6,996**	6,632	28	6,660
Department of Labor	**6,353**	**-**	**6,353**	6,395	1	6,396
Railroad Retirement Board	**4,567**	**38**	**4,605**	4,384	39	4,423
Executive Office of the President/ Security Assistance Accounts	**1,652**	**-**	**1,652**	1,756	-	1,756
Department of Defense	**1,600**	**-**	**1,600**	1,663	-	1,663
Other Agencies	**2,284**	**-**	**2,284**	1,508	-	1,508
Total Non-Entity Intra-Governmental	$ **1,715,425**	$ **66**	$ **1,715,491**	$ 1,654,028	$ 68	$ 1,654,096
Total Intra-Governmental Loans and Interest Receivable (Entity and Non-Entity)	$ **1,794,177**	$ **213**	$ **1,794,390**	$ 1,734,684	$ 232	$ 1,734,916

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, 2021 and 2020, the General Fund liabilities we owed exceeded the assets held on behalf of the General Fund by $26.2 trillion and $23.1 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, 2021 and 2020, Due From the General Fund included the following non-entity liabilities:

Liabilities Requiring Funding from the General Fund (in millions)	2021	2020
Federal Debt and Interest Payable - Held by the Public (Note 16)	**$ 22,325,218**	$ 21,062,850
Federal Debt and Interest Payable - Intra-Governmental (Note 16)	**6,225,208**	6,005,252
Liability for Restoration of Federal Debt Principal and Interest - Due to the Public (Note 16)	**157,035**	-
Liability for Restoration of Federal Debt Principal and Interest - Intra-Governmental (Note 16)	**60,562**	-
Refunds Payable	**6,249**	3,751
Adjustment for Eliminated Liabilities	**35,820**	22,077
Total Due From the General Fund	**$ 28,810,092**	$ 27,093,930

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, 2021 and 2020, Due To the General Fund included the following non-entity assets:

Assets to be Distributed to the General Fund (in millions)	2021	2020
Fund Balance	$ **2,958**	$ 2,539
Loans and Interest Receivable - Intra-Governmental (Note 3)	**1,715,491**	1,654,096
Advances to Trust Funds	**91,378**	37,166
Cash Due To the General Fund (Held by the Department) (Note 5)	**198,396**	1,769,916
Taxes and Other Non-Entity Receivables Due To the General Fund	**303,806**	237,346
Credit Reform Downward Subsidy Re-estimates	**3,420**	13,025
COVID-19 Investments, Credit Program Receivables, and Other (Note 10)		
Investments, Net	**847**	487
Notes and Interest Receivable, Net	**13,677**	5,320
Investments in Government Sponsored Enterprises (Note 11)	**220,860**	108,910
Adjustment for Eliminated Assets	**96,679**	161,647
Other	**1,491**	1,329
Total Due To the General Fund	$ **2,649,003**	$ 3,991,781

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. 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. Advances to these two trust funds at September 30, 2021 increased by a combined total of $54.2 billion from the end of the prior fiscal year, of which Advances to the Unemployment Trust Fund and Advances to the Federal Supplementary Medical Insurance Trust Fund accounted for $19.1 billion and $35.1 billion of this growth, respectively, largely due to increased unemployment claims and Medicare Part B expenditures, respectively, resulting from the COVID-19 pandemic.

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, 2021 and 2020 were as follows:

(in millions)	2021	2020
Entity:		
Cash	**$ 113**	$ 90
Foreign Currency and Foreign Currency Denominated Assets	**15,669**	15,867
Other Monetary Assets:		
Special Drawing Right Holdings	**163,885**	51,740
U.S. Dollars Held in Cash by the IMF	**375**	365
Total Entity	**180,042**	68,062
Non-Entity:		
Operating Cash of the U.S. government	**198,313**	1,769,869
Foreign Currency	**169**	134
Miscellaneous Cash Held by All Treasury Reporting Entities	**581**	300
Total Non-Entity	**199,063**	1,770,303
Total Cash, Foreign Currency, and Other Monetary Assets	**$ 379,105**	$ 1,838,365

We hold non-entity operating and other miscellaneous cash due to the General Fund which consisted of the following as of September 30, 2021 and 2020:

(in millions)	2021	2020
Operating Cash - FRB Account	**$ 215,160**	$ 1,781,679
Outstanding Checks	**(16,847)**	(11,810)
Total Operating Cash of the U.S. government	**198,313**	1,769,869
Miscellaneous Cash	**92**	51
Subtotal	**198,405**	1,769,920
Amounts Due to the Public	**(9)**	(4)
Total Cash Due to the General Fund (Note 4)	**$ 198,396**	$ 1,769,916

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, 2021 and 2020 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 $15.7 billion and $15.9 billion as of September 30, 2021 and 2020, respectively.

Special Drawing Rights

The SDR is an international reserve asset created by the IMF to supplement existing reserve assets (refer to Note 1M). The SDR derives its value as a reserve asset from the commitments of participants to hold and accept SDRs and to honor various obligations connected with their proper functioning as a reserve asset. The IMF has allocated new SDRs on several occasions to members participating in the IMF's SDR department typically in response to the global financial crisis. A significant increase occurred in 2021 when we received an additional 79.5 billion SDRs valued at $112.8 billion in response

to the global economic stress caused by the COVID-19 pandemic (the last increase was in 2009 due to global economic crisis). Our increased commitment to hold and accept SDRs helps to provide liquidity to the global economic system and supplement member countries' official reserves.

As of September 30, 2021 and 2020, the total amount of SDR holdings of the U.S. (including interest receivable) was the equivalent of $163.9 billion and $51.7 billion, respectively. As of September 30, 2021 and 2020, the total value of SDR allocations to the U.S. was the equivalent of $161.8 billion and $49.7 billion, respectively. The outstanding SDR certificates issued to the Federal Reserve are valued at $5.2 billion which were reported as a liability on the Consolidated Balance Sheets as of September 30, 2021 and 2020.

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 declined by $1.6 trillion largely due to Treasury maintaining an elevated cash balance in FY 2020 to maintain prudent liquidity in light of the size and relative uncertainty of COVID-19 related outflows.

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, 2021 and 2020, the values of gold and silver reserves consisted of the following:

	FTOs	Statutory Rate	2021 Statutory Carrying Value (in millions)	Market Rate Per FTO	2021 Market Value (in millions)
Gold	248,046,116	$ 42.2222	$ 10,473	$ 1,742.80	$ 432,295
Gold Held by Federal Reserve Banks	13,452,811	$ 42.2222	568	$ 1,742.80	23,446
Total Gold	**261,498,927**		**11,041**		**455,741**
Silver	16,000,000	$ 1.2929	21	$ 21.53	344
Total Gold and Silver Reserves			**$ 11,062**		**$ 456,085**

	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

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, 2021 and 2020, 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)	2021	2020
Letter of Credit [1]	**$ 83,965**	$ 85,387
Reserve Position [2]	**32,743**	31,211
Total U.S. Quota in the IMF	**$ 116,708**	$ 116,598

(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, 2021 and 2020, the U.S. quota reflects a net upward adjustment in value of $0.1 billion and $3.6 billion, respectively, due to the depreciation of the U.S. dollar against the SDR.

Loans and Interest Receivable (Other Than COVID-19 Receivables)

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 the CARES Act, effective January 1, 2021, U.S. participation in the NAB increased by SDR 28.2 billion. Accordingly, the U.S. participation in the NAB as of September 30, 2021 and 2020 was SDR 56.4 billion and SDR 28.2 billion, respectively, which was equivalent to $79.5 billion and $39.7 billion, respectively. As of September 30, 2021 and 2020, under the U.S. NAB arrangement with the IMF, there was $0.9 billion and $1.7 billion, respectively, of U.S. loans outstanding which were reported as "*Loans and Interest Receivable*" on the Consolidated Balance Sheets.

8. TAXES, INTEREST, AND OTHER RECEIVABLES, NET

As of September 30, 2021 and 2020, Taxes, Interest, and Other Receivables, Net consisted of the following:

(in millions)	2021	2020
Non-Entity		
Federal Taxes Receivable, Gross	**$ 493,275**	$ 427,251
Less Allowance on Taxes Receivable	**(191,253)**	(191,246)
Receivable on FRB Deposits of Earnings	**267**	162
Other Receivables	**1,662**	1,324
Less Allowance on Other Receivables	**(137)**	(134)
Total Non-Entity (Note 15)	**303,814**	237,357
Entity		
Miscellaneous Entity Receivables and Related Interest	**815**	233
Total Taxes, Interest, and Other Receivables, Net	**$ 304,629**	$ 237,590

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 employers' deferred share of the Social Security portion of FICA and both the employers' and employee representatives' share of the RRTA, as provided for by the CARES Act. The growth in the *Federal Taxes Receivable, Gross* amount is largely due to the inclusion of the FICA amounts, partly offset by a reduction in the IRC 965(h) amounts.

Federal taxes receivable is reduced by an allowance for doubtful accounts which we established to represent an estimate for uncollectible amounts. The portion of taxes receivable estimated to be collectible and the allowance for doubtful accounts are based on projections of collectability from a statistical sample of taxes receivable (refer to the section entitled *Required Supplementary Information (unaudited)* for additional discussion on IRS Federal Taxes Receivable, Net).

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, 2021 and 2020, Credit Program Receivables, Net (other than the COVID-19 Credit Program Receivables, Net) consisted of the following:

(in millions)		2021		2020
State and Local Housing Finance Agency Program (GSE sponsored)	**$**	**1,416**	$	2,395
Other [1]		**1,346**		1,309
Total	**$**	**2,762**	$	3,704

(1) Includes CDFI, SBLF, and TARP credit program receivables valued at $1.3 billion, $36 million, and $4 million, respectively, as of September 30, 2021, and $1.2 billion, $46 million, and $16 million, respectively, as of September 30, 2020.

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, 2021 and 2020, the HFA net credit program receivable of $1.4 billion and $2.4 billion, respectively, included a positive subsidy allowance of $249 million and $395 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, 2021 and 2020. These re-estimates resulted in a downward re-estimate, or a decrease in the cost of the program, of $140 million and $174 million as of September 30, 2021 and 2020, respectively. The downward re-estimates in FY 2021 and 2020 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, 2021 and 2020. 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 2021 and 2020 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]	2021 TOTAL
Credit Program Receivables, Net:			
Credit Program Receivables, Gross	$ 1,665	$ 1,349	$ 3,014
Subsidy Cost Allowance	(249)	(3)	(252)
Net Credit Program Receivables	$ 1,416	$ 1,346	$ 2,762
New Credit Program Loans Disbursed	$ -	$ 92	$ 92
Obligations for Loans Not Yet Disbursed	$ -	$ 413	$ 413
Reconciliation of Subsidy Cost Allowance:			
Balance, Beginning	$ 395	$ 3	$ 398
Subsidy Cost for Disbursements	-	(3)	(3)
Fees, Interest and Dividend Revenue Received	62	36	98
Net Proceeds from Sales and Repurchases of Assets in Excess (Less than) Cost	-	(2)	(2)
Subsidy Allowance Amortized [1]	(68)	(36)	(104)
Balance, Ending, Before Re-estimates	389	(2)	387
Subsidy Re-estimates	(140)	5	(135)
Balance, Ending	$ 249	$ 3	$ 252
Re-estimates			
Interest on Re-estimate	$ (52)	$ 18	$ (34)
Technical/Default Re-estimate	(88)	(13)	(101)
Total Re-estimates – Increase (Decrease) in Subsidy Cost	$ (140)	$ 5	$ (135)
Reconciliation of Subsidy Costs:			
Subsidy Cost for Disbursements	$ -	$ (3)	$ (3)
Subsidy Re-estimates	(140)	5	(135)
Total Credit Program Receivables Subsidy Costs	$ (140)	$ 2	$ (138)
Administrative Expense	$ 1	$ 3	$ 4

(in millions)	HFA	Other [3]	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 of (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

(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 1.28% and 8.21%, respectively.
(3) CDFI Financial Assistance Direct Loan Program budget subsidy rates for Interest Differential and for Defaults were 1.05%, and 8.55%, respectively.

10. COVID-19 INVESTMENTS, ADVANCES, RECEIVABLES, AND OTHER

The global spread of the COVID-19, which commenced in early spring of 2020 and continued throughout FY 2021, resulted in a severe global health and economic crisis. In FY 2020 and FY 2021, Congress took steps to limit the damage the pandemic in the U.S. caused by passing several key statutes that helped 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. Additionally, in FY 2020, the Federal Reserve Board of Governors (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 commercial paper of eligible entities to support key U.S. financial markets. We played a critical role in the implementation and support Congress' and the Board's actions.

On March 27, 2020, the President signed into law the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act), P.L. 116-136. The CARES Act appropriated $500.0 billion to our Exchange Stabilization Fund (ESF) to make loans, loan guarantees, or investments through December 31, 2020, to support the Board's emergency efforts, as well as to provide financial assistance to certain categories of businesses that incurred losses as a result of COVID-19. The CARES Act also added appropriations for us to make financial assistance payments of: (i) $32.0 billion to air carriers and contractors to provide payroll support for the purpose of preserving aviation jobs during the pandemic; and (ii) $150.0 billion to affected states, local, territorial, and Tribal governments (Coronavirus Relief Fund). Through the IRS's permanent and indefinite authority, we obtained $282.0 billion to pay Economic Impact Payments (EIPs) for individuals pursuant to the CARES Act, and an additional $10.0 billion to fund tax credits associated with the Sick and Family Leave and Employee Retention Tax Credits programs, also in accordance with the CARES Act and the *Families First Coronavirus Response Act of 2020* (FFCRA).

On December 27, 2020, the President signed into law the *Consolidated Appropriations Act, 2021* (CAA), P.L. 116-260. This legislation rescinded, upon its enactment, $429.0 billion of the $500.0 billion appropriation provided to Treasury under the CARES Act, and rescinded the remaining unobligated appropriation of $49.8 billion as of January 9, 2021. The CAA also provided for a second distribution of EIPs (utilizing an estimated $166.0 billion of IRS's permanent and indefinite authority) to individuals, along with various tax breaks for employers, and extended the use of funds from the Coronavirus Relief Fund from December 30, 2020, to December 31, 2021. The CAA also provided separate appropriations to Treasury for COVID-19 additional emergency funding, including $16.0 billion for a second distribution of payroll support payments to air carriers and contractors; $25.0 billion to states, local, territorial, and Tribal governments, for their subsequent disbursement of emergency rental financial assistance payments to eligible households; $9.0 billion for investments in community development financial institutions (CDFIs) to support low-income and minority communities; $3.0 billion for COVID-19 grants to CDFIs; and $2.0 billion for transportation service providers.

The *American Rescue Plan Act of 2021* (ARP), P.L. 117-2, signed into law on March 11, 2021, provided through the IRS's permanent and indefinite authority, $421.0 billion as a third distribution of EIPs to individual households and $70.0 billion in advances for child tax credits. The ARP also extended the use of funds from the CAA's emergency rental assistance program from December 31, 2021, to September 30, 2022. The ARP added new appropriations of $350.0 billion for a Coronavirus State and Local Recovery Fund, an expanded version of the Coronavirus Relief Fund program under the CARES Act, for providing financial assistance to state, local, territorial, and Tribal governments. Further added were new appropriations for programs modeled on certain programs previously created by the CARES Act and the CAA, including $15.0 billion for a third distribution of payroll support payments to air carriers and contractors, and $21.6 billion for a second

distribution of emergency rental assistance. The ARP also provided for an additional aggregate of $32.0 billion in new appropriations to create four other new programs to address continuing pandemic-related crises, including a $10.0 billion homeowners assistance fund, a $10.0 billion capital projects fund, a $10.0 billion state small business credit initiative fund, and a $2.0 billion local assistance and Tribal consistency fund.

The tables below summarize our key budgetary resources, as of September 30, 2021 and 2020, by program for each of the three legislative Acts enacted in response to the COVID-19 pandemic:

	Fiscal Year Ended September 30, 2021			
(in millions)	Appropriation and Other Authority [(1)]	Other Adjustments [(2)]	Less: Obligations Incurred	Remaining Available Budgetary Resources
ARP Authority				
Economic Impact Payments to Individuals	$ 421,000	$ (16,697)	$ (404,303)	$ -
Advances for Child Tax Credits	70,000	(23,856)	(46,144)	-
Other COVID-19 Related Tax Credits	52,286	(42,143)	(10,143)	-
Total Taxpayer Support Programs	543,286	(82,696)	(460,590)	-
Coronavirus State and Local Fiscal Recovery Funds	350,000	-	(242,934)	107,066
Emergency Rental Assistance	21,550	-	(8,466)	13,084
Homeowners Assistance Fund	9,961	-	(973)	8,988
Coronavirus Capital Projects Fund	10,000	-	-	10,000
State Small Business Credit Initiative	10,000	-	(6)	9,994
Local Assistance and Tribal Consistency Fund	2,000	-	-	2,000
Total State, Local, Territorial, and Tribal Programs	403,511	-	(252,379)	151,132
Payroll Support to Aviation Workers	15,000	-	(14,671)	329
Total American Industry and Financial Markets Programs	15,000	-	(14,671)	329
Total ARP Authority [(3)]	$ 961,797	$ (82,696)	$ (727,640)	$ 151,461
CAA Authority				
Economic Impact Payments to Individuals	$ 166,000	$ (1,229)	$ (164,771)	$ -
Total Taxpayer Support Programs	166,000	(1,229)	(164,771)	-
Emergency Rental Assistance	25,000	-	(24,994)	6
Total State, Local, Territorial and Tribal Programs	25,000	-	(24,994)	6
Payroll Support to Aviation Workers	16,000	-	(15,683)	317
Coronavirus Economic Relief for Transportation Services	2,000	-	(1,295)	705
Total American Industry and Financial Markets Programs	18,000	-	(16,978)	1,022
Emergency Capital Investment Program	9,000	-	(24)	8,976
CDFI Rapid Response and Economic Impact Programs	3,000	-	(1,249)	1,751
Total CDFI Programs	12,000	-	(1,273)	10,727
Total CAA Authority [(3)]	$ 221,000	$ (1,229)	$ (208,016)	$ 11,755

(1) Appropriation and Other Authority includes authority provided by the ARP and CAA which was used to finance emergency relief programs. Also included is permanent and indefinite authority used to fund the tax provisions pursuant to these Acts.
(2) Other Adjustments primarily include the return of unused permanent and indefinite authority as of September 30, 2021. To fund certain tax provision programs that extended beyond September 30, 2021, permanent and indefinite appropriations will be obtained in FY 2022.
(3) Total ARP and CAA Authority does not include amounts related to the Department's program support and oversight of these programs.

(in millions)	Fiscal Year Ended September 30, 2021 Beginning Available Budgetary Resources	Rescissions and Other Adjustments [1]	Less: Obligations Incurred	Remaining Available Budgetary Resources
CARES Act Authority				
Economic Impact Payments to Individuals	$ -	$ 434	$ (434)	$ -
Total Taxpayer Support Programs	-	434	(434)	-
Section 13(3) Federal Reserve Programs - Liquidity Facilities	423,835	(423,835)	-	-
Direct Loans to Air Carriers and National Security Business	44,301	(42,692)	(18)	1,591
Payroll Support to Aviation Workers	3,794	-	(447)	3,347
Total American Industry and Financial Markets Programs	471,930	(466,527)	(465)	4,938
Total CARES Act Authority [2]	$ 471,930	$ (466,093)	$ (899)	$ 4,938

(1) Rescissions and Other Adjustments primarily include a total of $478.8 billion of CARES Act appropriation authority that was rescinded pursuant to the CAA. Partially offsetting this amount was a de-obligation of $12.3 billion that was to be used to fund the subsidy portion of obligated but undisbursed CARES Act investments and loans. Also includes permanent and indefinite authority obtained in FY 2021 to fund certain tax provision programs that extended beyond September 30, 2020 pursuant to the CARES Act.

(2) Total CARES Act Authority does not include amounts related to the Department's program support and oversight of these programs.

(in millions)	Fiscal Year Ended September 30, 2020 Appropriation and Other Authority [1]	Borrowing Authority and Other Adjustments [2]	Less: Obligations Incurred	Remaining Available Budgetary Resources
CARES Act Authority				
Section 13(3) Federal Reserve Programs - Liquidity Facilities	$ 454,000	$ 164,835	$ (195,000)	$ 423,835
Direct Loans to Air Carriers and National Security Business	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	32,000	-	(28,206)	3,794
Coronavirus Relief Fund	150,000	-	(150,000)	-
Total Relief Funding	182,000	-	(178,206)	3,794
Economic Impact Payments for Individuals	282,000	(7,346)	(274,654)	-
Sick and Family Leave and Employee Retention Tax Credits	10,000	(9,286)	(714)	-
Total Tax Provision	292,000	(16,632)	(275,368)	-
Total CARES Act Authority [3]	$ 974,000	$ 161,859	$ (663,929)	$ 471,930

(1) Appropriation and Other Authority includes appropriation authority provided by the CARES Act which, together with the ESF's core authority under the Gold Reserve Act, was used to finance emergency relief programs. Also included is permanent and indefinite authority used to fund the tax provision programs pursuant to this Act.

(2) Appropriation Authority (first column) was used to finance the subsidy costs associated with making the investments and direct loans in accordance with the provisions of FCRA. Borrowing Authority (second column) was used to finance the remainder of the disbursed amounts via borrowings from Fiscal Service. Other Adjustments primarily include the return of unused permanent and indefinite authority of $16.6 billion as of September 30, 2020.

(3) Total CARES Act Authority does not include amounts related to the Department's program support and oversight of these programs.

TAXPAYER SUPPORT

ECONOMIC IMPACT PAYMENTS FOR INDIVIDUALS

Pursuant to the CARES Act, CAA, and ARP, Treasury, through the IRS, used its permanent and indefinite authority to pay recovery rebates for individuals (also referred to as the "Economic Impact Payments"). These Acts authorized the IRS to allow for a tax credit (or rebate) to individuals against their 2020 income taxes (for the CARES Act and CAA) and against their 2021 income taxes (for the ARP). These EIPs were reduced above certain income limitations per individual tax return. The IRS disbursed payments under this provision to eligible recipients in every state and territory and at foreign addresses. These outlays were reported as "*Refunds and Other Payments*" on the Statements of Custodial Activity (refer to Note 23).

A summary of the EIP information and disbursement activity for FY 2021 and FY 2020 by legislative Act is as follows:

	Tax Credit (or Rebate) To (amounts in dollars)				
	Per Individuals	Per Individual Filing Jointly	Add'l for Each Qualifying Child	FY 2021 Total Disbursed ($ in millions)	FY 2020 Total Disbursed ($ in millions)
CARES Act	$ 1,200	$ 2,400	$ 500	$ 434	$ 274,654
CAA	$ 600	$ 1,200	$ 600	$ 164,771	$ -
ARP	$ 1,400	$ 2,800	$ 1,400	$ 404,303	$ -

ADVANCES FOR CHILD TAX CREDITS

The ARP allows eligible employers to claim refundable tax credits that reimburse them for the cost of providing paid sick and family leave to their employees due to COVID-19, including leave employees take to receive or recover from COVID-19 vaccinations. The ARP tax credits are available to eligible employers that pay sick and family leave for leave from April 1, 2021, through September 30, 2021. The ARP also increases the child tax credit from $2,000 to $3,000 for the 2021 tax year only. For the 2021 tax year only, the child tax credit is made fully refundable for taxpayers whose principal residence for more than one-half of the tax year is in the United States.

OTHER COVID-19 RELATED TAX CREDITS

The *Families First Coronavirus Response Act of 2020* (FFCRA) (P.L. 116-127), 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, with limitations. The CAA extended the Sick and Paid Family Leave from December 31, 2020, until March 31, 2021.

The CARES Act also 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 Employee Retention Credit (ERC) is available to employers whose (*i*) operations were fully or partially suspended, due to a COVID-19 related shut-down order, or (*ii*) gross receipts declined by more than 50 percent when compared to the same quarter in the prior year. Additionally, the CAA extended the ERC from December 31, 2020, to June 30, 2021.

The ARP also included a *Consolidated Omnibus Budget Reconciliation Act* (COBRA) tax credit where employers are entitled to a 100 percent tax credit for subsidizing COBRA on behalf of eligible individuals. The COBRA subsidy period was from April 1, 2021 to September 30, 2021.

COVID-19: Refunds and Other Payments

The IRS used its permanent and indefinite authority to fund the taxpayer support programs as authorized by the CARES Act, CAA, and ARP. We report this activity within the "*Refunds and Other Payments"* line of the Statements of Custodial Activity (also refer to Note 23). EIP outlays and tax credits paid in FY 2021 in connection with the CAA and ARP and in FY 2020 in connection with the CARES Act were as follows:

(in millions)		2021	2020
Economic Impact Payments	$	569,508 $	274,654
Advances for Child Tax Credits		46,144	-
Other COVID-19 Related Tax Credits		10,143	714
Total COVID-19 Related Refunds and Other Payments	**$**	**625,795 $**	**275,368**

SUPPORT PROVIDED THROUGH STATE, LOCAL, TERRITORIAL AND TRIBAL GOVERNMENTS

The following is a description of each support program directed through state, local, territorial, and Tribal governments. Following these descriptions is a section entitled, *"COVID 19: Advances, Net,"* which discusses the accounting treatment for these programs.

CORONAVIRUS RELIEF FUND

In FY 2020, Treasury established the Coronavirus Relief Fund (CRF) pursuant to the CARES Act to reduce financial pressure placed upon state, territorial and Tribal governments, and certain eligible units of local governments as a result of the pandemic. Congress appropriated $150.0 billion to the CRF, 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 and 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.

We made payments from the CRF to state, local, territorial, and Tribal governments, which the governing bodies use 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 31, 2021 (as extended by the CAA from December 30, 2020).

Section 601(f)(2) of the *Social Security Act* (as added by the CARES Act) provides for the Treasury Office of Inspector General to recoup amounts recipients received from the CRF that have not been used in a manner consistent with Section 601(d) of the *Social Security Act*. If a recipient does not use funds it received to cover costs that were incurred through December 31, 2021 (as extended by the CAA from December 30, 2020), those funds must be returned to Treasury and deposited to the General Fund.

Of the $150.0 billion appropriated in FY 2020 for this program, we disbursed $0.4 billion and $149.5 billion for the fiscal years ended September 30, 2021 and 2020, respectively. We did not recoup any of the disbursed funds in either year.

CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS

The Coronavirus State and Local Fiscal Recovery Funds (SLFRF), established in FY 2021 in accordance with the ARP, provide a combined $350.0 billion, to remain available through December 31, 2024, to state, local, territorial, and Tribal governments to reduce the fiscal effects stemming from COVID-19, and lay the foundation for a strong and equitable recovery. Pursuant to the terms of the ARP, we provided assistance to:

- households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;
- eligible workers of state, territorial, or Tribal governments by providing them premium pay for performing essential work during the COVID-19 public health emergency;
- eligible state, local, territorial, and Tribal governments to replace lost revenue and strengthen support for vital public services and help retain jobs; and
- make necessary investments in water, sewer, or broadband infrastructure.

We allocated the $350.0 billion of appropriations we received as follows: $195.3 billion for states, including the District of Columbia; $130.2 billion for local governments, including counties, metropolitan cities, and non-entitlement units of local government; $4.5 billion for territorial governments; and $20.0 billion for Tribal governments.

We will recoup funds from recipients that fail to comply with the provisions of the statute on specified use of funds, for the amount in violation. If a recipient does not use funds it received by December 31, 2024, they must return those funds to Treasury, which we will deposit to the General Fund.

Of the $350.0 billion appropriated in FY 2021 for this program, we disbursed $242.9 billion for the fiscal year ended September 30, 2021. We did not recoup any of the disbursed funds in FY 2021.

EMERGENCY RENTAL ASSISTANCE (HOUSING SUPPORT)

Even as the American economy continues its recovery from the devastating impact of the pandemic, millions of Americans face deep rental debt and fear evictions and the loss of basic housing security.

To meet this need, we established two Emergency Rental Assistance (ERA) programs in FY 2021, the first program created pursuant to the CAA (ERA 1) and a second round under the ARP (ERA 2). The ERA programs make funding available through state, local, territorial, and Tribal governments. Recipients must use up to 90 percent of the awarded funding to provide financial assistance to eligible households for rent (and arrears), utilities and home energy costs (and arrears), other housing costs and housing stability services. The ERA 1 and ERA 2 funding will generally remain available until September 30, 2022, and September 30, 2025, respectively.

We will recoup funds from those recipients that fail to comply with the provisions of the statute on specified use of funds, for the amount in violation, and will deposit the recouped funds to the General Fund.

(in millions)	Appropriations Received	Total Disbursed FY 2021	Period of Availability
CAA (ERA 1)	$ 25,000	$ 24,994	9/30/2022
ARP (ERA 2)	21,550	8,319	9/30/2025
Total ERA Programs	**$ 46,550**	**$ 33,313**	

HOMEOWNER ASSISTANCE FUND

The ARP provided $9.961 billion of appropriated funds to establish the Homeowner Assistance Fund (HAF) to help prevent homeowner mortgage delinquencies, defaults, foreclosures, loss of utilities or home energy services, and displacement of homeowners experiencing financial hardship after January 21, 2020. Funds from the HAF are being made available through state, local, territorial, and Tribal governments. Recipients must use the funds for assistance with mortgage payments, homeowner's insurance, utility payments, and other specified purposes related to mortgages and housing. This funding will remain available until September 30, 2025. Of the $9.961 billion appropriated in FY 2021 for this program, we disbursed $1.0 billion for the fiscal year ended September 30, 2021. We did not recoup any of the disbursed funds in FY 2021.

CORONAVIRUS CAPITAL PROJECTS FUND

The Coronavirus Capital Projects Fund, established pursuant to the ARP in FY 2021, addresses certain challenges of the pandemic, especially in rural America and low- and moderate-income communities, helping to ensure that all communities have access to high-quality, modern infrastructure, including internet access. The ARP provided an appropriation of $10.0 billion for payments to states, territories, the freely associated states, and Tribal governments to carry out critical capital projects that directly enable work, education, and health monitoring, including remote options, in response to the public health emergency. This appropriation will remain available until the funds are fully spent. All disbursements for this program are anticipated to begin in FY 2022.

STATE SMALL BUSINESS CREDIT INITIATIVE

We established the State Small Business Credit Initiative (SSBCI) program under the ARP to provide $10.0 billion in appropriated funds to state, territorial, and Tribal governments for small business credit support and investment programs. These funds will remain available until expended to provide support to small businesses responding to and recovering from the economic effects of the COVID-19 pandemic, help businesses owned and controlled by socially and economically disadvantaged individuals have access to credit and investments, provide technical assistance to help small businesses applying for various support programs, and to pay reasonable costs of administering this program. This program amends the SSBCI program we had previously established under the *Small Business Jobs Act of 2010*.

The ARP requires all disbursements and remaining obligations to be completed on or before September 30, 2030; any remaining unexpended amounts as of that date will be rescinded and returned to the General Fund. We did not disburse any funds for this program for the fiscal year ended September 30, 2021.

LOCAL ASSISTANCE AND TRIBAL CONSISTENCY FUND

The ARP provided us $2.0 billion of appropriated funds to establish a Local Assistance and Tribal Consistency Fund and make payments to eligible revenue-sharing counties and Tribal governments for any governmental purpose other than a lobbying activity. Of the total appropriated amount, the ARP reserved $750 million and $250 million for eligible revenue-sharing counties and Tribal governments, respectively. The $2.0 billion of appropriated funds will remain available until September 30, 2023, with amounts to be obligated for each of fiscal years 2022 and 2023.

COVID-19: Advances Net:

During FY 2021, we disbursed an aggregate of $277.7 billion in appropriated and obligated funds to states, local, territorial, and Tribal governments pursuant to the CRF, SLFRF, ERA and HAF programs to cover eligible costs recipients incur in response to the pandemic. During FY 2020, we disbursed $149.5 billion to states, local, territorial, and Tribal governments

pursuant to the CRF program. We initially recorded $276.7 billion of the $277.7 billion disbursed in FY 2021 and all of the $149.5 billion disbursed in FY 2020 as an advance on the Consolidated Balance Sheets. We subsequently recognized $89.5 billion ($58.4 billion of which related to the CRF disbursements made in FY 2020) and $80.6 billion of this advance as an expense recorded as "*Economic Program*" costs on the Consolidated Statements of Net Cost to reflect the estimated amount of eligible costs incurred by recipients for the fiscal year ended September 30, 2021 and 2020, respectively. We recorded the remaining $1.0 billion disbursed in FY 2021 as *"Economic Program"* cost on the Consolidated Statements of Net Cost for the fiscal year ended September 30, 2021.

SUPPORT TO AMERICAN INDUSTRY AND FINANCIAL MARKETS

INVESTMENTS AND DIRECT LOANS OVERVIEW

In FY 2020, 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. We are authorized by the CARES Act to make such loans, loan guarantees and other investments that did not, in the aggregate, exceed $500.0 billion, of which up to $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 the Board established to provide liquidity to the financial system that supported lending to eligible businesses, states, or 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 credit 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.

In addition to the amounts disbursed during FY 2020, we also had obligated but undisbursed amounts committed as of September 30, 2020, for future investment and direct loan disbursements totaling $106.0 billion (comprised of $92.5 billion and $13.5 billion, respectively). 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).

The December 27, 2020, enactment of the CAA, among other things, eliminated our ability to make new loans and investments under the CARES Act effective January 9, 2021, and prohibited the Federal Reserve from engaging in further lending or extensions of credit, after December 31, 2020, through all but one facility the Federal Reserve established under Section 13(3) in which Treasury made an investment pursuant to the CARES Act (and after January 8, 2021, for that one facility). Accordingly, on December 27, 2020, the CAA rescinded $429.0 billion of the $500.0 billion appropriation provided to Treasury. In accordance with the CAA, an additional $49.8 billion was rescinded on January 9, 2021.

SECTION 13(3) FEDERAL RESERVE PROGRAMS

In FY 2020, the Board, pursuant to its emergency-lending authority under Section 13(3) and Regulation A of the Board, authorized the FRBNY and FRBB to establish emergency liquidity lending facilities to enhance the liquidity of the U.S. financial system as a result of the severe global health and economic crisis. The FRBNY and FRBB implemented certain of the facilities 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 SPVs for the purpose of

making loans and purchasing debt and other commercial paper of eligible entities affected by COVID-19. The liquidity lending facilities established included the: (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), (v) Commercial Paper Funding Facility II LLC (CPFF), and (vi) Money Market Mutual Fund Liquidity Facility (MMLF).

The SPVs purchased assets and offered 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 made loans to the SPVs, on a recourse basis, to fund the SPVs' purchase of assets from, or loans 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.

We provided equity to each SPV in FY 2020 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.

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 are deposited into the preferred equity account.

Under the terms of the LLC agreements, membership interests would not receive periodic or other distributions during the life of the SPV (except for the interim distribution that occurred on December 29, 2020, as further discussed below). Distribution of the SPV's assets would be made only upon dissolution of the facility, after liabilities and other interests were 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 the other accounts of the SPV. The applicable FRB is entitled to 10 percent of the cash balance in all 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 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.

During FY 2020, we funded disbursements to all but two of the liquidity lending facilities using, in part, the $454.0 billion of funds appropriated to the ESF under the CARES Act to provide the subsidy amounts necessary for such disbursements in accordance with the provisions of FCRA. We funded the remainder of the disbursed amounts by borrowings from Fiscal Service. For two of the liquidity facilities, CPFF and MMLF, we used the core funds of ESF, which were previously invested in overnight, nonmarketable U.S. Treasury securities (refer to Note 2) and exempt from apportionment.

On December 29, 2020, consistent with the CAA, Treasury and the Federal Reserve amended the SPV LLC Agreements for each of the SPVs funded under the CARES Act. The amended agreements provided for the cancellation, on December 29, 2020, of Treasury's undisbursed investment commitments totaling an aggregate of $92.5 billion, and an interim distribution to Treasury, between December 31, 2020, and January 8, 2021, totaling an aggregate of $62.2 billion, including to return funds disbursed by Treasury in excess of the purchase price of the assets, loans, and/or loan participations, as the case may be, within each facility at such time. The aggregate of $62.2 billion of excess funds were returned to Treasury (through the ESF) on January 5, 2021, for the CCF, TALF, and MLF, and on January 8, 2021, for the MSF. We used this cash received to repay outstanding debt to the Fiscal Service that was used to finance the non-subsidized portion of these investment transactions. Further, our canceled commitments in the amount of $92.5 billion were de-obligated in FY 2021. Our funds remaining in the SPVs funded under the CARES Act cannot be used for further lending, asset purchases, or extensions of credit.

During FY 2021, the FRBNY and FRBB dissolved several of the liquidity facilities. The FRBB dissolved the MMLF in April 2021, and the FRBNY dissolved the CPFF and CCF in June and September 2021, respectively. See below for further discussion of these transactions.

(in millions)	FY 2020 Original Treasury Commitment	FY 2020 Disbursements	Available for Future Disbursement 9/30/20	FY 2021 Canceled Commitments	Available for Future Disbursement 9/30/21
Corporate Credit Facilities LLC [(1)]	$ 75,000	$ (37,500)	$ 37,500	$ (37,500)	$ -
Main Street Facilities LLC [(1)]	75,000	(37,500)	37,500	(37,500)	-
Municipal Liquidity Facility LLC [(1)]	35,000	(17,500)	17,500	(17,500)	-
Term Asset-Backed Securities II LLC	10,000	(10,000)	-	-	-
Commercial Paper Funding Facility II LLC	10,000	(10,000)	-	-	-
Money Market Mutual Fund Liquidity Facility [(2)]	10,000	(1,500)	8,500	(8,500)	-
Total 13(3) Facilities	**$ 215,000**	**$ (114,000)**	**$ 101,000**	**$ (101,000)**	**$ -**

(1) The undisbursed commitment amount for this facility as of September 30, 2020, was canceled on December 29, 2020 pursuant to the CAA.
(2) The undisbursed commitment amount as of September 30, 2020, was canceled pursuant to the April 12, 2021 dissolution of the MMLF facility.

