Audit Report

OIG-23-007

FINANCIAL MANAGEMENT

Audit of the Department of the Treasury's Consolidated Financial Statements for Fiscal Years 2022 and 2021

November 15, 2022

Office of Inspector General
Department of the Treasury

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Contents

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DEPARTMENT OF THE TREASURY
WASHINGTON, D. C. 20220

November 15, 2022

OFFICE OF
INSPECTOR GENERAL

INFORMATION MEMORANDUM FOR SECRETARY YELLEN

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

SUBJECT: Audit of the Department of the Treasury's Consolidated Financial Statements for Fiscal Years 2022 and 2021

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 a certified independent public accounting firm of KPMG LLP (KPMG) to audit the consolidated financial statements of Treasury as of September 30, 2022 and 2021, 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. 22-01, *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 systems at the Bureau of the Fiscal Service, 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, 2022, 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: Anna Canfield Roth
Acting Assistant Secretary for Management

Carole Y. Banks
Deputy 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

Deputy Inspector General
Department of the Treasury:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Department of the Treasury (Department), which comprise the consolidated balance sheets as of September 30, 2022 and 2021, and the related consolidated statements of net costs, consolidated statements of changes in net position, statements of custodial activity, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, based on our audits and the reports of the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Department as of September 30, 2022 and 2021, 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.

We did not audit the financial statements of the Internal Revenue Service (IRS), a component entity of the Department, which statements reflect total assets constituting 0.95 percent and 0.98 percent, respectively, of the Department's consolidated total assets at September 30, 2022 and 2021; net costs of operations constituting 7.55 percent and 9.78 percent, respectively, of the Department's consolidated net costs of operations for the years then ended; budgetary resources constituting 7.11 percent and 1.07 percent, respectively, of the Department's combined budgetary resources for the years then ended; and custodial revenue constituting 96.93 percent and 95.97 percent, respectively, of the Department's total custodial revenue for the years then ended. 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 constituting 0.04 percent and 0.04 percent, respectively, of the Department's consolidated total assets at September 30, 2022 and 2021; net costs of operations constituting 0.12 percent and 0.28 percent, respectively, of the Department's consolidated net costs of operations for the years then ended; and budgetary resources constituting 0.01 percent and 0.01 percent, respectively, of the Department's combined budgetary resources for the years then ended. 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 22-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 22-01 are further described in the Auditors' Responsibilities for the Audit of the

Consolidated Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2022 and 2021, 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 Matter - 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 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.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with U.S. generally accepted accounting principles, and for 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' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards,* and OMB Bulletin No. 22-01 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards,* and OMB Bulletin No. 22-01, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

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 is the responsibility of management and, 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 GAAS, 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, and the other auditors' inquiries, the basic consolidated financial statements, and other knowledge we, and the other auditors, 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

Management is responsible for the other information included in the Agency Financial Report. The other information comprises the *Message from the Secretary of the Treasury*, the *Message from the Acting Assistant Secretary for Management and Deputy Chief Financial Officer*, and the *Other Information* but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Report on Internal Control Over Financial Reporting

This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2022, 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. 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 were not identified. Given these limitations, during our audit we and the other auditors did not identify any deficiencies in internal control that we consider to be material weaknesses. We and the other auditors identified certain deficiencies in internal control, described below, that we consider to be significant deficiencies.

A. Significant Deficiency in Internal Control over Cash Management 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.

While Fiscal Service remediated several control deficiencies identified in prior audits, Fiscal Service had unresolved control deficiencies primarily related to its general information technology controls over the government-wide cash management systems as follows:

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) security events are logged, monitored, investigated and resolved; (4) baseline policies and procedures for security configuration controls were adequately documented and fully implemented for all platforms; (5) a complete and accurate inventory of information system components is maintained; and (6) 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.

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 Deputy Chief Financial Officer (DCFO) ensure that Fiscal Service implements requisite corrective actions to resolve control deficiencies over its cash management 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

During fiscal year 2022, the systems IRS uses to account for federal taxes receivable and other unpaid assessment balances continued to have limitations, as well as other control deficiencies that led to errors in taxpayer accounts. Because of these deficiencies, IRS's systems were unable to provide the 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 2022, IRS recorded adjustments totaling about $18.5 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 balances 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 continued to have control deficiencies, primarily unresolved control deficiencies identified in prior audits, related to general controls. IRS mitigated the potential effect of the identified control deficiencies primarily through compensating controls that management has designed to detect potential misstatements on the financial statements. Nevertheless, these deficiencies increase the risk of unauthorized access to, modification of, or disclosure of sensitive financial and taxpayer data and disruption of critical operations and are therefore important enough to merit the attention of those charged with governance of IRS.