(in millions)	FY 2020 Disbursements	Interim Distribution	Final Dissolution [(1)]	Remaining Outstanding Equity Contribution 9/30/21 [(2)]
Corporate Credit Facilities LLC	$ 37,500	$ (23,619)	$ (13,881)	$ -
Main Street Facilities LLC	37,500	(20,928)	-	16,572
Municipal Liquidity Facility LLC	17,500	(11,224)	-	6,276
Term Asset-Backed Securities II LLC	10,000	(6,451)	-	3,549
Commercial Paper Funding Facility II LLC	10,000	-	(10,000)	-
Money Market Mutual Fund Liquidity Facility	1,500	-	(1,500)	-
Total 13(3) Facilities	$ 114,000	$ (62,222)	$ (25,381)	$ 26,397

(1) These amounts exclude residual amounts received in connection with the dissolution of these facilities.
(2) These amounts exclude cumulative 9/30/21 fair valuations associated with these assets. See table below for such fair valuations.

The following is a description of the liquidity lending facilities. 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 loaned to the SPV, on a recourse basis. The PMCCF was intended to purchase qualified bonds from eligible issuers, and purchased 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 COVID-19 caused. The SMCCF supported the flow of credit to employers by providing liquidity to the market for outstanding corporate bonds.

We had initially committed to contribute up to a combined total of $75.0 billion in capital to the single common SPV supporting both programs. 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 FRBNY incurred in connection with this program. On December 29, 2020, Treasury's undisbursed investment commitment of $37.5 billion was canceled pursuant to the amended SPV LLC agreement, and excess funds of $23.6 billion were returned to us on January 5, 2021. We used the proceeds to repay the Treasury borrowed funds. The SPV ceased purchasing eligible notes on December 31, 2020. The FRBNY sold the credit holdings in the SPV and, on September 24, 2021, returned to Treasury our remaining outstanding equity contribution of $13.9 billion and $17 million of interest earnings on special nonmarketable Treasury securities invested within the SPV. Upon final dissolution of the CCF SPV, which is expected in early FY 2022, we will be entitled to an additional amount equal to 90 percent of the cash balance in all of the other accounts of the SPV.

Main Street Facilities LLC

On May 18, 2020, the FRBB established the MSF SPV 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. Through loans from the FRBB, the SPV purchased 95 percent participations in loans originated by eligible lenders, while the lender retained five percent. 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.

We had initially 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 MSF to cover potential losses incurred by the FRBB in connection with this program. On December 29, 2020, Treasury's undisbursed investment commitment of $37.5 billion was canceled pursuant to the amended SPV LLC agreement, and excess funds of $20.9 billion were returned to us on January 8, 2021. The SPV ceased purchasing loan participations on January 8, 2021.

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 loaned to the MLF, on a recourse basis, to allow the facility to purchase short-term notes directly from eligible U.S. states (including the District of Columbia), counties and cities.

We had initially 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. On December 29, 2020, Treasury's undisbursed investment commitment of $17.5 billion was canceled pursuant to the amended SPV LLC agreement, and excess funds of $11.2 billion were returned to us on January 5, 2021. The SPV ceased 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 facilitated the issuance of asset-backed securities backed by student loans, auto loans, credit card loans, loans guaranteed by the Small Business Administration, commercial mortgages, and certain other assets.

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. On January 5, 2021, excess funds of $6.5 billion were returned to us pursuant to the amended SPV LLC agreement. No new credit extensions were made after December 31, 2020.

Commercial Paper Funding Facility II LLC

On March 30, 2020, the FRBNY established the CPFF SPV to provide liquidity to short-term funding markets by purchasing three-month unsecured and asset-backed commercial paper directly from eligible issuers. To cover potential losses incurred by FRBNY in connection with this program, on April 13, 2020, we made a capital contribution in the CPFF SPV by transferring $10.0 billion of core ESF funds to the SPV in exchange for a preferred equity interest in the SPV. The SPV ceased purchasing commercial paper on March 31, 2021. Commencing June 29, 2021, and concluding on July 7, 2021, the FRBNY made final distributions to us of our $10.0 billion capital contribution, $5 million of interest earnings on special nonmarketable Treasury securities invested within the SPV, and $44 million of residual earnings equivalent to 90 percent of the cash balance in all the other accounts of the SPV. These cash proceeds were provided to the ESF, which reinvested them in overnight, nonmarketable U.S. Treasury securities. The CPFF SPV was terminated on July 8, 2021.

Money Market Mutual Fund Liquidity Facility (MMLF)

The FRBB launched the MMLF on March 23, 2020 to make 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. We committed to provide $10.0 billion of credit support to the MMLF. On May 20, 2020, we transferred an initial $1.5 billion of the $10.0 billion of committed funds from core ESF funds. The FRBB agreed to pay us a "facility fee" for the use of the MMLF credit support based on the amount of interest owed by the borrower on each MMLF loan. The FRBB did not make new credit extensions after March 31, 2021, and FRBB terminated the MMLF. On April 12, 2021, the FRBB returned to the ESF, through Treasury, its $1.5 billion of contributed capital, along with $134 million of accrued facility fee residual earnings. Treasury's undisbursed credit support commitment of $8.5 billion was also canceled on April 12, 2021.

The following is financial information about the assets held in each of the remaining SPVs as of September 30, 2021 and 2020, which we obtained from the FRB's Combined Quarterly Financial Reports (unaudited):

	2021			2020		
(in millions)	Total Assets Excluding Treasury's Equity Contribution	Treasury's Equity Contribution [1]	Total Assets Including Treasury's Equity Contribution	Total Assets Excluding Treasury's Equity Contribution	Treasury's Equity Contribution	Total Assets Including Treasury's Equity Contribution
Corporate Credit Facilities LLC	$ -	$ -	$ -	$ 13,100	$ 37,500	$ 50,600
Main Street Facilities LLC	**13,865**	**16,586**	**30,451**	2,100	37,500	39,600
Municipal Liquidity Facility LLC	**4,493**	**6,284**	**10,777**	1,700	17,500	19,200
Term Asset-Backed Securities II LLC	**1,491**	**3,553**	**5,044**	3,200	10,000	13,200
Commercial Paper Funding Facility II LLC	-	-	-	59	10,000	10,059
Total SPV Assets	**$ 19,849**	**$ 26,423**	**$ 46,272**	$ 20,159	$ 112,500	$ 132,659

(1) Amounts include interest earnings on special, non-marketable Treasury securities.

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, 2021 and 2020, our preferred equity investments in the SPVs were valued as follows:

COVID-19 Investments in SPVs (in millions)	Gross Investments As of 9/30/21	Cumulative Valuation Gain (Loss)	9/30/21 Fair Value
Main Street Lending Programs [1]	**$ 16,572**	**$ (998)**	**$ 15,574**
Municipal Liquidity Facility [1]	**6,276**	**177**	**6,453**
Term Assets Lending Facility [1]	**3,549**	**3**	**3,552**
Total COVID-19 Investments in SPVs [2]	**$ 26,397**	**$ (818)**	**$ 25,579**

(1) In January 2021, Treasury's investment in excess of amounts equivalent to the purchase price of the assets held within these SPVs was returned to Treasury.
(2) This balance excludes $847 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").

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 CARES 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. The CARES 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. During FY 2020, we 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. We reported the $500.0 billion of subsidy financing made available pursuant to the CARES Act less the $19.1 billion, or $480.9 billion, within the "Fund Balance" line of the Consolidated Balance Sheet as of September 30, 2020. In FY 2021, the CAA rescinded $478.8 billion of the $480.9 billion September 30, 2020 appropriation balance. Of the remaining $2.1 billion, $500 million was used in FY 2021 to fund subsidy costs related to direct loan disbursements and administrative expenses incurred, leaving $1.6 billion of this appropriation within the "Fund Balance" line as of September 30, 2021. We reported these CAA rescissions within the line item "Other Adjustments" on the Consolidated Statements of Changes in Net Position for the fiscal year ending September 30, 2021. Additionally, in FY 2021, we and the Federal Reserve amended four of the SPV agreements which resulted in a return of capital to us totaling an aggregate of $62.2 billion. We used these proceeds to repay outstanding borrowings used to finance the non-subsidized portion of these investments. For budgetary accounting purposes, we accounted for the initial investment financing in FY 2020 and subsequent activity in FY 2021 related to these investments pursuant to FCRA guidelines in accordance with Section 185 of OMB Circular A-11, *Preparation, Submission, and Execution of the Budget.*

For proprietary accounting purposes, we accounted for all SPV investments 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, we record changes in the fair value of these investments 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 years ended September 30, 2021 and 2020, we recorded an unrealized fair value net loss of $0.8 billion and $4.6 billion related to these investments, respectively.

Fair Value Estimation Factors. In determining the fair value of our SPV equity investments, we use available market pricing data, market pricing of floating interest-rate swaps, expected loss rates, and contractual instrument terms to estimate scenario-specific, expected cash flows for the SPVs. For market pricing data, we specifically use: *(i)* active market prices for the TALF program that owns 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, active market prices, expected loss rates and, where applicable, market pricing of floating interest-rate swaps to estimate scenario-specific, expected cash flows, which are discounted using market-based 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 Level 3 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 are transferred to us to repay all borrowings and other funding costs incurred from these investments. In accordance with the CARES Act, we must transfer any remaining excess residual proceeds 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 record a corresponding liability due to the Federal Old-Age and Survivors Insurance Trust Fund. We recorded a liability of $222 million as of September 30, 2021; there was no liability recorded as of September 30, 2020.

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 and MMLF credit support that were funded using the ESF's core funds, and any related income or loss associated with these assets, are treated as entity transactions.

COVID-19: Other Assets

Our participation in the MMLF program involved our transferring in FY 2020, $1.5 billion (which was previously 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) for the purpose of providing credit support of the MMLF program. 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 as of September 30, 2020. As earlier discussed under the MMLF program description, in April 2021, the FRBB dissolved the MMLF Credit Support Agreement and returned our $1.5 billion of credit support, along with $134 million of accrued facility fee residual earnings, which the ESF reinvested in overnight federal investments. Our Consolidated Statements of Net Cost reflect accrued facility fee earnings of $15 million and $119 million for the fiscal years ended September 30, 2021 and 2020, respectively.

DIRECT LOANS TO AIR CARRIERS AND OTHER RELATED BUSINESSES

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 COVID-19. We chose to make only direct loans under this authorization. Of the $500.0 billion appropriation provided under the CARES Act, up to $46.0 billion was authorized to be used to fund the subsidy costs associated with making these loans. The CARES Act stipulated that the direct loans were to be made in accordance with the provisions of FCRA; accordingly, we funded the direct loans using a combination of the $46.0 billion in authorized appropriations and borrowings from Fiscal Service. We finalized loan agreements for up to $7.0 billion and $15.4 billion during fiscal years 2021 and 2020, respectively, for which we disbursed an aggregate total of $858 million and $1.8 billion during fiscal years 2021 and 2020, respectively. As of September 30, 2021, there were no remaining loan commitments for which future borrowings could be made under the CARES Act.

The CARES Act specified that the Secretary determines the terms and conditions of the loans and stated that the duration of the loans will be no longer than five years. It also mandated 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." As "financial protection of the Government," the CARES Act also mandated that we obtain certain financial instruments including, but not limited to, common stock in the eligible business for the benefit of taxpayers. The following is a discussion of our accounting related to our direct loans.

COVID-19: Credit Program Receivables, Net

We present the direct loans as credit program receivables on our Consolidated Balance Sheets. As of September 30, 2021, the net credit program receivables of the passenger airlines and other related businesses (which includes national security business, air cargo carriers, ticket agents, and maintenance and repair firms) programs of $594 million and $717 million, respectively, included a negative subsidy allowance of $213 million and a positive subsidy allowance of $56 million, respectively. As of September 30, 2020, the net credit program receivables of the passenger airlines and other related businesses of $1.4 billion and $163 million, included a positive subsidy allowance of $159 million and $85 million, respectively. The negative or positive subsidies at the end of 2021 and 2020 reflect our projection as of those dates that these programs would result in net earnings or net cost to us, respectively, after accounting for principal loan repayments, interest, and fees. Included in these receivables are the projected cash flows associated with the common stock warrants, common stock shares, and senior debt instruments we received in connection with making these direct loans.

We performed a financial statement re-estimate of these credit programs costs. The re-estimates performed as of September 30, 2021 resulted in a downward re-estimate or decrease of $415 million and $268 million in the cost of the passenger airline programs and other related businesses programs, respectively. The FY 2021 re-estimates recorded by Treasury included the expected Federal Old-Age and Survivors Insurance Trust Fund liabilities for passenger airlines and other related businesses. These re-estimate results stemmed from lower expected losses for the outstanding investments and collections received during FY 2021, which included several large prepayments. The re-estimates performed 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 single other related business 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.

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, we must transfer any remaining excess residual proceeds 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, 2021, we recorded a liability of $261 million due to the Federal Old-Age and Survivors Insurance Trust Fund. 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 had not yet recovered our costs.

PAYROLL SUPPORT TO AVIATION WORKERS

Disruption to economic activity the spread of COVID-19 caused 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 canceling a large portion of flights and preparing for the layoff of tens of thousands of workers. We established three payroll support programs (PSPs), the first program created pursuant to the CARES Act (PSP1) in FY 2020, and continued in FY 2021 through the CAA (PSP2) and ARP (PSP3), with PSP3 only providing additional assistance to those who received assistance under PSP2. These PSP programs provided for relief to this industry by helping to preserve aviation jobs and compensate air carrier industry workers. Specifically, the PSPs provided financial assistance to passenger air carriers, cargo air carriers, and certain contractors to be used exclusively for the continuation of payment of employee salaries, wages, and benefits.

	Appropriations Received				Total Disbursed	
(in millions)	Passenger Airlines	Cargo Carriers	Contractors	Total	FY 2021	FY 2020
CARES (PSP 1)	$ 25,000	$ 4,000	$ 3,000	$ 32,000	$ 496	$ 28,141
CAA (PSP 2)	15,000	-	1,000	16,000	15,676	-
ARP (PSP 3)	14,000	-	1,000	15,000	14,584	-
Total PSPs	**$ 54,000**	**$ 4,000**	**$ 5,000**	**$ 63,000**	**$ 30,756**	**$ 28,141**

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 equal to the compensation the recipient paid to its employees for a certain period specified in the relevant Act. 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, March 31, 2021, and September 30, 2021, pursuant to the CARES Act, CAA and ARP, respectively, and (c) the recipient may not reduce employee pay rates or benefits through these dates. For the fiscal years ended September 30, 2021 and 2020, we recorded $30.7 billion and $28.2 billion, respectively, of financial assistance disbursements under the PSPs as "*Economic Program*" costs within the Consolidated Statements of Net Cost.

The CARES Act further authorized the Secretary to receive warrants, options, preferred stock, debt securities, or other financial instruments recipients of the PSP issued, which provide appropriate compensation to the federal government for the provision of the financial assistance. Pursuant to agreements negotiated between us and the recipients of the financial assistance, 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 under each program to the recipient over $100 million. For cargo air carriers, the note is equal to 56 percent of the payroll support provided under each program to the recipient over $50 million. For contractors, the note is equal to 44 percent of the payroll support provided under each program to the recipient over $38 million. In the event of multiple disbursements to the same recipient under each program, 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. 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, March 31, 2021, and September 30, 2021, for PSP1, PSP2, and PSP3, respectively. For contractors only, the notes generally also include an option for payment-in-kind interest thereby involving higher rates of interest.

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 under each program, divided by an exercise price. 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.

As compensation for the financial assistance paid in FY 2021, we received $7.6 billion and $375 million of promissory notes and warrants, respectively. We received $7.5 billion and $388 million of promissory notes and warrants, respectively, for financial assistance paid in FY 2020. The contractors repaid an aggregate of $103 million of promissory notes during FY 2021. 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

As of September 30, 2021 and 2020, our promissory notes totaling $13.7 billion and $5.3 billion, respectively, are presented net of an allowance for doubtful accounts estimated at $1.4 billion and $2.2 billion, respectively. Interest on the notes is payable semi-annually on March 31 and September 30 of each year. For the fiscal years ended September 30, 2021 and 2020, we recognized interest revenue of $131 million and $24 million, respectively.

We treat the promissory notes 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, we reported the initial revenue recognized at the inception of the loans, and subsequent recognition of related interest revenue, 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

We account for the common stock warrants 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, 2021 and 2020, our common stock warrants were valued at $847 million and $487 million, respectively, which includes a fair value loss of $14 million and a fair value gain of $99 million, respectively, recognized for the fiscal years ended September 30, 2021 and 2020, respectively.

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 we obtained the warrants from publicly traded companies, then we determined the fair value based on quoted prices of underlying shares in an active market as well as other significant unobservable inputs that reflect assumptions about the expectations that market participants would use in pricing. If we obtained the warrants from non-publicly traded companies, then we determined their fair value based only on significant unobservable inputs. As such, the measurement of our common stock warrants fair value includes Level 3 inputs.

Coronavirus Economic Relief for Transportation Services

Established under the CAA, we created the Coronavirus Economic Relief for Transportation Services (CERTS) program to support transportation service providers affected by the COVID-19 pandemic, including motorcoach, school bus, passenger vessel, and pilot vessel companies.

Under the program, we are providing up to $2.0 billion in grants to eligible companies that certify they have experienced an annual revenue loss of 25 percent or more as a direct or indirect result of COVID-19. CERTS grant funds are primarily to cover payroll costs, but may also be used to cover acquisition of services, equipment that includes personal protective equipment and protection measures from COVID-19 for workers and customers, and continued operations and maintenance of existing equipment and facilities (i.e., rent, leases, insurance, and interest on regular debt service).

Disbursed funds the recipient does not use for qualified purposes within one year upon receipt of such funds must be returned to Treasury. Of the $2.0 billion appropriated in FY 2021 for this program, we disbursed $1.3 billion for the fiscal year ended September 30, 2021, which we reported as "*Economic Program*" costs within the Consolidated Statements of Net Cost. This funding will remain available for obligation until December 27, 2023.

Support to American Small Businesses Through CDFIs

Emergency Capital Investment Program

Established under the CAA, the Emergency Capital Investment Program was created to encourage low- and moderate-income community financial institutions to augment their efforts to support small businesses and consumers in their communities. Under this program, we will provide up to $9.0 billion in capital directly to depository institutions (through

purchases of preferred stock and other financial instruments) from certified CDFIs or minority depository institutions (MDIs). This funding is intended to be used to, among other things, provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers, especially in low-income and undeserved communities, that may be disproportionately impacted by the economic effects of the COVID-19 pandemic. We will set aside $2.0 billion for CDFIs and MDIs with less than $500 million in assets and an additional $2.0 billion for CDFIs and MDIs with less than $2.0 billion in assets. As of September 30, 2021, we have made no disbursements in connection with this program. This funding will remain available for obligation until six months after the date on which the national emergency concerning the COVID-19 pandemic is terminated by the President of the U.S.

CDFI Fund's Rapid Response and Economic Impact Programs

The CAA also provided $1.25 billion in appropriations to our CDFI Fund which we will use to award CDFIs with grants to deliver immediate assistance in communities impacted by the COVID-19 pandemic. The CDFI Fund is awarding these funds through its newly established CDFI Rapid Response Program (CDFI RRP), which is designed to quickly deploy capital to certified CDFIs through a streamlined application and review process for those specialized organizations that provide financial services to low-income communities and those that lack access to financing. We disbursed $1.1 billion in grants for the fiscal year ended September 30, 2021, which we reported as "*Economic Program*" costs within the Consolidated Statements of Net Cost. This funding was available for obligation through September 30, 2021.

In addition to the funding provided for the CDFI RRP, the CAA also appropriated our CDFI Fund with $1.75 billion to deliver COVID-19 recovery resources to CDFIs to expand financial activity in low- or moderate-income minority communities and to minorities that have significant unmet capital or financial services needs. The CDFI Fund will make these funds available to support lending in minority communities through a second emergency funding economic impact program commencing in FY 2022. This funding will remain available for obligation until expended.

COVID-19 Pandemic Relief – Summary Impact on the Statement of Net Cost

For the fiscal years ended September 30, 2021 and 2020, the primary impact of COVID-19 relief efforts as reported within "*Economic Program*" costs on our Consolidated Statement of Net Cost were as follows:

(in millions)	2021	2020
Entity Cost/(Revenue):		
Expense Recognition of Support to States, Local, Territorial, and Tribal Governments	**$ 90,517**	$ 80,578
Section 13(3) SPV Investments - Fair Value (Gain)/Loss, Net [(1)]	**(3,802)**	4,554
Section 13(3) Other Assets - MMLF Accrued Facility Fees Revenue	**(15)**	(119)
Direct Loans - Subsidy Costs	**(675)**	243
Payroll Support to Aviation Workers - Financial Assistance Payments	**30,727**	28,170
Coronavirus Economic Relief for Transportation Services	**1,295**	-
CDFI Fund's Rapid Response Program	**1,085**	-
Total Net Entity Costs (Economic Program) (Note 21)	**119,132**	113,426
Non-Entity Revenue:		
Payroll Support for Aviation Workers - Promissory Note Compensation Received	**(8,577)**	(5,345)
Payroll Support for Aviation Workers - Common Stock Warrant Compensation Received	**(360)**	(487)
Total Non-Entity Revenue	**(8,937)**	(5,832)
Total COVID-19 Pandemic Relief Costs, Net	**$ 110,195**	$ 107,594

(1) For FY 2021, includes realized gains of $17 million and $49 million associated with the dispositions of the CCF and CPFF liquidity lending facilities, respectively.

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.

Congress passed HERA (P.L. 110-289) in July 2008 in response to the financial crisis that year and the increasingly difficult conditions in the housing market which challenged the soundness and profitability of the GSEs and thereby threatened to undermine the entire housing market. 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 2008, FHFA placed the GSEs under conservatorship, and we invested in the GSEs by entering into a Senior Preferred Stock Purchase Agreement (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 would result in an increased investment in the GSEs as further discussed below.

In return for committing to maintain the GSEs' solvency by making a quarterly advance of funds to each GSE in an amount equal to any excess of the GSEs' total liabilities over its total assets as of the end of the previous quarter, 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. We were entitled to distributions on our senior preferred stock equal to 10.0 percent per annum fixed rate dividend on the total liquidation preference (as discussed below). This dividend structure was changed in the third amendment in August 2012 to a variable equivalent to the GSEs' positive net worth above a capital reserve amount. The capital reserve amount was initially set at $3.0 billion for calendar year 2013 and, upon nearing its scheduled decline to zero, was reset at $3.0 billion in calendar year 2017.

On September 27, 2019, the Department and FHFA amended the SPSPAs to increase the capital reserve amounts of Fannie Mae and Freddie Mac to $25 billion and $20 billion, respectively. In exchange, our liquidation preference in each GSE was scheduled to gradually increase up to the adjusted capital reserve amounts based on the quarterly earnings of each GSE.

On January 14, 2021, the Department and FHFA further amended the SPSPAs to replace the prior variable dividend with an alternative compensation plan for the Department that permits the GSEs to continue their recapitalization efforts, as prescribed by the GSE capital framework finalized by FHFA in 2020. Under the amended SPSPAs, each GSE is permitted to retain capital until the GSE has achieved its regulatory minimum capital requirement, including buffers (i.e., the capital reserve end date), at which point its cash dividend obligations will resume along with the obligation to pay a periodic commitment fee. As compensation to Treasury for the replacement of the variable dividend, the liquidation preference of Treasury's senior preferred stock in each GSE will increase by the amount of retained capital until each GSE has achieved its capital reserve end date.

Additionally, the January 14 amendment, among other things, imposed restrictions on certain GSE business activities, including purchases of loans backed by investment properties, second homes, and multifamily properties, and on purchases of loans with multiple high-risk characteristics or for cash consideration. On September 14, 2021, Treasury and FHFA agreed to suspend certain business activity restrictions added to the SPSPAs by the January 14 amendment while FHFA undertakes a review of the extent to which these requirements are redundant or inconsistent with existing FHFA standards, policies, and directives. The suspension will terminate on the later of one year after September 14, 2021 or six months after Treasury notifies the GSEs. Upon conclusion of FHFA's review, we expect FHFA to propose more permanent changes to the affected covenants, which may include recalibration of the restrictions, or outright termination.

As of September 30, 2021, Treasury's liquidation preference in Fannie Mae and Freddie Mac increased by $20.9 billion and $11.0 billion, respectively. 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. The GSEs will not pay a quarterly dividend until after the capital reserve end date. We received no cash dividends for the fiscal year ended September 30, 2021 and 2020, as the GSEs had not achieved their capital reserve end date as of September 30, 2021, and their positive net worth was below their permitted capital reserve amounts as of September 30, 2020.

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 $254 billion and $222 billion as of September 30, 2021 and 2020, respectively. There were no payments to the GSEs for the fiscal years ended September 30, 2021 and 2020.

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, 2021 and 2020, our investments in the GSEs consisted of the following:

GSEs Investments (in millions)	Gross Investments As of 9/30/21	Cumulative Valuation Gain/(Loss)	9/30/21 Fair Value
Fannie Mae Senior Preferred Stock	$ 158,683	$ (38,183)	$ 120,500
Freddie Mac Senior Preferred Stock	94,874	126	95,000
Fannie Mae Warrants Common Stock	3,104	366	3,470
Freddie Mac Warrants Common Stock	2,264	(374)	1,890
Total GSEs Investments	**$ 258,925**	**$ (38,065)**	**$ 220,860**

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

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 senior preferred stock is not publicly traded, there is no comparable trading information available. The fair valuation of the senior preferred stock relies 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 forecasted cash flows to equity holders and the traded prices of the other equity securities, including the GSEs' common stock and junior preferred stock. The fair value of the senior preferred stock—as measured by unobservable and observable inputs—increased as of September 30, 2021 when compared to September 30, 2020. The increase primarily is due to higher projected cash flows, a decrease in the market value of the GSEs' other equity securities that comprise the GSEs' total equity, and a lower discount rate (refer to Notes 1I and 1V).

Factors impacting the fair value of the warrants include the nominal exercise price and the large number of potential exercise shares, the market prices and trading volumes of the underlying common stock 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 2021, when compared to 2020, 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 2046 and 2045 in assessing if a contingent liability was required as of September 30, 2021 and 2020, 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, 2021 and 2020, and thereby accrued no contingent liability. However, as of September 30, 2021, it is reasonably possible that a period of sustained economic and housing market volatility could potentially cause the GSEs to generate quarterly losses of sufficient magnitude to 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, 2021. There were no payments to the GSEs for the fiscal year ended September 30, 2021. At September 30, 2021 and 2020, 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, 2021 include two 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, 2021, also assumed the maintenance of the GSEs' retained mortgage portfolios below the 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, 2021 and 2020, along with their summarized unaudited aggregated financial operating results for the nine months ended September 30, 2021 and 2020 were as follows:

(in millions)	2021	2020
Combined Assets		
Investment Securities	**$ 155,025**	$ 216,069
Mortgage Loans	**6,636,783**	5,767,584
Other	**355,385**	335,021
Total Combined Assets	**7,147,193**	6,318,674
Combined Liabilities		
Long-Term Debt	**7,029,850**	6,201,946
Other	**49,859**	82,144
Total Combined Liabilities	**7,079,709**	6,284,090
Combined Net Equity	**$ 67,484**	$ 34,584
For the Nine Months Ended September 30		
Combined Net Interest Income	**$ 34,824**	$ 26,898
Combined (Provision) Benefit for Loan Losses	**5,469**	(4,359)
Combined Net Interest Income After (Provision) Benefit for Loan Losses	**$ 40,293**	$ 22,539
Combined Total Comprehensive Income	**$ 25,812**	$ 12,233

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, 2021 and 2020, GSEs Non-Entity Revenue, Net consisted of the following:

Summary of GSEs Non-Entity Revenue (in millions)	2021	2020
General Fund Revenue from Increase in Liquidation Preference of GSEs Preferred Stock	**$ (31,828)**	$ (17,389)
Fair Value (Gain)/Loss on GSEs Warrants/Preferred Stock	**(80,122)**	20,549
Total GSEs Non-Entity Cost (Revenue), Net	**$ (111,950)**	$ 3,160

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.

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 2021 and 2020, the GSEs remitted to us the incremental fees totaling $4.9 billion and $4.2 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, 2021 and 2020, Investments in Multilateral Development Banks consisted of the following:

(in millions)	2021	2020
International Bank for Reconstruction and Development	**$ 3,264**	$ 3,057
Inter-American Development Bank [(1)]	**2,023**	2,023
Asian Development Bank	**991**	991
European Bank for Reconstruction and Development	**636**	636
International Finance Corporation	**569**	569
African Development Bank	**488**	434
North American Development Bank	**450**	450
Multilateral Investment Guarantee Agency	**45**	45
Total	**$ 8,466**	$ 8,205

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

13. OTHER INVESTMENTS, NET

Other Investments, Net 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 $5.2 billion fair value of foreign investments (excluding interest receivable) held at September 30, 2021, $0.8 billion will mature within one year, $2.4 billion will mature after one year but before five years, and $2.0 billion will mature after five years but before ten years. As of September 30, 2021, all of our foreign currency holdings and other investments were Level 1 fair value measurements. As of September 30, 2020, the majority of our foreign currency holdings and other investments were Level 1 fair value measurements and $16 million were Level 3 fair value measurements.

As of September 30, 2021 and 2020, Other Investments, Net consisted of the following:

(in millions)	Cost/ Acquisition Value	Unamortized (Premium)/ Discount	Interest Receivable	9/30/21 Net Investment	Unrealized Gain/(Loss)	9/30/21 Fair Value
Investment Type:						
Foreign Investments:						
Euro Bonds & Notes	$ **4,714**	$ **289**	$ **45**	$ **5,048**	$ **211**	$ **5,259**
Japanese Government Bonds	**6**	**-**	**-**	**6**	**-**	**6**
Other Investments	**28**	**-**	**-**	**28**	**24**	**52**
Total Non-Federal	$ **4,748**	$ **289**	$ **45**	$ **5,082**	$ **235**	$ **5,317**
Investment Classification:						
Available for Sale - Debt Securities	$ **717**	$ **26**	$ **10**	$ **753**	$ **49**	$ **802**
Held to Maturity:						
Debt Securities	**5**	**-**	**-**	**5**	**-**	**5**
Equity Securities	**23**	**-**	**-**	**23**	**24**	**47**
Trading - Debt Securities	**4,003**	**263**	**35**	**4,301**	**162**	**4,463**
Total Non-Federal	$ **4,748**	$ **289**	$ **45**	$ **5,082**	$ **235**	$ **5,317**

(in millions)	Cost/ Acquisition Value	Unamortized (Premium)/ Discount	Interest Receivable	9/30/20 Net Investment	Unrealized Gain/(Loss)	9/30/20 Fair Value
Investment Type:						
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
Investment Classification:						
Available for Sale - Debt Securities	$ 1,307	$ 47	$ 15	$ 1,369	$ 127	$ 1,496
Held to Maturity:						
Debt Securities	6	-	-	6	-	6
Equity Securities	20	-	-	20	(5)	15
Trading - Debt Securities	3,673	243	38	3,954	351	4,305
Total Non-Federal	$ 5,006	$ 290	$ 53	$ 5,349	$ 473	$ 5,822

The following table provides a reconciliation of our investment activity for the fiscal year ended September 30, 2021:

(in millions)		2021
Beginning Balance	$	5,822
Valuation Adjustments		(238)
Acquisition of Investments		8,940
Sale/Repayment of Investments		(9,199)
Change in Accrued Dividend/Interest Income		(8)
Ending Balance	**$**	**5,317**

14. General Property, Plant, and Equipment, Net

As of September 30, 2021 and 2020, General Property, Plant, and Equipment, Net consisted of the following:

(in millions)	Service Life	Cost	Accumulated Depreciation	2021 Net Book Value
Buildings, Structures and Facilities	**3 - 50 years**	**$ 885**	**$ (567)**	**$ 318**
Furniture, Fixtures and Equipment	**2 - 20 years**	**2,728**	**(1,964)**	**764**
Construction-in-Progress	**N/A**	**404**	**-**	**404**
Land	**N/A**	**12**	**-**	**12**
Internal-Use Software in Use	**2 - 15 years**	**3,924**	**(3,036)**	**888**
Internal-Use Software in Development	**N/A**	**470**	**-**	**470**
Assets Under Capital Lease	**2 - 25 years**	**32**	**(20)**	**12**
Leasehold Improvements	**2 - 25 years**	**399**	**(271)**	**128**
Total		**$ 8,854**	**$ (5,858)**	**$ 2,996**

(in millions)	Service Life	Cost	Accumulated Depreciation	2020 Net Book Value
Buildings, Structures and Facilities	3 - 50 years	$ 854	$ (542)	$ 312
Furniture, Fixtures and Equipment	2 - 20 years	2,951	(2,160)	791
Construction-in-Progress	N/A	332	-	332
Land	N/A	12	-	12
Internal-Use Software in Use	2 - 15 years	3,728	(2,788)	940
Internal-Use Software in Development	N/A	426	-	426
Assets Under Capital Lease	2 - 25 years	32	(17)	15
Leasehold Improvements	2 - 25 years	412	(282)	130
Total		$ 8,747	$ (5,789)	$ 2,958

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 years ended September 30, 2021 and 2020:

(in millions)	PP&E	Accumulated Depreciation	2021 Net PP&E	PP&E	Accumulated Depreciation	2020 Net PP&E
Balance Beginning of Year	**$ 8,747**	**$ (5,789)**	**$ 2,958**	$ 8,324	$ (5,454)	$ 2,870
Capitalized Acquisitions	**575**	**(4)**	**571**	623	(4)	619
Dispositions	**(468)**	**443**	**(25)**	(200)	192	(8)
Depreciation Expense	**-**	**(508)**	**(508)**	-	(523)	(523)
Balance at End of Year	**$ 8,854**	**$ (5,858)**	**$ 2,996**	$ 8,747	$ (5,789)	$ 2,958

HERITAGE ASSETS

We have 15 heritage assets, of which five are considered multi-use, for FY 2021 and 2020. 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. They include various coins produced over the years, furniture and equipment used in Mint's facilities, and examples of the coin manufacturing process. These items are collection-type assets that are maintained for exhibition and are preserved indefinitely because of their historical, cultural, educational, or artistic importance.

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, 2021 and 2020:

	2021		
(in millions)	**Non-Entity**	**Entity**	**Total**
Intra-Governmental			
Fund Balance [(a)]	$ 4,203	$ 622,253	$ 626,456
Loans Receivable:			
Loans and Interest Receivable (Note 3)	1,715,491	78,899	1,794,390
Advances to Trust Funds (Note 4)	91,378	-	91,378
Other Assets:			
Due From the General Fund (Note 4)	28,810,092	-	28,810,092
Accounts Receivable and Other	1,290	38	1,328
Total Intra-Governmental	30,622,454	701,190	31,323,644
Other Than Intra-Governmental			
Cash and Other Monetary Assets:			
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	199,063	180,042	379,105
Gold and Silver Reserves (Note 6)	11,062	-	11,062
Accounts Receivable, Net:			
Taxes, Interest, and Other Receivables, Net (Note 8)	303,814	815	304,629
COVID-19 Investments, Advances, Receivables, and Other: (Note 10)			
Investments, Net	847	25,579	26,426
Advances, Net	-	256,060	256,060
Notes and Interest Receivable, Net	13,677	-	13,677
Credit Program Receivables, Net	-	1,311	1,311
Investments in GSEs (Note 11)	220,860	-	220,860
Other Assets [(b)]	7	54,291	54,298
Total Other Than Intra-Governmental	749,330	518,098	1,267,428
Total Assets	$ 31,371,784	$ 1,219,288	$ 32,591,072

[(a)] *$3.0 billion of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*

[(b)] *Other Assets (Entity) include reserve position in the IMF, non-COVID-19 credit program receivables, loans and interest receivable, other investments, general property, plant, and equipment, and other various assets on the Consolidated Balance Sheets not separately presented in this table.*

		2020	
(in millions)	Non-Entity	Entity	Total
Intra-Governmental			
Fund Balance [c]	$ 3,917	$ 892,468	$ 896,385
Loans Receivable:			
Loans and Interest Receivable (Note 3)	1,654,096	80,820	1,734,916
Advances to Trust Funds (Note 4)	37,166	-	37,166
Other Assets:			
Due From the General Fund (Note 4)	27,093,930	-	27,093,930
Accounts Receivable and Other	1,162	56	1,218
Total Intra-Governmental	28,790,271	973,344	29,763,615
Other Than Intra-Governmental			
Cash and Other Monetary Assets:			
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
Accounts Receivable, Net:			
Taxes, Interest, and Other Receivables, Net (Note 8)	237,357	233	237,590
COVID-19 Investments, Advances, Receivables, and Other:			
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	-	1,619	1,619
Investments in GSEs (Note 11)	108,910	-	108,910
Other Assets [d]	7	54,704	54,711
Total Other Than Intra-Governmental	2,133,446	303,033	2,436,479
Total Assets	$ 30,923,717	$ 1,276,377	$ 32,200,094

[c] *$2.5 billion of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*

[d] *Other Assets (Entity) include reserve position in the IMF, non-COVID-19 credit program receivables, loans and interest receivable, other investments, general property, plant, and equipment, and other various assets on the Consolidated Balance Sheets not separately presented in this table.*

16. Federal Debt and Interest Payable and Related Liabilities

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, 2021 and 2020 was as follows:

Held by Other Federal Agencies (Intra-Governmental) (in millions)	2021	2020
Beginning Balance	$ **5,897,192**	$ 5,869,095
New Borrowings/(Repayments) - Net	**207,087**	28,097
Subtotal at Par Value	**6,104,279**	5,897,192
Premium/(Discount)	**86,081**	72,193
Debt Principal Not Covered by Budgetary Resources (Note 19)	**6,190,360**	5,969,385
Interest Payable Covered by Budgetary Resources	**34,848**	35,867
Total	$ **6,225,208**	$ 6,005,252

Held by the Public (in millions)	2021	2020
Beginning Balance	$ **21,018,952**	$ 16,809,092
New Borrowings - Net of Repayments	**1,263,948**	4,209,860
Subtotal at Par Value	**22,282,900**	21,018,952
Premium/(Discount)	**(26,840)**	(26,702)
Debt Principal Not Covered by Budgetary Resources (Note 19)	**22,256,060**	20,992,250
Interest Payable Covered by Budgetary Resources	**69,158**	70,600
Total	$ **22,325,218**	$ 21,062,850

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 2021 and 2020 was 2.1 percent and 2.3 percent, respectively. The average intra-governmental interest rate on TIPS for FY 2021 and 2020 was 1.1 percent and 1.3 percent, respectively. The average interest rate on FRNs for FY 2021 and 2020 was 0.1 percent and 0.2 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, 2021 and 2020 was as follows:

(in millions)		2021		2020
Social Security Administration	**$**	**2,853,817**	$	2,908,423
Office of Personnel Management		**1,036,772**		1,074,149
Department of Defense Agencies		**1,334,074**		1,197,374
Department of Health and Human Services		**310,928**		225,210
All Other Federal Entities — Consolidated		**568,688**		492,036
Total Federal Debt Held by Other Federal Agencies	**$**	**6,104,279**	$	5,897,192

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, 2021 and 2020 consisted of the following:

(at par value in millions)	Term	Average Interest Rates		2021
Marketable:				
Treasury Bills	**1 Year or Less**	**0.1%**	**$**	**3,712,952**
Treasury Notes	**Over 1 Year - 10 Years**	**1.4%**		**12,570,463**
Treasury Bonds	**Over 10 Years**	**3.1%**		**3,340,760**
Treasury Inflation-Protected Securities (TIPS)	**5 Years or More**	**0.5%**		**1,651,998**
Treasury Floating Rate Notes (FRN)	**2 Years**	**0.4%**		**579,292**
Total Marketable				**21,855,465**
Non-Marketable	**On Demand to Over 40 Years**	**1.3%**		**427,435**
Total Federal Debt Held by the Public			**$**	**22,282,900**

(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

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 2021, Treasury continued to face sizeable borrowing needs as a result of the federal government's response to the COVID-19 pandemic. Consequently, we continued to increase auction sizes across all nominal coupon securities and FRNs through January 2021, with a gradual increase in TIPS issuances throughout FY 2021.

We also issue TIPS that have interest and redemption payments tied to the Consumer Price Index (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 $217.1 billion and $151.0 billion as of September 30, 2021 and 2020, 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, 2021, the FRB's SOMA had total holdings of $3.8 trillion which: *(i)* excluded $1.6 trillion 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, 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. For the years ended September 30, 2021 and 2020, we incurred interest expense of $87.1 billion and $64.3 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, 2021 and 2020. 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. The total amount of SPV securities redeemed in FY 2021 was $74 billion, including $22 million in capitalized interest; there were no issuances of SPV securities FY 2021. As of September 30, 2021 and 2020, the total amount of SPV securities outstanding was $22 billion and $96 billion, respectively.

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 $28.4 trillion and $26.9 trillion as of September 30, 2021 and 2020, 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. We undertake these measures to meet the U.S. government's obligations as they come due without exceeding the 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 bear 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.

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. In FY 2020, we accrued and paid $116 million of foregone interest owed to the two OPM funds related to the period of delay in raising the statutory debt limit that occurred from March 4, 2019 through August 1, 2019. The foregone interest was reported on the Consolidated Statements of Net Costs within the line item *"Restoration of Foregone Federal Debt Interest."*

A delay in raising the statutory debt limit occurred commencing August 2, 2021 at which time we departed from our normal debt management operations, which included not issuing federal debt securities to the G-Fund and OPM Fund accounts, to avoid exceeding the statutory debt limit. On October 14, 2021, Congress enacted Public Law 117-50, which raised the statutory debt limit by $480 billion, from $28.401 trillion to $28.881 trillion. On October 18, 2021, the Secretary notified Congress that this increase in the statutory debt limit provided only a temporary reprieve, and that continued use of extraordinary measures is expected to allow Treasury to meet U.S. government obligations without exceeding the debt limit through December 3, 2021.

As of September 30, 2021, we recorded a liability comprised of uninvested principal owed to the G Fund and the OPM-administered Civil Service Fund totaling $217.2 billion, and foregone interest payable to the G Fund and OPM funds for the period of August 2, 2021 through September 30, 2021 totaling $409 million.

The liability for the uninvested principal and foregone interest payable as of September 30, 2021 was reported on our Consolidated Balance Sheets in the line item, "*Liability for Restoration of Federal Debt Principal and Interest*", of which $60.6 billion represented an intra-governmental liability of the combined principal and interest payable to the OPM funds, and the remaining $157.0 billion represented the principal and interest payable to the G Fund, a public liability. Corresponding amounts were reported in the line item "*Due From the General Fund*" on the Consolidated Balance Sheets for the total $217.6 billion of uninvested principal and foregone interest owed to the funds as of September 30, 2021 (refer to Note 4). Additionally, the accrued foregone interest expense totaling $409 million was reported as a non-entity expense within the line item "*Accrued Restoration of Foregone Federal Debt Interest,*" on the Consolidated Statements of Net Cost, with an offsetting amount reported within the line item "*Accrued Interest on Restoration of Federal Debt Principal*," on the Consolidated Statements of Changes in Net Position.

17. Other Federal Debt and Interest Payable

Through FFB, we have outstanding borrowings and related accrued interest owed to the Civil Service Fund. At September 30, 2021 and 2020, FFB had outstanding borrowings of $6.1 billion and $7.3 billion, inclusive of $40 million and $48 million of accrued interest payable, respectively. The outstanding borrowings at September 30, 2021 had stated interest rates that ranged from 2.25 percent to 2.88 percent per annum, and an effective interest rate of 2.60 percent. 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. Maturity dates ranged from June 30, 2022 to June 30, 2029 for outstanding borrowings at September 30, 2021, and from June 30, 2021 to June 30, 2029 for outstanding borrowings at September 30, 2020.

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, 2021 and 2020 is as follows:

(in millions)	2021	2020
Beginning Liability Balance	**$ 8,272**	$ 8,398
Pension Expense:		
Normal Cost	**6**	5
Interest on Pension Liability During the Year	**72**	66
Actuarial (Gains) Losses During the Year:		
From Experience	**(42)**	53
From Discount Rate Assumption Change	**337**	383
From Other Economic Assumption Changes	**(7)**	(36)
From Non-Economic Assumption Changes	**(83)**	(44)
Total Pension Expense	**283**	427
Less Amounts Paid	**(545)**	(553)
Ending Liability Balance	**$ 8,010**	$ 8,272

Additional Information ($ in millions):	D.C. Federal Pension Fund	Judicial Retirement Fund	2021 Total
Amount Received from the General Fund	$ 576	$ 19	$ 595
Annual Rate of Investment Return Assumption	0.80% - 3.33%	0.80% - 3.33%	
Future Annual Rate of Inflation and Cost-Of-Living Adjustment:			
Police Officers	1.75%	N/A	
Firefighters	1.75%	N/A	
Teachers	1.68%	N/A	
Judicial	N/A	1.65%	
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	1.04%	

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%	

19. LIABILITIES

LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30, 2021 and 2020, liabilities not covered by budgetary resources consisted of the following:

(in millions)	2021	2020
Intra-Governmental Liabilities Not Covered by Budgetary Resources		
Federal Debt Principal, Premium/Discount (Note 16)	**$ 6,190,360**	$ 5,969,385
Liability for Restoration of Federal Debt Principal and Interest (Note 16)	**60,562**	-
Other Intra-governmental Liabilities	**80**	85
Total Intra-Governmental Liabilities Not Covered by Budgetary Resources	**6,251,002**	5,969,470
Federal Debt Principal, Premium/Discount (Note 16)	**22,256,060**	20,992,250
Liability for Restoration of Federal Debt Principal and Interest (Note 16)	**157,035**	-
Other Liabilities	**1,144**	1,152
Total Liabilities Not Covered by Budgetary Resources	**28,665,241**	26,962,872
Total Liabilities Covered by or Not Requiring Budgetary Resources	**2,960,975**	4,189,881
Total Liabilities	**$ 31,626,216**	$ 31,152,753

OTHER LIABILITIES

The "*Other*" line item within "*Other Liabilities*" displayed on the Consolidated Balance Sheets consists of liabilities that are covered by, not covered by, and not requiring budgetary resources. The "*Other*" line item within "*Other Liabilities*" at September 30, 2021 and 2020, consisted of the following:

(in millions)	Current	Non-Current	2021 Total	Current	Non-Current	2020 Total
Intra-Governmental						
Accounts Payable	**$ 93**	**$ -**	**$ 93**	$ 112	$ -	$ 112
Unfunded Federal Workers Compensation Program Liability (FECA)	**36**	**41**	**77**	39	44	83
Other Accrued Liabilities	**1,484**	**21**	**1,505**	510	21	531
Total Intra-Governmental	**$ 1,613**	**$ 62**	**$ 1,675**	$ 661	$ 65	$ 726
Other Than Intra-Governmental						
Liability for Deposit Funds (Held by the U.S. government for Others) and Suspense Accounts	**$ 4,453**	**$ -**	**$ 4,453**	$ 3,056	$ -	$ 3,056
Actuarial Federal Workers Compensation Program Liability (FECA)	**-**	**567**	**567**	-	574	574
Accrued Funded Payroll and Benefits	**626**	**-**	**626**	564	-	564
Accounts Payable and Other Accrued Liabilities	**3,354**	**101**	**3,455**	2,569	102	2,671
Total Other Than Intra-Governmental	**$ 8,433**	**$ 668**	**$ 9,101**	$ 6,189	$ 676	$ 6,865

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*, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, as amended.

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, 2021 and 2020:

(in millions)	2021	2020
Categories of Transfers to the General Fund and Other		
Interest Revenue	**$ (51,222)**	$ (58,451)
Downward Re-estimates of Credit Reform Subsidies	**(4,613)**	(14,188)
COVID-19 Non-Entity Revenue (Note 10)	**(8,937)**	(5,832)
Increase in Liquidation Preference of GSEs Preferred Stock and Valuation Changes (Note 11)	**(111,950)**	3,160
Other	**(363)**	410
Total	**$ (177,085)**	$ (74,901)

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 increase in liquidation preference and annual valuation adjustment on the GSE Senior Preferred Stock investments.

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 $1.3 billion and $0.9 billion during FY 2021 and 2020, 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 $762 million and $666 million for the fiscal years ended September 30, 2021 and 2020, 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, 2021 and 2020 consisted of the following:

(in millions)	2021	2020
Credit Reform Interest on Uninvested Funds (Intra-Governmental)	**$ 12,617**	$ 21,144
Judgment Claims and Contract Disputes	**8,215**	7,802
Resolution Funding Corporation	**1,367**	2,425
Corporation for Public Broadcasting	**640**	540
All Other Payments	**727**	838
Total	**$ 23,566**	$ 32,749

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

For Fiscal Year Ended September 30, 2021

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	$ -	$ 2,459	$ 5,448	$ -	$ -	$ -
Less Earned Revenue	-	(469)	(3,352)	-	-	-
Net Program Cost	-	1,990	2,096	-	-	-
ECONOMIC PROGRAM						
Gross Cost	945	-	128,657	-	15,447	4,911
Less Earned Revenue	(929)	-	(7,846)	-	(624)	(5,025)
Net Program Cost	16	-	120,811	-	14,823	(114)
SECURITY PROGRAM						
Gross Cost	-	-	516	134	-	-
Less Earned Revenue	-	-	(30)	(2)	-	-
Net Program Cost	-	-	486	132	-	-
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	16	1,990	123,393	132	14,823	(114)
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	-	-	247	-	-	-
Total Net Cost of (Revenue From) Treasury Operations	$ 16	$ 1,990	$ 123,640	$ 132	$ 14,823	$ (114)

(a) The total $120.8 billion of the Economic Program net costs reported by DO consisted of $122.7 billion of net costs from DO Policy Offices primarily related to the COVID-19 relief programs: $58.4 billion for Coronavirus Relief Fund, $30.7 billion for Payroll Support to Aviation Workers, $21.0 billion for Emergency Rental Assistance, $10.2 billion for Coronavirus State and Local Fiscal Recovery Funds, $1.3 billion for Transportation Services Economic Relief; and $1.0 billion for Homeowners Assistance Fund (refer to Note 10); and $1.5 billion of net costs from CDFI including $1.1 billion for Rapid Response Program, partially offset by $3.5 billion of net income from ESF. 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, 2021

Program Costs	Office of the Comptroller of the Currency	Alcohol and Tobacco Tax and Trade Bureau	Combined Total	Eliminations	2021 Consolidated
FINANCIAL PROGRAM					
Gross Cost	$ -	$ -	$ 7,907	$ 2,309	$ 5,598
Less Earned Revenue	-	-	(3,821)	(965)	(2,856)
Net Program Cost	-	-	4,086	1,344	2,742
ECONOMIC PROGRAM					
Gross Cost	1,114	132	151,206	2,381	148,825
Less Earned Revenue	(1,145)	(7)	(15,576)	(276)	(15,300)
Net Program Cost	(31)	125	135,630	2,105	133,525
SECURITY PROGRAM					
Gross Cost	-	-	650	135	515
Less Earned Revenue	-	-	(32)	(6)	(26)
Net Program Cost	-	-	618	129	489
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	(31)	125	140,334	3,578	136,756
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	(4)	-	243	-	243
Total Net Cost of (Revenue From) Treasury Operations	$ (35)	$ 125	$ 140,577	$ 3,578	$ 136,999

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	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

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, 2021 and 2020 consisted of the following:

(in millions)	2021	2020
Unobligated Balance, Brought Forward From Prior Year	**$ 771,181**	$ 315,349
Adjustments to Budgetary Resources Made During Current Year		
Downward Adjustments of Prior Year Undelivered Orders	**126,845**	994
Downward Adjustments of Prior Year Delivered Orders	**2,712**	539
Other Adjustments	**17,456**	2,689
Unobligated Balance From Prior Year Budgetary Authority, Net (Discretionary and Mandatory)	**$ 918,194**	$ 319,571

The increase in *Unobligated Balance, Brought Forward From Prior Year* is primarily the result of the carryforward into FY 2021 of the unobligated portion of the $500.0 billion CARES Act appropriation received in FY 2020. The increase in *Downward Adjustments of Prior Year Undelivered Orders* is driven by undisbursed SPV investment and direct loan commitments which were de-obligated pursuant to the CAA in December 2020 (refer to Note 10), as well as direct loan repayments and commitment expirations in FY 2021. The increase in *Other Adjustments* is primarily driven by the IMF making a general allocation of SDRs to the U.S. government valued at $112.8 billion, increasing our balance in SDR holdings, and a corresponding increase in SDR allocations (refer to Note 5). The increase is partially offset by borrowing authority withdrawn due to the CAA which eliminated Treasury's ability to make new loans and investments under the CARES Act and resulted in a rescission of CARES Act appropriated funding (refer to Note 10).

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, 2021, resulted primarily from obligations incurred totaling $256.1 billion related to advance payments made to support states, local, territorial, and Tribal governments in response to the COVID-19 pandemic (refer to Note 10). The decrease in *Undelivered Orders - Unpaid* as of September 30, 2021, primarily resulted from the de-obligation on December 27, 2020 of undisbursed but previously committed CARES Act funds totaling $106.0 billion (refer to Note 10). Undelivered orders as of September 30, 2021 and 2020 consisted of the following:

	2021			2020		
(in millions)	Federal	Non-Federal	Total	Federal	Non-Federal	Total
Paid	**$ 16**	**$ 256,075**	**$ 256,091**	$ 8	$ 68,900	$ 68,908
Unpaid	**609**	**5,889**	**6,498**	13,036	120,484	133,520
Undelivered Orders at the End of the Year	**$ 625**	**$ 261,964**	**$ 262,589**	$ 13,044	$ 189,384	$ 202,428

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). We did not have any contributed capital for the fiscal years ended September 30, 2021 and 2020.

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 0.80 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, 2021 and 2020 are shown below:

(in millions)	2021	2020
Beginning Balance	**$ 99,676**	$ 6,248
Current Authority(1)	**15,008**	188,664
Borrowing Authority Withdrawn	**(93,318)**	(43)
Borrowing Authority Converted to Cash	**(15,249)**	(95,193)
Ending Balance	**$ 6,117**	$ 99,676

(1) The significant decrease in borrowing authority is related 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 2021, was not published at the time that these financial statements were issued. The FY 2023 President's Budget is expected to be published by OMB in February 2022, 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 2020 AFR and the actual FY 2020 balances included in the FY 2022 President's Budget.

Reconciliation of FY 2020 Combined Statement of Budgetary Resources to the FY 2022 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	$ 1,805,781	$ 1,034,600	$ 786,215	$ (67,964)	$ 718,251
IRS non-entity tax credit payments and other outlays not in SBR [1]	446,010	446,010	436,797	-	436,797
Tax and Trade Bureau (TTB) non-entity collections for Puerto Rico not in SBR	471	471	471	-	471
Expired funds in SBR	(507)	-	-	-	-
Non-Treasury offsetting receipts	-	-	-	(21)	(21)
Non-Budgetary Financing Disbursements, net	-	-	85,859	-	85,859
Other	3	3	(3)	-	(3)
President's Budget Amounts	**$ 2,251,758**	**$ 1,481,084**	**$ 1,309,339**	**$ (67,985)**	**$ 1,241,354**

(1) These are primarily Economic Impact Payments, Refundable Premium Tax Credit, Refundable Earned Income 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, 2021 and 2020:

	Tax Year				
(in millions)	2021	2020	2019	Pre-2019	2021 Collections
Individual Income and FICA Taxes	**$ 2,283,050**	**$ 1,231,838**	**$ 43,803**	**$ 35,311**	**$ 3,594,002**
Corporate Income Taxes	**254,782**	**130,508**	**4,270**	**29,449**	**419,009**
Estate and Gift Taxes	**1,523**	**21,074**	**2,673**	**2,776**	**28,046**
Excise Taxes	**58,413**	**19,569**	**220**	**332**	**78,534**
Railroad Retirement Taxes	**4,167**	**1,140**	**-**	**-**	**5,307**
Unemployment Taxes	**4,415**	**1,709**	**7**	**145**	**6,276**
Fines, Penalties, Interest & Other Revenue - Tax Related	**644**	**1**	**-**	**1**	**646**
Tax Related Revenue Received	**2,606,994**	**1,405,839**	**50,973**	**68,014**	**4,131,820**
Deposit of Earnings, Federal Reserve System	**77,000**	**23,054**	**-**	**-**	**100,054**
Fines, Penalties, Interest & Other Revenue - Non-Tax Related	**5,894**	**1,303**	**-**	**-**	**7,197**
Non-Tax Related Revenue Received	**82,894**	**24,357**	**-**	**-**	**107,251**
Total Revenue Received	**$ 2,689,888**	**$ 1,430,196**	**$ 50,973**	**$ 68,014**	**$ 4,239,071**
Less Amounts Collected for Non-Federal Entities					**528**
Total					**$ 4,238,543**

	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

AMOUNTS PROVIDED TO FUND THE U.S. GOVERNMENT

For the fiscal years ended September 30, 2021 and 2020, collections of custodial revenue transferred to other federal entities were as follows:

(in millions)		2021	2020
General Fund	$	**3,098,877** $	2,862,273
Other Federal Agencies		**1,399**	865
Total	**$**	**3,100,276** $	2,863,138

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, CAA, and ARP included provisions to help stimulate the economy through economic impact payments (including recovery rebate credits) (refer to Note 10). In FY 2021 and 2020, the IRS disbursed $569.5 billion and $274.7 billion, respectively, of payments to eligible taxpayers based upon the criteria in each Act. Refunds and other payments, by revenue type and tax year, were as follows for the years ended September 30, 2021 and 2020:

	Tax Year				
(in millions)	2021	2020	2019	Pre-2019	2021 Refunds/ Payments
Individual Income and FICA Taxes	$ 533,300 $	496,896 $	38,336 $	12,652 $	1,081,184
Corporate Income Taxes	3,886	6,358	13,730	29,113	53,087
Estate and Gift Taxes	-	154	507	288	949
Excise Taxes	617	1,829	198	213	2,857
Railroad Retirement Taxes	-	22	(1)	24	45
Unemployment Taxes	-	77	31	36	144
Fines, Penalties, Interest & Other Revenue	-	-	-	1	1
Total	$ 537,803 $	505,336 $	52,801 $	42,327 $	1,138,267

	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

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	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, 2021

(in millions)	Exchange Stabilization Fund	Public Enterprise/ Revolving Funds	Other FDC Funds	Combined FDC Funds
ASSETS				
Intra-Governmental:				
Fund Balance	$ -	$ 1,647	$ 1,672	$ 3,319
Investments, Net	22,837	2,103	3,748	28,688
Other Assets:				
Accounts Receivable and Other	-	5	-	5
Total Intra-Governmental	22,837	3,755	5,420	32,012
Other Than Intra-Governmental				
Cash and Other Monetary Assets:				
Cash, Foreign Currency, and Other Monetary Assets	179,554	-	100	179,654
Accounts Receivable, Net:				
Taxes, Interest, and Other Receivables, Net	-	122	219	341
Other Investments, Net	5,265	5	-	5,270
General Property, Plant, and Equipment, Net	-	898	23	921
Other Assets	-	902	161	1,063
Total Other Than Intra-Governmental	184,819	1,927	503	187,249
Total Assets	$ 207,656	$ 5,682	$ 5,923	$ 219,261
LIABILITIES				
Intra-Governmental				
Other Liabilities:				
Due To the General Fund	$ -	$ -	$ 893	$ 893
Other	-	34	848	882
Total Intra-Governmental	-	34	1,741	1,775
Other Than Intra-Governmental				
Other Liabilities:				
Special Drawing Right Certificates Issued to the Federal Reserve	5,200	-	-	5,200
Allocation of Special Drawing Rights	161,825	-	-	161,825
Other	11	760	312	1,083
Total Other Than Intra-Governmental	167,036	760	312	168,108
Total Liabilities	167,036	794	2,053	169,883
Net Position				
Unexpended Appropriations	200	-	-	200
Cumulative Results of Operations	40,420	4,888	3,870	49,178
Total Liabilities and Net Position	$ 207,656	$ 5,682	$ 5,923	$ 219,261

Summary Information for Funds from Dedicated Collections as of and for the Fiscal Year Ended September 30, 2021

(in millions)	Exchange Stabilization Fund	Public Enterprise/ Revolving Funds	Other FDC Funds	Combined FDC Funds
Statement of Net Cost				
Gross Cost	$ 8,230	$ 6,970	$ 955	$ 16,155
Less: Earned Revenue	(7,523)	(7,098)	(272)	(14,893)
Gains/Losses on Pension, ORB, or OPEB Assumption Changes	-	(4)	-	(4)
Total Net Cost of (Revenue From) Operations	$ 707	$ (132)	$ 683	$ 1,258
Statement of Changes in Net Position				
Cumulative Results of Operations:				
Beginning Balance	$ 41,127	$ 4,407	$ 3,310	$ 48,844
Total Financing Sources	-	349	1,243	1,592
Revenue From (Net Cost of) Operations	(707)	132	(683)	(1,258)
Change in Net Position	(707)	481	560	334
Ending Balance	$ 40,420	$ 4,888	$ 3,870	$ 49,178

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				
Fund Balance	$ -	$ 1,226	$ 1,408	$ 2,634
Investments, Net	11,170	1,995	2,982	16,147
Other Assets:				
Accounts Receivable and Other	-	6	-	6
Total Intra-Governmental Assets	11,170	3,227	4,390	18,787
Other Than Intra-Governmental				
Cash and Other Monetary Assets:				
Cash, Foreign Currency, and Other Monetary Assets	67,607	-	78	67,685
Accounts Receivable, Net:				
Taxes, Interest, and Other Receivables, Net	-	79	146	225
COVID-19 Investments, Advances, Receivables, and Other:				
Investments, Net	10,047	-	-	10,047
Other	1,619	-	-	1,619
Other Investments, Net	5,801	5	-	5,806
General Property, Plant, and Equipment, Net	-	809	27	836
Other Assets	-	1,005	89	1,094
Total Other Than Intra-Governmental	85,074	1,898	340	87,312
Total Assets	$ 96,244	$ 5,125	$ 4,730	$ 106,099
LIABILITIES				
Intra-Governmental				
Federal Debt and Interest Payable:				
Other Liabilities:				
Due To the General Fund	$ -	$ -	$ 919	$ 919
Other	-	31	362	393
Total Intra-Governmental	-	31	1,281	1,312
Other Than Intra-Governmental				
Other Liabilities:				
Special Drawing Right Certificates Issued to the Federal Reserve	5,200	-	-	5,200
Allocation of Special Drawing Rights	49,709	-	-	49,709
Other	8	687	139	834
Total Other Than Intra-Governmental	54,917	687	139	55,743
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

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
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
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

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 $69.2 billion and $70.6 billion of interest accrued on outstanding public debt as of September 30, 2021 and 2020, respectively; as well as $9.3 billion and $37.0 billion of net amortization of discounts on outstanding public debt as of September 30, 2021 and 2020, 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 our proprietary net costs and budgetary net outlays:

- Sale of Investments – Represents both the dissolution of the Commercial Paper Funding Facility II LLC (refer to Note 10) and the sale of foreign bonds and other currency investments (refer to Note 13).
- Non-Entity Activity – Represents activity related to assets that we hold and manage on behalf of the General Fund but are not available for our use. This activity was removed from Net Cost through inclusion of change in asset activity, however, has no impact on either Net Cost or Net Outlays and must be included as an Other Reconciling Item.
- Accrued Liabilities on Federal Debt – Represents, among other things, accrued interest and discount on federal debt that has been recorded by Fiscal Service and only impacts the Statement of Changes in Net Position. This activity was removed from Net Cost through inclusion of change in liability activity, however, has no impact on either Net Cost or Net Outlays and must be included as an Other Reconciling Item.
- Intradepartmental Eliminations – Represents intra-agency activity that is included in our Net Outlays, which is presented on a combined basis. As we report Net Cost on a consolidated basis, this intra-agency activity is excluded. To reconcile between combined and consolidated amounts, we must remove intra-agency transactions and only present activity with other federal agencies and with the public.

For the fiscal years ended September 30, 2021 and 2020, the Reconciliation of Net Cost of Treasury Operations and Non-Entity Costs to Agency Outlays, Net consisted of the following:

(in millions)	Intra-Governmental	Other Than Intra-Governmental	2021 Total
Total Net Cost of Treasury Operations and Non-Entity Costs	$ 148,680	$ 416,615	$ 565,295
Components of Net Operating Cost Not Part of Budgetary Outlays:			
Liquidation Preference of GSEs Preferred Stock and Valuation Changes (Notes 11 and 20)	-	111,950	111,950
Property, Plant, and Equipment Depreciation Expense and Disposals (Note 14)	-	(533)	(533)
Unrealized Valuation (Loss) on Investments	-	(284)	(284)
Unrealized Valuation Gain on Special Drawing Rights	-	1,792	1,792
Year-end Credit Reform Subsidy Accrual Re-Estimates	-	(9,125)	(9,125)
Increase/(Decrease) in Assets:			
Loans and Interest Receivable (Notes 3 and 7)	59,474	(764)	58,710
Advances to Trust Funds (Note 4)	54,212	-	54,212
Due From the General Fund (Note 4)	1,716,162	-	1,716,162
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	-	(1,460,334)	(1,460,334)
Taxes, Interest, and Other Receivables, Net (entity activity only) (Note 8)	-	582	582
COVID-19 Advances (Note 10)	-	187,171	187,171
COVID-19 Notes and Interest Receivable (Note 10)	-	8,357	8,357
COVID-19 Other Assets (Note 10)	-	(119)	(119)
Other Assets	110	220	330
(Increase)/Decrease in Liabilities:			
Federal Debt and Interest Payable (Notes 4 and 16)	(219,956)	(1,262,368)	(1,482,324)
Liability for Restoration of Federal Debt Principal and Interest (Notes 4 and 16)	(60,562)	(157,035)	(217,597)
Due To the General Fund - Excludes Custodial Liability Activity (Note 4)	1,409,682	-	1,409,682
Allocation of Special Drawing Rights (Note 5)	-	(112,834)	(112,834)
Refunds Payable (Note 4)	-	(2,498)	(2,498)
Other Liabilities (Note 19)	268	(1,974)	(1,706)
Other Financing Sources:			
Imputed Costs	(762)	-	(762)
Total Components of Net Operating Cost Not Part of Budgetary Outlays	2,958,628	(2,697,796)	260,832
Components of Budgetary Outlays That Are Not Part of Net Cost			
Acquisition of Property, Plant and Equipment (Note 14)	-	571	571
Acquisition of Investments	-	9,300	9,300
Sale of Investments	-	(19,199)	(19,199)
Sale of COVID-19 Other Assets (Note 10)	-	(1,500)	(1,500)
Other Financing Sources:			
Transfers (In)/Out Without Reimbursement	644	-	644
Total Components of Budgetary Outlays That Are Not Part of Net Cost	644	(10,828)	(10,184)
Other Reconciling Items			
Distributed Offsetting Receipts	-	(73,645)	(73,645)
Non-Entity Activity	177,828	-	177,828
Accrued Liabilities on Federal Debt	(12,300)	-	(12,300)
Other Reconciling Items	455	2,228	2,683
Intradepartmental Eliminations	(77,884)	-	(77,884)
Total Other Reconciling Items	88,099	(71,417)	16,682
Agency Outlays, Net	$ 3,196,051	$ (2,363,426)	$ 832,625

(in millions)	Intra-Governmental	Other Than Intra-Governmental	2020 Total
Total Net Cost of Treasury Operations and Non-Entity Costs	$ 124,221	$ 507,022	$ 631,243
Components of Net Operating Cost Not Part of Budgetary 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 Operating 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

26. Schedule of Fiduciary Activity

We have identified the following 21 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	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

	2021			2020		
(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	**$ 855**	**$ 150**	**$ 1,005**	$ 803	$ 166	$ 969
Increases:						
Contributions to Fiduciary Net Assets	**43**	**5,734**	**5,777**	52	5,109	5,161
Investment earnings	-	-	-	-	1	1
Total Increases	**43**	**5,734**	**5,777**	52	5,110	5,162
Decreases:						
Disbursements to and on behalf of beneficiaries	**(8)**	**(5,730)**	**(5,738)**	-	(5,126)	(5,126)
Total Decreases	**(8)**	**(5,730)**	**(5,738)**	-	(5,126)	(5,126)
Net Increase (Decrease) in Fiduciary Assets	**35**	**4**	**39**	52	(16)	36
Fiduciary Net Assets, End of Year	**$ 890**	**$ 154**	**$ 1,044**	$ 855	$ 150	$ 1,005

Schedule of Fiduciary Net Assets

	2021			2020		
(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	$ **890**	$ **153**	$ **1,043**	$ 855	$ 146	$ 1,001
Investments						
Investments in Treasury Securities	**-**	**1**	**1**	-	4	4
Total Fiduciary Assets	**890**	**154**	**1,044**	855	150	1,005
Total Fiduciary Net Assets	$ **890**	$ **154**	$ **1,044**	$ 855	$ 150	$ 1,005

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. In June 2021, the Supreme Court dismissed the plaintiffs' claim that FHFA lacked statutory authority to enter into the Third Amendment; held that the FHFA director could be removed at will by the President; and held that the statutory limitation that the FHFA director can only be removed for cause is an unconstitutional violation of separation of powers but does not invalidate the Third Amendments. The Court also left open the possibility that the plaintiffs may be entitled to retrospective relief if the unconstitutional provision inflicted "compensable harm," and further proceedings are anticipated in the lower court. A case in the U.S. District Court for the District of Minnesota was dismissed, and the Eighth Circuit Court of Appeals affirmed in part and reversed in part. Specifically, the Eighth Circuit affirmed with respect to plaintiffs' Appointments Clause and nondelegation doctrine claims; and it reversed the dismissal of the separation-of-powers claim and remanded to the district court to determine if the shareholders suffered "compensable harm" and are entitled to "retrospective relief." A case in the U.S. District Court for the Western District of Michigan was dismissed, and an appeal is 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 whether the amount of the fees previously charged was appropriate. As of September 30, 2021, the Department has determined the likelihood of an unfavorable outcome as reasonably possible and estimated a potential loss within a range of $0 to $288 million.

- *American Recovery and Reinvestment Tax Act of 2009 (ARRA) 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, 2021 and 2020, we have determined there is a reasonably possible likelihood of an unfavorable outcome in some of the cases totaling approximately $324 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 cases with alleged damages of approximately $117 million have been filed and remain in litigation.

- *State of Texas et. al. v. United States:* A case was 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. The case is being stayed pending the resolution of a similar case currently pending with the Fifth Circuit Court of Appeals, where the plaintiffs filed a petition for writ of certiorari on September 16, 2021. We are unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

- U.S. Victims of State Sponsored Terrorism Fund (USVSST) Related Cases: A civil suit and a class action complaint were 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 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. As of September 30, 2021, the Department has determined the likelihood of an unfavorable outcome is reasonably possible and estimates a potential loss of $228 million as the Treasury portion 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.

- *Indiana Municipal Power Agency et al. v. United States et al.:* A case was filed in the U.S. Court of Federal Claims seeking amounts equal to alleged underpayments of direct cash payments made since the beginning of 2013, under the Build America Bond program associated with ARRA. 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 1Q and 3). As of September 30, 2021 and 2020, we had remaining loan commitments totaling $40.7 billion and $35.9 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, 2021 and 2020, U.S. callable capital in MDBs was as follows:

(in millions)	2021	2020
Inter-American Development Bank	**$ 49,181**	$ 49,181
International Bank for Reconstruction and Development	**46,363**	44,942
Asian Development Bank	**18,702**	18,702
African Development Bank	**6,464**	5,608
European Bank for Reconstruction and Development	**3,055**	3,055
North American Development Bank	**1,530**	1,530
Multilateral Investment Guarantee Agency(1)	**315**	315
Total	**$ 125,610**	$ 123,333

(1) Both FY 2021 and 2020 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 2021 and 2020, the program trigger amount was $200 million. 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, 2021 or 2020.

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, 2021 and 2020.

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, 2021 and 2020, we had committed up to $32.6 billion for these programs. Outstanding commitments totaled $1.2 billion and $1.7 billion as of September 30, 2021 and 2020, respectively. For FY 2021 and 2020, payments made on behalf of the housing programs under TARP totaled $479 million and $760 million, respectively, reported within the Financial Program on our Consolidated Statements of Net Cost.

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* (Financial Report), 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 Financial Report. 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 Financial Report consolidated financial statements. This note depicts how our AFR consolidated financial statements are adjusted to derive the Financial Report reclassified financial statements prior to the elimination of intragovernmental balances and prior to the aggregation of repeated Financial Report line items. A copy of the FY 2020 Financial Report can be found on the Fiscal Service website and a copy of the FY 2021 Financial Report will be posted to the site as soon as it is released.