IRS made progress addressing certain information security control deficiencies. For example, IRS addressed deficiencies in (1) the identification and authentication of user and service accounts, (2) certain configuration settings, and (3) security management. However, deficiencies continue to exist within encryption and improper configuration of security settings. While IRS has expressed its intent to address unresolved deficiencies in fiscal year 2023, continued and consistent management commitment and attention are essential to addressing existing 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 DCFO ensure that IRS implements corrective actions to resolve the control deficiencies at IRS.

Report on Compliance and Other Matters

This report includes our consideration of the results of the other auditors' testing of compliance and other matters that are reported on separately by those other auditors. However, this report, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors.

As part of obtaining reasonable assurance about whether the Department's consolidated financial statements as of and for the year ended September 30, 2022 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 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 and those of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 22-01.

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

C. Noncompliance with Federal Financial Management Improvement Act of 1996

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

Recommendation

We, and the other auditors, separately provided IRS and Fiscal Service management with recommendations to address the above noncompliance with the federal financial management system requirements. We recommend that the Acting ASM and DCFO ensure that IRS and Fiscal Service develop and implement remediation plans outlining actions to be taken to resolve noncompliance with the federal financial management system requirements and the resources and responsible organizational units for such planned actions.

Department's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Department's response to the findings identified in our audit and described previously. The Department's response to the findings is included in a separate letter immediately following this report. The Department's response was not subjected to the other auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of the Reporting Required by *Government Auditing Standards*

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections 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, 2022

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

November 15, 2022

KPMG LLP
1801 K Street, NW
Washington, DC 20006

To Whom This May Concern:

On behalf of Secretary Yellen, we are responding to your audit report on the Department of the Treasury's fiscal year 2022 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 23rd 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 2022 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 continue our focus on necessary corrective actions to address each of the issues.

Overall, we have made strong progress in enhancing our internal control environment. This year, we were successful in downgrading a major component of one of our significant deficiencies related to the Bureau of the Fiscal Service's debt management systems. We are very proud of our progress and remain committed to ensuring high standards of integrity and transparency in reporting our financial performance.

Anna Canfield Roth
Acting Assistant Secretary for Management

Carole Y. Banks
Deputy Chief Financial Officer

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SECTION II –

Department of the Treasury
Agency Financial Report
Fiscal Year 2022

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DEPARTMENT OF THE TREASURY

AGENCY FINANCIAL REPORT

FISCAL YEAR 2022

WEBSITE INFORMATION

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

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DEPARTMENT OF THE TREASURY

AGENCY FINANCIAL REPORT

FISCAL YEAR 2022

About This Report

Our *Agency Financial Report* (AFR) for Fiscal Year (FY) 2022 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, 2022, and *(ii)* an *Annual Performance Report* (APR) submitted with Treasury's congressional budget justification, to be issued by February 1, 2023. 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, 2021, and ending on September 30, 2022, 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.

TABLE OF CONTENTS

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 provides an opportunity to reflect upon the Department's progress in achieving our mission as we look forward to the work ahead in Fiscal Year 2023 and beyond.

In last year's report, I detailed the swift and effective policy actions this Administration took in response to COVID-19 to rescue our economy from the pandemic, including the *American Rescue Plan*. This year I'm pleased to discuss the forward-looking economic agenda that this Administration has signed into law.

The pandemic highlighted longstanding structural issues that were weighing our economy down: sluggish productivity growth; soaring inequality, with profound disparities by race and geography; vulnerabilities to supply chain shocks; and the growing impacts of climate change.

Over the past year, the Biden Administration has advanced an ambitious economic plan to tackle these structural issues.

The *Bipartisan Infrastructure Law* is boosting our productive capacity by providing a historic surge in funding for America's transportation system that will have reverberating economic benefits throughout our economy. More efficient movement of goods means fewer costly supply-chain disruptions. Better transportation can connect workers to more training opportunities and higher-productivity jobs.

The *CHIPS and Science Act* is strengthening our resilience to global shocks by investing in semiconductor research and development, chip fabrication, and workforce training. We are already seeing an impact—in October 2022, two large chip manufacturers announced up to $120 billion in investment in chip production and other advanced technologies in New York.

The *Inflation Reduction Act* is tackling the climate crisis head-on while also creating greater fairness in the economy. The law incentivizes businesses to invest in low-income communities and historic energy communities, like those dependent on coal, and is expected to create more than one million good-paying, high-quality jobs with strong labor protections.

At the same time, it's providing much-needed funding for the IRS to deliver tangible improvements to the taxpayer experience and to help tackle the tax gap—the amount of money that is owed but not paid to the IRS. This gap is estimated at $7 trillion over the next decade and is disproportionately concentrated among high earners. Current resource constraints have meant these high-earning evaders are rarely audited—increasing the burden of government funding and economic investment on working and middle-class families who are doing everything right. Combined with the corporate tax reforms in the law, this IRS funding also represents some of the most significant steps we've taken in recent years to build a fairer and more effective tax system.