Consolidated Balance Sheet
As of September 30, 2021

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							
Fund Balance	$ 626,456	$ 3,319	$ -	$ 623,137	$ -	$ 626,456	Fund Balance with Treasury
Investments, Net	-	28,683	-	-	28,683	-	Federal Investments
		5	-	-	5	-	Interest Receivable - Investments
Total Investments, Net	-	28,688	-	-	28,688	-	*Total*
Loans Receivable:							
Loans and Interest Receivable	1,794,390	-	-	1,794,177	-	1,794,177	Loans Receivable
		-	-	213	-	213	Interest Receivable - Loans and Not Otherwise Classified
Total Loans and Interest Receivable	1,794,390	-	-	1,794,390	-	1,794,390	*Total*
Advances to Trust Funds	91,378	-	-	91,312	-	91,312	Loans Receivable
		-	-	66	-	66	Interest Receivable - Loans and Not Otherwise Classified
Total Advances to Trust Funds	91,378	-	-	91,378	-	91,378	*Total*
Other Assets:							
Due From the General Fund	28,810,092	-	-	28,810,092	-	28,810,092	Other Assets
Accounts Receivable and Other	1,328	3	-	1,311	2	1,312	Accounts Receivable, Net
		-	-	28	28	-	Transfers Receivable
		2	-	14	-	16	Advances and Prepayments
Total Accounts Receivable and Other	1,328	5	-	1,353	30	1,328	*Total*
Total Intra-Governmental	**31,323,644**	**32,012**	**-**	**31,320,350**	**28,718**	**31,323,644**	**Total Intra-governmental Assets**
Other Than Intra-Governmental							
Cash and Other Monetary Assets:							
Cash, Foreign Currency, and Other Monetary Assets	379,105	179,654	-	199,451	-	379,105	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	32,743	-	-	32,743	-	32,743	Cash and Other Monetary Assets

Consolidated Balance Sheet
As of September 30, 2021

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
Accounts Receivable, Net:							
Taxes, Interest, and Other Receivables, Net	304,629	341	-	304,288	-	304,629	Accounts Receivable, Net
Loans Receivable, Net:							
Credit Program Receivables, Net	2,762	-	-	2,762	-	2,762	Loans Receivable, Net
Loans and Interest Receivable, Net	944	-	-	944	-	944	Loans Receivable, Net
COVID-19 Investments, Advances, Receivables, and Other:							
Investments, Net	26,426	-	-	26,426	-	26,426	Investments, Net
Advances, Net	256,060	-	-	256,060	-	256,060	Advances and Prepayments
Notes and Interest Receivable, Net	13,677	-	-	13,677	-	13,677	Loans Receivable, Net
Credit Program Receivables, Net	1,311	-	-	1,311	-	1,311	Loans Receivable, Net
Investments in Government Sponsored Enterprises (GSEs)	220,860	-	-	220,860	-	220,860	Investments in Government Sponsored Enterprises
Investments in Multilateral Development Banks	8,466	-	-	8,466	-	8,466	Other Assets
Other Investments, Net	5,317	5,270	-	47	-	5,317	Investments, Net
General Property, Plant, and Equipment, Net	2,996	921	-	2,075	-	2,996	General Property, Plant, and Equipment, Net
Other Assets	1,070	1,058	-	-	-	1,058	Inventory and Related Property, Net
		5	-	7	-	12	Advances and Prepayments
Total Other Assets	1,070	1,063	-	7	-	1,070	*Total*
Total Other Than Intra-Governmental	**1,267,428**	**187,249**	**-**	**1,080,179**	**-**	**1,267,428**	**Total With the Public**
Total Assets	**$ 32,591,072**	**$ 219,261**	**$ -**	**$ 32,400,529**	**$ 28,718**	**$ 32,591,072**	**Total Assets**
LIABILITIES							
Intra-Governmental							
Federal Debt and Interest Payable:							
Federal Debt and Interest Payable	$ 6,225,208	$ -	$ -	$ 6,219,044	$ 28,683	$ 6,190,361	Federal Debt
		-	-	34,852	5	34,847	Interest Payable - Debt
Total Federal Debt and Interest Payable	6,225,208	-	-	6,253,896	28,688	6,225,208	*Total*

Consolidated Balance Sheet
As of September 30, 2021

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 Federal Debt and Interest Payable	6,093	-	-	6,053	-	6,053	Federal Debt
		-	-	40	-	40	Interest Payable - Debt
Total Other Federal Debt and Interest Payable	6,093	-	-	6,093	-	6,093	*Total*
Other Liabilities:							
Due To the General Fund	2,649,003	893	-	2,648,110	-	2,649,003	Liability to the General Fund for Custodial and Other Non-Entity Assets
Liability for Restoration of Federal Debt Principal and Interest	60,562	-	-	60,562	-	60,562	Accounts Payable
Other	1,675	30	-	184	-	214	Benefit Program Contributions Payable
		29	-	579	6	602	Accounts Payable
		822	-	-	28	794	Transfers Payable
		-	-	32	-	32	Advances from Others and Deferred Revenue
		1	-	28	-	29	Other Liabilities (without Reciprocals)
		-	-	4	-	4	Liability to Agency Other Than the General Fund for Custodial and Other Non-Entity Assets
Total Other	1,675	882	-	827	34	1,675	*Total*
Total Intra-Governmental	**8,942,541**	**1,775**	**-**	**8,969,488**	**28,722**	**8,942,541**	**Total Intra-Governmental**
Other Than Intra-Governmental							
Federal Debt and Interest Payable	22,325,218	-	-	22,325,218	-	22,325,218	Federal Debt and Interest Payable
Accounts Payable:							
Refunds Payable	6,249	-	-	6,249	-	6,249	Accounts Payable

Consolidated Balance Sheet
As of September 30, 2021

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 Liabilities:							
Special Drawing Right Certificates Issued to the Federal Reserve	5,200	5,200	-	-	-	5,200	Other Liabilities
Allocation of Special Drawing Rights	161,825	161,825	-	-	-	161,825	Other Liabilities
Gold Certificates Issued to the Federal Reserve Banks	11,037	-	-	11,037	-	11,037	Other Liabilities
D.C. Federal Pension and Judicial Retirement Actuarial Liability	8,010	-	-	8,010	-	8,010	Other Liabilities
Liability for Restoration of Federal Debt Principal and Interest	157,035	-	-	157,035	-	157,035	Other Liabilities
Other	9,101	202	-	894	-	1,096	Accounts Payable
		206	-	1,151	-	1,357	Federal Employee and Veteran Benefits Payable
		448	-	23	-	471	Advances from Others and Deferred Revenue
		227	-	5,950	-	6,177	Other Liabilities
Total Other	9,101	1,083	-	8,018	-	9,101	*Total*
Total Other Than Intra-Governmental	**22,683,675**	**168,108**	**-**	**22,515,567**	**-**	**22,683,675**	**Total With the Public**
Total Liabilities	**31,626,216**	**169,883**	**-**	**31,485,055**	**28,722**	**31,626,216**	**Total Liabilities**
NET POSITION							
Unexpended Appropriations							
Funds from Dedicated Collections (Combined)	200	200	-	-	-	200	Unexpended Appropriations - Funds from Dedicated Collections (Combined)
Funds from Other than Dedicated Collections (Combined)	878,410	-	-	878,410	-	878,410	Unexpended Appropriations - Funds from Other than Dedicated Collections (Combined)
Cumulative Results of Operations							
Funds from Dedicated Collections (Combined)	49,178	49,178	-	-	-	49,178	Cumulative Results of Operations - Funds from Dedicated Collections (Combined)
Funds from Other than Dedicated Collections (Combined)	37,068	-	-	37,068	-	37,068	Cumulative Results of Operations - Funds from Other than Dedicated Collections (Combined)
Total Net Position (Combined Totals)	**964,856**	**49,378**	**-**	**915,478**	**-**	**964,856**	**Total Net Position**
Total Liabilities and Net Position	**$ 32,591,072**	**$ 219,261**	**$ -**	**$ 32,400,533**	**$ 28,722**	**$ 32,591,072**	**Total Liabilities and Net Position**

Consolidated Statement of Net Cost
For the Fiscal Year Ended September 30, 2021

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	$ 154,938	$ 15,287	$ -	$ 134,089	$ -	$ 149,376	Non-Federal Gross Costs
							Intra-governmental Costs
		252	-	2,002	-	2,254	Benefit Program Costs
		80	-	682	-	762	Imputed Costs
		410	(1)	1,590	200	1,801	Buy/Sell Cost
		-	-	183	-	183	Federal Securities Interest Expense
		-	-	12	-	12	Borrowing Losses
		16	-	534	-	550	Other Expenses (without Reciprocals)
		758	(1)	5,003	200	5,562	*Total Intra-governmental Costs*
Total Program Gross Costs	**154,938**	**16,045**	**(1)**	**139,092**	**200**	**154,938**	**Total**
Total Program Gross Earned Revenues	(18,182)	(14,694)	-	(861)	-	(15,555)	Non-Federal Earned Revenue
							Intra-governmental Revenue
		(48)	(1)	(565)	(192)	(420)	Buy/Sell Revenue
		(28)	-	-	(28)	-	Federal Securities Interest Revenue Including Associated Gains and Losses
		-	-	(1,948)	-	(1,948)	Borrowing and Other Interest Revenue
		-	-	(149)	-	(149)	Borrowing Gains
		(110)	-	-	-	(110)	Collections Transferred in to a TAS Other Than the General Fund of the U.S. Government - Exchange
		(186)	(1)	(2,662)	(220)	(2,627)	*Total Intra-governmental Earned Revenue*
Total Program Gross Earned Revenues	**(18,182)**	**(14,880)**	**(1)**	**(3,523)**	**(220)**	**(18,182)**	**Total**
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	243	(4)	-	247	-	243	Non-Federal Gross Costs
Total Net Cost of Treasury Operations	**136,999**	**1,161**	**(2)**	**135,816**	**(20)**	**136,999**	**Total**

Consolidated Statement of Net Cost
For the Fiscal Year Ended September 30, 2021

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	$ 574,594	$ -	$ -	$ 391,989	$ -	$ 391,989	Interest on Debt Held by the Public (Non-Federal)
		-	-	182,638	33	182,605	Federal Securities Interest Expense (Federal)
Total Federal Debt Interest	574,594	-	-	574,627	33	574,594	*Total*
Less Interest Revenue from Loans	(48,665)	-	-	(48,665)	-	(48,665)	Borrowing and Other Interest Revenue (Federal)
Accrued Restoration of Foregone Federal Debt Interest	409	-	-	339	-	339	Non-Federal Gross Costs
		-	-	70	-	70	Buy/Sell Cost (Federal)
Total Accrued Restoration of Foregone Federal Debt Interest	409	-	-	409	-	409	*Total*
Other Federal Costs, Net	23,566	62	-	11,010	-	11,072	Non-Federal Gross Costs
						-	*Intra-governmental Costs*
		-	-	157	-	157	Buy/Sell Cost
		-	-	12,618	-	12,618	Borrowing and Other Interest Expenses
		-	-	12,775	-	12,775	*Total Intra-governmental Costs*
		(13)	-	-	-	(13)	Non-Federal Earned Revenue
		-	-	(268)	-	(268)	Buy/Sell Revenue (Federal)
Total Other Federal Costs, Net	23,566	49	-	23,517	-	23,566	*Total*
GSEs Non-Entity Cost (Revenue), Net	(111,950)	-	-	(111,950)	-	(111,950)	Non-Federal Earned Revenue

Consolidated Statement of Net Cost
For the Fiscal Year Ended September 30, 2021

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 Non-Entity Revenue, Net	(8,937)	-	-	(631)	-	(631)	Non-Federal Gross Costs
		-	-	(8,306)	-	(8,306)	Non-Federal Earned Revenue
Total COVID-19 Non-Entity Revenue, Net	(8,937)	-	-	(8,937)	-	(8,937)	*Total*
Other, Net	(721)	48	-	1	-	49	Non-Federal Gross Costs
		-	-	(770)	-	(770)	Buy/Sell Revenue (Federal)
Total Other, Net	(721)	48	-	(769)	-	(721)	*Total*
Total Net Non-Entity Costs	**428,296**	**97**	**-**	**428,232**	**33**	**428,296**	**Total**
		26	-	804,159	-	804,185	Non-Federal Gross Costs [(1)]
Total Net Cost of Treasury Operations and Non-Entity Costs	**565,295**	**1,284**	**(2)**	**1,368,207**	**13**	**1,369,480**	**Total Net Cost** [(1)]

(1) Includes income tax credits of $804.2 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 Financial Report.

Consolidated Statement of Changes in Net Position and Statement of Custodial Activity
For the Fiscal Year Ended September 30, 2021

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	$ 903,958	$ 200	$ -	$ 903,758	$ -	$ 903,958	Net Position, Beginning of Period
Appropriations Received	1,124,489	-	-	1,124,489	-	1,124,489	Appropriations Received as adjusted
Appropriations Transferred In/Out	50	-	-	50	-	50	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources
Other Adjustments	(488,673)	-	-	(488,673)	-	(488,673)	Appropriations Received as adjusted
Appropriations Used	(661,214)	-	-	(661,214)	-	(661,214)	Appropriations Used
Net Change in Unexpended Appropriations	(25,348)	-	-	(25,348)	-	(25,348)	Total
Total Unexpended Appropriations: Ending Balance	**878,610**	**200**	**-**	**878,410**	**-**	**878,610**	**Total**
CUMULATIVE RESULTS OF OPERATIONS							
Beginning Balance	143,383	48,844	-	94,539	-	143,383	Net Position, Beginning of Period
Appropriations Used	661,214	-	-	661,214	-	661,214	Appropriations Expended
Non-Exchange Revenue	441	414	-	-	-	414	Collections Transferred Into a TAS Other Than the General Fund of the U.S. Government
		24	-	-	-	24	Individual Income Tax and Tax Withholdings
		-	-	2	-	2	Other Taxes and Receipts
		5	-	-	4	1	Federal Securities Interest Revenue Including Associated Gains and Losses (Non-Exchange)
Total Non-Exchange Revenue	441	443	-	2	4	441	*Total*
Donations and Forfeitures of Cash/Equivalent	285	285	-	-	-	285	Other Taxes and Receipts

Consolidated Statement of Changes in Net Position and Statement of Custodial Activity
For the Fiscal Year Ended September 30, 2021

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	(644)	69	69	-	-	-	Appropriation of Unavailable Special or Trust Fund Receipts Transfers-In
		(69)	(69)	-	-	-	Appropriation of Unavailable Special or Trust Fund Receipts Transfers-Out
		173	173	1	1	-	Non-expenditure Transfers-In of Unexpended Appropriations and Financing Sources
		(126)	(125)	-	(1)	-	Non-expenditure Transfers-Out of Unexpended Appropriations and Financing Sources
		458	-	62	53	467	Expenditure Transfers-In of Financing Sources
		(681)	-	-	(53)	(628)	Expenditure Transfers-Out of Financing Sources
		(75)	-	-	(75)	-	Non-expenditure Transfers-Out of Financing Sources - Capital Transfers
		3,916	3,916	-	-	-	Transfers-In Without Reimbursement
		(3,915)	(3,915)	(483)	-	(483)	Transfers-Out Without Reimbursement
Total Transfers In/Out Without Reimbursement	(644)	(250)	49	(420)	(75)	(644)	*Total*
Donation/Forfeiture of Property	185	185	-	-	-	185	Other Taxes and Receipts
Accrued Interest and Discount on Debt	22,591	-	-	22,591	-	22,591	Other Non-Budgetary Financing Sources for Debt Accruals/Amortization
Accrued Interest on Restoration of Federal Debt Principal	409	-	-	409	-	409	Other Non-Budgetary Financing Sources for Debt Accruals/Amortization
Imputed Financing Sources	762	80	-	682	-	762	Imputed Financing Sources

Consolidated Statement of Changes in Net Position and Statement of Custodial Activity
For the Fiscal Year Ended September 30, 2021

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	(177,085)	-	-	538	-	538	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
		47	-	(178,621)	-	(178,574)	Non-Entity Collections Transferred to the General Fund
		(1)	-	21	-	20	Other Financing Sources with Budgetary Impact
		-	-	10,000	-	10,000	Other Non-Budgetary Financing Sources for Debt Accruals/Amortization
		-	-	(10,000)	-	(10,000)	Borrowings Losses
		2	-	(1)	-	1	Other Non-Budgetary Financing Sources
		801	-	129	-	930	Other Taxes and Receipts
Total Transfers to the General Fund and Other	(177,085)	849	-	(177,934)	-	(177,085)	*Total*
Net Cost of Treasury Operations and Non-Entity Costs	(565,295)	(1,284)	2	(1,368,208)	(14)	(1,369,480)	Net Cost of Operations [(2)]
Net Change in Cumulative Results of Operations	(57,137)	308	51	(861,664)	(85)	(861,322)	Total
Cumulative Results of Operations: Ending Balance	**$ 86,246**	**$ 49,152**	**$ 51**	**$ (767,125)**	**$ (85)**	**$ (717,939)**	**Total**
STATEMENT OF CUSTODIAL ACTIVITY							
Sources of Custodial Revenue							
Individual Income and FICA Taxes	$ 3,594,002	$ 26	$ -	$ 3,593,976	$ -	$ 3,594,002	Individual Income Tax and Tax Withholdings
Corporate Income Taxes	419,009	-	-	419,009	-	419,009	Corporation Income Taxes
Estate and Gift Taxes	28,046	-	-	28,046	-	28,046	Estate and Gift Taxes
Excise Taxes	78,534	-	-	78,534	-	78,534	Excise Taxes
Railroad Retirement Taxes	5,307	-	-	5,307	-	5,307	Other Taxes and Receipts
Unemployment Taxes	6,276	-	-	6,276	-	6,276	Unemployment Taxes
Deposit of Earnings, Federal Reserve System	100,054	-	-	100,054	-	100,054	Other Taxes and Receipts
Fines, Penalties, Interest and Other Revenue	7,843	-	-	7,841	-	7,841	Other Taxes and Receipts
		-	-	2	-	2	Borrowing and Other Interest Revenue
Total Fines, Penalties, Interest and Other Revenue	7,843	-	-	7,843	-	7,843	*Total*

(2) Includes income tax credits of $804.2 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 Financial Report.

Consolidated Statement of Changes in Net Position and Statement of Custodial Activity
For the Fiscal Year Ended September 30, 2021

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
Less Refunds and Other Payments	(1,138,267)	-	-	(300,949)	-	(300,949)	Individual Income Tax and Tax Withholdings
		-	-	(29,207)	-	(29,207)	Corporation Income Taxes
		-	-	(142)	-	(142)	Unemployment Taxes
		-	-	(2,841)	-	(2,841)	Excise Taxes
		-	-	(906)	-	(906)	Estate and Gift Taxes
		-	-	(37)	-	(37)	*Other Taxes and Receipts*
Total Less Refunds and Other Payments	(1,138,267)	-	-	(334,082)	-	(334,082)	*Total*
Non-Cash Accrual Adjustment	63,958	-	-	66,439	-	66,439	Other Taxes and Receipts
		-	-	17	-	17	Excise Taxes
		-	-	(2,498)	-	(2,498)	*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	63,958	-	-	63,958	-	63,958	*Total*
Disposition of Custodial Revenue							
Amounts Provided to Fund Non-Federal Entities	(528)	-	-	(528)	-	(528)	Other Taxes and Receipts
Amounts Provided to Fund the Federal Government	(3,100,276)	-	-	(3,098,877)	-	(3,098,877)	Non-Entity Collections Transferred to the General Fund
		-	-	(1,399)		(1,399)	*Collections Transferred to a TAS Other Than the General Fund of the U.S. Government*
Total Amounts Provided to Fund the Federal Government	(3,100,276)	-	-	(3,100,276)	-	(3,100,276)	*Total*
Non-Cash Accrual Adjustment	(63,958)	-	-	(63,961)	-	(63,961)	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Gov't
		-	-	3	-	3	*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	(63,958)	-	-	(63,958)	-	(63,958)	*Total*
Total Statement of Changes in Net Position and Statement of Custodial Activity	**$ 964,856**	**$ 49,378**	**$ 51**	**$ 915,444**	**$ (85)**	**$ 964,856**	**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 $2.5 billion and $3.3 billion as of September 30, 2021 and 2020, 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 2021, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts and appeals courts is $1.5 billion and $1.0 billion, respectively. In FY 2020, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts and appeals courts was $1.6 billion and $1.7 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 agreed to by the taxpayer or the court federal taxes receivable. We consider assessments not agreed to by taxpayer or the court compliance assessments. 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, 2021 and 2020, were as follows:

(in millions)		2021	2020
Total Unpaid Assessments	$	**658,000**	$ 596,000
Less Compliance Assessments		**(80,000)**	(74,000)
Write Offs		**(85,000)**	(95,000)
Gross Federal Taxes Receivable		**493,000**	427,000
Less Allowance for Doubtful Accounts		**(191,000)**	(191,000)
Federal Taxes Receivables, Net	$	**302,000**	$ 236,000

Total unpaid assessments include $249 billion of non-delinquent taxes receivable, including $143 billion of non-delinquent IRC 965(h) tax which 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 in two installments with 50 percent due by December 31, 2021 and the remaining amount 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 $1.2 billion and $1.4 billion as of September 30, 2021 and 2020, 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 2021 and 2020, TTB collected approximately $20.3 billion and $20.0 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 2021 and 2020, 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, 2021 and 2020 disaggregated by Treasury reporting entity rather than by Treasury major budget account, since we manage our budget at the reporting entity level.

Fiscal Year 2021 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)	$ 754	$ 1,915	$ 911,615	$ 35	$ 1,583
Appropriations (discretionary and mandatory)	-	588,905	1,015	127	14,900
Borrowing authority (discretionary and mandatory)	-	-	15,008	-	-
Spending authority from offsetting collections (discretionary and mandatory)	1,098	315	3,690	9	151
Total Budgetary Resources	$ 1,852	$ 591,135	$ 931,328	$ 171	$ 16,634
STATUS OF BUDGETARY RESOURCES					
New obligations and upward adjustments	$ 1,249	$ 589,326	$ 449,777	$ 145	$ 14,074
Unobligated balance, end of year:					
Apportioned, unexpired accounts	462	1,704	437,837	21	2,296
Exempt from apportionment, unexpired accounts	-	3	77	-	7
Unapportioned, unexpired accounts	141	90	43,501	-	3
Unexpired unobligated balance, end of year	603	1,797	481,415	21	2,306
Expired unobligated balance, end of year	-	12	136	5	254
Unobligated balance, end of year	603	1,809	481,551	26	2,560
Total Status of Budgetary Resources	$ 1,852	$ 591,135	$ 931,328	$ 171	$ 16,634
OUTLAYS, NET, AND DISBURSEMENTS, NET					
Outlays, net (discretionary and mandatory)	$ 70	$ 588,357	$ 304,892	$ 137	$ 13,290
Distributed offsetting receipts	-	(51,762)	(20,396)	-	(1,487)
Agency Outlays, Net (Discretionary and Mandatory)	$ 70	$ 536,595	$ 284,496	$ 137	$ 11,803
Disbursements, net (mandatory)	$ -	$ -	$ (64,396)	$ -	$ -

(a) Of the $931 billion of Total Budgetary Resources for DO, ESF, GSE, and OAS had $173 billion, $254 billion, and $14 billion, respectively. The remainder is spread throughout other offices.

Fiscal Year 2021 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)	$ 618	$ 1,665	$ 9	$ 905,903	$ 12,291
Appropriations (discretionary and mandatory)	-	-	124	605,071	-
Borrowing authority (discretionary and mandatory)	-	-	-	-	15,008
Spending authority from offsetting collections (discretionary and mandatory)	5,298	1,166	8	23,140	(11,405)
Total Budgetary Resources	$ 5,916	$ 2,831	$ 141	$ 1,534,114	$ 15,894
STATUS OF BUDGETARY RESOURCES					
New obligations and upward adjustments	$ 5,030	$ 1,112	$ 135	$ 1,045,397	$ 15,451
Unobligated balance, end of year:					
Apportioned, unexpired accounts	886	-	5	443,193	18
Exempt from apportionment, unexpired accounts	-	1,719	-	1,806	-
Unapportioned, unexpired accounts	-	-	-	43,310	425
Unexpired unobligated balance, end of year	886	1,719	5	488,309	443
Expired unobligated balance, end of year	-	-	1	408	-
Unobligated balance, end of year	886	1,719	6	488,717	443
Total Status of Budgetary Resources	$ 5,916	$ 2,831	$ 141	$ 1,534,114	$ 15,894
OUTLAYS, NET, AND DISBURSEMENTS, NET					
Outlays, net (discretionary and mandatory)	$ (481)	$ (115)	$ 120	$ 906,270	$ -
Distributed offsetting receipts	-	-	-	(73,645)	-
Agency Outlays, Net (Discretionary and Mandatory)	$ (481)	$ (115)	$ 120	$ 832,625	$ -
Disbursements, net (mandatory)	$ -	$ -	$ -		$ (64,396)

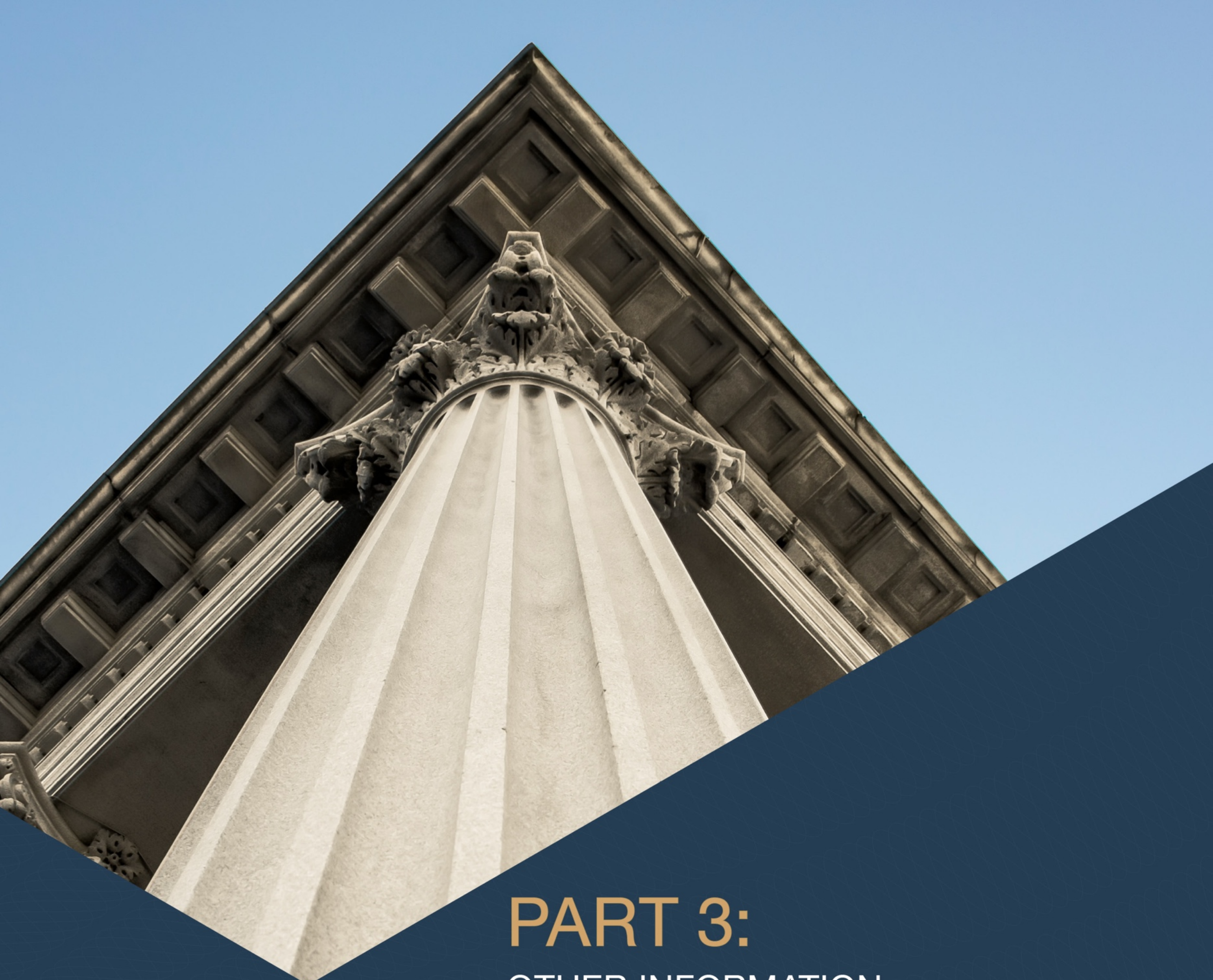
Fiscal Year 2020 Combining Statement of Budgetary Resources Disaggregated by Sub-organization Accounts

(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	$ 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	$ 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



PART 3:

OTHER INFORMATION (UNAUDITED)

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SECTION A: TAX GAP AND TAX BURDEN

TAX GAP

The gross tax gap is the difference between the amount of tax the law imposes 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 IRS generates the reported data and issues the report. 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 taxpayer files the return, claiming and receiving an excessive refund, or a combination of both.

Tax Gap Estimates

The IRS prepares the tax gap estimates periodically, 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 is available 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. We estimate 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. We also group the gross tax gap estimates 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 below are excerpted 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				Enforced & Other Late Payments	Net Tax Gap (Tax Not Collected)
Nonfiling	Underreporting	Under-payment	Gross Tax Gap		
$39	+ $352	+ $50	= $441	– $60	= $381
Individual Income Tax	Individual Income Tax	Individual Income Tax	Individual Income Tax	Individual Income Tax	Individual Income Tax
$31	+ $245	+ $38	= $314	– $43 (14%)	= $271
	Business Income $110; Non-Business Income $57; Credits $42; Income Offsets [1] $20; Filing Status $5; Other Taxes [2] $1; Unallocated Marginal Effects [3] $10				
Corporation Income Tax	Corporation Income Tax	Corporation Income Tax	Corporation Income Tax	Corporation Income Tax	Corporation Income Tax
#	+ $37	+ $5	= $42	– $10 (24%)	= $32
	Large Corporations $26; Small Corporations $11				
Employment Tax [4]	Employment Tax	Employment Tax	Employment Tax	Employment Tax	Employment Tax
$6	+ $69	+ $6	= $81	– $5 (6%)	= $77
	Self-Employment Tax $45; FICA & Uncollected FICA TAX $24; Unemployment $1				
Estate Tax	Estate Tax	Estate Tax	Estate Tax	Estate Tax	Estate Tax
$2	+ $1	+ $<0.5	= $3	– $2 (55%)	= $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 do 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 IRS uses pooled data from several tax years to estimate the tax gap 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				Line Item Amount
Tax Return Line Items		Tax Gap	Share of Gross Tax Gap	Share of Individual Income Tax Underreporting Tax Gap	Net Misreporting Percentage [2]
Gross Tax Gap	**$**	**441**	**100%**	**N/A**	**N/A**
Individual Income Tax Underreporting Tax Gap	**$**	**245**	**56%**	**100%**	**18%**
Items Subject to Substantial Information Reporting and Withholding	**$**	**9**	**2%**	**4%**	**1%**
Wages, salaries, tips	$	9	2%	4%	1%
Items Subject to Substantial Information Reporting	**$**	**12**	**3%**	**5%**	**5%**
Interest income		[3]	[3]	[3]	1%
Dividend income	$	1	[3]	1%	5%
State income tax refunds	$	1	[3]	[3]	12%
Pension & annuities	$	5	1%	2%	3%
Unemployment Compensation		[3]	[3]	[3]	7%
Taxable Social Security benefits	$	4	1%	2%	11%
Items Subject to Some Information Reporting	**$**	**36**	**8%**	**15%**	**17%**
Partnership, S-Corp, Estate & Trust, etc.	$	19	4%	8%	11%
Alimony income		[4]	[4]	[4]	[4]
Capital Gains [5]	$	17	4%	7%	23%
Short-term Capital Gains	$	7	2%	3%	24%
Long-Term Capital Gains	$	10	2%	4%	15%
Items Subject to Little or No Information Reporting	**$**	**109**	**25%**	**45%**	**55%**
Form 4797 income	$	2	1%	1%	36%
Other income	$	16	4%	6%	42%
Nonfarm proprietor income	$	68	15%	28%	56%
Farm income	$	6	1%	2%	62%
Rents and royalties	$	17	4%	7%	51%
Other Taxes	**$**	**1**	[3]	**1%**	**3%**
Unallocated Marginal Effects	**$**	**10**	**2%**	**4%**	**N/A**
Income Offsets (Adjustments, Deductions, Exemptions)	**$**	**20**	**4%**	**8%**	**5%**
Total Tax Credits	**$**	**42**	**10%**	**17%**	**38%**
Filing Status	**$**	**5**	**1%**	**2%**	**N/A**

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

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

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

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

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

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

Individual Income Tax Credits

The IRS is responsible for administering 21 refundable and nonrefundable 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. [1] Since then, the EITC has undergone numerous legislative changes, most notably by the *Revenue Act of 1978*, which made the EITC a permanent refundable tax credit. Congress believed the EITC would be an effective way to provide financial assistance to working families, with or without children, who might otherwise rely on government subsidized welfare payments. For TY 2018, more than 26 million taxpayers received almost $65 billion in EITCs, making the EITC one of the largest need-tested anti-poverty programs that provides cash benefits.[2]

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.

[1] *Congressional Research Report, The Earned Income Tax Credit (EITC): A Brief Legislative History, March 20, 2018.*
[2] *Congressional Research Report, The Earned Income Tax Credit (EITC): How it Works and Who Receives It, Updated January 12, 2021.*
[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 (*i.e.*, overclaim) 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 the taxpayer provides, 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 nonrefundable 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 overclaims 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 we further explain in Part 3, Section D, it is our 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. The IRS frequently enhances filters and other detection tools 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. The IRS conducts most refundable credit audits before it issues a 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 2021, 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. The amount of taxable income can be adjusted through the application of exemptions and deductions, which will influence the amount of taxes taxpayers owe. 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 2019) and corporations (TY 2018).

INDIVIDUAL INCOME TAX LIABILITY

FIGURE 1.1: AVERAGE AGI REPORTED AND AVERAGE INDIVIDUAL INCOME TAX LIABILITY FOR TY 2019

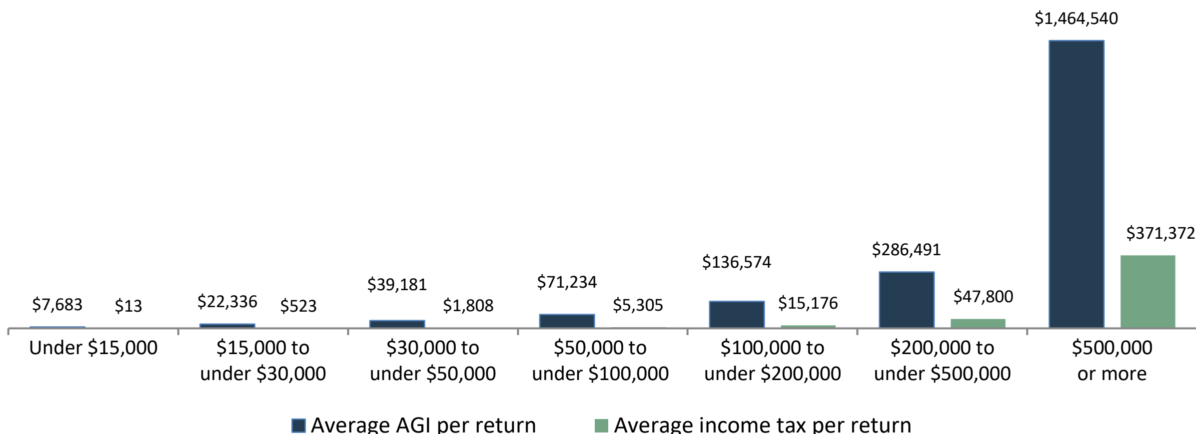

FIGURE 1.2: INDIVIDUAL INCOME TAX LIABILITY AS A PERCENTAGE OF AGI FOR TY 2019

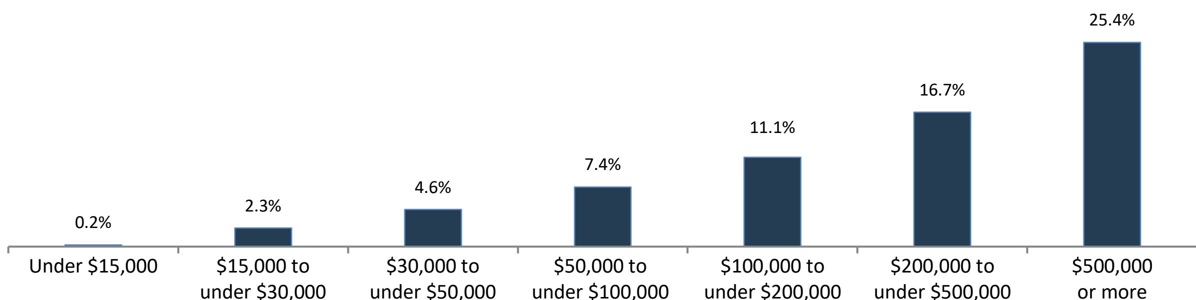

TABLE 1: INDIVIDUAL INCOME TAX DATA BY AGI FOR TY 2019

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	30,881	$ 237,255	$ 391	$ 7,683	$ 13	0.2%
$15,000 under $30,000	28,823	643,794	15,069	22,336	523	2.3%
$30,000 under $50,000	28,594	1,120,332	51,692	39,181	1,808	4.6%
$50,000 under $100,000	36,357	2,589,840	192,888	71,234	5,305	7.4%
$100,000 under $200,000	21,998	3,004,364	333,838	136,574	15,176	11.1%
$200,000 under $500,000	7,298	2,090,809	348,843	286,491	47,800	16.7%
$500,000 or more	1,719	2,517,544	638,389	1,464,540	371,372	25.4%
Total	**155,670**	**$ 12,203,938**	**$ 1,581,110**			

All negative AGI under $15,000 are treated as zero-dollar amount.

CORPORATION TAX LIABILITY

FIGURE 2: CORPORATION TAX LIABILITY AS A PERCENTAGE OF TAXABLE INCOME FOR TY 2018

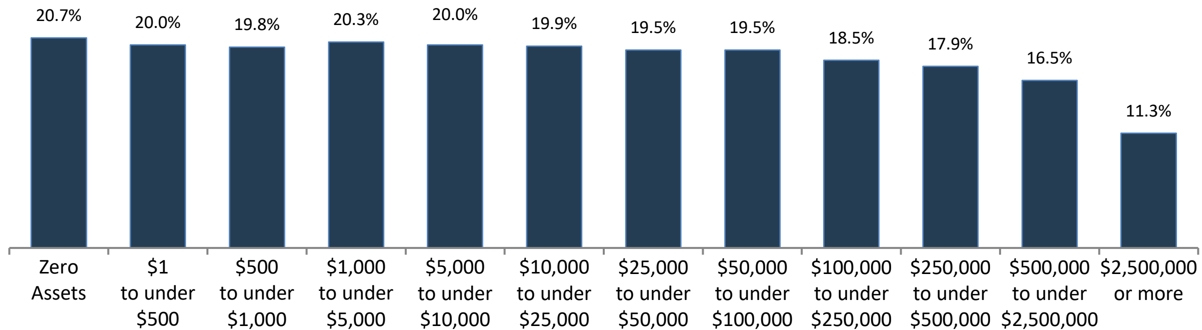

TABLE 2: CORPORATION TAX DATA BY TOTAL ASSETS FOR TY 2018

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	$ 55,884	$ 11,595	20.7%
$1 under $500	7,829	1,569	20.0%
$500 under $1,000	4,829	956	19.8%
$1,000 under $5,000	17,223	3,496	20.3%
$5,000 under $10,000	10,086	2,016	20.0%
$10,000 under $25,000	19,143	3,805	19.9%
$25,000 under $50,000	14,385	2,812	19.5%
$50,000 under $100,000	16,854	3,294	19.5%
$100,000 under $250,000	25,808	4,773	18.5%
$250,000 under $500,000	26,192	4,679	17.9%
$500,000 under $2,500,000	126,275	20,836	16.5%
$2,500,000 or more	1,632,171	184,856	11.3%
Total	**$ 1,956,679**	**$ 244,687**	

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 we face. At the end of each fiscal year, the Treasury Office of Inspector General (OIG) and Treasury Inspector General for Tax Administration (TIGTA) send an update of these management challenges to the Secretary of the Treasury (hereafter referred to as "Secretary") and cite any new challenges for the upcoming fiscal year. The Special Inspector General for the Troubled Asset Relief Program (SIGTARP) identifies their management or performance challenges for the Office of Financial Stability (OFS) separately in their quarterly report to Congress. This section contains the OIG and TIGTA identified management and performance challenges and management's response.