Taken collectively, this trifecta of legislation that the President has signed into law over the past year—the *Bipartisan Infrastructure Law*, the *CHIPS and Science Act*, and the *Inflation Reduction Act*—constitute among the most important economic investments we've ever made in putting working families on surer footing and building a fairer and more inclusive economy.

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 2022. Based on our internal evaluation, our financial and performance data have been validated as complete and reliable.

We know there are serious challenges ahead. Inflation is too high and it remains our Administration's top priority to rein it in. But our progress thus far shows the resilience of the American people and our economy. We have experienced among the strongest recoveries of any major economy. And we've made a generational investment to expand our economic capacity and build an inclusive economy. I believe that we can navigate through this current moment as well.

Janet L. Yellen

Janet L. Yellen
Secretary of the Treasury
November 15, 2022

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PART 1:

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)


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

TREASURY AT A GLANCE

FOUNDATION

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

We also perform 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 our 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 develop strategies to identify, detect, and prevent threats to our economic stability.

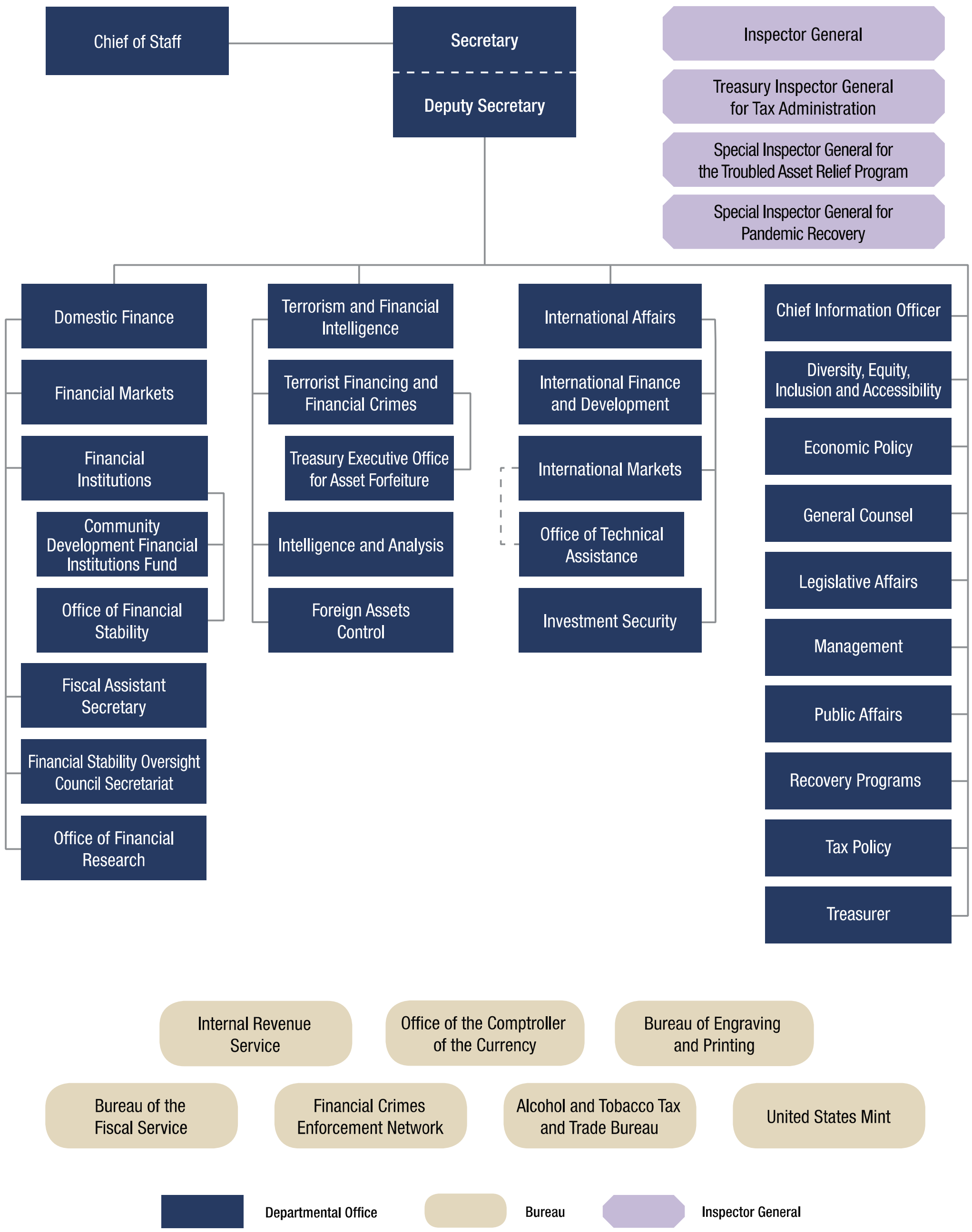
Furthermore, we work to increase opportunities for small businesses, which are the backbone of our economy. Through our efforts to enhance economic growth and promote access to credit, we support job creation to improve the well-being of U.S. citizens and to safeguard and grow our national economy. We 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, 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.

While Treasury adapts to meet the changing needs of our nation, our core mission remains unchanged 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, to protect the integrity of the financial system, and to effectively manage the U.S. government's finances and resources. We remain the principal steward of the U.S. economy by collecting revenue, meeting financial obligations, and financing government operations.

ORGANIZATION

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



DEPARTMENTAL OFFICES

Domestic Finance works to support equitable and sustainable economic growth and financial stability through policies that increase the resilience of financial institutions and markets, and which increase access to credit for small businesses and low-to-moderate income communities. It focuses on Treasury Department activities in the areas of financial institutions, federal and municipal debt finance, financial regulation, and capital markets.

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

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

Tax Policy develops and implements tax policies and programs, reviews regulations and rulings to administer the Internal Revenue Code, and provides revenue estimates for 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 coordinating Tribal relations across the Department, directly overseeing the U.S. Mint, the Bureau of Engraving and Printing, 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, and data.

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

The Office of Diversity, Equity, Inclusion, and Accessibility serves as a center of excellence to modernize the Department's overall diversity, equity, inclusion, and accessibility (DEIA) strategy, and drives cohesive implementation and accountability across the Department.

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 and strikes, 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 improving the execution of its strategies and resource allocations. In this spirit, we developed a 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. We review agency results quarterly to measure progress on our goals. Also, as required by the *Program Management Improvement Accountability Act* (PMIAA), we integrate portfolio reviews of programs within our performance review cycle activities. Through our Strategic Objective Annual Review (SOAR) process, we conduct an annual exercise to validate our supporting objectives as well as analyze performance results across Treasury components to identify a set of strategic objectives as priority focus areas for the following year. 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 past fiscal year, we continue to implement the evidence-building requirements by leveraging our strategic management framework, including the SOAR, and to discuss the agency's evidence building efforts and learning agenda.

At designated points throughout the fiscal year, we assess 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 Organizational Health & Priorities**	**Strategic Objective Annual Review (SOAR)**	**Cross-cutting Risks/Challenges; Critical Programs/Projects**	**Budget; "Vitals" Check for Critical Program and Projects**
Chair	Deputy Secretary, 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	• Evaluate cross-agency progress toward strategic objectives (including progress of critical programs and projects) • Identify/validate Treasury priorities and/or strategic shifts • Outline potential topics for annual review with OMB	• Issue-based sessions: Dive deep on cross-cutting issues identified in the SOAR, identify near-term improvement strategies • Program-based sessions: check in on critical programs/projects identified in the SOAR that need Treasury Leadership attention	• Align funding to performance impacts and risk mitigation • Strengthen IT acquisition, budgeting, and accountability, budgeting, and accountability • Check in (vitals check) on critical program/project health and update list of critical programs/projects

FY 2022 – 2026 STRATEGIC FRAMEWORK

The strategic framework provides the foundation for the Department's FY 2022 – 2026 strategic goals and objectives and FY 2022 – 2023 Agency Priority Goals (APGs), which align to specific objectives. All bureaus and offices align their programs and performance within this framework. Our updated goals and objectives are reflected below.

Strategic Goals	Strategic Objectives/APGs	Contributing Bureaus/Offices
Goal 1: Promote Equitable Economic Growth and Recovery	1.1: Tax Administration and Policy 1.2: Global Economic Leadership 1.3: Economically Resilient Communities 1.4: Resilient Housing Market	IRS Tax Policy TTB Economic Policy International Affairs Office of Small and Disadvantaged Business Utilization Office of Management ORP Domestic Finance
Goal 2: Enhance National Security	2.1: Cyber Resiliency of Financial Systems and Institutions 2.2: Economic Measures to Advance National Security 2.3: Modernize Sanctions Regime 2.4: Transparency in the Financial System *Aligned APG: Promoting Transparency in the Financial System*	Office of Management All Bureaus/Offices
Goal 3: Protect Financial Stability and Resiliency	3.1: Financial System Vulnerabilities 3.2: Resilient Treasury and Municipal Securities Markets 3.3: Financial Innovation *Aligned APG: Improving the Payment Experience*	Domestic Finance International Affairs Economic Policy OCC TFI FinCEN Fiscal Service U. S. Mint BEP IRS Tax Policy
Goal 4: Combat Climate Change	4.1: Global Climate Commitment and Leadership 4.2: Climate Incentives and Investment 4.3: Climate-Related Financial Risks 4.4: Sustainable Treasury Operations *Aligned APG: Increasing Treasury Sustainability*	Office of Management OCC All Bureaus/Offices
Goal 5: Modernize Treasury Operations	5.1: Recruit and Retain a Diverse and Inclusive Workforce 5.2: Future Work Routines 5.3: Better Use of Data 5.4: Customer Experience Practices	All Office and Bureaus, led by the Office of Management

PERFORMANCE OVERVIEW

We carry great responsibility for fostering prosperity and security for the American people. We play a critical role both in the U.S. economy and globally to meet the needs of the nation. The *Treasury Strategic Plan 2022 – 2026* charts a course to guide our responsibilities to the public. The following performance overview reflects our accomplishments and challenges in the goal areas of strengthening equitable economic growth, enhancing national security, protecting financial stability, combatting climate change, and modernizing our operations in service to the country.