TREASURY INSPECTOR GENERAL MANAGEMENT CHALLENGES

OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 14, 2021

INFORMATION MEMORANDUM FOR SECRETARY YELLEN

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

SUBJECT: Management and Performance Challenges Facing the Department of the Treasury (OIG-CA-22-002)

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 is new and reports on the challenges faced with the transition of the new Administration in filling key senior leadership positions and the rise of new initiatives. As shown below, five challenges are repeated and updated from last year to include Treasury's continued role in combatting the economic fallout of the Coronavirus Disease 2019 (COVID-19) global pandemic at the forefront of the Nation, as well as its impacts on related workforce and work streams.

- COVID-19 Pandemic Relief (Repeat)
- Transition of New Administration (New)
- 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 concerns about the following matters: (1) the coin redemption program at the United States Mint (2) managerial cost accounting, and (3) internal control matters at the Bureau of Engraving and Printing.

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 been tackling. Furthermore, with the enactment of new legislation, Treasury will continue to provide financial assistance to the transportation industry and to all 50 States, units of local government, U.S. Territories, and Tribal governments for the foreseeable future. As noted throughout this memorandum, Treasury will need to continue to act swiftly, and in some cases, draw on its existing resources to meet the recent economic needs.

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: Trevor Norris
Acting Assistant Secretary for Management

Challenge 1: COVID-19 Pandemic Relief (Repeat)

The Coronavirus Disease 2019 (COVID-19) pandemic continues to affect the health and economic stability of communities worldwide. Since reporting this challenge last year, more than 37 million people have been infected with reported deaths of more than 684,000 in the United States as of this writing.[1] In the early stages of the COVID-19 outbreak in March 2020, Congress passed three key pieces of legislation in succession to address the public health crisis and the economic fallout affecting individuals, businesses, and many industry sectors. The *Coronavirus Preparedness and Response Supplemental Appropriation Act of 2020*, signed into law on March 6, 2020, authorized $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, which provided approximately $104 billion to address the financial stress of individuals and households.[3] The *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act)[4] 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 others. As the public health crisis continued into late 2020 and the new year, Congress legislated additional relief in passing the *Consolidated Appropriations Act, 2021*[5] (CAA, 2021) on December 27, 2020, and the *American Rescue Plan Act of 2021*[6] (ARP) on March 11, 2021. These laws provided another $900 billion and $1.9 trillion of economic stimulus, respectively.

As reported in my prior memorandum, the Department of the Treasury (hereinafter Treasury or the Department) has been instrumental to the implementation of economic relief provisions of the CARES Act. Since then, Treasury's responsibilities and workloads have expanded enormously as several CARES Act provisions were extended under CAA, 2021 and ARP in addition to new programs being established within Treasury. As such, pandemic recovery programs and provisions of the CARES Act, CAA, 2021, and ARP within the oversight purview of my office are extensive and include programs that support transportation industry workers; renters and homeowners; and state, local, territorial, and tribal government entities through direct financial assistance.

Financial Assistance for Air Carrier Worker Support and Other Transportation Service Providers

Air Carrier Worker Support

To maintain pay and benefits of airline industry workers, Treasury implemented the Air Carrier Worker 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. Using existing resources and contractor support, Treasury quickly stood up the Payroll Support Program (PSP1) and made direct payments of $28.6 billion to 613 applicants as of February 24, 2021. Financial support for air carrier workers was extended twice by CAA, 2021 and ARP which provided additional assistance to passenger air carriers and contractors up to $15 billion and $14 billion, respectively. Using the mechanisms to establish PSP1, Treasury implemented PSP2 and PSP3 to make corresponding payments. As of this writing, Treasury disbursed $15.6 billion to 518 applicants under PSP2 and $14.6 billion to 482 applicants under PSP3.

[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] Public Law 116-260 (December 27, 2020).
[6] Public Law 117-2 (March 11, 2021).

As you are aware, the CARES Act and CAA, 2021 require my office to audit the certifications of sworn financial data submitted to Treasury by passenger and cargo carriers that do not report financial information to the Department of Transportation (referred to as non-241 carriers) and contractors. Additionally, CAA, 2021 requires that my office audit contractors' certifications of insufficient funds under the PSP1 to recall employees involuntarily between March 27, 2020 and January 4, 2021. Treasury has authority to waive the requirement for a contractor to recall employees if the contractor certifies that it will have insufficient funds remaining under PSP1 to keep recalled employees employed for more than two weeks upon returning to work. My office will continue audits of PSP1 recipients' certifications and initiate audits of certifications submitted by PSP2 recipients in fiscal year 2022. My office was not mandated to audit the applicants' certifications to receive PSP3 payments authorized under ARP. However, Treasury disbursed financial assistance to passenger air carriers and contractors based on information submitted by recipients on their PSP2 certifications, which we will audit. That said, my office plans to assess Treasury's calculation of award amounts under PSP3 and Treasury's post monitoring of recipients under PSP1, PSP2, and PSP3. It is incumbent upon the Department to implement and maintain strong internal controls 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.

Coronavirus Economic Relief for Transportation Services

Congress expanded financial support to non-air carrier transportation service providers under the *Coronavirus Economic Relief for Transportation Services* (CERTS) provisions of CAA, 2021. Treasury established the CERTS Program that provides $2 billion in non-competitive grants to eligible companies that certify revenue loss of 25 percent or more due to the COVID-19 pandemic. In consultation with the Department of Transportation, Treasury provided initial guidelines on May 6, 2021, that included among other things, the priority use of funds must be for payroll, although operating expenses and debt accrued to maintain payroll are eligible uses. To be a qualifying transportation provider, an applicant must demonstrate eligibility as a motor coach, school bus, passenger vessel, or pilotage vessel transportation service. It is expected that up to 5,000 service providers will apply for support. While Treasury has acted swiftly to establish CERTS Program requirements, ongoing administration of grants and monitoring recipient compliance with grant agreements will be challenging with an expected recipient pool in the thousands. Although there is no mandate directing my office to audit CERT recipients, we plan to monitor and audit Treasury's administration of the program.

Financial Assistance to State, Local, Tribal, and U.S. Territorial Governments

Coronavirus Relief Fund

The $150 billion Coronavirus Relief Fund (CRF), established under Title VI of the *Social Security Act*, as amended by Title V of the CARES Act, continues to be a large endeavor for both the Department and my office. The Department disbursed 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. As you are aware, the CARES Act created a unique challenge in distinguishing between the programmatic administrative responsibility for payments made from the CRF 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.[7]

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 detailed terms and conditions for the receipt of funds, which we reported in our first audit of CRF regarding the lack of terms and conditions and accountability and transparency of funds.[8] While this is unusual for a federal agency that administers financial assistance programs, Treasury officials have committed 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 has been critical for overseeing such a large and widely dispersed recipient population given the ongoing challenges of defining and interpreting eligible uses of CRF proceeds. That said, it is crucial that the Department maintain its fundamental role to clarify its policy[9] over the uses of funds when interpretation matters arise. As recipients are still in the process of using these funds, we anticipate that questions will continue to arise that will require interpretation. In addition, the litigation over the eligibility of Alaskan Native Corporations (ANC) for receiving CRF payments settled in the ANCs' favor in June 2021. Treasury must make payments to ANCs from the nearly $533 million of CRF proceeds set aside until a court ruling was made. ANCs will have a short window to use funds by the December 31, 2021 deadline. We anticipate that eligible use questions will arise regarding ANCs' use of their CRF proceeds. Providing as much clarity as possible over allowable uses is essential for ensuring recipients understand the compliance requirements and are accountable and transparent in how they report uses of funds. My office has received over 200 complaints regarding recipient, and in some instances sub-recipient, uses of CRF proceeds that require continued collaboration between our offices.

As part of my office's monitoring and oversight function, we established a portal using GrantSolutions[10] for recipients to report their uses of funds on a quarterly basis that started in September 2020. The data received is reviewed and approved by my office prior to being extracted for display on the Pandemic Response Accountability Committee[11] (PRAC) website (https://pandemicoversight.gov).[12] CAA, 2021 extended the covered period for recipients to use CRF payments through December 30, 2021, and now requires funding agencies under Division A of the CARES Act to report recipient obligation and expenditure data required under sections 15010 and 15011 of CARES Act Division B. This transferred the CRF recipient reporting responsibility to Treasury. While the responsibility is Treasury's, we continue to administer the GrantSolutions portal under an Economy Act Agreement. As of this writing, my office received and reviewed recipient data comprised of approximately $139 billion in cumulative obligations and $132 billion in cumulative expenditures covering the period of March 1, 2020 through June 30, 2021, that was exported to the PRAC for public display.

Coronavirus State and Local Fiscal Recovery Funds

While disbursing CRF payments was an enormous undertaking for the Department, the *Coronavirus State and Local Fiscal Recovery Funds* provisions of ARP require Treasury to disburse another $362 billion to State, Local, Territorial, and Tribal governments under the Coronavirus State Fiscal Recovery Fund ($219.8

[7] 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 31, 2021, as extended by the CAA, 2021.

[8] OIG, *Interim Audit Update–Coronavirus Relief Fund Recipient Reporting* (OIG-20-036; May 27, 2020).

[9] *Coronavirus Relief Fund Guidance for State, Territorial, Local, and Tribal Governments* Federal Register, Vol. 86, No. 10; January 15, 2021).

[10] GrantSolutions is a grant program management Federal Shared service provider under the U.S. Department of Health and Human Services.

[11] 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 OIG, Treasury Inspector General for Tax Administration, and the Special Inspector General for Pandemic Recovery (SIGPR).

[12] Of the 939 recipients of CRF payments, 861 recipients meet the threshold for receiving large covered funds of $150,000 or more.

billion) and the Coronavirus Local Fiscal Recovery Fund ($130.2 billion) (together referred to as SLFRF), Coronavirus Capital Projects Fund (CCPF)($10 billion), and Local Assistance and Tribal Consistency Fund (CTCF) ($2 billion).

To tackle the $350 billion of SLFRF, Treasury established allocation methodologies, and the Interim Final Rule establishing program requirements to include the uses of funds. Unlike the CRF, recipients may now use funds for a variety of needs to include revenue replacement. Treasury has disbursed approximately $205 billion as of this writing through non-competitive grants. Administering SLFRF will pose challenges given the volume of recipients that Treasury must oversee that include all 50 States, U.S. Territories, Tribal governments, local government recipients with population sizes of 250,000 or more, and approximately 30,000 non-entitlement units of local governments. Treasury must establish a compliance monitoring function to ensure recipient compliance with uses of funds requirements, as well as mechanisms to capture recipient obligation and expenditure data.

As of September 2021, Treasury developed allocation methodologies and guidance for distributing up to $10 billion of CCPF as noncompetitive grants to States, U.S. Territories, and Tribal governments, to address infrastructure challenges, such as reliable internet that low to moderate income and rural communities have experienced during the COVID-19 pandemic.[13] Treasury also began accepting applications through its application submission portal from States and U.S. Territories in September 2021 and plans to open the portal to Tribal governments beginning October 2021. Although Treasury has developed CCPF program requirements and a means to apply for funds, recipient compliance and reporting requirements are still forthcoming. Treasury will need to develop these requirements expeditiously so that they are incorporated into the terms and conditions of CCPF grant agreements.

Under the CTCF, Treasury was appropriated an additional $2 billion for fiscal years 2022 and 2023, for COVID-19 assistance payments to eligible revenue sharing counties and Tribes. Eligibility for counties (to include parishes and boroughs) is based on poverty rates, household income, land values, unemployment rates, and other economic indicators, over a 20-year period ending September 30, 2021. Tribal government eligibility is based on economic conditions of each Tribe. Funds under the CTCF may be used for any governmental purpose other than lobbying.

With the overlap of recipients of CRF, SLFRF, CCPF, and CTCF, we expect that there will be confusion between the uses of funds requirements, and reporting mechanisms for recipients that may be a challenge going forward. Given the volume of recipients and varying requirements under these programs, Treasury will need to ensure that there are sufficient resources for the remaining distribution of funds and ongoing monitoring of recipient reporting and compliance with terms and conditions for funds received. Furthermore, with the level of funding under both CRF and SLFRF, Treasury may now have cognizance over many local governments.[14]

Emergency Rental Assistance and Homeowner Assistance Fund

To provide assistance to vulnerable households at risk of housing instability, Congress established two Emergency Rental Assistance (ERA) Programs and a Homeowner's Assistance Fund (HAF) availing over

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[13] https://www.govinfo.gov/content/pkg/FR-2021-05-17/pdf/2021-10283.pdf.

[14] Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, §200.513 Responsibilities .(a)(1) *Cognizant agency for audit responsibilities*. A non-federal entity expending more than $50 million a year in federal awards must have a cognizant agency for audit. The designated cognizant agency for audit must be the federal awarding agency that provides the predominant amount of funding directly (direct funding) (as listed on the Schedule of expenditures of federal awards, see §200.510(b)) to a non-federal entity unless OMB designates a specific cognizant agency for audit. When the direct funding represents less than 25 percent of the total expenditures (as direct and subawards) by the non-federal entity, then the federal agency with the predominant amount of total funding is the designated cognizant agency for audit. (https://www.ecfr.gov/cgi-bin/retrieveECFR?gp=&SID=e78c6acc3819f56b44027416dc151015&mc=true&n=sp2.1.200.f&r=SUBPART&ty=HTML#se2.1.200_1513).

$56 billion to households in need. Division N, Title V, Subtitle A, of CAA, 2021, created the initial ERA Program (ERA1) and ARP created a supplemental ERA Program (ERA2) and HAF.

According to CAA, 2021, Treasury established ERA1 to provide up to $25 billion in assistance to States (including Washington, DC), US Territories, Tribal governments (with a provision for the Department of Hawaiian Home Lands), and units of local government with populations of 200,000 or greater. ERA1 funds are to be available for eligible renter households negatively impacted by the COVID-19 pandemic to pay for rent, utilities, and other housing-related expenses and arrears. Under ERA1, an eligible household may receive funds for up to a 12 month period unless the grantee determines an extension is necessary to ensure housing stability for the household; then funds may be made available for up to 15 total months. Additionally, ARP extended ERA1 funds' availability until September 30, 2022. Treasury has sent payments of ERA1 funds to government recipients, provided guidance on fund usage, and set up a Portal where recipients are to report on their spending.

CAA, 2021 requires that my office conduct monitoring and oversight of the receipt, disbursement, and use of ERA1 funds. We will conduct our oversight with audits of Treasury's (1) establishment and implementation of the program, (2) payments of funds, and (3) guidance and management over the program. We will use the data reported in Treasury's ERA Portal to inform our monitoring function; thus, it is imperative that Treasury ensures recipients' compliance to Treasury ERA guidance when reporting to Treasury's ERA Portal. My office is also authorized to require repayment of funds to Treasury when we determine a recipient failed to comply with ERA1 requirements.

ARP authorized an additional $21.55 billion of ERA funds to remain available until September 30, 2027, referred to as ERA2. Similar to ERA1, ERA2 provides funding for eligible renter households' rent, utilities, and other housing-related expenses and arrears, but does not include Tribal governments as eligible grantees. Instead, ERA2 earmarks $2.5 billion specifically for high-need grantees which are eligible grantees in jurisdictions with a high number of very low-income renter households. ARP designates that an eligible household may receive ERA for up to 18 total months (this includes ERA1 and ERA2 funding). Treasury has provided ERA2 guidance and allocated funds for the state, territory, and local government recipients. My office is tasked with oversight of the program and will conduct our ERA2 oversight with a similar methodology to our ERA1 oversight.

ARP also created HAF which authorized $9.961 billion to prevent mortgage delinquencies, defaults, foreclosures, loss of utility services, and displacement by covering mortgage-related expenses, utility expenses, and arrears for homeowners experiencing financial hardship after January 21, 2020. HAF provides funds for States (including the District of Columbia and Puerto Rico), Tribal governments (including the Department of Hawaiian Home Lands), Guam, American Samoa, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands. The funds are available until September 30, 2025. Treasury has provided guidance to HAF participants and allocated funds for each state and territory recipient based on homeowner need. ARP mandates that my office provide oversight of the funds which will include audits of Treasury's (1) establishment and implementation of the fund, (2) payments of funds, and (3) guidance and management over the program.

Both the ERA programs and HAF require that Treasury provides guidance to supplement the statutes that created the programs. While Treasury has issued relevant guidance for each of the programs, it is essential its program offices continue to be responsive to recipients to clarify guidance and to provide insight into the eligible uses of the funds Treasury distributed. Clear and timely guidance and responsiveness to recipient questions are also critical in enabling program recipients to administer their programs and disperse funds to households in need without delay.

State Small Business Credit Initiative

The State Small Business Credit Initiative (SSBCI), which was originally created in the *Small Business Jobs Act of 2010* to increase availability of credit for small businesses, ended in 2017. However, Section 3301 of ARP reauthorized SSBCI and provided $10 billion in funding for the program. Under SSBCI, participating States, U.S. Territories, and Tribal governments may obtain funding for programs that partner with private lenders to extend credit to small businesses. Such programs may include those that finance loan loss reserves, and those that provide loan insurance, loan guaranties, venture capital funds, and collateral support. States, U.S. Territories, and Tribal governments who apply for SSBCI must provide Treasury with plans for using their funding allocations for review and approval and report quarterly and annually on results. Treasury will distribute funds in three different tranches over 10 years.

Additionally, ARP modified SSBCI in a number of ways including the following set-asides: (1) $500 million in allocations to Tribal governments in proportions determined appropriate by the Secretary of the Treasury; (2) $1.5 billion in allocation to States, U.S. Territories, and Tribal governments for business enterprises owned and controlled by socially and economically-disadvantaged individuals (SEDI); (3) $1 billion to be allocated as an incentive for States, U.S. Territories, and Tribal governments that demonstrate robust support for SEDI businesses; (4) $500 million to be allocated to very small businesses with fewer than 10 employees; and (5) $500 million to provide technical assistance to certain businesses applying for SSBCI or other state or federal programs that support small businesses.

Primary oversight of the use of SSBCI funds is the responsibility of the participating State, U.S. Territory or Tribal government. The participants are responsible for providing Treasury with quarterly assurances that their programs approved for SSBCI funding are in compliance with program requirements. However, Treasury will face challenges in holding participants accountable for the proper use of funds as it has not clearly defined the oversight obligations of the States, U.S. Territories, and Tribal governments or specified minimum standards for determining whether participants have fulfilled their oversight responsibilities. In the past, Treasury has also not required participating states to collect and review compliance assurances made by lenders and borrowers or defined what constitutes a material adverse change in a state's financial or operational condition that must be reported to Treasury. As a result, Treasury may have difficulty finding recipients to be in default of program requirements and holding recipients accountable.

Community Development Investment Programs[15]

Emergency Capital Investment Program

Authorized under CAA, 2021, Treasury established the Emergency Capital Investment Program (ECIP) to provide up to $9 billion in capital to low-to-moderate income community financial institutions that support small businesses and consumers. Under ECIP, certified community development financial institutions (CDFI) and minority depository institutions may provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers in communities disproportionately impacted by the COVID-19 pandemic. Treasury was to begin accepting applications for investments on January 26, 2021, but did not establish initial program application materials and guidance requirements until March 2021. The application portal opened on March 4, 2021. Since that time, Treasury has experienced challenges in fully implementing ECIP. In April 2021 Treasury extended the initial application deadline from May 7, 2021 to July 6, 2021. Then, on July 1, 2021, Treasury had to extend the application window again, pending additional guidance. On August 11, 2021, Treasury issued additional guidance and announced an

[15] Treasury OIG is required to submit to the Committee on Financial Services of the House of Representatives and the Committee on Banking, Housing, and Urban Affairs of the Senate, and the Secretary of the Treasury, not less frequently than 2 times per year, a report relating to the oversight provided including any recommendations for improvements to the Community Development Investment programs.

application deadline of September 1, 2021; after which, Treasury plans to begin making investment decisions within 120 days. Because of the demands for resources within the Office of Recovery Programs, Treasury may experience further delays and challenges administering the ECIP.

CDFI Rapid Response Program

CAA, 2021 also authorized $3 billion to the CDFI Fund to deliver immediate assistance to low-income communities through competitive grants to CDFIs. The CDFI Rapid Response Program (RRP) was established to award $1.25 billion in fiscal year 2021. Treasury officials developed application guidance, leveraging the existing CDFI Fund and Native CDFI programs. In June 2021, Treasury awarded $1.25 billion to 863 institutions, including 58 CDFIs, which serve Native communities. It will be more challenging for the CDFI Fund to establish the *Emergency Support and Minority Lending Program* in fiscal year 2022 to deliver the remaining $1.75 billion reserved for low- or moderate-income minority communities. The program introduces a new requirement to make $1.2 billion available for awards to minority lending institutions. CDFI Fund officials acknowledged that it would take time to develop a compliant program. At the same time, the CDFI Fund must monitor the CDFI RRP award recipients for use of funds compliance, while administering several other non-pandemic grant programs.

Accountability and Transparency

Over the past year, Treasury accomplished much in helping to alleviate hardships of families and industry sectors to include delivering more than $400 billion of Economic Impact Payments under ARP to workers and households through the Internal Revenue Service (IRS) and Bureau of the Fiscal Service (Fiscal Service). Through the IRS, Treasury helps to protect workers and jobs through the Employee Retention Tax Credit and Payroll Tax Deferral authorized by the CARES Act. Treasury also assisted the Small Business Administration in carrying out the Paycheck Protection Program and the Economic Injury Disaster Loans authorized by the CARES Act to support payroll, benefits, and other operating costs of small businesses. Under the Emergency Relief and Taxpayer Protections (commonly referred to as Section 4003), Treasury was authorized to make loans, loan guarantees, and other investments to eligible businesses, states, and municipalities. The Emergency Relief and Taxpayer Protections provisions also authorized the establishment of the Special Inspector General for Pandemic Recovery (SIGPR) within Treasury to oversee 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 Fiscal Service do.

In the context of this overarching challenge, we recognize the breadth and scope of Treasury's responsibilities as it impacts programs, operations, and activities regardless of jurisdictional oversight boundaries. Along with administering and delivering economic relief, Treasury must manage the unprecedented oversight that pandemic relief funding is subject to. In addition to my office's ongoing work on pandemic programs, Treasury is subject to a number of additional oversight bodies. As mentioned above, SIGPR was created to oversee loans, loan guarantees, and other investments provided by Treasury[16] and must report to congress quarterly 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 the effectiveness of maximizing

[16] SIGPR terminates five years after enactment of the CARES Act (March 27, 2025).

benefits and minimizing costs to taxpayers, among other things.[17] Furthermore, the Government Accountability Office (GAO) has ongoing work evaluating the federal response to the COVID-19 pandemic and the effects of the pandemic on federal programs and operations.

Treasury is also accountable for providing transparency over the expenditure of pandemic relief funds. Many reporting requirements of sections 15010 and 15011 of the CARES Act were extended under the CAA, 2021, PRAC amendments. Most notably, Treasury is responsible for reporting obligations and expenditures of large covered funds (over $150,000) to the PRAC. While my office continues to collect and report CRF data to the PRAC under an agreement with the Department as noted above, Treasury is responsible for reporting expenditures of its other pandemic relief programs. Furthermore, Treasury must provide public reports quarterly on the use of funds under its ERA program. The Department must balance its ongoing response to the financial impacts of the public health emergency with its responsibility to stakeholders for reporting and transparency.

While the COVID-19 pandemic continues, Treasury must persevere in navigating this challenging time. Treasury has leveraged its existing workforce, hired contractors, and obtained detailees from other Federal agencies to address the demands of the new programs created by pandemic legislation. 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 2022 will see an end to the horrific fallout that the COVID-19 pandemic has had on our nation, I am also mindful that both short-term and long-term challenges lay ahead for both Treasury and my office.

[17] The Congressional Oversight Commission issued its fourteenth report on June 30, 2021 (https://coc.senate.gov/sites/default/files/2021-06/June%20Report%20Final.pdf).

Challenge 2: Transition of New Administration (New)

As characteristic with incoming Presidential Administrations, the Departmental Offices, and Treasury bureaus and agencies are challenged with filling and transitioning numerous key senior leadership positions, as well as implementing new executive orders and White House initiatives. As of this writing, 17 senior leadership positions are vacant including, among others, the Undersecretary for International Affairs, the Undersecretary for Terrorism and Financial Intelligence, the Comptroller of the Currency, the General Counsel, and the Inspector General. Also of note, are Executive Orders (EO) 13985, *Advancing Racial Equity and Support for Underserved Communities Through the Federal Government*; [18] EO 13988, *Preventing and Combating Discrimination on the Basis of Gender Identity or Sexual Orientation*; [19] EO 14031, *Advancing Equity, Justice, and Opportunity for Asian Americans, Native Hawaiians, and Pacific Islanders*'; [20] and EO 14035, *Diversity, Equity, Inclusion, and Accessibility in the Federal Workforce.*[21] EO 13985, establishes policy to pursue a comprehensive approach to advancing equity for all, including people of color and others who have been historically underserved, marginalized, and adversely affected by persistent poverty and inequality. EO 13988, seeks to prevent and combat discrimination on the basis of gender identity or sexual orientation, and to fully enforce Title VII and other laws that prohibit discrimination on the basis of gender identity or sexual orientation. EO 14031, seeks to address and confront racism, xenophobia, and intolerance. To further advance equity within the Federal Government, EO 14035 establishes policy to cultivate a workforce that draws from the full diversity of the Nation.

Additionally, the White House introduced EO 14008, *Tackling the Climate Crisis at Home and Abroad*, to ensure climate considerations are an essential element of U.S. foreign policy and national security. The Secretary of State and the Secretary of the Treasury will lead several efforts related to EO 14008 in coordination with the Special Presidential Envoy for Climate. Furthermore, the White House introduced EO 14030, *Climate-Related Financial Risk* which aims to: (a) advance consistent, clear, intelligible, comparable, and accurate disclosure of climate-related financial risk, including both physical and transition risks; (b) mitigate that risk and its drivers, while accounting for and addressing disparate impacts on disadvantaged communities and communities of color and spurring the creation of well-paying jobs; and (c) achieve the Administration's target of a net-zero emissions economy by no later than 2050. The Secretary of the Treasury, as the Chair of the Financial Stability Oversight Council, will lead several efforts related to EO 14030.

While Treasury continues transitioning key senior leadership positions and implementing these and other new initiatives and programs going into fiscal year 2022, other previously reported uncertainties have yet to be resolved. In addition to working through the unforeseen challenges presented by the COVID-19 pandemic discussed in Challenge 1, Treasury must also operate in the repeated cycle of budget and debt ceiling stopgaps. As conveyed in prior years' memoranda, a long-term solution has yet to be found. On August 2, 2019, the President signed the Bipartisan Budget Act of 2019, which suspended the statutory debt limit through July 31, 2021.[22] This legislation offered a temporary solution to allow Congress to resolve unfinished business when it comes to the Nation's debt, and address long-term sustainability of large programs.

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[18] Executive Order 13985, *Advancing Racial Equity and Support for Underserved Communities Through the Federal Government* (January 20, 2021).
[19] Executive Order 13988, *Preventing and Combating Discrimination on the Basis of Gender Identity or Sexual Orientation* (January 20, 2021).
[20] Executive Order 14031, *Advancing Equity, Justice, and Opportunity for Asian Americans, Native Hawaiians, and Pacific Islanders* (May 28, 2021).
[21] Executive Order 14035, *Diversity, Equity, Inclusion, and Accessibility in the Federal Workforce* (June 25, 2021).

On May 5, 2021, Treasury released its Quarterly Refunding Statement which noted that substantial COVID-19 related uncertainty about receipts and outlays create difficulty in estimating how long extraordinary measures, if invoked, will last. Additionally, although not included as a top open recommendation in its June 2021 letter to the Department,[23] GAO raised concerns to Congress in its July 2015 report [24] with the approach to managing the federal debt limit and its impact on Treasury's borrowing costs and the need for alternative approaches. With that said, Fiscal Service has ongoing 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 debt ceiling suspension ended on July 31, 2021, resulting in it being reinstated to $28.4 trillion on August 1, 2021. As you are aware, Treasury began employing certain extraordinary measures to prevent the United States from defaulting on its obligations, as there is still no clear plan for averting default later this year.[25] On July 30, 2021, Treasury suspended sales of securities that help states and municipalities invest bond proceeds. On October 12, 2021, as a short-term measure, Congress acted to extend the debt limit by $480 billion to $28.9 trillion until early December 2021. With that said, Congress will need to act to raise or suspend the limit again to prevent default.

Dealing with the transition of key senior leadership positions, new initiatives, additional workloads, and other critical matters such as the budget and debt ceiling stopgaps during the COVID-19 pandemic continues to be more challenging than usual. 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 initiatives, programs, and reforms be managed and communicated effectively for achieving performance and accountability.

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[22] Public Law 116-37 (August 2, 2019).

[23] GAO, *Priority Open Recommendations: Department of the Treasury* (June 16, 2021).

[24] GAO, *Debt Limit: Market Response to Recent Impasses Underscores Need to Consider Alternative Approaches* (GAO-15-476; July 9, 2015).

[25] Extraordinary measures have been taken in the past. Specifically, 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.

Challenge 3: Cyber Threats (Repeat)

Cybersecurity is 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 remain a persistent concern as Treasury's information systems are critical to the core functions of government and the Nation's financial infrastructure, along with the financial sector it oversees. The cyber threats continue to evolve and become more sophisticated, subtle, and easier to perform, which poses ongoing challenges for Treasury to fortify and safeguard its internal systems and operations while modernizing and maintaining them. 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 pandemic and the more recent SolarWinds attack.[26]

Attackers frequently exploit vulnerable networks or systems in a string of trusted connections to gain access to government systems. 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 2021 high risk list published biennially, again GAO reported the Nations' cybersecurity as a government-wide issue.[27]

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 supply chain for information and communication technology and services as evidenced by the SolarWinds attack that affected many federal agencies and private sector companies. Executive Order 13873, *Securing the Information and Communications Technology and Services Supply Chain*, 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

[26] The SolarWinds attack, reported in December 2020, was a supply chain attack that used the update mechanism for legitimate software to distribute malicious software.
[27] GAO, *High-Risk Series, Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas* (GAO-21-119SP: March 2020).

controlled by governments defined as hostile to the United States.[28] On May 11, 2021, this Executive Order was extended again for 1 year.[29] There are risks that Treasury's systems and resources already in use, including critical infrastructure, contain components from sources that have yet to be designated as threats. Once a source is designated as such, repairs and/or upgrades of key system components may no longer be available. Therefore, there is risk of disruption of critical operations. The Department will need to monitor developments in this area closely and plan for the possibility that its current supply chain may no longer be available. Furthermore, Executive Order 14028*, Improving the Nation's Cybersecurity*, issued on May 12, 2021, calls for federal agencies to update existing plans to prioritize resources for adoption and use of cloud technology and to adopt a zero-trust architecture,[30] among other things. In response to our prior year memorandum, Treasury reported that Fiscal Service continues to modify current contracts to include clauses in support of Executive Order 13873, by requiring all solicitations to adhere to Treasury's security requirements and leveraging the Federal Risk and Authorization Management Program[31] to accelerate the authorization of cloud-based systems and services. Treasury needs to prioritize cloud adoption and zero-trust architecture among its other component bureaus and offices. As mentioned above, Treasury management must be mindful that the efforts to secure Treasury's supply chain may hamper cloud adoption and the implementation of zero-trust architecture.

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 federal and non-federal agencies and Treasury contractors and subcontractors. Increased threats and risks posed to third-parties' networks and systems due to the opportunities that extended telework 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. 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* [32] audits (fiscal years 2015, 2016, 2017, and 2018) with some recommendations not implemented by the fiscal years 2019 and 2020 audits.

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 continues to place on financial institutions and the financial sector as a whole, it is important that the Department monitors 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.[33] In 2018, GAO had reported that the

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[28] Executive Order 13873, *Securing the Information and Communications Technology and Services Supply Chain* (May 15, 2019).
[29] *Notice on the Continuation of the National Emergency with Respect to Securing the Information and Communications Technology and Services Supply Chain* (May 11, 2021).
[30] Zero-trust architecture is a method of designing a system in which all actions are presumed dangerous until reasonably proven otherwise, thereby reducing the chance of a successful attack causing further damage.
[31] The Federal Risk and Authorization Management Program is a government-wide program that provides a standardized approach to security assessment, authorization, and continuous monitoring for cloud products and services.
[32] Public Law 113-283 (December 18, 2014).
[33] NIST, *Framework for Improving Critical Infrastructure Cybersecurity* (Version 1.0, February 12, 2014; superseded by Version 1.1; April 16, 2018).

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 June 16, 2021 letter[34] 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 acknowledged that Treasury had developed a cybersecurity risk management strategy, which included key elements identified in federal guidance and established a process for conducting an organization-wide cybersecurity risk assessment.

The Department continues to report progress in its risk-based approach to cybersecurity by establishing the Enterprise Cyber Risk Management program to manage vulnerabilities and threats that can cause disruption in the delivery of services. In response to our prior year memorandum, the Department reported that it created a centralized Risk Reporting Analytical Cybersecurity System, and developed the Supply Chain Risk Management program for cybersecurity in fiscal year 2020. Treasury also reported prior progress in risk management by identifying High Value Assets,[35] and examining the security architectures of systems and performing risk and vulnerability assessments. While addressing increases in cyber threats during the COVID-19 global pandemic, Treasury will need to continue to balance cybersecurity demands while modernizing and maintaining Information Technology (IT) systems. To this end, Treasury must ensure that cyber security is fully integrated into its IT investment decisions as discussed in challenge 6.

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[34] GAO, *Treasury Priority Recommendations* (GAO-21-549PR; June 16, 2021)

[35] 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.

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

Over the past year, the Office of Terrorism and Financial Intelligence (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, through the use of designations and economic sanctions. TFI has significantly increased sanctions against Russia related to malign activities and human rights violations. TFI's counter-terrorism designations disrupt the financial networks that support terrorist organizations. Disrupting terrorist financing depends on a whole-of-government approach and requires collaboration and coordination within Treasury and with other federal agencies. Collaboration and coordination are key to successfully identifying and disrupting all of these financial networks and meeting TFI's mission. This effort requires effective and efficient working relationships among components within TFI and the Intelligence Community. In an effort to effectively implement U.S. policy and disrupt these financial networks, officials stated that TFI is moving towards a more collaborative approach to achieve its mission. 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.

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.

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, over the past year, Treasury delivered more than $400 billion of Economic Impact Payments under ARP to workers and households through IRS and Fiscal Service. Treasury is also accountable for providing transparency over the expenditure of pandemic relief funds.

DATA Act reporting is 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)*[36] the Office of Management and Budget (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) reporting outlay information at the financial award transaction level. As discussed in Challenge 1, many reporting requirements of sections 15010 and 15011 of the CARES Act were extended under the CAA, 2021, PRAC amendments. Furthermore, Treasury must provide public reports quarterly on the use of funds under its Emergency Rental Assistance program, among others. With that said, the Department must balance its ongoing response to the financial impacts of the public health emergency with its responsibility to respond to oversight bodies and stakeholders.

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

To further enhance transparency, Treasury has 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 of data beginning with the period ending June 2020, and has added 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 rapid 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 should 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* [37] (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,[38] 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 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 Catalog[39] (www.Data.gov) developed and maintained by the General Services Administration.

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

Since the law was enacted, Treasury leveraged the Department-wide Strategic Objective Annual Review that the Office of Strategic Planning and Performance Improvement 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 has worked with Treasury's Federally Funded Research Development Center[40] 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 began a Data Governance and Analytics project designed to identify a data governance structure, develop standards, and increase the department's analytic capabilities through infrastructure and visualization improvements. Since that time, the Executive Steering Committee, which includes the Deputy Chief Financial Officer, Chief Information Officer (CIO), and the Office of Strategic Planning and Performance Improvement, 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 $206.4 billion or 3 percent of all program outlays for fiscal year 2020),[41] the federal agencies intensified efforts to reduce improper payments in major federal programs. The Do Not Pay (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 is comprised of the DNP Portal and the Data Analytics Services. 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.[42] Since our May 2016 report, that challenge continues to exist in obtaining better death information.[43] In October 2016, GAO reported that restrictions on the center's access to SSA's full death data remained in place.[44] 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.[45] Subsequently, the DNP Business Center received temporary access to SSA's full death data to support Economic Impact Payment screening for deceased individuals.

[40] Federally Funded Research and Development Centers are unique organizations that assist the Federal Government with scientific research and analysis, among other things. Treasury engaged MITRE Corporation as the agency's Federally Funded Research Development Center.