Goal 1: Promote Equitable Economic Growth and Recovery

Treasury plays a central role in addressing systemic issues in the financial system and strengthening economic resiliency for all Americans, while taking the lead in partnering with foreign countries to promote global recovery and sustainable growth. We have four strategic objectives under the goal of promoting equitable economic growth and recovery.

Our first strategic objective—assessed as an area of noteworthy progress and focus area for improvement in our FY 2022 SOAR process—concentrates on the fair and impartial administration of the tax code through a more efficient tax system. Our second strategic objective under this goal relates to global economic leadership, aiming to restore U.S. leadership in multilateral forums and foster cooperation with our international partners to strengthen the global economy, while promoting sustainable and inclusive growth. Our third strategic objective—assessed as an area of noteworthy progress in our FY 2022 SOAR process—focuses on promoting equitable financial recovery and addressing systemic inequities to prepare the country to be more resilient for future challenges. Lastly, our fourth strategic objective under this goal relates to our partnership with the Department of Housing and Urban Development (HUD) and other federal agencies to develop a stable and resilient housing market.

TAX ADMINISTRATION AND POLICY

In FY 2022, the Office of Tax Policy (OTP) published guidance and regulations to clarify the U.S. tax code and improve taxpayer compliance. Notable regulation changes include:

- guidance implementing the *No Surprises Act*, providing important protections for health plan participants from surprise medical bills;
- proposed regulations addressing the "family glitch" to extend eligibility to families for the *Affordable Care Act*'s premium tax credit; and
- finalized regulations and a sub-regulatory guidance providing needed certainty for taxpayers regarding the availability of foreign tax credits for certain Puerto Rico taxes.

From July 2021 to December 2021, the OTP worked with IRS colleagues to disburse more than $94 billion in monthly Child Tax Credit payments to families, with over 61 million children receiving the benefit. In addition to helping implement the *American Rescue Plan Act of 2021* (ARP), the OTP staff collaborated with OMB and Congress to influence passage of the *Inflation Reduction Act* (IRA).

The IRS recognizes the importance of identifying and addressing the most egregious non-compliant taxpayers. During FY 2022, the IRS continued to detect and pursue high-income nonfilers to maintain confidence in the tax system.

Source: Adobe Stock

IRS Electronic Filing

During the 2022 filing season, the IRS received 139 million individual returns, of which 133 million (96 percent) were filed electronically. This is a 22 percent increase in electronically filed returns compared to the 2021 filing season. Of the total individual refunds, 94.6 percent were issued via direct deposit, which is an increase of 16.9 percent compared to the same time last year.

In FY 2022, the IRS further enabled customer callback technology on 15 additional phone applications for a total of 31 deployments in its call centers. The IRS also expanded its Taxpayer Digital Communications functionality, which allows taxpayers to securely exchange information and messages with the IRS. In FY 2022, the IRS made large strides to provide quality and accessible services by enhancing the taxpayer experience through developing and deploying artificial intelligence powered voice and chat bots, as well as new online account features allowing individual taxpayers to view their personalized tax information and transact with the IRS via self-service.

The IRS's Integrated Modernization Business Plan, released in 2019 and revised in 2022, builds on significant achievements and reflects an expanded view of requirements needed to modernize the IRS technology environment. The IRS made considerable progress in executing on deliverables throughout the first three years of the modernization plan, delivering more than 50 capabilities in FY 2022.

The IRS has begun implementing requirements under the IRA, which gives the IRS the resources to ensure that it enforces tax laws fairly and delivers quality level of taxpayer services.

Further, in support of fair and impartial administration of the tax code, the TTB continues to modernize tax administration to improve taxpayer compliance by incorporating data analytics to quickly detect and address missed filings to ensure fair competition. In FY 2022, the TTB implemented a new import claims refund program to ensure U.S. importers have access to the tax benefits provided under the new *Craft Beverage Modernization Act* provisions taking effect on January 1, 2023. This new program will be the first major release associated with the IT modernization effort—called myTTB—which aims to create an integrated online filing experience for TTB taxpayers.

Global Economic Leadership

Over the past two years, the global economy faced two major disruptions related to the Coronavirus Disease of 2019 (COVID-19) pandemic and Russia's ongoing war in Ukraine. The Office of International Affairs (IA) is leading work with our partners to mitigate the impact from Russia's war in Ukraine on energy and food security.

The IA bolstered our role in the global community to tackle urgent challenges—including global shortages in key goods, as well as volatility in food, fuel, and fertilizer prices—working to improve the overall global economy. In FY 2022, we also took efforts to position multilateral development banks to better address a growing number of global challenges, including climate change, pandemics, and international conflict.

As part of an overall global effort to tackle food insecurity, the U.S. committed around $10 billion in FY 2022 to deliver food to those who are facing starvation and to build long-term resilience to food shortages. In May 2022, we worked closely with International Financial Institutions (IFI) to issue and commit to implementing the *IFI Action Plan to Address Food Insecurity*.

In FY 2022, we continued to modernize our trade relationships and supply chains to make them more resilient to global shocks, including impacts from the weaponization of trade as a tool of geopolitical coercion. Strengthening trade relationships with U.S. allies via "friend-shoring" is our approach to advancing trade that is free, fair, and secure.

Separately, in the spirit of global economic leadership, we generated a historic agreement among 137 countries to restabilize the international tax system by reallocating taxing rights and establishing a global minimum tax. We also successfully completed the first U.S. tax treaty negotiations since the *Tax Cuts and Jobs Act* by concluding negotiations with Croatia on a new tax treaty.

ECONOMICALLY RESILIENT COMMUNITIES

We are not only addressing the impact of COVID-19, but also addressing systemic inequities to strengthen the economy and prepare the country to be more resilient for future challenges. The Office of Recovery Programs (ORP) significantly increased capacity over the past year to fulfill its mission to lead our implementation of economic recovery programs, including nearly $420 billion from the ARP. Over multiple fiscal years, ORP has built a strong foundation to serve over 35,000 recipients across the nation, through ten programs that support economically disadvantaged small businesses, households, communities, and individuals.

We deployed more than $18 billion to support mission-driven lending and investments for low- and moderate-income borrowers, small businesses, communities of color, and rural areas. We supported pandemic response through the $350 billion State and Local Fiscal Recovery Fund (SLFRF)—the first program in federal history to provide fiscal relief to states, localities, and tribes regardless of size. As of FY 2022, recipients reported committing $16 billion to address water, sewer, and broadband infrastructure, and $4.8 billion to assist small businesses.

Source: Adobe Stock

Supporting Tribal Government Communities

The SLFRF program also provided funding for over 3,000 projects and services in Tribal government communities. Tribes utilized SLFRF funds to expand the system of healthcare in Indian Country, to create innovative programs to recover the tribal economy, and to find resilient solutions for inadequate infrastructure.

TTB facilitated small business growth and innovation by delivering timely service to U.S. breweries, wineries, and distilleries, and issued more than 90 percent of new permits and alcohol beverage formula and label approvals within targeted service standards.

Fiscal Service's Financial Management Quality Service Management Office (FM QSMO) made significant strides toward establishing its Marketplace for use by federal agencies. Fiscal Service is supporting diversity and equity in the marketplace by being inclusive in vendor outreach, offering consultations to interested vendors, and collaborating with agencies to support equitable selection from diverse providers in the marketplace. The QSMO Marketplace will include standards-based solutions and services from commercial vendors, federal shared service providers, and Fiscal Service centralized services.

RESILIENT HOUSING MARKET

In FY 2022, we deployed a range of tools to support the housing stability of millions of households, including implementing dedicated programs for struggling renters and homeowners, while supporting flexibility in how state and local governments use funds to increase housing supply.

In FY 2022, the $46 billion Emergency Rental Assistance Program (ERA) made more than seven million unique household payments to renters at risk of eviction, keeping eviction rates on average below pre-pandemic levels. We developed innovative approaches to achieve these goals, including developing a reallocation program to increase utilization of funds, removing potential barriers to eligible individuals receiving rental support, and encouraging ERA grantees to use best practices for eviction prevention.

The $10 billion Homeowner Assistance Fund (HAF) — through a plan review process that prioritized best practices—is using lessons from the Great Recession mortgage crisis to target assistance for borrowers in greatest need, including the leveraging of human-centered design and partnering with other agencies to urge servicers to pause foreclosure on HAF applicants.

Through March 31, 2022, recipients committed more than $12 billion from SLFRF to meet housing needs, including more than $4 billion to support affordable housing development and preservation. We also made targeted enhancements to regulatory flexibility in SLFRF and the Low-Income Housing Tax Credit to support housing production and affordability.