In response to the *Federal Improper Payments Coordination Act of 2015*,[46] Fiscal Service entered into agreements with the Department of Defense 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.[47] Moreover, in May 2021, OMB designated 12 additional databases for inclusion in the DNP Business Center Working System.[48] There have also been legislative proposals in January 2017, February 2017, February 2018, and May 2019 to obtain authorization to use both the SSA's full death file as well as the National Directory of New Hires.[49] Furthermore, 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. In December 2020, CAA, 2021 authorized the DNP Business Center access to SSA's full death data for a 3-year period beginning in December 2023. Given that the access is only temporary, Fiscal Service will continue encouraging Congress to renew the temporary access or provide permanent access.

In addition to the Do Not Pay Portal, the DNP Data Analytics Service supports agencies' efforts to identify and prevent improper payments. The DNP Data Analytics Service identifies 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 strengthened.[50]

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 certain pandemic 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,

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[41] National Aeronautics and Space Administration OIG, *NASA's Compliance with the Payment Integrity Information Act of Fiscal Year 2020* (IG-21-020; May 18, 2021), percentage based on total Government outlays of 6.6 billion (https://www.fiscal.treasury.gov/files/reports-statements/mts/mts0920.pdf).
[42] OIG, *Fiscal Service Successfully Established the Do Not Pay Business Center But Challenges Remain* (OIG-15-006; November 6, 2014).
[43] 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).
[44] 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).
[45] GAO, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts* (GAO-20-625; June 25, 2020).
[46] Public Law 114-109 (December 18, 2015).
[47] The following databases were added: (1) Treasury's Office of Foreign Assets Control's Specially Designated National list, (2) the General Services Administration's System for Award Management, (3) the IRS' Automatic Revocation of Exemption List, (4) the IRS' Exempt Organizations Select Check, (5) the IRS' e-Postcard database, and (6) commercial database American InfoSource Deceased Data.
[48] The following databases were added: (1) the United States Postal Service Delivery Sequence File, (2) the Census Bureau Federal Audit Clearinghouse, (3) the DNP Agency Adjudication Data, (4) Fiscal Service's Payments, Claims, and Enhanced Reconciliation database, (5) Bureau of Prisons Incarceration Data, (6) DATA Act data, (7) Census Bureau's American Communities Survey Annual State and County Data Profiles, (8) Veterans Affairs' Beneficiary Identification Records Locator Service, (9) Department of Agriculture's National Disqualified List, (10) Center for Medicare and Medicaid Services National Plan and Provider Enumeration System, (11) IRS Statistics of Income Annual Individual Income Tax ZIP Code Data, and (12) the U.S. Securities and Exchange Commission's Electronic Data Gathering, Analysis, and Retrieval System.
[49] The National Directory of New Hires is a national database of wage and employment information operated by the Federal Office of Child Support Enforcement. The Federal Office of Child Support Enforcement uses the National Directory of New Hires 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.
[50] OIG, *Performance Metric Policy Needed for the Fiscal Service Do Not Pay Business Center's Data Analytics Services* (OIG-20-025; January 28, 2020).

the IRS, the Small Business Administration, and the Small Business Administration's Office of Inspector General to match certain pandemic payments against DNP's data sets to help prevent and identify improper payments. 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 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* [51] 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 CIOs of federal agencies in IT decision making, including annual and multi-year planning, programming, budgeting, execution, reporting, management, governance, and oversight functions.[52] FITARA is intended to improve how federal agencies acquire and manage IT, as well as enable Congress to monitor progress and hold federal agencies accountable for reducing duplication and achieving cost savings. FITARA includes specific requirements related to seven areas: (1) the federal data center consolidation initiative, (2) enhanced transparency and improved risk management, (3) agency CIO authority enhancements, (4) portfolio review, (5) expansion of training and use of IT acquisition cadres, (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.[53] In its March 2021 high risk report, GAO acknowledged that the Federal Government 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. In general, federal agencies had not (1) modified their practices to fully address the role of the CIO, (2) documented modernization plans or included key best practice elements in the plans, (3) taken further action to reduce duplicative IT contracts, and (4) implemented the remaining 400 open recommendations related to management of IT acquisitions and operations. For example, 21 of the 24 major federal agencies, still have not implemented IT management policies that fully addressed the role of their CIOs consistent with federal laws and OMB's FITARA guidance. The guidance covers, among other things, enhancing the authority of federal CIOs and ensuring that program staff have the necessary knowledge and skills to effectively acquire IT. In addition, progress in establishing key IT workforce planning processes is also lacking. GAO also noted that the General Service Administration and OMB had fewer funds available than anticipated to award to new projects for replacing aging IT systems.[54] Furthermore, GAO

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[51] Public Law 104-106 (February 10, 1996).
[52] Public Law 113-291 (December 19, 2014).
[53] GAO, *High- Risk Series*, *An Update* (GAO-15-290; February 11, 2015).
[54] GAO, *High-Risk Series, Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas* (GAO-21-119SP: March 2020).

recommended that, in general, agencies needed to improve CIOs' authorities, enhance transparency and improve risk management of IT investments, and consolidate federal data centers.[55]

The House Oversight and Reform Committee worked with GAO to develop a 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 B. More recently, in December 2020, Treasury received a B for its FITARA implementation efforts, and remained a B in July 2021. Areas needing most improvement were enhanced transparency and risk management (i.e. IT investment risk), improved cybersecurity, and agency CIO authority enhancements. Furthermore, the *FITARA Enhancement Act of 2017*[56] extended the sunset date for full implementation of the data center optimization requirements of FITARA from October 1, 2018 to October 1, 2020. As reported in the December 2020 scorecard, Treasury scored an A in this area after meeting its remaining targets, including virtualization and advanced energy metering.

In fiscal year 2021, Treasury reported approximately $2 billion in non-IRS IT investment, which is expected to increase in fiscal year 2022. 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 23 major IT investments. Treasury's CIO assessed 19 IT investments as having moderately low or low risk to accomplishing their goals. One project, Pay.gov, did not include a ranking. The remaining three IT investments, which reside at Fiscal Service, were assessed as having medium risk[57] to accomplishing their goals:

- Electronic Federal Tax Payment System,[58]
- Post Payment Services, and
- Wholesale Securities Services (WSS).

During fiscal year 2021, some projects within the Electronic Federal Tax Payment System, WSS and Post Payment Services, specifically the Payment Information View of Transactions (PIVOT) were behind schedule and 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 58 percent were within budget. During fiscal year 2021, Treasury spent 36 percent of its total IT spending on 42 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 other

[55] GAO, *High-Risk Series, Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas* (GAO-21-119SP: March 2021).
[56] Public Law 115-88 (November 21, 2017).
[57] 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 a five-point risk scale as follows: 5=low risk, 4= moderately low risk, 3= medium risk, 2= moderately high risk, and 1=high risk.
[58] Renamed Tax Collections Services in fiscal year 2021.

challenges involving (1) 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. In fiscal year 2021, Fiscal Service will complete the Financing Modernization Discovery Phase to determine which approach to take to move forward with the Financing Modernization effort. Financing Modernization is a multi-year program dedicated to creating a modernized financing operations system, which will align with Treasury's strategic priorities and long-term business requirements.

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, or spending that is not categorized into standard IT buckets, by 60 percent. In early fiscal year 2021, Fiscal Service expects to see further reductions in IT portfolio spending.

Non-IT related acquisitions also require attention to ensure timely delivery and minimization of cost overruns for achieving cost savings. The Program Management Improvement Accountability Act of 2015, P.L. 114-264, was intended to improve program and project management practices across the Federal Government. Similar to IT projects, other major acquisitions need to be monitored so that the project goals are met in a timely manner and costs are not allowed to significantly exceed established budgets.

The Bureau of Engraving and Printing (BEP) project to replace its Washington, DC facility with a new facility is estimated to cost $1.25 billion. BEP is conducting a suitability assessment of the parcel of land transferred from U.S. Department of Agriculture to Treasury in Beltsville, Maryland with the support from the U.S. Army Corps of Engineers for the design review, construction, and contract administration for the new facility. In fiscal year 2021, BEP has initiated early site development construction activities estimated at $34 million and is challenged with several issues including potential ecological, water, public health and safety, traffic and other effects associated with the proposed construction. Until the estimated completion of the facility in 2025, BEP will need to ensure it employs effective project oversight for preparation of the land, construction of the building, purchase of equipment and machinery, and employment of a workforce to produce the new family of secure notes and maintain confidence in U.S. currency.

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, (2) managerial cost accounting, and (3) internal control at BEP.

Coin Redemption
As reported in prior years, the United States Mint (Mint) continues to address internal control issues to ensure the integrity of U.S. coinage in its coin redemption program. The Mint has since made progress in addressing the risk of accepting genuine coins through its redemption program with such actions as considering the establishment of limited quantities accepted into the program, scrutinizing the sources of the coins, and enhancing its examination of coins being accepted into the program. As the Mint finalizes policies and procedures and recommences its program, we will continue to 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' Office of Budget and Travel (OBT) controls over its overhead[59] process and compliance with the *Economy Act.*[60] 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 implemented a new overhead process beginning with fiscal year 2019 and subsequently hired a consultant to review and improve the process. After implementing a new process, OBT management made further changes to the overhead process for fiscal year 2020. Additionally, 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.

[59] Overhead, also known as indirect costs, include items that are commonly recognized as elements of cost that may not have resulted in direct expenditures related to a product, activity, or project. It covers the cost of administrative expenses associated with financial management, human resources, information technology, general counsel and other support costs that are allocated to products, activities, or projects based on an established methodology.
[60] Public Law 73-2 (March 20, 1933).

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 2020 BEP financial statement audit identified 12 deficiencies in internal control.[61] Although the number of deficiencies in internal control identified decreased from 22 in fiscal year 2019 to 12 in fiscal year 2020, three of the deficiencies were collectively reported as a significant deficiency related to information technology controls. The remaining nine deficiencies related to journal entries; financial reporting; inventory; and property, plant, and equipment were reported in a management letter.[62] Six of the prior year's deficiencies were re-issued in fiscal year 2020. While we are reporting this as a concern, it should be noted that as part of the fiscal year 2020 financial statement audit, the independent auditors issued an unmodified opinion on the effectiveness of BEP's internal controls over financial reporting.

The control issues identified continue to be attributed to resource constraints, employee turnover, and increased workloads for key accounting personnel. BEP continues its efforts to address the deficiencies noted during the audits and has hired external contractors to assist with the remediation of the deficiencies, provide financial support services, and to assist with conducting internal control reviews in accordance with OMB Circular A-123. In addition, BEP has hired additional personnel in key positions responsible for the issues noted. My office will continue to monitor BEP's progress in strengthening its financial management and reporting process.

As another matter, my office has an ongoing corrective action verification of recommendations related to a 2013 audit report that identified numerous deficiencies in BEP's contracting practices.[63] While this verification is nearing completion, we noted that contract file management continued to be a systemic issue at BEP as evidenced by our follow-up work and other third-party assessments of BEP's acquisitions program conducted from December 2014 through March 2018. We expect to issue our verification audit in early fiscal year 2022. Given our concerns, we initiated an audit of BEP's transition from hard copy contract files to an electronic filing system beginning in fiscal year 2016 and plan to issue an audit report in fiscal year 2022.

[61] OIG, *Audit of the Bureau of Engraving and Printing's Financial Statements for Fiscal Years 2020 and 2019* (OIG-21-022; February 12, 2021).
[62] OIG, *Management Letter for the Audit of the Bureau of Engraving and Printing's Financial Statements for Fiscal Years 2020 and 2019* (OIG-21-023, February 12, 2021).
[63] OIG, *BEP's Administration of the Burson-Marsteller Public Education Awareness Contract Was Deficient* (OIG-13-046; August 13, 2013).

TREASURY MANAGEMENT RESPONSE TO OFFICE OF THE INSPECTOR GENERAL (OIG) IDENTIFIED CHALLENGES

OIG Challenge 1: COVID-19 Pandemic Relief: *The Coronavirus Disease 2019 (COVID-19) pandemic continues to affect the health and economic stability of communities worldwide. Since initially reporting this challenge more than 44 million people have been infected and more than 722,000 people have died of COVID-19 in the United States. In the early stages of the COVID-19 outbreak, Congress passed the Coronavirus Preparedness and Response Supplemental Appropriation Act of 2020, the Families First Coronavirus Response Act, and the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). As the public health crisis continued into late 2020 and 2021, Congress legislated additional relief in passing the Consolidated Appropriations Act, 2021 (CAA, 2021) and the American Rescue Plan Act of 2021 (ARP). These laws provided another $900 billion and $1.9 trillion of economic stimulus, respectively.*

We have been instrumental to the effective and efficient implementation of economic relief provisions of the CARES Act, CAA, 2021, and ARP. Pandemic recovery programs and provisions within the oversight purview of the Office of Recovery Programs (ORP) are extensive and include programs that support transportation industry workers; renters and homeowners; and state, local, territorial, and Tribal government entities through direct financial assistance. Each program plays a vital role in ensuring that Americans receive immediate economic relief and that businesses, and state and local governments can weather the resulting economic challenges the COVID-19 pandemic creates in the years to come.

We continue to focus on successful implementation of these critical economic recovery programs. The structure that the newly formed ORP is building to deliver the funds made available through these new programs promotes knowledge sharing across programs and strong relationship-building with state, local and Tribal governments. It emphasizes that Treasury must have a cohesive relationship with the entities that are directly implementing programs. In the six months following the passage of the ARP, we delivered more than $450 billion directly to families, helping them put food on the table, care for their children, and stay in their homes. In addition, we have sent more than $240 billion in fiscal support to state, territorial, local, and Tribal governments that is being used to fight the pandemic and accelerate local economic recovery. For businesses, ARP provided aid in the form of an additional $7 billion for forgivable Paycheck Protection Program loans, tens of billions in aid for the hardest hit industries like airlines, and critical tax credits that rewarded businesses for keeping employees on the payroll while offering them paid leave to care for sick loved ones or receive the vaccine.

We executed these programs with unprecedented speed and have managed these challenges with unprecedented transparency. Our website contains a wealth of information about each of the programs 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. We report data on financial assistance payments to USAspending.gov, routinely respond to information requests from multiple oversight bodies, and respond to letters and information requests from members of Congress.

We are ensuring effective program delivery by coordinating with other federal offices and through implementing centralized, consistent applicant reporting and compliance frameworks to facilitate efficient and equitable program outcomes, identify issues, and ensure appropriate remediation. Through every step of program design, delivery, and monitoring, we remain focused on building recovery programs that will spur investment and equity for the road ahead.

OIG Challenge 2: Transition of New Administration (NEW): *As characteristic with incoming Presidential Administrations, the Departmental Offices, and Treasury bureaus and agencies are challenged with filling and transitioning numerous key senior leadership positions, as well as implementing new executive orders and White House initiatives. Of note are Executive Orders (EO) 13985, Advancing Racial Equity and Support for Underserved Communities Through the Federal Government; EO 13988, Preventing and Combating Discrimination on the Basis of Gender Identity or Sexual Orientation; EO 14031, Advancing Equity, Justice, and Opportunity for Asian Americans, Native Hawaiians, and Pacific Islanders'; EO 14035, Diversity, Equity, Inclusion, and Accessibility in the Federal Workforce; EO 14008, Tackling the Climate Crisis at Home and Abroad; and EO 14030, Climate-Related Financial Risk.*

Treasury began preparations for a potential transition in July 2020 as required by the Presidential Transition Act. This includes identifying career staff to serve in an acting capacity until the selection (and if required confirmation) of appointees. The Deputy Assistant Secretary for Human Resources (DASHR) took steps, including aligning existing staff resources and details, to ensure the timely onboarding of key leadership positions as soon as individuals were appointed.

DASHR also works closely with Treasury senior leaders to assess the human capital needs of priority initiatives such as racial inequality, climate change, and pandemic recovery. We develop comprehensive short- and long-term staffing strategies to mitigate human capital risks and close talent gaps through realigning and deploying existing staff and recruiting and hiring new staff to support these initiatives. The Assistant Secretary for Management has also adopted a best practice of establishing integrated project teams with all internal stakeholders to quickly resolve management challenges during the standup of high priority initiatives.

While the new Administration has, as noted above, issued a significant number of executive orders, many of these align with the priorities of the Secretary. As we develop our 2022-2026 Agency Strategic Plan, we have integrated many of these actions into the draft goals, objectives, and priority projects. Aligning these actions with the upcoming strategic plan allows us to focus existing program resources on achieving these outcomes. The Office of Strategic Planning and Performance Improvement and DASHR have collaborated to incorporate the new draft strategic goals into FY 2022 performance plans, aligning individual employee performance with these priorities.

We have commenced a number of initiatives to implement several of the new Administration's EOs. EO 13985, establishes policy to pursue a comprehensive approach to advancing equity for all, including people of color and others who have been historically underserved, marginalized, and adversely affected by persistent poverty and inequality. To implement the requirements under EO 13985, we assembled an Equity Review Team in accordance with the White House requirements to provide input and support for the Treasury-wide equity assessment efforts under the EO. The team represents a majority of offices and bureaus and a range of roles, from management to policy to civil rights to public affairs. The drivers of this effort are the Office of Civil Rights and Diversity (OCRD) as project manager, the Office of Strategic Planning and Performance Improvement (OSPPI), the Office of Minority and Women Inclusion (OMWI), and the Office of the Secretary/Deputy Secretary. We also developed a Project Charter and Plan that incorporated Office of Management and Budget's (OMB) guidance, described the proposed team structure, and proposed a timeline to ensure timely completion of objectives. To determine what programs and policies the team will review for the equity assessment, we asked the head of each bureau to propose one to three high-priority and high-impact programs or policies within their purview that were assessed at a meeting of the bureau deputies at the end of March.

In April, the Deputy Secretary hosted the Equity Review Steering Committee Kickoff meeting, during which he shared his goals and priorities as they relate to our equity assessment efforts. Thereafter, our bureaus refined their proposals to incorporate or align with the Deputy Secretary's priorities, and members from the Equity Review Project Team met with the OMB Equity Review Team and confirmed that our focus for the equity assessment was aligned with the intent of the EO. The Equity Review Project Team then worked with the bureaus to refine the scope of the proposals and identified the following focus areas for the equity assessment: Tax Payment Implementation; Tax Policy Research; Treasury Offset Program; and Departmental Offices (DO)-led American Rescue Plan (ARP) programs. As a result of the Equity Review Team efforts, we have timely submitted our 60-, 90-, and 200-Day Progress Reports to OMB and are scheduled to submit our One-Year Action Plan on or before the January 20, 2022 deadline date.

Similar to the requirements in EO 13985, we formed a cross-functional team of senior executives and managers from offices across the Department to implement the requirements in EO 14035. OCRD and OMWI led the efforts, with guidance from senior advisors from the Office of the Secretary and Deputy Secretary. The team worked with our bureaus to ensure we completed and submitted the required Survey on Best Practices and Agency Self-Assessment by the required due dates. Based on the bureau responses, we met the deadline to complete and submit the survey and self-assessment to OMB. We are currently waiting for the Office of Personnel Management to issue a new government-wide diversity and inclusion strategic plan to start our implementation efforts as required by the EO.

To implement President Biden's policy in EO 13988, we developed a plan to carry out the EO's requirements within 100 days of the date of the order. To timely meet this requirement, each bureau and Departmental Office "reviewed all existing orders, regulations, guidance documents, policies, programs, or other agency actions ("agency actions") that: (i) were promulgated or are administered by the agency under Title VII or any other statute or regulation that prohibits sex discrimination, including any that relate to the agency's own compliance with such statutes or regulations; and (ii) are or may be inconsistent with policy set forth in section 1 of the EO." Based on the above review, the head of each bureau and Departmental Office provided OCRD a memorandum that listed: (1) agency actions that they reviewed pursuant to the order; (2) a list of actions that they revised, suspended, rescinded, and/or newly promulgated to fully implement the statutes that prohibit sex discrimination and policy stated in section 1 of the order; and (3) any other actions the agency took to fully implement the requirements in the EO. OCRD consolidated the bureaus' information to develop and timely submit to OMB one Department-wide action plan to fully ensure implementation of the Administration's policy.

To meet the requirements for the President's agenda under EO 14031, during National Asian American Heritage Month in May, the Treasury Secretary distributed to all our employees a personal message that addressed and confronted racism, xenophobia, and intolerance. The message focused on (1) the rising tide of hate against Asian Americans in this country; (2) zero tolerance of all acts of violence or disrespect against the Asian community; and (3) the availability of a Treasury employee resource group for employees called Treasury's Asian Pacific American (TAPA) Employee Resource Group.

In May, TAPA sponsored a presentation on *Asian American and Pacific Islander (AAPI) History, Anti-AAPI Discrimination, and Introduction to Bystander Intervention Training* presented by Asian Americans Advancing Justice. Additionally, on May 28, 2021, OCRD, IRS, and TAPA, sponsored the Treasury's observance of the Asian American and Native Hawaiian/Pacific Islander Heritage Month where the Secretary provided opening remarks and participated on a panel with other Treasury leaders to address the increasing tide of hateful acts against AAPI communities as a result of the COVID pandemic. The panel also provided a discussion on the unique challenges and opportunities for AAPI members within Treasury to seek career development and advancement. TAPA also produced and released five articles throughout the month of May. Topics for these articles focused on: the benefits of allyship, steps to allyship, the importance of educating ourselves on marginalized groups and how you contribute to the marginalization or discrimination of these groups, listening

to colleagues who are members of the marginalized groups, and advocating to elevating the voices of those who are marginalized.

Additionally, OMWI sponsored a presentation, *Unmasking Anti-Asian Violence, Xenophobia, and Bias*. This training focused on violence, hate crimes, and harassment against Asians and those of Asian descent which has risen significantly within the past year in the United States. It offered Treasury employees a conversation with Dr. Steve L. Robbins, the founder of S.L. Robbins and Associates, as he focused on the many of the issues surrounding these incidents against Asian Americans. The event was sponsored jointly by the Offices of Minority and Women Inclusion in the eight federal financial agencies.

Taken together, the two Executive Orders on climate change (EO 14008 and 14030) instruct the Secretary of the Treasury to lead or co-lead efforts across a wide range of areas that span domestic and international policy; to consult with other agency heads on additional steps where Treasury can provide valuable expertise; and to engage in several interagency working groups or task forces. In response to the two executive orders on climate change, we have undertaken several new workstreams across the Offices of Domestic Finance, Economic Policy, International Affairs, and Management and Administration. Some of these workstreams will culminate with the production of discrete deliverables, including multiple reports, while others will continue on an ongoing basis. Our Climate Hub, which was established in April 2020, is providing coordination both internally and externally with the White House and other agencies as the large and wide-ranging body of climate-related work continues.

OIG Challenge 3: Cyber Threats: *Cybersecurity is 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 remain a persistent concern as Treasury's information systems are critical to the core functions of government and the Nation's financial infrastructure, along with the financial sector it oversees. The cyber threats continue to evolve and become more sophisticated, subtle, and easier to perform, which poses ongoing challenges for Treasury to fortify and safeguard its internal systems and operations while modernizing and maintaining them. 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 pandemic and the more recent SolarWinds attack.*

For FY 2021, we maintained an overall rating of "Managing Risk" on the OMB Cybersecurity Risk Management Assessment and achieved a rating of "Managing Risk" across all RMA categories: Identify, Protect, Detect, Respond & Recover for the first time. The "Managing Risk" score is the highest assessment rating out of three ratings that include "At Risk" and "High Risk". In addition to the RMA score improvement, we achieved or exceeded cross agency priority goal targets in nine of 10 areas and continues to make progress with the Office of the Inspector General (OIG) FISMA audit. For FY 2021, three of our largest bureaus sustained Level 4 maturity scores.

Treasury Cybersecurity matured the Enterprise Cyber Risk Management (ECRM) program by enhancing the risk assessment process to identify compliance items separately from cybersecurity risk reporting and continuing to grow the Supply Chain Risk Management (SCMR) program. In FY 2021, the ECRM program managed threat advisories for 27 critical or high severity vulnerabilities, and the SCRM program completed several risk assessments.

Additionally, Treasury Cybersecurity executed responses to six Emergency Directives. The High Value Asset program completed one Risk and Vulnerability Assessment (RVA) for a bureau critical system and one High Value Asset (HVA) Assessment in FY 2021 and successfully closed seven High/Critical/Major HVA assessment findings from seven different HVAs. These findings were associated with Network Segmentation, Personally Identifiable Information Disclosure,

Cleartext Password Disclosure, Audit Management, Continuous Monitoring and Boundary Protection. Additionally, Treasury Cybersecurity created enhanced risk profiles for all 19 Departmental HVAs. This allows our senior leadership greater visibility into the risks associated with our most critical systems by incorporating multiple metrics, including the application of common FY 2021 Treasury RVA/Security Architecture Review assessment findings, to these systems to identify if protection measures have been proactively put in place.

Treasury's Shared Services Security Operations Center (TSSSOC) continued to advance its approach to using automation against internal and external data sets for refining, de-conflicting, and streamlining its approach to signature and behavioral anomaly detection solutions. TSSSOC automated indicator-based detection to consolidate alerts from multiple sources into a single highly contextual event as a system information and event management (SIEM) alert to the 24/7 Operations team.

The Bureau of the Fiscal Service (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 our 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: *Over the past year, the Office of Terrorism and Financial Intelligence (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.*

FinCEN continues to prioritize efforts to maintain unclassified systems at the stringent FISMA high levels of security and is coordinating cybersecurity actions with OCIO by implementing Department of Homeland Security Continuous Diagnostics and Mitigation (CDM), Treasury High Value Asset activities as identified, and Executive Order 14028, *Improving the Nation's Cybersecurity*, initiatives according to plan. In addition, in FY 2021, FinCEN completed penetration testing of mission critical systems to include BSA Electronic Filing, Egmont Secure Web, Secure Information Sharing System, and FinCEN's BSA Portal, which serves as the gateway to external user access to BSA information.

FinCEN also conducts inquiries into instances of unauthorized disclosures of BSA data committed by financial industry personnel and authorized users of the BSA database. FinCEN works with affected parties and personnel to secure the information, limit any damage the release of such information causes, and ensures the affected parties and personnel implement appropriate remedial actions. The bureau also refers any matters under the purview of Treasury's OIG, including those involving potential criminal conduct to Treasury's OIG.

OIG Challenge 5: Efforts to Promote Spending Transparency and to Prevent and Detect Improper Payments: *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, over the past year, Treasury delivered more than $400 billion of Economic Impact Payments under ARP to workers and households through IRS and Fiscal Service. Treasury is also accountable for providing transparency over the expenditure of pandemic relief funds.*

In the third and final mandated OIG audit of our data quality, we received an overall "Excellent" quality rating regarding our data reported on USAspending.gov for the third quarter of FY 2020 under the DATA Act. At the consolidated level, the OIG concluded our data is accurate, complete, and timely. Receiving this top rating represents our commitment to ensuring high quality data integrity and transparency in support of the users of this information. The audit identified further recommendations to improve our data quality; while we concur with our auditors, we do not believe these recommendations detract from our high quality rating or impact reliability and usability of our data. We continued to expand upon our commitment to transparency in reporting of financial assistance paid to American taxpayers and businesses in response to the COVID- 19 pandemic pursuant to the CAA, 2021 and the ARP. Our compliance with OMB Memorandum M-21-20, *Promoting Public Trust in the Federal Government through Effective Implementation of the American Rescue Plan Act and Stewardship of the Taxpayer Resources* in March 2021 provided for strong alignment and transparency with OMB and other oversight entities in implementing of our relief programs. Our attentiveness to the stand-up and external reporting of financial activity related to our economic recovery programs should provide confidence to the public regarding the stewardship of their dollars.

To further enhance spending transparency to citizens, FiscalData.Treasury.gov continued to add high value datasets. This website provides citizens with centralized access through a modern user experience to our financial data that Fiscal Service publishes. Since the initial launch in 2020, an additional 19 high-value datasets were added, bringing the total number to 37. In addition, Fiscal Service released the DATA Act Information Model Schema 2.1 (DAIMS 2.1), which provided technical guidance to agencies for improvements that will increase data quality thorough reporting of more information, such as outlays, better linking to financial assistance and support for the unique entity identifier in the DATA Act Broker for display on USAspending.gov.

In FY 2021, the Do Not Pay Business Center (DNP) also received OMB approval and official designation to add 12 new data sets to Do Not Pay. DNP is implementing these data sets for immediate analytic use. Do Not Pay also submitted and received initial approval (pending designation) to implement the Electronic Verification of Vital Events (EVVE) Fact of Death (FOD) Service from the National Association for Public Health Statistics & Information Systems' (NAPHSIS) as a death data source in DNP. Through the joint efforts of the Do Not Pay Business Center (DNP) and the Payment Integrity Center of Excellence (PICOE), Fiscal Service has been able to identify $8.3 billion in potential improper payments and stop or impact a total of $228.5 million in improper payments in FY 2021. The figures reflect information available at the time of the response, but do not yet reflect the complete year.

In FY 2021, PICOE launched a pilot program Account Verification Service (AVS) that quickly demonstrated the value of the service for the third round of Economic Impact Payments. We used AVS to verify that a bank account is open and owned by the intended eligible payee. We are also using AVS for FEMA's COVID-19 Funeral Assistance Program and, FEMA Individuals and Households Program. In FY 2021, we prevented improper payment of $171.2 million as a result of AVS.

PICOE also procured the EVVE FOD Service from NAPHSIS as part of a pilot. EVVE provides authoritative verification by matching against U.S. birth and death certificate databases. PICOE is currently partnered with FEMA's COVID-19 Funeral Assistance program to support applicant and decedent identity and eligibility determinations in support of the identification and prevention of improper payments.

OIG Challenge 6: Information Technology Acquisition and Project Management: *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* (P. L. 104-106) *which was designed to improve the Federal Government's acquisition and management of its resources to include IT investment. In fiscal year 2021, Treasury reported approximately $2 billion in non-IRS IT investment, which is expected to increase in fiscal year 2022. Given this sizable investment, we are reporting the Department's IT acquisition and project management as an ongoing management and performance challenge. The Bureau of Engraving and Printing (BEP) project to replace its Washington, DC facility with a new facility in 2025. BEP will need to ensure it employs effective project oversight for preparation of the land, construction of the building, purchase of equipment and machinery, and employment of a workforce to produce the new family of secure notes and maintain confidence in U.S. currency.*

In FY 2021, we continued to move forward with our Technology Business Management (TBM) efforts. Most significantly, we awarded a contract to deploy a department-wide TBM platform and are in the early stage of implementing the platform. In conjunction with starting the deployment of the department-wide TBM platform, we have been working to further improve the breadth and depth of our enterprise IT acquisition management practices. Specifically, our Office of the Chief Information Officer is working with the Office of the Procurement Executive (OPE) to:

- build a repository of multi-year IT acquisition data to identify opportunities to improve our use of enterprise acquisition vehicles;
- implement a dashboard of key IT acquisition related metrics to improve transparency into our IT acquisition portfolio;
- develop department-wide policies to review and provide oversight of cyber related IT acquisitions; and
- build processes and governance models to better enable IT Supply Chain Risk Management (in alignment with the May 12, 2021 Executive Order on Improving the Nation's Cybersecurity)

Lastly, in FY 2021 we implemented a project management competency model to assist with identifying where skills gaps exist. Once we identify the gaps, we will address them through training and performance monitoring.

During FY 2021, we also assessed 19 IT investments as having moderately low or low risk to accomplishing their goals. Three of these investments, Electronic Federal Tax Payment System (EFTPS), Post Payment Services (PPS), and Wholesale Securities Services (WSS), which reside at Fiscal Service, were found to have medium risk to accomplishing their goals. The PPS successfully completed internal parallel testing to demonstrate PIVOT's ability to receive, process, load, and reconcile check payments and select post payment transactions (e.g., checks returned as undeliverable by USPS). PIVOT will replace legacy post payment applications, most notably the Treasury Check Information System (TCIS) and Payments, Claims and Enhanced Reconciliation (PACER). The WSS delivered a sustainable TAAPS Modernization Strategy, collaborated with FRB-Kansas City to complete the discovery phase activities for the new Financing Modernization Project including producing the full Approach, Scope, and Plan for Implementation, implemented a new 508 compliance testing tool, and successfully deployed 10 enhancement releases in the TAAPS system with zero defects. In addition, the EFTPS implemented application platform interface functions.

In FY 2021, Fiscal Service established two projects; (1) a Solution Lifecycle Policy (SLC) and supporting standards to codify the strategic objectives, purpose, and requirements for ensuring technology planning and program management are occurring consistently across the enterprise and, (2) a cross-functional enterprise priority project to improve program and project management. The SLC directs all IT efforts to follow a disciplined SLC approach, be dispositioned on our Technology Roadmap, and use enterprise or low code solutions where possible, while using incremental development practices. Assurance and compliance will be monitored through the existing governance process which is co-led by the Bureau CIO and CFO. The cross-functional enterprise project is a 3-phased project that consolidates planned IT Portfolio Enhancements that support FITARA and the Program Management Improvement and Accountability Act (PMIAA) requirements. As this process matures it is expected to fully integrate strategic and human capital planning, risk management, governance, budget, performance and program and project management, and evaluation.

Although the Project Management Challenge is identified as a "repeat," it is a newly identified challenge for the BEP. We agree this large-scale effort presents a challenge but are confident that we have implemented the appropriate controls and governance structure to ensure the project will be successful. The BEP has obtained and dedicated an appropriate level of resources to manage this effort including using the significant experience and expertise of the United States Army Corp of Engineers (USACE) as our primary oversight agent. The BEP has also established and staffed a dedicated Project Management Office (PMO), which is led by a dedicated project executive. Working in tandem, the PMO and USACE will ensure effective project oversight of land preparation, building construction, equipment and machinery purchase, and employment of a workforce at the new facility. We are confident that the new modernized facility will better position BEP in meeting U.S. Currency Program challenges of today, and those well into the future.

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 OIG notes the Mint's progress in addressing the coin redemption risks. Under the authority of 31 U.S.C § 5120, the Mint in consultation with Treasury and OMB has submitted a 60-day comment period with the Notice of Proposed Rulemaking to limit submission quantities and international sources. The Mint is conducting a detailed review of the public comments with the objective of ensuring the integrity of U.S. coinage. A final Notice of Proposed Rulemaking is forthcoming.

The Mint developed its internal evaluation and authentication of coins with a scientific Anti-Counterfeiting Branch and a state-of-the-art lab. To support the increased program risk controls, the Mint is hiring additional staff and contracting services to manage the background investigations, applications, receiving, processing, melts, payments, and records management. The principal means to reduce the risk of fraud is the lower submission limits coupled with lab authentication at the Philadelphia Mint.

The Mint continues its collaborative engagements with the OIG leading up to the final regulation changes to the program and the Mint Director's decision to restart the program. With the restart of the program, the Mint will conduct internal audits of the program's procedures and processes to safeguard 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.*

The OIG has provided input in recent years raising concerns about the overhead allocation methodology in our 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 the vendor recommended reflects a net difference of 0.15 percent, or approximately $3,000. Treasury implemented the recommendations of the vendor as part of the annual reconciliation process in FY 2020, and has continued to use this methodology for FY 2021.

OIG Concern 3: Internal Control Issues at BEP: *The fiscal year 2020 BEP financial statement audit identified 12 deficiencies in internal control* (OIG-21-022). *Although the number of deficiencies in internal control identified decreased from 22 in fiscal year 2019 to 12 in fiscal year 2020, three of the deficiencies were collectively reported as a significant deficiency related to information technology controls. While we are reporting this as a concern, it should be noted that as part of the fiscal year 2020 financial statement audit, the independent auditors issued an unmodified opinion on the effectiveness of BEP's internal controls over financial reporting.*

In FY 2020, KPMG issued an unmodified opinion on BEP's internal controls over financial reporting. In addition, BEP undergoes independent audits which includes reviewing internal controls in connection with the two International Organization for Standardization (ISO) certifications (ISO 9001:2015 and ISO 14001:2015) which BEP maintains. The ISO audits also found no non-conformances, further evidence of our effective internal controls. However, we concur there is opportunity for improving our management controls. The BEP has moved forward aggressively to address "management letter" items our external auditor, KPMG, LLC, noted. For example, BEP has strengthened its financial management team and has addressed challenges resulting from staff turnover. Recently BEP filled key positions such as staff accountants, division managers and a Budget Officer and has continued using contractor support to remediate any remaining management letter items.

Regarding the corrective action verification (CAV) of recommendations related to a 2013 audit report on BEP's contracting practices, to date the verification fieldwork has validated that BEP effectively closed the majority of the recommendations from the 2013 report. With respect to contract file management, for all contracting actions, BEP performs quality control reviews to ensure the contract file contains all required documentation in accordance with the Federal Acquisition Regulations and the Department of Treasury Acquisition Procedures. Additionally, subsequent to the scope of the CAV of the 2013 report and after the period covered by the OIG's current audit of BEP's transition from hard copy to an electronic contract filing system, in FY 2020 BEP put a new management team in place who is charged with governance of BEP procurement activities. The new team has taken corrective actions and continues to implement processes to address the challenges the OIG noted with respect to the completeness of contract files.

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION MANAGEMENT CHALLENGES

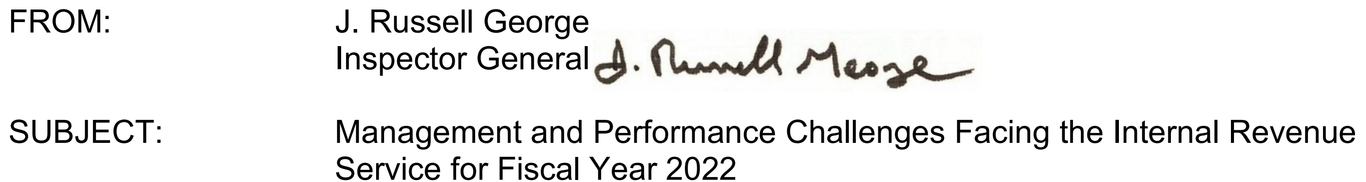
Inspector General
For Tax
Administration

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20005

October 14, 2021

MEMORANDUM FOR SECRETARY YELLEN

FROM: J. Russell George
Inspector General



SUBJECT: Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2022

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) 2022, the IRS's top management and performance challenges, in order of priority, are:

1. Administration of Tax Law Changes and Pandemic Relief Benefits;
2. Enhancing Security of Taxpayer Data and Protection of IRS Resources;
3. Improving Tax Reporting and Payment Compliance to Reduce the Tax Gap;
4. Modernizing IRS Operations;
5. Improving Customer Service and the Taxpayer Experience;
6. Addressing Emerging Threats to Tax Administration;
7. Reducing Fraudulent Claims and Improper Payments;
8. Increasing International Tax Compliance;
9. Protecting Taxpayer Rights; and
10. Human Capital.