GOAL 1: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 19	FY 20	FY 21	FY 22	FY 22 Target	Result vs Target
Customer Service Representative Level of Service (CSR LOS) (IRS)[1]	65.4%	53.1%	18.5%	17.4%	30%	Unmet
Timeliness of Critical Individual Filing Season Tax Products (IRS)[2]	92.6%	78.4%	92%	96.4%	89%	Exceeded
Percentage of Permit Applications Processed within Service Standards (TTB)[3]	57.6%	84.1%	92.2%	91.2%	85.0%	Exceeded
Engagement of Partner Countries in Programs – 5 point scale (International Affairs) [4]	3.6	3.3	3.6	3.5	3.6	Unmet
Enterprise Self-Assistance Participation Rate (ESAPR) (IRS)[5]	85.4%	90.6%	92.3%	93.9%	91.0%	Exceeded
Percent of Procurement Dollars Spent on Small Business (Management)[6]	40.4%	45.0%	39.9%	37.6%	39%	Unmet

Explanation of Results

[1]CSR LOS was 17.4 percent which was 41.9 percent below plan of 30 percent. IRS reduced the campus phone staffing to a minimal amount to focus on reducing the paper inventory. Phone Demand through September of 81.3 million was 32 percent lower than prior year of 119.9 million. The Primary Abandoned Call Rate of 18.2 percent is 21 percent lower compared to last year during the same time frame. The IRS will continue to monitor demand in real time and the resources allocated down to the half hour enabling us to regularly shift staff between telephones and paper processing to address demand. With the receipt of funding from the IRA, the IRS plans to deliver a higher level of service in FY 2023.

[2]Timeliness of Critical Individual Filing Season (CIFS) Tax Products to the Public of 96.4 percent is 8.3 percent above the plan of 89 percent. 81 of 84 CIFS tax products were available to the public timely. Critical tax product timeliness is regarded as tax products that are made available to the public seven calendar days before the official IRS start of the (individual) filing season. To achieve and exceed the target, the IRS prioritized work on the release of critical products, especially forms and instructions, approved overtime, credit, and compensatory time during workdays, weekends, and holidays; and monitored workload planning.

[3]This measure represents the overall rate at which TTB is meeting its annual service standard (75 days for FYs 2019 – 2022) 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 regarding TTB's level of service. In FY 2022, TTB issued more than 91 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.

[4]Measures the degree to which foreign counterparts are engaging proactively and constructively with OTA advisors, at the working and policy levels. Counterpart engagement is both a key outcome of OTA efforts to structure and execute effective technical assistance projects that support host country ownership. The result for FY 2022 is 3.5, a reduction of 0.1 from FY 2022 target of 3.6.

[5]The Enterprise Self-Assistance Participation Rate of 93.9 percent was 3.2 percent higher than plan of 91.0 percent. In FY 2022 total self-assisted services 1.5 billion was around 29 percent higher than FY 2021 of 1.2 billion, total assisted services of 97.5 million was 0.1 percent lower than FY 2021 of 97.6 million, and total services were 1.6 billion which is around 27 percent higher than prior year of 1.3 billion. Beginning in 2022, ESAPR included Business Masterfile numbers in the installment agreements, OPAs, electronic payments and paper payments for a more inclusive metric.

[6]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. Treasury fell short of meeting its FY 2022 small business goal of 39 percent. However, Treasury overperformed and exceeded the socio-economic small business goals.

Goal 2: Enhance National Security

We must continue to apply national security tools and strengthen bilateral and multilateral partnerships to confront the expanding array of transnational threats, issues contributing to the instability of weak states, and the malicious use of emerging technologies by adversaries.

Under this goal, our first strategic objective centers on hardening the U.S. and global financial system and our infrastructure against cyber incidents. Our second strategic objective—assessed as an area of noteworthy progress and focus area for improvement in our FY 2022 SOAR process—is to strengthen U.S. national security through a secure economy, by applying our authorities and tools to ensure that we address threats to U.S. national security and strategic interests posed by criminal elements, foreign adversaries, and certain foreign investments.

The third strategic objective focuses on modernizing sanctions as a policy tool to effectively address emerging threats, strengthening use of sanctions across the Department, and deploying the most updated analytic and collaborative tools. Our fourth strategic objective—assessed as a focus area for improvement in our FY 2022 SOAR process—emphasizes the integrity of markets and the global financial framework through increased transparency in domestic and international financial systems to aid the detection of illicit financial activity.

Cyber Resiliency of Financial Systems and Institutions

As declared in Presidential Policy Directive 21, *Critical Infrastructure Security and Resilience,* Treasury is the Sector Risk Management Agency for the financial services sector and is responsible for advancing coordinated national efforts to strengthen and maintain secure, functioning, and resilient critical infrastructure.

In FY 2022, we took steps to strengthen cyber resiliency, including communicating to the sector indicators of: (1) compromise, (2) activities of malicious cyber actors, (3) third-party risks, and (4) possible mitigation and remediation efforts. Furthermore, we streamlined our incident coordination processes to quickly inform our leadership of cybersecurity impacts to our networks and to the financial sector. We also continued to perform routine vulnerability and security architecture assessments to identify cyber deficiencies and develop corrective measures for our critical assets that provide underlying mission-essential support for financial-related systems.

We made significant strides in FY 2022 to strengthen our assets and systems against cyber incidents, while reviewing resiliency and contingency plans, which ultimately underscores a more proactive and resilient enterprise security posture at Treasury. Similarly, in December 2021, we orchestrated response efforts to strategically and comprehensively address the Apache Log4J vulnerability in our systems, which involved coordinating short- and long-term approaches to address the vulnerability across multiple technology components and varied technology environments.