[1] 31 U.S.C. § 3516(d) (2006).

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.

ADMINISTRATION OF TAX LAW CHANGES AND PANDEMIC RELIEF BENEFITS

The IRS's operations were significantly impacted by the Coronavirus Disease 2019 (COVID-19) pandemic. Although the Tax Processing Centers were open for the 2021 Filing Season, the IRS was not always able to operate at full capacity due to social distancing requirements. As such, the IRS was unable to perform many of its essential functions. The backlog of individual tax returns and other types of taxpayer account work nearly doubled when compared to the 2020 Filing Season. For example, as of August 16, 2021, the IRS reported having approximately 11 million paper tax returns waiting to be processed and approximately 9.6 million cases in other key tax processing functions that still needed to be addressed. At about the same time in 2020, the IRS reported having more than 4.8 million tax returns waiting to be processed and about 5.4 million cases in other key tax processing functions that still needed to be addressed. The backlog of returns, correspondence, and other types of work has, and will continue to have, a significant impact on the associated taxpayers.

The pandemic also resulted in numerous legislative changes that impacted tax administration. Most recently, the American Rescue Plan Act of 2021 (ARP),[2] enacted on March 11, 2021, includes approximately $1.9 trillion in economic relief and stimulus to address the continuing impact of the COVID-19 pandemic on the economy, public health, State and local governments, individuals, and businesses. It also contains numerous tax-related provisions intended to provide relief to individuals and businesses. This legislation creates a third Recovery Rebate Credit (RRC) of up to $1,400 per eligible individual to be applied toward income earned during Tax Year (TY) 2021. The legislation directs the IRS to make advance payments of the RRC as soon as possible, but not later than December 31, 2021. The IRS began issuing the RRC payments on March 11, 2021, the same day the ARP Act was enacted. As of June 3, 2021, the IRS reports issuing more than 163 million advance payments totaling nearly $390 billion for the third round of the RRC.

Another key provision in the ARP Act is the expanded Child Tax Credit. Determining eligibility for, and the amount of, the Child Tax Credit is a complex process. Available tax data may reflect children who qualify for the credit in prior tax years but do not qualify in the current tax year. The IRS will have to continually adjust the Child Tax Credit advance payments as updated information is obtained from taxpayers.

[2] Pub. L. No. 117-2, 135 Stat. 4.

A number of the provisions contained in pandemic legislation required the IRS to take steps to implement such legislation while in the midst of its 2020 and 2021 annual tax filing seasons. The tax filing season is a critical time for the IRS because this is when most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. The extensive actions the IRS must undertake to implement tax legislation will continue to be challenging when tax law changes are enacted close to, or after, the start of the annual filing season. Additional legislative developments related to tax reform and tax policy will continue to present challenges for the IRS.

ENHANCING SECURITY OF TAXPAYER DATA AND PROTECTION OF IRS RESOURCES

The IRS is responsible for safeguarding a vast amount of sensitive financial and personal data. IRS systems withstand approximately 1.4 billion cyberattacks annually (including denial-of-service attacks, unsuccessful intrusion attempts, probes or scans, and other unauthorized connectivity attempts). Many of these attempts are sophisticated in nature or represent advanced, persistent threats.[3]

On July 1, 2019, Congress enacted the Taxpayer First Act[4] and amended the Internal Revenue Code to give the IRS the authority to disclose certain return information for the purpose of cybersecurity and the prevention of identity theft tax refund fraud. The IRS decided to leverage the Security Summit[5] to disclose return information related to refund fraud schemes to State tax agencies and industry partners. However, TIGTA reported that additional policies, procedures, and actions are needed to improve the effectiveness of security over the sharing and storing of the data.[6] In addition, opportunities exist to enhance controls and ensure consistency in applying policies for accessing the shared data.

Further, the Taxpayer First Act contained provisions to modernize the IRS's Income Verification Express Service (IVES) program[7] and increase taxpayer protections. However, TIGTA found that some key processes are not operating as intended to ensure that taxpayers authorize the release of their tax transcripts.[8] IVES program management did not conduct compliance reviews in FY 2019 to ensure that participants completed the required client certifications. These certifications are important because they validate the identity of clients that ultimately receive the transcripts. The IRS also did not conduct sufficient suitability checks on 577 IVES participants that were "grandfathered" into the program in February 2016 when management implemented the suitability checks.

Additionally, the IRS continues to digitize many of the previously paper processes, which generates targets of opportunity for malicious actors around the globe. Each new system created, while potentially improving the experience of the taxpayer, also enables new ways to subvert, misuse, manipulate, and disrupt the IRS's ability to administer the Federal tax system. Numerous Government agencies also rely on tax information to administer public benefits, which sets the stage for downstream effects on other Government benefit programs when IRS systems are successfully exploited.

In June 2021, Pro Publica released data it claimed to be from the tax returns of thousands of individuals, covering more than 15 years. The protection of taxpayer data will continue to be a top priority for the IRS as it tries to leverage technology to be responsive to taxpayers' needs for its services, while minimizing the risks from cyberattacks and insider threats.

IMPROVING TAX REPORTING AND PAYMENT COMPLIANCE TO REDUCE THE TAX GAP

One of the IRS's key responsibilities is to ensure that taxpayers comply with the tax law. Sustaining and improving taxpayer compliance is important because small declines in compliance cost the Nation billions of dollars in lost revenue and shift the tax burden away from those who do not pay their taxes onto those who pay their taxes on time every year.

According to the IRS, high-income nonfilers, although fewer in number, contribute to the majority of the nonfiler Tax Gap. High-income taxpayers generally have more opportunities to engage in planning to avoid taxes. In March 2021, TIGTA reported that the IRS could more effectively prioritize high-income taxpayers who owe delinquent taxes.[9] Specifically, TIGTA identified approximately 685,000 taxpayers with adjusted gross income of $200,000 or more that owed a combined total of $38.5 billion as of May 14, 2019. TIGTA also found that revenue officer staffing does not always align with locations where the greatest number of high-income cases are located. While TIGTA recognizes that resources are limited, hiring or reallocating resources to work high-income cases in these areas could lead to higher collection potential and increased revenue.

Prior to FY 2018, the IRS had a High Income High Wealth strategy focusing on high-income taxpayers whose total positive income was at least $200,000 on Form 1040, *U.S. Individual Income Tax Return*.[10] However, TIGTA reported that the majority (73 percent) of the individual returns closed using the strategy for FYs 2015 through 2017 had total positive income of less than $200,000.[11] After disbanding the High Income High Wealth strategy, the IRS focused instead on using the less productive Discriminant Function strategy[12] resulting in $121.5 million in potential lost assessments for FYs 2018 and 2019.

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[3] Written testimony of Charles Rettig, Commissioner, Internal Revenue Service, *On the IRS Budget and Current Operations,* Senate Appropriations Committee, Subcommittee on Financial Services and General Government (May 15, 2019).
[4] Pub. L. No. 116-25, 133 Stat. 981 (2019).
[5] The IRS formed the Security Summit with representatives from State Departments of Revenue, the Chief Executive Officers of leading tax preparation firms, software developers, and payroll and tax financial product processors. The Security Summit's primary mission is to assist in the fight against the filing of fraudulent tax returns and protect taxpayers from identity theft tax refund fraud.
[6] TIGTA, Report No. 2021-25-025, *Taxpayer First Act: Data Security in the Identity Theft Tax Refund Fraud Information Sharing and Analysis Center* (May 2021).
[7] Once accepted in the IVES Program, participants such as banks and financial institutions can submit requests, on behalf of their clients, to obtain tax transcripts for individuals and businesses.
[8] TIGTA, Report No. 2021-45-017, *Additional Security Processes Are Needed to Prevent Unauthorized Release of Tax Information Through the Income Verification Express Service Program* (Feb. 2021).
[9] TIGTA, Report No. 2021-30-015, *High-Income Taxpayers Who Owe Delinquent Taxes Could Be More Effectively Prioritized* (Mar. 2021).
[10] Total positive income is the sum of all positive incomes shown for the various sources of income reported on the individual income tax return and, therefore, excludes losses.
[11] TIGTA, Report No. 2021-30-041, *The IRS Continued Compliance Efforts for High-Income Taxpayers After Disbanding the High Income High Wealth Strategy, but With Less Effective Outcomes* (July 2021).
[12] The Discriminant Function examination strategy contains returns selected based on algorithms. The results of the IRS's National Research Program strategy examinations are used to update the algorithms.

TIGTA also reported that for TY 2017 numerous business and individual nonfiler taxpayers with Form 1099-K, *Payment Card and Third Party Network Transactions*, income were not identified and cases were not created by the IRS's nonfiler programs, and in other cases, they were identified but not worked by the IRS.[13] Specifically, TIGTA identified 314,586 business taxpayers with $335.5 billion in Form 1099-K income that appeared to have a filing obligation, but were not identified as nonfilers by the IRS.

Further, the growth of peer-to-peer payment applications has greatly enhanced the flow and transfer of funds between users on virtual platforms, making it easier and cheaper to send payments from one person to another. However, the technology presents additional tax compliance challenges in that the payments are not always reported to the IRS and can be hard to detect during an IRS examination.[14]

MODERNIZING IRS OPERATIONS

The IRS relies extensively on computerized systems to support its financial and mission-related operations. The IRS requested $305 million for the modernization effort in its FY 2022 budget request, an increase of $82 million or approximately 37 percent from the FY 2021 enacted budget. Successful modernization of systems and the development and implementation of new information technology applications are critical to meeting the IRS's evolving business needs and enhancing services provided to taxpayers. The reliance on legacy systems and its use of outdated programming languages pose significant risks to the IRS's ability to deliver its mission. Modernizing the IRS's computer systems has been a persistent challenge for many years and will likely remain a challenge for the foreseeable future.[15]

For example, the IRS uses more than 60 different legacy case management systems that widely vary in complexity, size, and customization to support tax administration. In January 2015, the IRS formally established the Enterprise Case Management (ECM) program to provide an enterprise solution to perform case management functions utilizing a Department of the Treasury Cloud platform, thus reducing long-term costs and increasing operational efficiency, innovation, and security. However, TIGTA reported that the ECM program has not finalized its agile development methodology.[16] The program is implementing a mixture of two different agile configurations and trying to strike a balance between implementing the recommended roles while minimizing unnecessary overhead. In addition, the benefits of the ECM program are defined in broad terms and will make it difficult for leadership to manage continuous implementation of processes over a long period of time, identify tradeoffs in competing priorities, and evaluate success.[17]

Ineffective security controls to protect IRS systems and data could have a significant effect on a broad array of Government operations and assets. Without effective security controls, computer systems are vulnerable to human errors or actions committed with malicious intent. Server virtualization[18] is now an established standard for enterprise information technology infrastructure

[13] TIGTA, Report No. 2021-30-002, *Billions in Potential Taxes Went Unaddressed From Unfiled Returns and Underreported Income by Taxpayers That Received Form 1099-K Income* (Dec. 2020).
[14] TIGTA, Report No. 2021-30-022, *The Internal Revenue Service Faces Challenges in Addressing the Growth of Peer-to-Peer Payment Application Use* (Apr. 2021).
[15] TIGTA, Report No. 2021-20-001, *Annual Assessment of the Internal Revenue Service's Information Technology Program for Fiscal Year 2020* (Oct. 2020).
[16] IRS guidance characterizes agile development as having iterative product development and delivery. Regular testing intervals, customer involvement, and continuous product delivery allow for feedback throughout the development process.
[17] TIGTA, Report No. 2021-20-059, *Enterprise Case Management Deployed Its Initial Release, but Process Improvements Are Needed for Future Releases* (Sept. 2021).
[18] Virtualization is the simulation of the software and hardware upon which other software runs. This simulated environment is called a virtual machine.

in data centers and cloud services as it provides better utilization of hardware resources, reduces physical space required, and reduces power consumption and administrative overhead. As a result, the IRS concluded that its diverse and widely deployed server infrastructure would benefit from a consolidation and virtualization project. TIGTA reported that the IRS is performing security scans of the virtual host infrastructure platform.[19] However, the IRS inventory system does not accurately reflect all of the virtual host infrastructure platform servers. For example, virtual host servers were uncategorized and incorrectly recorded. Protecting critical assets and infrastructure helps reduce the risk of internal and external attacks on IRS assets that could potentially expose taxpayer data and information.

IMPROVING CUSTOMER SERVICE AND THE TAXPAYER EXPERIENCE

The 2021 Filing Season began later than normal, on February 12, 2021. The later start was needed to update the IRS's processing systems. On March 17, 2021, the Department of the Treasury extended the income tax filing due date to May 17, 2021. Backlogs of unprocessed tax returns and other types of tax account work that affected the previous filing season now continue into the 2021 Filing Season. The inability to timely address these backlogs will continue to have a significant impact on the associated taxpayers.

Contributing to the IRS's inability to address backlogs is the significant shortfall in its hiring of personnel needed for their Submission Processing functions as well as the closure of its Tax Processing Site in Fresno, California. The IRS also continues to take steps to protect the health and safety of its employees working in its Tax Processing Centers; as a result, it was not always able to operate at full capacity due to social distancing requirements. These requirements include limiting close contact with other employees and maintaining a physical distance of at least six feet in an effort to reduce the spread of COVID-19. Finally, while much of the IRS's workforce continues to telework, the work performed at the IRS's Tax Processing Centers is not conducive to a remote telework environment. This work includes receiving, sorting, and distributing of mail and processing of paper tax returns, which requires manually inputting information from tax returns into IRS systems, correcting errors, and corresponding with the taxpayer, when needed.

In an effort to restore customer service options to taxpayers the IRS accelerated the implementation of several new initiatives it had been testing and expanded the use of existing technologies and capabilities.[20] However, while the majority of customer service assistance options are now available to taxpayers, the previous closures are a contributing factor to increased demand on the IRS and its inability to provide quality customer service. For example, the IRS reported 321.4 million visits to IRS.gov for the 2020 Filing Season as of March 6, 2020. In comparison, as of March 5, 2021, the IRS reported 555.7 million visits to IRS.gov this filing season, which is an increase of 72.9 percent. However, as of March 5, 2021, the IRS only provided a 27.3 percent Level of Service on its toll-free customer service lines. In comparison to the same timeframe in March 2020, the IRS reported a 68 percent Level of Service.

[19] TIGTA, Report No. 2021-20-024, *Improvements Are Needed for the Virtual Host Infrastructure Platform* (June 2021).
[20] TIGTA, Report No. 2021-46-029, *Assessment of the Effects of the Coronavirus Pandemic on Customer Service Operations* (Apr. 2021).

The Taxpayer First Act included provisions for the IRS to develop a comprehensive customer service strategy to better serve taxpayers. In response, the IRS developed the taxpayer experience strategy. According to the Commissioner of Internal Revenue, the taxpayer experience strategy is designed to improve a taxpayer's experience with the IRS through expanded digital services, increased multilingual services, and an increased presence in hard-to-reach, historically underserved communities.[21] This law also requires the IRS to develop an organizational redesign strategy that prioritizes the taxpayer experience to ensure that taxpayers can easily and readily receive the help they need.

ADDRESSING EMERGING THREATS TO TAX ADMINISTRATION

Identity theft tax refund fraud involves the use of another person's name and Taxpayer Identification Number[22] to file a fraudulent tax return reporting false income and withholding in an effort to receive a fraudulent tax refund. The IRS recognized that the Economic Impact Payments (EIP) created a new risk for tax-related identity theft. In response, the IRS developed specific filters to identify potentially fraudulent filings. Once a return was identified as potentially fraudulent, it was sent to an IRS team for review. As of December 31, 2020, the IRS identified 528,388 questionable tax returns associated with the EIP for review and determined that 46,111 tax returns were fraudulent.

Illicit actors may also file false individual international tax returns in order to obtain refunds. TIGTA evaluated IRS processes to identify and prevent potentially fraudulent individual international tax returns and identified areas for improvement.[23] Specifically, the IRS does not have sufficient processes in place to identify potentially fraudulent individual international tax returns at the time these returns are filed. TIGTA's review of TY 2018 tax returns identified 8,332 international tax returns with potentially erroneous or fraudulent refunds totaling nearly $20.6 million that were not identified by the IRS.

[21] Written testimony of Charles Rettig, Commissioner, Internal Revenue Service, *The IRS's Fiscal Year 2022 Budget,* Senate Finance Committee (June 8, 2021).
[22] 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.
[23] TIGTA, Report No. 2021-40-057, *Improvements Are Needed to Identify Potentially Fraudulent Individual International Tax Returns During Processing* (Sept. 2021).

Identity theft not only affects individuals, it can also affect businesses. The IRS defines business identity theft as creating, using, or attempting to use businesses' information without authority to obtain tax benefits. The IRS continues to take actions to improve its detection of business identity theft, including expanding the number of identity theft filters from 35 in Processing Year 2018 to 84 in Processing Year 2020. However, continued expansion of detection capabilities, to include other business return types, is needed. For example, TIGTA found that 36 business return types with refunds issued totaling $10.5 billion in Processing Year 2019 were not evaluated for potential identity theft.[24]

Preventing refund fraud associated with prisoners' Social Security Numbers is also a challenge for tax administration. The IRS implemented corrective actions in response to concerns raised in a TIGTA report issued in July 2017.[25] However, in April 2021, TIGTA reported that the IRS could take additional actions to expand its participation in the Blue Bag Program, a program in which the IRS partners with the Federal Bureau of Prisons and State Departments of Corrections to identify potentially fraudulent tax returns and refunds.[26]

TIGTA works closely with the IRS to identify, investigate, and combat threats to tax administration. After passage of the Coronavirus Aid, Relief, and Economic Security Act (CARES),[27] TIGTA observed an increase in related illicit scams and schemes with various objectives, such as manipulation of IRS online applications, theft of EIPs, and efforts to steal sensitive taxpayer information. Because the IRS used the same distribution methodology for ARP Act payments as it did for CARES Act payments, TIGTA estimates that a similar amount of theft will occur.

TIGTA plays a key role in protecting IRS employees. Threats and assaults directed at IRS employees, facilities, and infrastructure impede the effective and safe administration of the Federal tax system and the IRS's ability to collect tax revenue. In the last several years, threats directed at the IRS have remained the second largest component of TIGTA's Office of Investigations' work. Recent incidents involving taxpayers who threatened or assaulted IRS employees underscore the dangers that these employees face.

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[28] requires Federal agencies, including 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; therefore, the IRS must include the rate and amount of improper payments for the EITC program in the Department of the Treasury's annual Agency Financial Report.

In FY 2020, the Office of Management and Budget determined that the EITC, Additional Child Tax Credit (ACTC), and American Opportunity Tax Credit are also high-priority programs that are susceptible to significant improper payments.[29] The IRS estimates it issued approximately

[24] TIGTA, Report No. 2021-40-004, *Refinement and Expansion of Filters to Include Additional Business Returns Will Continue to Improve Business Identity Theft Detection Efforts* (Oct. 2020).
[25] TIGTA, Report No. 2017-40-041, *Actions Need to Be Taken to Ensure Compliance With Prisoner Reporting Requirements and Improve Identification of Prisoner Returns* (July 2017).
[26] TIGTA, Report No. 2021-40-027, *Actions Were Taken to Improve the Identification of Prisoner Tax Returns* (Apr. 2021).
[27] Pub. L. No. 116-136, 134 Stat. 281 (2020).
[28] Pub. L. No. 107-300, 116 Stat. 2350 (2018).
[29] TIGTA, Report No. 2021-40-036, *Improper Payment Rates for Refundable Tax Credits Remain High* (May 2021).

$22.8 billion in potentially improper EITC, ACTC, and American Opportunity Tax Credit in FY 2020. This represents a significant loss to both the Federal Government and taxpayers.

The IRS did not calculate the dollar amount and percentage rate of improper payments for another high-risk program – the Net Premium Tax Credit.[30] IRS management stopped working on this calculation, citing delays stemming from significant demands placed on the Department of the Treasury and the IRS in connection with the COVID-19 pandemic as well as delays working with the Department of Health and Human Services and the Centers for Medicare and Medicaid Services to develop a joint methodology for assessing improper payment risk for the Premium Tax Credit.

Further, the passage of the ARP Act temporarily expands the Child and Dependent Care Credit. Beginning on January 1, 2021, the credit is fully refundable and the amount of the credit and the income phase-out limits have significantly increased. The unintended consequence of refundable credits is that they can result in the issuance of improper payments and can be the targets of unscrupulous individuals. TIGTA is planning to conduct several audits evaluating the IRS's implementation of this credit.

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 has not developed a reliable estimate of the international tax gap. The Tax Gap is estimated using statistics from the IRS's National Research Program data that does not measure international noncompliance.[31] 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. International agreements and tax law changes are important, but the Department of the Treasury and the IRS should follow through to ensure that these efforts achieve their intended results.

The Foreign Account Tax Compliance Act (FATCA) was designed to establish reporting requirements for U.S. citizens with foreign accounts, with significant penalties if foreign accounts were not reported.[32] It was estimated that revenue from the FATCA would be $8.7 billion from FYs 2010 to 2020. While initial enforcement-related complications involved data reliability issues, more recent problems are related to the fact that the Department of the Treasury and the IRS have delayed the requirement for Foreign Financial Intermediaries (FFI) to require that U.S. citizens provide Social Security Numbers when establishing accounts and the FFIs to provide that information to the United States so the IRS can match compliance information it has with information that the FFIs have.

With the rising number of taxpayers giving up or abandoning their U.S. citizenship or resident status, it is important that the IRS has controls in place to enforce the tax provisions applicable to expatriates. Since enactment of the Heroes Earnings Assistance and Relief Tax Act of 2008,[33] the number of taxpayers expatriating increased significantly from Calendar Year 2008 to Calendar

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[30] Eligible taxpayers can choose to receive the Advanced Premium Tax Credit (APTC), which helps cover the cost of their health insurance premiums. When taxpayers prepare their tax return, they must reconcile the APTC with the amount of the Premium Tax Credit that they are allowed to claim. Taxpayers whose Premium Tax Credit exceeds their APTC have a Net Premium Tax Credit, which reduces their tax liability and, if more than the tax liability, results in a refundable tax credit.

[31] TIGTA, Report No. 2009-IE-R001, *A Combination of Legislative Actions and Increased IRS Capability and Capacity Are Required to Reduce the Multi-Billion Dollar U.S. International Tax Gap* (Jan. 2009).

[32] Pub. L. No. 111-147, Subtitle A, 124 Stat 97 (codified in scattered sections of 26 U.S.C.). TIGTA, Report No. 2018-30-040, *Despite Spending Nearly $380 Million, the Internal Revenue Service Is Still Not Prepared to Enforce Compliance With the Foreign Account Tax Compliance Act* (July 2018).

[33] Pub. L. No. 110-245 (2008).

Year 2018 (from a total of 312 in 2008 to 3,974 in 2018). During the same period, TIGTA found that the IRS did not have a centralized compliance effort aimed at enforcing the expatriate rules.[34]

In addition, TIGTA reported that the IRS currently has no processes and procedures in place to ensure the legitimacy of certain international tax returns at the time returns are filed.[35] Specifically, TIGTA identified 130,448 international tax returns in which individuals reduced or eliminated the Federal income tax paid on nearly $2 billion in income.

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.[36]

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, TIGTA evaluated whether the IRS followed the joint return disclosure requirements on collection information requests and determined that disclosure requirements were not followed in 26 of 124 Accounts Management customer service representatives' history files and three of 20 Field Assistance individual taxpayer advisory specialists' history files in the Wage and Investment Division.[37] Also, during the review of the IRS's compliance with the prohibition against designating taxpayers as Illegal Tax Protesters or similar designations, TIGTA found that IRS employees used these designations on some taxpayer accounts.[38]

TIGTA also evaluated the IRS's compliance with provisions of the law that restrict the direct contact of taxpayers who are represented. TIGTA found that in 18 of the 75 cases reviewed, taxpayer rights were potentially infringed upon because the IRS did not send notices and letters to authorized representatives as required.[39] Of the 75 cases reviewed, a power of attorney was authorized to receive notices in 50 of these cases. When projected to the overall population of 4,349 examinations in which taxpayers had an authorized representative, the IRS potentially negatively impacted taxpayer rights for 1,043 taxpayer accounts in regards to representative notice and letter requirements.

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. Similar to prior audits, TIGTA identified processing errors in 16 of 81 sampled taxpayer cases.[40] Processing errors related to proper classification of hearing requests and incorrect Collection Statute Expiration Dates on the taxpayer's accounts. For example, taxpayer accounts had errors due to incorrectly input Collection Statute Expiration Date suspension start and stop dates. In some cases, the IRS incorrectly extended the time period, allowing the IRS additional time to collect delinquent taxes.

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[34] TIGTA, Report No. 2020-30-071, *More Enforcement and a Centralized Compliance Effort Are Required for Expatriation Provisions* (Sept. 2020).
[35] TIGTA, Report No. 2021-40-057, *Improvements Are Needed to Identify Potentially Fraudulent Individual International Tax Returns During Processing* (Sept. 2021).
[36] Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2, 5, 16, 19, 22, 23, 26, 31, 38, and 49 U.S.C.).
[37] TIGTA, Report No. 2021-30-050, *Fiscal Year 2021 Statutory Review of Disclosure of Collection Activity With Respect to Joint Returns* (Aug. 2021).
[38] TIGTA, Report No. 2021-30-048, *Fiscal Year 2021 Statutory Audit of Compliance With Legal Guidelines Prohibiting the Use of Illegal Tax Protester and Similar Designations* (Aug. 2021).
[39] TIGTA, Report No. 2021-30-054, *Fiscal Year 2021 Statutory Review of Restrictions on Directly Contacting Represented Taxpayers* (Aug. 2021).
[40] TIGTA, Report No. 2021-10-049, *Review of the Independent Office of Appeals Collection Due Process Program* (Aug. 2021).

HUMAN CAPITAL

Human capital is the Federal Government's most critical asset. At a time when the IRS is taking on such new challenges as the implementation of pandemic relief for taxpayers, the recruitment of new employees and retention of existing employees are critical to ensuring the maintenance of a quality workforce capable of meeting the needs of the American public.

Between FY 2010 and FY 2020, the IRS lost more than 33,000 full-time personnel, which included nearly 13,400 key enforcement personnel.[41] In addition, TIGTA reported that the IRS continues to experience challenges hiring and retaining an adequate workforce to meet its workload demands at Tax Processing Centers.[42] For example, the IRS's Submission Processing function was only able to reach 59 percent of its hiring goals during the 2021 Filing Season. Although the IRS has several initiatives underway to help address its hiring shortages, these initiatives may not successfully mitigate the hiring challenges as anticipated. We remain concerned about the IRS's continued challenges in hiring sufficient staff needed to work backlog inventory and process tax returns at the same time. The inability of the IRS to hire sufficient staff could further affect taxpayers awaiting refunds and additional Recovery Rebate Credits claimed on TY 2020 returns.

The IRS's FY 2022 budget request includes a net staffing increase of approximately 12 percent, or 8,493 direct Full-Time Equivalents, as compared to FY 2021.[43] Although increased funding would assist the IRS in replacing employees lost through attrition,
on-boarding, training, and assimilating large numbers of employees will create its own challenges for the IRS.

[41] IRS, *Management's Discussion and Analysis*, *Fiscal Year 2020*.
[42] TIGTA, Report No. 2021-40-038, *Interim Results of the 2021 Filing Season* (May 2021).
[43] Full-Time Equivalents are a measure of labor hours in which one Full-Time Equivalent is equal to eight hours multiplied by the number of compensable days in a particular fiscal year.

In addition, the IRS was faced with unprecedented human capital-related challenges due to the COVID-19 pandemic. In March 2020, the IRS directed all employees, except those performing mission-critical functions that could not be performed remotely, to vacate IRS worksites and work from home or an alternate location. The IRS initially placed nearly 35,000 employees on paid Weather and Safety Leave because the employees could not work in an IRS facility or telework.[44] In response to the pandemic, the IRS steadily increased telework participation, and in July 2020 reopened IRS facilities to some employees. Between March 2020 and September 2020, the IRS distributed nearly 19,000 laptops to employees to allow them to perform their jobs remotely. By September 2020, over 60,000 employees teleworked at least a portion of their work schedule, while approximately 25,000 employees worked at least a portion of their time from an IRS facility.

As the IRS reopened its facilities to mission essential functions and non-portable work, it faced additional challenges.[45] As of June 30, 2021, nearly 4,200 IRS employees reported having tested positive for COVID-19. IRS data show that approximately 47 percent of these employees reported to an IRS facility during the 14 days preceding a positive test result.

In March 2021, TIGTA completed unannounced site visits to eight IRS campuses. Overall, TIGTA found that the IRS had implemented its COVID-19 guidance; however, we observed instances of noncompliance with health and safety guidance at all eight facilities, including guidance pertaining to mask and social distancing requirements. The IRS will continue to face challenges as it balances the completion of its mission with the health and safety of its employees.

CONCLUSION

This memorandum is provided as our annual summary of the most serious major management and performance challenges confronting the IRS in FY 2022. TIGTA's *Fiscal Year 2022 Annual Audit Plan* and *Fiscal Year 2022 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: Deputy Secretary of the Treasury
Acting Assistant Secretary for Management
Deputy Chief Financial Officer
Commissioner of Internal Revenue

[44] Weather and Safety Leave is a form of administrative leave permitted when an agency determines that safety-related conditions prevent employees from safely traveling to or safely performing work at an approved location or telework site.
[45] TIGTA, Report No. 2021-16-073, *Steps Were Taken to Protect Employee Health and Safety, but Additional Efforts Are Needed to Ensure Compliance With Federal Guidelines During Pandemics* (Sept. 2021).

IRS MANAGEMENT RESPONSE TO TIGTA IDENTIFIED CHALLENGES

TIGTA Challenge 1: Administration of Tax Law Changes and Pandemic Relief Funds: *The IRS's operations were significantly impacted by the Coronavirus Disease 2019 (COVID-19) pandemic. The extensive actions the IRS must undertake to implement tax legislation will continue to be challenging when tax law changes are enacted close to, or after, the start of the annual filing season.*

The *Coronavirus Response and Relief Supplemental Appropriations Act of 2021* , signed into law on December 27, 2020, authorized a second round of Economic Impact Payments (EIP 2). This legislation required that the second round of payments be issued by January 15, 2021. The IRS was prepared for and delivered the majority of EIP 2 in just two days following the enactment. In addition, the *American Rescue Plan Act of 2021* (ARP), signed into law on March 11, 2021,authorized a third round of EIPs (EIP 3). The IRS began issuing these payments on March 12, 2021. In FY 2021, the IRS, in coordination with Fiscal Service, issued EIP 2 and 3 payments worth more than $800 billion.

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.*

In FY 2021, the IRS updated and remediated the critical and high-risk vulnerabilities identified on the servers that store federal tax information (FTI) and backup servers used to transmit FTI to the Trusted Third Parties by installing appropriate updates.

One of the updates include the Income Verification Express Service Program (IVES). Once accepted into IVES, participants, such as banks and financial institutions, can submit requests to obtain tax transcripts on behalf of their clients. To mitigate the risk of releasing taxpayers' information to unauthorized individuals, the IRS revised Form 4506-C, Request for Transcript of Tax Return, to update cautionary language for instructing taxpayers to complete third-party information before signing, to include a clear indication of electronically signed forms and to include a line for client information if a client is requesting a transcript on behalf of an IVES participant. The IRS will complete their certifications and determine who is eligible to use e-signatures within the IVES program.

The IRS is developing Enterprise File Storage software to include a listing of authorized e-signature users that the IRS will maintain and review annually to ensure program compliance. The IRS will issue clear guidance to IVES participants to articulate the requirements of the annual independent audit report for electronic signature usage. In FY 2022, the IRS will finalize the IVES online system project schedule and costing estimates, making any adjustments to the user fee as necessary. The IRS will identify and allocate sufficient resources to the IVES program to timely complete the annual compliance reviews, summarizing the results of the compliance reviews after each fiscal year. The IRS will continue to perform tax compliance checks on IVES participants and investigate an automated solution for performing continuous tax compliance. The IRS will perform suitability checks on the 319 IVES participants TIGTA identified.

TIGTA Challenge 3: Improving Tax Reporting and Payment Compliance to Reduce the Tax Gap: *Improving taxpayers' compliance with the tax law to reduce the Tax Gap remains a serious and persistent challenge.*

The gross tax gap is the estimated difference between the amount of the tax that taxpayers should pay, and the amount taxpayers pay voluntarily and on time. High-income nonfilers (HINF) contribute to the majority of the nonfiler tax gap.

The IRS's primary objective in selecting returns for examination is to promote the highest degree of compliance. To address the nonfiler tax gap, an Executive Steering Committee (ESC) provides oversight of nonfiler program performance and strategic planning, which also ensures coordination across multiple business functions. Additional steps to strengthen the ESC by adding the director of the Fraud Enforcement Office as well as revision to the charter is ongoing.

Over the last few years, the IRS shifted resources to focus on Abusive Transactions and Technical Issues projects, which involve high-income individuals. This includes areas of greater noncompliance, such as syndicated conservation easements, micro-captive insurance transactions, research and experimentation credits, and virtual currency. In addition, the IRS initiated a Compliance Initiative Project to ensure that the IRS continues to maintain a high rate of audit coverage of taxpayers at the highest income categories.

The IRS received approval to update the Business Masterfile (BMF) Start Date criteria rules for business nonfilers. This will ensure all potential nonfiler forms and returns are made available for further examination or assessment. The updated BMF Start Date criteria rules are to be delivered in FY 2022. In addition, the IRS is creating a definition of high-income business nonfilers as well as a compliance strategy to work unfiled returns and underreported Form 1099-K, Merchant Card and Third-Party Network Payments, income. The IRS has initiated a research project in FY 2022 to determine if a High-Income Nonfiler (HINF) definition can be applied to BMF nonfilers by identifying similarities or patterns with potential nonfiler cases and prior nonfiler audit results.

The IRS prioritizes high-income nonfilers in our Individual Masterfile case creation nonfiler identification process. The IRS has issued instructions to Collection's Nonfiler Inventory and Analysis staff to ensure that 100 percent of HINF cases are included in the return delinquency program case starts, which places these cases into the work stream. The IRS also updated the Collection automated substitute for return program to prioritize high liability cases. The IRS's Collection case management program continues to place a high priority on high-income nonfilers when selecting case inventory for revenue officers. Field Collection managers assign high priority HINF cases to revenue officers from an inventory (queue) of cases selected for potential compliance action. IRS revenue officers are highly trained civil enforcement officers, adept at investigating the most complex collection cases, including HINF.

Currently, the IRS has less than 2,000 revenue officers, the lowest number of field collection personnel since the 1970's, and more than 100,000 collection cases in active inventory. Furthermore, the IRS has classified roughly 85 percent of the inventory as high priority cases, many of which involve delinquent business employment taxes. In addition, the IRS has more than 1.5 million collection cases awaiting assignment, 500,000 of which are considered high priority. Additional resources would better enable Collection to assign the highest priority HINF cases to revenue officers to address these taxpayers' noncompliance.

The Peer-to-Peer (P2P) payment application has created some challenges for the IRS particularly because usage has grown exponentially over the years, in replacing traditional mobile banking applications. The largest challenge is attributable to the lack of compliance with the filing requirement of the Form 1099-K, Payment Card and Third-Party Network Transactions and PSP applications. The ARP changed the threshold for reporting significantly. The ARP requires reporting by third party settlement organizations of a gross amount of $600 or more paid to a single payee in a calendar year, effective for calendar years beginning after December 31, 2021. As a result of the new legislation, the IRS will receive Form 1099-K for a majority of the individuals receiving payment via P2P applications. This will allow the IRS to identify areas of noncompliance either through our Automated Underreporter program or during an examination. The IRS is actively developing guidance for examiners to reinforce the requirement to complete the minimum income probe for all examinations, which includes addressing the taxpayer's internet use and e-commerce income activity.

TIGTA Challenge 4: Modernizing IRS Operations: *Successful modernization of systems and the development and implementation of new information technology applications are critical to meeting the IRS's evolving business needs and enhancing services provided to taxpayers. Modernizing the IRS's computer systems has been a persistent challenge for many years and will likely remain a challenge for the foreseeable future. These legacy systems carry significant risks, including increased cybersecurity threats and maintenance costs.*

IRS's Enterprise Case Management program's (ECM) goal is to provide an enterprise solution to perform case management functions using a Treasury Cloud2 platform, thus reducing long-term costs and increasing operational efficiency, innovation, and security. The IRS has several process improvements planned for future ECM releases. First, the IRS is implementing a combination of two Scaled Agile Environment (SAFe) configurations to strike a balance between implementing the recommended roles and configurations, while minimizing unnecessary overhead. The IRS will document its current SAFe implementation and perform a SAFe competency assessment for the associated core competencies. Additionally, the IRS will establish an initial set of quantifiable metrics to enable traceability of progress from planning through decommissioning, recognizing that quantifiable metrics are not static, and updates are necessary throughout ECM implementation. The IRS is also standing up an Accessibility Advocate function to work with the existing IT Information Resources Accessibility Program to reduce the number of Section 508 defects in future releases and improve the user experience.

Server virtualization is a standard for enterprise information technology infrastructure in data centers and cloud services as it provides better utilization of hardware resources, reduces physical space required, and reduces power consumption and administrative overhead.

The IRS has identified several improvements for the virtual host infrastructure platform. First, the IRS will remediate critical and high-risk vulnerabilities in the virtual host infrastructure platform by priority and within the required IRM timeframes. Additionally, the IRS will ensure remediation of configuration issues for Windows and Linux platform servers using the new Continuous Diagnostics and Mitigation (CDM) tool and correct defects in that tool. The IRS will identify and implement a tool to perform automated configuration scanning of the VMware ESXi platform in accordance with CDM guidance and will ensure remediation of configuration issues for Windows and Linux platform servers using the new CDM tool by VMWare once the new tools are in place. The IRS will also finalize, approve, and implement a Platform Audit Plan for the virtual host infrastructure platform, implement automated audit logging and monitoring, and establish a review process for VMware servers in the virtual host infrastructure platform.

TIGTA Challenge 5: Improving Customer Service and the Taxpayer Experience: *Filing season delays and tax return backlogs will continue to have a significant impact on taxpayers. The significant shortfall in its hiring of personnel needed for their Submission Processing functions as well as the closure of its Tax Processing Site in Fresno, California contributes to the IRS's inability to address backlogs.*

The IRS took unprecedented actions in response to the COVID-19 pandemic to protect the health and safety of its employees and taxpayers during the 2020 filing season. To restore services to taxpayers as quickly as possible, the IRS accelerated the implementation of several customer service options it had been testing and expanded the use of existing technologies and capabilities.

The IRS provided resources and guidance to ensure Volunteer Income Tax Assistance (VITA) and Tax Counseling for the Elderly (TCE) sites were equipped with the necessary tools to prepare accurate current and prior year returns.

The IRS also developed and timely delivered outreach messages to inform taxpayers about traditional VITA, TCE, Facilitated Self Assistance, Virtual VITA, and the Free File program to partners, in addition to a postcard initiative in which it mailed postcards with helpful links to Free File and assistance with finding VITA locations to 2.5 million taxpayers.

In addition, the IRS developed Publication 5450, 2021 VITA/TCE Site Operations to provide outreach and additional guidance to partners about tax return preparation alternatives. Finally, the IRS identified outreach priorities for delivery to partners with a focus on topics that are determined critical and beneficial.

TIGTA Challenge 6: 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 fraudulent filing of tax returns, including international returns.*

The IRS continues efforts to protect tax revenue by implementing processes to identify and prevent tax fraud by prisoners and individuals who use prisoners' Social Security numbers to file fraudulent tax returns. In addition, the IRS revised the Internal Revenue Manual on *General Agreement on Tariffs and Trade Procedures* to include revised procedures that facilitate the timely identification of questionable tax returns, where refunds are appropriately frozen, and the returns are referred for treatment.

The IRS also created 34 business filters to evaluate employment tax returns for potential identity theft. These additional filters resulted in a monetary benefit (funds put to better use) of more than $248 million.

The IRS efforts to protect tax revenue continues into FY 2022 and beyond, including strengthening system filters, sampling Advance Child Tax Credit claims on international tax returns, providing training for tax examiners and sampling potentially erroneous international tax returns that received the American Opportunity Tax Credit. In addition, the IRS will conduct an analysis to determine the effectiveness of using estimated payments that post to the taxpayer's account in the filtering process for the Form 1041 business IDT filters.

TIGTA Challenge 7: Reducing Fraudulent Claims and Improper Payments: *IRS faces ongoing challenges to significantly reduce the improper payments from refundable credits.*

Although error rates for EITC, ACTC, and AOTC remain high, the IRS attributes these refundable tax credit overclaims to their statutory design and the complexity taxpayers face when self-certifying eligibility for the refundable tax credits and not to internal control weaknesses, financial management deficiencies, or reporting failures.

The following are barriers to reducing refundable tax credit improper payments: complexity and lack of data to verify statutory eligibility requirements, lack of correctable error authority, high turnover of eligible taxpayers, unscrupulous and/or incompetent tax return preparers, and fraud.

TIGTA Challenge 8: 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.*

Efforts to combat underreporting related to U.S. holders of foreign accounts and to foreign financial institutions are ongoing, where Form 8966, *Foreign Account Tax Compliance Act Report* (FATCA) and Form 8938, *Statement of Foreign Financial Assets*, data will be systemically matched to identify non-filers. The IRS is developing a data product to automate risk assessments across the FATCA filing population. The compliance initiative to address error notices and unresolved record-level errors, including follow-up procedures, will improve the accuracy of data in FATCA reports.

The IRS plans to update internal revenue code to remove any outdated language, develop procedures on when and what forms to complete, develop data fields to the expatriate database to best evaluate tax compliance and develop procedures for inputting and correcting data that is erroneously input by expatriates.

TIGTA Challenge 9: Protecting Taxpayer Rights: *The IRS must balance its tax compliance activities against the rights of taxpayers to receive fair and equitable treatment.*

Congress enacted the prohibition against the use of the term "Illegal Tax Protester" and similar designations due to a concern that some taxpayers were being permanently labeled as Illegal Tax Protesters even though they had subsequently become compliant with the tax laws.

To more clearly direct employees to the appropriate guidance on what collection activities may and may not be disclosed to taxpayers who jointly filed returns, the IRS will update Internal Revenue Manuals (IRM), to reference and link to the IRM where the disclosure criteria is found. Linking to the source information, rather than duplicating it across multiple IRM sections complies with IRM standards and ensures consistency in published guidance.

In addition, the IRS will provide disclosure training in the FY 2022 Critical Filing Season Readiness Training.

TIGTA Challenge 10: Human Capital: *IRS continues to experience challenges hiring and retaining an adequate workforce to meet its workload demands.*

The IRS is executing the actions in its Pandemic Incident Management Plan for the protection of the health and safety of its employees during the COVID-19 pandemic. The COVID-19 pandemic continues to affect the IRS's ability to perform its responsibilities of processing tax returns. The pandemic also threatens the health and safety of IRS employees. As such, the IRS has had to continue to balance the achievement of its mission with the health and safety of its employees.

The IRS updated existing guidance clarifying the leave options, reminded employees of the current mask wearing requirements, and updated (or replaced) signage where needed. The IRS updated its Pandemic Incident Management Plan to encourage leaders to implement measures, such as spot checks, to help ensure that employees follow the federal government and IRS policies and guidance in response to emergency conditions.

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 nonconformance with financial management system requirements

NonConformances	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 nonconformances	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, applicable federal accounting standards, and the USSGL at the transaction level. 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, 2021, 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 instances of nonconformance also constitute a lack of compliance with federal financial management system requirements, as reported above under FFMIA Section 803(a).

Fiscal Service has two nonconformances related to the deficiencies in its cash management and federal debt management information systems. The IRS has two instances of nonconformance 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 nonconformance issues.

SECTION D: PAYMENT INTEGRITY

We currently report erroneous payments for refundable tax credits (RTCs) within this section in accordance with the improper payment reporting requirements of the *Payment Integrity Information Act of 2019* (PIIA) and OMB Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement* (OMB Appendix C) as well as part of the tax gap estimate program (see Part 3, Section A: *Tax Gap and Tax Burden*). However, we have long held that these RTCs are not "payments" as intended under the improper payments legislation but are more appropriately addressed in the tax gap estimate. Erroneous payments for RTCs are more appropriately referred to as "overclaims." As such, we report error rates as outlined in the PIIA and OMB Appendix C, for three refundable tax credits[1]—the EITC, AOTC, and ACTC—which have error rates similar in concept to "significant improper payments." Current and prior year Payment Integrity information can now be accessed at https://paymentaccuracy.gov/.

As discussed below, the root cause of the errors in the EITC, AOTC, and ACTC RTCs, is not the result of internal control deficiencies and, as such, the IRS has continuously deployed costly enforcement tools to lower the error rate. Deployment of these enforcement tools has had minimal impact on lowering the error rate. Between FY 2006 and FY 2021, Treasury's error rates for EITC have ranged from 22.8 percent to 27.7 percent. 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 continue to support the reporting of RTC errors as part of the tax gap estimate as a better reflection of how the IRS approaches taxpayer compliance relative to the U.S. tax system.

Notwithstanding the above discussion, and as noted previously, these RTCs are not "payments" as intended under the improper payments legislation, 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 a refund. Consequently, refundable tax credit errors 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 errors, the benefits derived would be marginal relative to the cost of doing so. As such, it is our position that refundable tax credit refunds that result in errors should not be reported under the improper payments framework. Rather they are more appropriately addressed in the tax gap estimate, which is how we manage noncompliance. The following provides an in-depth discussion of the factors presented in this summary.

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 (P.L. 116-117) 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." Tax refunds are reimbursements of amounts taxpayers overpay and are not considered "payments" as intended by improper payment statutes. Similarly, the Internal Revenue Code (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

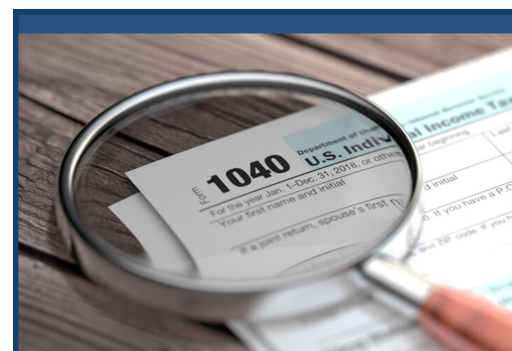
[1] In FY 2019, net Premium Tax Credits (PTC) was determined to be susceptible to significant improper payments due to the volume of overclaims. However, Treasury notified OMB that it will delay the annual reporting of improper payments for PTC for FY 2021. The notification was made pursuant to OMB's 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.

should also not be considered a "payment" and accordingly, we do not consider RTC errors 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 the IRS makes payment. By contrast, the U.S. income tax system is fundamentally different from a payment program in numerous and significant ways. The tax system is a collection system in which the individual taxpayer self-certifies information the taxpayer 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.

Furthermore, treating the outlay portion of tax credits as payments ignores the interrelated nature of other components of the tax system and provides no additional information that would help the IRS or Treasury address RTC errors. Continuing to report outlays as payments could lead to inefficient and skewed application of limited enforcement resources whereas the IRS' tax gap estimate and enterprise risk management (ERM) framework better equip the IRS to analyze and address noncompliance throughout the federal tax system.

INTERNAL CONTROL ISSUES ARE NOT THE ROOT CAUSE OF RTC ERRORS

PIIA's enactment was intended to reduce the U.S. government's wasteful spending by increasing agencies' accountability 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. OMB Appendix C states that agencies should approach improper payments with an internal control framework that is integrated with ERM for purposes of managing payment integrity risk and reducing improper payment rates. However, as we have determined repeatedly through qualitative risk assessments, RTC errors are not primarily rooted in internal control deficiencies, but instead are the result of factors beyond our control such as the statutory design of the RTCs, the complexity of the eligibility requirements, the reliance on taxpayers' self-certification of the accuracy of their returns, and the lack of third-party data for verification. A challenging distinction of RTC errors as compared to other programs is the lack of an application process that would allow the IRS to pre-qualify the taxpayer for RTCs, as is the case with most healthcare and other benefits, Social Security payments, veterans' compensation, and so on. The tax code relies on taxpayer *ex post* self-certification as opposed to a preapproval screening process. Databases including all the third-party data the IRS needs for independent verification do not exist and would present a substantial privacy challenge to construct. Government Accountability Office (GAO) and TIGTA audits have concluded that RTC errors are largely due to the statutory design and complexity of the RTC programs, and not internal control weaknesses, financial management deficiencies, or reporting failures as PIIA guidelines are intended to address. To learn more about the RTCs and the challenges of compliance, see Part 3, Section A: *Tax Gap and Tax Burden*.



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Primary Causes of RTC Errors

- 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

UNIQUE CHALLENGES IN VALIDATING RTCS

Much of the information necessary to validate the accuracy of an RTC claim before issuing a tax refund is not comprehensively available in any U.S. government database. The IRS runs various automated checks of certain data on a tax return before paying a refund but is otherwise limited in its ability to question and correct the taxpayer's claim. The IRS must deploy a variety of costly enforcement tools, including audits, to verify the information on the tax return prior to paying tax refunds or collecting any tax due. As a result, the IRS allocates a disproportionate amount of its enforcement resources to audit returns that claim one or more RTCs. This creates several problems. Because lower-income taxpayers make up the majority of those claiming RTCs, they are subjected to a disproportionate number of audits (RTC claimants are audited about three times the rate of other taxpayers). Since lower-income taxpayers make up a significant portion of taxpayers claiming RTCs, auditing these taxpayers can lead to a negative perception of the IRS's treatment of taxpayers. This runs counter to the IRS's mission of fairness to all. Finally, the U.S. government may incur interest costs by delaying the issuance of refunds to taxpayers. As a result of not processing these returns until an audit is completed, we conservatively estimate the U.S. government will incur an additional interest expense annually ranging from $20.8 million to $41.6 million for delayed refunds of accurate returns.

More than 50 percent of taxpayers claiming refundable tax credits use paid preparers. Preparer education and outreach are major components of the IRS's overall strategy to address the tax gap and to reduce errors. The IRS's education and outreach efforts seek to inform preparers about the availability of the credits and about the eligibility requirements that taypayers must meet to claim the credits. The IRS uses many communication vehicles to send important and useful messages to the return preparer community. Table 1 highlights other tax administration strategies.

TABLE 1:

Other Tax Administration Strategies	
Nationwide Tax Forum	The annual tax forum offers three full days of seminars with the latest news from the IRS leadership and experts. More than 16,000 preparers attended the seminars at the 2020 Nationwide Tax Forums that covered RTC topics. More than 8,230 preparers attended the webinar "*Keys to Mastering Due Diligence and What to Expect During a Due Diligence Audit*", and nearly 7,830 preparers attended webinar, "*Be Tax Ready: Understanding Rules for Due Diligence and the Child Tax Credit and the Earned Income Tax Credit Under the American Rescue Plan Act of 2021*."
Interactive Due Diligence Training Module	The training module on IRS.gov covers the technical aspects of the due diligence requirements. In FY 2021, nearly 12,860 preparers received a certificate of completion.
Tax Preparer Toolkit	The Tax Preparer Toolkit on IRS.gov has resources to assist tax return preparers with the EITC, ACTC, AOTC, as well as other credits and tax benefits.
Software Developers Working Group	The IRS meets with members of tax preparation companies and software industry representatives to identify software enhancements that can help reduce errors made by taxpayers and paid preparers and to assist paid preparers in meeting their due diligence requirements.
Due Diligence Webinars	The IRS hosts discussions and provides instructions and demonstrations over the internet. In FY 2021, nearly 5,580 preparers attended a virtual webinar on due diligence requirements as part of the IRS's annual campaign, "*Get Ready for Taxes*".
Tax Preparer Alerts	Alerts on IRS.gov provide return preparers with updated news and information on key refundable credit and return filing topics.
Refundable Credits Summit	In FY 2021, the IRS held its annual summit to provide a forum for interested internal and external stakeholders to discuss opportunities to reduce improper payments, ease taxpayer burden, and mitigate compliance risks. An additional summit was held to discuss administering the advance child tax credit provisions in the ARP.

The *Protecting Americans from Tax Hikes Act of 2015* (PATH Act; P.L. 114-113) directly affects the IRS's tax administration of RTCs. The PATH Act made several legislative changes that altered the tax filing and refund experience of many taxpayers. Most significantly, starting with the 2017 filing season, the PATH Act added certain provisions that gives the IRS additional time to prevent errors associated with EITC and ACTC:

- allows the IRS to hold 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; and

- rejects amended and late filed original returns taxpayers file retroactively claiming EITC for any prior year in which he or she did not have a valid Social Security number as directed in Section 204.

Further improving the integrity of RTC programs will take actions beyond our control. We have proposed various legislative changes over the years aimed at providing more effective tools for managing RTCs. For FY 2022, the Administration included the following proposals in its Budget submission:

- implement multi-year program integrity allocation adjustments and provide mandatory funding to the IRS to expand enforcement and compliance activities, enhance information technology capacity, and strengthen taxpayer service;
- increase oversight of paid tax return preparers to help promote high quality services and improve voluntary compliance; and
- increase penalties on "ghost preparers"—*i.e.*, preparers who receive service payments but fail to identify themselves on the taxpayers' returns—and increase the limitations period during which the penalty may be assessed.

These statutory changes may help reduce RTC errors to some degree. However, a meaningful reduction in the estimated error rate is unlikely 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.

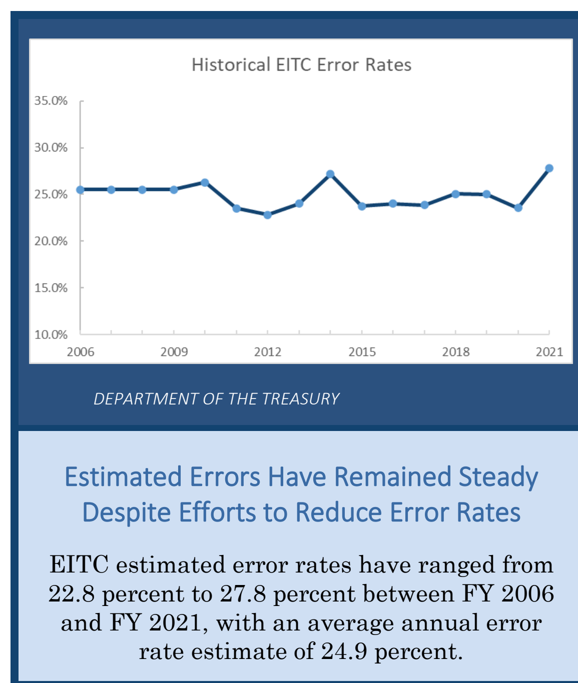
Reducing RTC Errors Diverts Valuable Resources from Other Tax Gap Elements

Compliance with the improper payment legislation and OMB reporting guidance requires reducing each program's improper payment rate to 10 percent or less. 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 RTC errors. In a FY 2020 study to reduce error 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 were to reallocate enforcement resources to be compliant with PIIA, a substantial loss in enforcement revenue, estimated at $6.4 billion, would result because the IRS would have to divert resources from programs with higher returns 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 to enforce the tax law with integrity and fairness. To meet OMB's metric of reducing the improper payment rate to 10 percent or less for FY 2021, RTC programs would need to reduce erroneous payments by $14.7 billion, based on FY 2021 estimates. Table 2 illustrates this data.

TABLE 2:

RTC Claims and Improper Payments, FY 2021 (dollars in billions)				Reduction of Improper Payments to 10% of claims value (dollars in billions)	
Program	Claims	Improper Payments	Improper Payment Rate	10% of claims value	Reduction needed for ≤ 10%
EITC	$68.3	$19.0	27.8%	$6.8	$12.2
ACTC	39.4	5.2	13.3%	3.9	1.3
AOTC	7.1	1.9	26.3%	0.7	1.2
Total	**$114.8**	**$26.1**	**22.7 *(1)**	**$11.4**	**$14.7**

(1) Total Erroneous claims ÷ Total RTC Program ($26.1 ÷ $114.8).



Estimated Errors Have Remained Steady Despite Efforts to Reduce Error Rates

EITC estimated error rates have ranged from 22.8 percent to 27.8 percent between FY 2006 and FY 2021, with an average annual error rate estimate of 24.9 percent.

The current improper payment statutory framework does not consider recoveries of improper payments as reductions to the error rate. Therefore, remediation efforts would need to be preventative in nature, which creates challenges given the tax framework and the need to process returns timely or incur interest payment obligations. Accordingly, all enforcement activity would need to be in the pre-refund environment to be counted as a reduction of errors. The control activities specific to reducing the improper payment rate to less than 10 percent are the same as those being deployed to reduce the RTC portion of the tax gap: additional audits, system buildouts or enhancements (upgrades), increased outreach, third party databases to verify taxpayer data, and others. The IRS would have to increase these control activities significantly in an entirely pre-refund environment to reduce the erroneous RTC payments, which would come with highly diminishing returns.

The error rate for EITC has averaged 24.9 percent from FY 2006 to FY 2021 despite the on-going base enforcement and EITC compliance strategies. This rate excludes funds recovered through post-refund enforcement activity, because improper payment reporting does not take into account recoveries after the refunds are issued. As discussed, reducing RTC errors to meet the improper payment rate of 10 percent would divert valuable resources from other tax gap elements. In FY 2021 introduced the concept of "tolerable improper payment rate." A tolerable rate is defined by OMB as, "the improper payment and unknown payment estimate achieved with a balance of payment integrity risk and processes to mitigate that risk." During FY 2022, we will determine whether the refundable tax credit errors have reached a tolerable rate.

The estimated improper payment rate for the EITC was 27.8 percent in FY 2021, which is not statistically different from the estimated rate of 23.5 percent for FY 2020. The estimated improper payment rate for the ACTC was 13.3 percent in FY 2021, which is not statistically different from the estimated rate of 11.5 percent for FY 2020. The FY 2021 estimated rates fall within sample precision margins of +/- 2.46 percent and +/- 2.31 percent. The wider sample precision margins are the result of a reduction in the number of returns sampled that was necessitated by the significant reduction in the IRS's budget over the last decade along with the resulting decrease in the IRS's examination staff.

The initial TY 2017 NRP Individual Income Tax Reporting Compliance sample, upon which the FY 2021 estimates are based, was designed to include the original sample of 11,466 returns, a 20 percent decrease compared to prior study years. Over the last decade, the IRS's budget has decreased by more than 20 percent, and IRS Enforcement Full-Time Equivalents dropped by 32 percent. Due to the continued decline in enforcement staff, the IRS further reduced the sample to 4,000 returns, which were drawn from the original sample; these returns are representative of the entire sampling frame, including returns that did not claim RTCs subject to improper payments reporting. The differences in the point estimates are not statistically significant because the FY 2020 estimates fall within the wider FY 2021 statistical margin of error. Accordingly, one cannot conclude that the true population estimated improper payment rates for ACTC and EITC has changed based upon these samples. The margin of error for the refundable AOTC remained about the same as prior years due to improvements in the sample design for TY 2017.

SECTION E: 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 adjust 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	2021	$91,816	DO (Office of Foreign Assets Control (OFAC))	86 Federal Register 14534 (March 17, 2021) https://www.govinfo.gov/content/pkg/FR-2021-03-17/pdf/2021-05506.pdf
50 USC 1705 International Emergency Economic Powers Act, Section 206	Sanctions violation	1977	2021	The greater of $311,562 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	2021	The greater of $82,244 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	2021	$1,548,075	DO (OFAC)	Same as above
19 USC 3901-3913 Clean Diamond Trade Act	Sanctions violation	2003	2021	$14,074	DO (OFAC)	Same as above
50 USC 1701 - 1706 International Emergency Economic Powers Act	Failure to furnish information pursuant to 31 CFR 501.602 irrespective of whether any other violation is alleged	2008	2021	$24,046	DO (OFAC)	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
50 USC 1701 - 1706 International Emergency Economic Powers Act	Failure to furnish information pursuant to 31 CFR 501.602 where OFAC has reason to believe that the apparent violation(s) involves a transaction(s) valued at greater than $500,000, irrespective of whether any other violation is alleged	2008	2021	$60,115	DO (OFAC)	Same as above
50 USC 1701 - 1706 International Emergency Economic Powers Act	Late filing of a required report, whether set forth in regulations or in a specific license, if filed within the first 30 days after the report is due	2008	2021	$3,005	DO (OFAC)	Same as above
50 USC 1701 - 1706 International Emergency Economic Powers Act	Late filing of a required report, whether set forth in regulations or in a specific license, if filed more than 30 days after the report is due	2008	2021	$6,012	DO (OFAC)	Same as above
50 USC 1701 - 1706 International Emergency Economic Powers Act	Late filing of a required report, whether set forth in regulations or in a specific license, if the report relates to blocked assets, an additional CMP for every 30 days that the report is overdue, up to five years	2008	2021	$1,203	DO (OFAC)	Same as above
50 USC 1701 - 1706 International Emergency Economic Powers Act	Failure to maintain records in conformance with the requirements of OFAC's regulations or of a specific license	2008	2021	$60,226	DO (OFAC)	Same as above
15 USC 6701 note Terrorism Risk Insurance Act, as amended	Civil Penalty	2002	2021	$1,436,220	DO (Federal Insurance Office)	86 Federal Register 12537 (March 4, 2021) https://www.govinfo.gov/content/pkg/FR-2021-03-04/pdf/2021-04377.pdf
12 USC 1829b(j) Bank Secrecy Act, as amended	Recordkeeping Violations for Funds Transfers	1988	2021	$21,663	FinCEN	86 Federal Register 7348 (January 28, 2021) https://www.govinfo.gov/content/pkg/FR-2021-01-28/pdf/2021-01919.pdf
12 USC 1955 Bank Secrecy Act, as amended	Willful/Grossly Negligent Recordkeeping Violations	1988	2021	$21,663	FinCEN	Same as above
31 USC 5318(k)(3)(C) Bank Secrecy Act, as amended	Failure to Terminate Correspondent Relationship with Foreign Bank	2001	2021	$14,653	FinCEN	Same as above
31 USC 5321(a)(1) Bank Secrecy Act, as amended	General Civil Penalty Provision for Willful	1986	2021	$59,017 to $236,071	FinCEN	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
	Violations of Bank Secrecy Act Requirements					
31 USC 5321(a)(5)(B)(i) Bank Secrecy Act, as amended	Foreign Financial Agency Transaction - Non-Willful Violation of Transaction	2004	2021	$13,640	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	2021	$136,399	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	2021	$1,180	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	2021	$91,816	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	2021	$1,465,309	FinCEN	Same as above
31 USC 5330(e) Bank Secrecy Act, as amended	Civil Penalty for Failure to Register as Money Transmitting Business	1994	2021	$8,708	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	2021	$10,366	OCC	85 Federal Register 86795 (December 31, 2020) https://www.govinfo.gov/content/pkg/FR-2020-12-31/pdf/2020-28942.pdf
12 USC 93(b) Section 5239(b) of the Revised Statutes	Tier 2 Violation of Various Provisions of the National Bank Act	1978	2021	$51,827	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	2021	$2,073,133	OCC	Same as above
12 USC 164 Section 5213 of the Revised Statutes	Tier 1 Violation of Reporting Requirements	1869(2)	2021	$4,146	OCC	Same as above
12 USC 164 Section 5213 of the Revised Statutes	Tier 2 Violation of Reporting Requirements	1869(2)	2021	$41,463	OCC	Same as above
12 USC 164 Section 5213 of the Revised Statutes	Tier 3 Violation of Reporting Requirements	1869(2)	2021	$2,073,133	OCC	Same as above
12 USC 481 Section 5240 of the Revised Statutes	Refusal of Affiliate to Cooperate in Examination (National Banks)	1864(2)	2021	$10,366	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	2021	$10,366	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 504 Section 29 of the Revised Statutes	Tier 2 Violation of Various Provisions of the Federal Reserve Act	1978	2021	$51,827	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	2021	$2,073,133	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	2021	$10,366	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	2021	$51,827	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	2021	$2,073,133	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	2021	$10,366	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	2021	$51,827	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	2021	$2,073,133	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	2021	$341,000	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	2021	$3,011	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	2021	$2,737	OCC	Same as above
12 USC 1884 Section 5 of the Bank Protection Act of 1968	Violation of the Bank Protection Act	1968	2021	$301	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	2021	$10,366	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 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	2021	$51,827	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	2021	$2,073,133	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	2021	$47,378	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	2021	$3,791	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	2021	$37,901	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	2021	$1,895,095	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	2021	$2,579	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	2021	$9,753	OCC	Same as above
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	2021	$97,523	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	1990	2021	$97,523	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
	Company Act, or the Investment Advisers Act					
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	2021	$487,616	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	2021	$195,047	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	2021	$975,230	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	2021	$11,906	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	2021	$23,811	OCC	Same as above
42 USC 4012a(f)(5) Section 102(f)(5) of the Flood Disaster Protection Act of 1973	Flood Insurance	1994	2021	$2,252	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	2021	$4,146	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	2021	$41,463	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	2021	$2,073,133	OCC	Same as above
12 USC 1467(d) Section 9(d) of the Home Owners' Loan Act	Refusal of Affiliate to Cooperate in Examination	1989	2021	$10,366	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	2021	$4,146	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 1467a(r) Section 10(r) of the Home Owners' Loan Act	Tier 2 Late/Inaccurate Reports (Savings and Loans)	1989	2021	$41,463	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	2021	$2,073,133	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	2021	$21,663	TTB	86 Federal Register 22867 (April 30, 2021) https://www.govinfo.gov/content/pkg/FR-2021-04-30/pdf/2021-08863.pdf
31 USC 333 Prohibition of Misuse of Department of the Treasury Names, Symbols, etc.	Misuse of Treasury name or symbol	1994	2021	$8,212	Department Wide	86 Federal Register 12537 (March 4, 2021) https://www.govinfo.gov/content/pkg/FR-2021-03-04/pdf/2021-04377.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	2021	$41,056	Department Wide	Same as above
31 USC 3802 Program Fraud Civil Remedies Act	Program Fraud Civil Remedies Act	1986	2021	$8,212	Department Wide	Same as above

(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.

SECTION F: 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	19	49	-
Number of Grants/Cooperative Agreements with Undisbursed Balances	6	7	-
Total Amount of Undisbursed Balances	**$ 143,310.00**	**$ 522,001.09**	**$ -**

We made good progress over the past year in closing out awards. The number of grants and cooperative agreements with period of performance over two years has declined from 369 in FY 2020 to 81 in FY 2021. Grant recipients have not correctly completed and submitted all progress reporting forms and financial forms in the Payment Management System which continues to be a challenge preventing closeout of awards. Other factors include competing priorities, employee turnover, and challenges associated with integrating a new grants management system. The program offices are reviewing closeout procedures and are dedicated to closing out the remaining accounts in FY 2022.

APPENDIX: GLOSSARY OF ACRONYMS

Abbreviation	Description
2015 Act	Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015
AAPI	Asian American and Pacific Islander
ACTC	Additional Child Tax Credit
AFR	Agency Financial Report
AGI	Adjusted Gross Income
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ANC	Alaskan Native Corporations
AOTC	American Opportunity Tax Credit
APG	Agency Priority Goal
APR	Annual Performance Report
ARC	Administrative Resource Center
ARP	American Rescue Plan Act of 2021
ARRA	American Recovery and Reinvestment Tax Act of 2009
ASM	Assistant Secretary for Management
AVS	Account Verification Service
BEP	Bureau of Engraving and Printing
BMF	Business Masterfile
BSA	Bank Secrecy Act
CAA	Consolidated Appropriations Act, 2021
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CAV	Corrective Action Verification
CCF	Corporate Credit Facilities, LLC
CCPF	Coronavirus Capital Projects Fund
CDFI	Community Development Financial Institutions
CDFI RRP	CDFI Rapid Response Program
CDM	Continuous Diagnostics and Mitigation
CERTS	Coronavirus Economic Relief for Transportation Services
CFIUS	Committee on Foreign Investment in the United States
CFO	Chief Financial Officer
CIFS	Critical Individual Filing Season
CIO	Chief Information Officer
Civil Service Fund	Civil Service Retirement and Disability Trust Fund
CMP	Civil Monetary Penalties
Compliance Framework	FFMIA Compliance Determination Framework
COVID-19	Coronavirus Disease 2019
CPFF	Commercial Paper Funding Facility II LLC
CPI	Consumer Price Index
CRF	Coronavirus Relief Fund
CRO	Chief Risk Officer
CSLF	Coronavirus State and Local Fiscal Recovery Funds

Abbreviation	Description
CSRS	Civil Service Retirement System
CTC	Child Tax Credit
CTCF	Local Assistance and Tribal Consistency Fund
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
DASHR/CHCO	Office of the Deputy Assistant Secretary for Human Resources and Chief Human Capital Officer
DATA Act	Digital Accountability and Transparency Act
DNP	Do Not Pay
DO	Departmental Offices
DOJ	Department of Justice
DOL	Department of Labor
ECIP	Emergency Capital Investment Program
ECM	Enterprise Case Management
ECRM	Enterprise Cyber Risk Management Program
EFTPS	Electronic Federal Tax Payment System
EIP	Economic Impact Payment
EITC	Earned Income Tax Credit
EO	Executive Order
ERA	Emergency Rental Assistance
ERM	Enterprise Risk Management
ESA	Exchange Stabilization Agreement
ESC	Executive Steering Committee
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
FATCA	Foreign Account Tax Compliance Act
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
FFI	Foreign Financial Intermediaries
FFRCA	Families First Coronavirus Response Act of 2020

Abbreviation	Description
FFMIA	Federal Financial Management Improvement Act of 1996
FHFA	Federal Housing Finance Agency
FICA	Federal Insurance Contributions Act
Financial Report	Financial Report of the U.S. Government
FinCEN	Financial Crimes Enforcement Network
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
FOD	Fact of Death
FOMC	Federal Open Market Committee
FR System	Federal Reserve System
FRB	Federal Reserve Bank
FRBB	Federal Reserve Bank of Boston
FRBNY	Federal Reserve Bank of New York
Freddie Mac	Federal Home Loan Mortgage Corporation
FRN	Floating Rate Note
FTI	Federal Tax Information
FTO	Fine Troy Ounce
FY	Fiscal Year
G Fund	Government Securities Investment Fund
G-7	Group of Seven
G20	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
GPRA	Government Performance and Results Act of 1993
GSA	General Services Administration
GSE	Government Sponsored Enterprise
HAF	Homeowner Assistance Fund
HERA	Housing and Economic Recovery Act
HFA	Housing Finance Agency
HHS	Department of Health and Human Services
HINF	High-Income Nonfiler
HIPF	Health Insurance Provider Fee
HVA	High Value Assets
IAP	International Assistance Programs
IMF	International Monetary Fund
Inflation Adjustment Act	Federal Civil Penalties Inflation Adjustment Act of 1990
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Act Improvement Act of 2012

Abbreviation	Description
IPIA	Improper Payments Information Act of 2002
IRC	Internal Revenue Code
IRGC-QF	Iran Islamic Revolutionary Guard Quds Force
IRS	Internal Revenue Service
ISO	International Organization for Standardization
IT	Information Technology
Judicial Retirement Fund	District of Columbia Judicial Retirement and Survivors' Annuity Fund
LLC	Limited Liability Company
LOS	Level of Service
MALSPAM	Malicious Spam
MDB	Multilateral Development Bank
MDI	Minority Deposit Institution
MLF	Municipal Liquidity Facility LLC
MMLF	Money Market Mutual Fund Liquidity Facility
MSF	Main Street Facilities LLC
NAB	New Arrangements to Borrow
NAFA	North American Framework Agreement
NAPHSIS	National Association for Public Health Statistics & Information Systems
NIBP	New Issue Bond Program
NIST	National Institute of Standards and Technology
NRP	National Research Program
OAS	International Assistance Programs
OBT	Office of Budget and Travel
OCC	Office of the Comptroller of the Currency
OCRD	Office of Civil Rights and Diversity
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
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
OPE	Office of the Procurement Executive
OPEB	Other Post-Employment Benefits
OPM	Office of Personnel Management
OPM Funds	Civil Service Fund and Postal Benefits Fund
ORB	Other Retirement Benefits
ORM	Office of Risk Management
ORP	Office of Recovery Programs
OSPPI	Office of Strategic Planning and Performance Improvement
OTA	Office of Technical Assistance

Abbreviation	Description
OTC	Over-the-Counter
P.L.	Public Law
P2P	Peer-to-Peer
PATH Act	Protecting Americans from Tax Hikes Act
PICoE	Payment Integrity Center of Excellence
PIIA	Payment Integrity Information Act of 2019
PIK	Payment-in-Kind
PIO	Performance Improvement Officer
PIVOT	Payment Information View of Transactions
PMCCF	Primary Market Corporate Credit Facility
PMIAA	Program Management Improvement Accountability Act
PMO	Project Management Office
Postal Benefits Fund	Postal Service Retiree Health Benefits Fund
PP&E	Property, Plant, and Equipment
PPS	Post Payment Services
PRAC	Pandemic Response Accountability Committee
PSP	Payroll Support Program
PSPA	Payroll Support Program Agreement
PTC	Premium Tax Credit
PTIN	Preparer Tax Identification Number
RPA	Robotic Process Automation
RRC	Recovery Rebate Credit
RRTA	Railroad Retirement Tax
RTC	Refundable Tax Credits
RVA	Risk and Vulnerability Assessment
SAFe	Scaled Agile Environment
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
SEDI	Socially and Economically-Disadvantaged Individuals
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
SLC	Solution Lifestyle Policy
SLFRF	Coronavirus State and Local Fiscal Recovery Funds
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
SPV	Special Purpose Vehicle
SSA	Social Security Administration
SSBCI	State Small Business Credit Initiative
SSN	Social Security Number
TAAPS	Treasury Automated Auction Processing System
TALF	Term Asset-Backed Securities II LLC
TAPA	Treasury Asian Pacific American Employee Resource Group
TARP	Troubled Asset Relief Program
TBM	Technology Business Management
TCE	Tax Counseling for the Elderly
TEOAF	Treasury Executive Office of Asset Forfeiture
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
TSSSOC	Treasury Shared Services Security Operations Center
TTB	Alcohol and Tobacco Tax and Trade Bureau
TY	Tax Year
U.S.	United States
U.S. Mint	United States Mint
USACE	United States Army Corps of Engineers
USC	United States Code
USPS	United States Postal Service
USSGL	United States Standard General Ledger
USVSST	United States Victims of State Sponsored Terrorism Fund
VITA	Volunteer Income Tax Assistance
WSS	Wholesale Securities Services

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