We and our component bureaus also instituted communication channels with the broader financial services sector to collaborate and identify opportunities to streamline processes, and raise situational awareness of the continuously evolving threat landscape.

Economic Measures to Advance National Security

Terrorism and Financial Intelligence (TFI) counters the ability of financial networks that support terrorists, transnational organized crime, weapons of mass destruction proliferators, and other threats to international security through intelligence analysis, sanctions, and international private-sector cooperation.

TFI's authorities, such as economic sanctions, are key tools in implementing U.S. foreign policy to pressure foreign countries and regimes, such as Russia. TFI also continues to maintain similar efforts that target malign activity emanating from China, North Korea, Syria, and other countries that threaten national security.

Source: Adobe Stock

Increased Sanctions Against Russia

TFI has significantly increased sanctions against Russia related to its actions against Ukraine over the past year and continues to economically sanction Russia.

The IA, in its role as chair of the Committee on Foreign Investment in the United States (CFIUS), reviewed a record number of transactions in FY 2022, and took important and necessary measures to safeguard national security. CFIUS also continues to proactively identify a growing number of potential non-notified transactions, while handling increasingly complex transactions, particularly those involving data firms.

Modernize Sanctions Regime

As part of modernizing the use of sanctions as a policy tool, TFI is implementing a new Sanctions Economic Analysis Unit under a newly designated Chief Sanctions Economist. The unit is charged with developing economic and financial policy analyses to inform the design and implementation of sanctions policy and targeting options under existing or proposed authorities.

In addition, the unit will provide a globally consistent approach to economic and financial policy analyses to better inform how we design and implement sanctions and develop as a center of excellence for analyses on the effectiveness of sanctions. This includes providing firm- and industry-specific analyses of potential collateral effects of proposed sanctions to identify issues that may be appropriate to mitigate, including issues related to U.S. persons, in connection with our sanction actions.

Transparency in the Financial System

One of the most effective ways to deter criminals and to stem the harms that flow from their actions—including harm to American citizens and our financial system—is to follow the criminals' money, expose criminal activity, and prevent networks from benefiting from the enormous power of our economy and the financial system. Through the Promoting Transparency in the Financial System APG, we are working to establish a robust regulatory framework to ensure we receive timely information on the highest priority threats and combat criminals' misuse of companies.

To combat these illicit efforts, TFI, through FinCEN, undertook efforts to modernize the *Bank Secrecy Act* and develop new beneficial ownership related regulations and guidance to better safeguard the U.S. financial system and protect the pocketbooks of Americans.

The Beneficial Ownership Information (BOI) is a key component of our broader efforts to protect the U.S. financial system from abuse by criminals and illicit actors. The rollout of the final BOI reporting rule is a key milestone in our efforts to implement the *Corporate Transparency Act* (CTA), which advances the U.S. Strategy on Countering Corruption, and prevents the proceeds of corruption and illicit finance from compromising the integrity of the U.S. financial system. The final BOI reporting rule and the CTA more broadly will help ensure that money launderers, tax evaders, criminals, and other illicit actors cannot hide their ill-gotten gains in the U.S. with anonymity and impunity.

GOAL 2: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 19	FY 20	FY 21	FY 22	FY 22 Target	Result vs Target
Percentage of CFIUS Cases Reviewed within Statutory Timeframes, reported by calendar year (International Affairs)[1]	100%	100%	100%	TBD	100%	TBD
Number of New or Modified Sanctions Programs Established by Executive Order or Congressional Mandate (TFI)[2]	7	6	7	7	N/A	N/A

Explanation of Results

[1]This measure tracks compliance with statutory deadlines for completing national security reviews of transactions notified to the CFIUS to ensure that the CFIUS process is timely and efficient. We report results on a calendar year basis, at which time the comparison can be made of actual results verses target.

[2]This indicator tracks the number of new or modified sanctions programs that we 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.

Goal 3: Protect Financial Stability and Resiliency

We continued to promote a more resilient financial system through coordination with U.S. financial regulators and international partners. The Financial Stability Oversight Council (FSOC) is chaired by Secretary Yellen and charged with identifying risks to the financial stability of the U.S. The FSOC advanced its four priority policy areas, deepening its capacity to monitor risks to the financial system: (1) nonbank financial intermediation, (2) Treasury market resilience, (3) climate-related financial risk, and (4) digital assets. We also advanced efforts to enhance the resilience of the Treasury market and to facilitate the climate transition with state and local governments.

We play a critical role in improving financial resiliency and addressing vulnerabilities in core financial markets. The first strategic objective—assessed as an area of noteworthy progress in our FY 2022 SOAR process—focuses on our role in monitoring and addressing domestic and international financial risks. The second objective is to improve the resilience of critical government securities to markets to minimize borrowing costs over time and support the critical roles that these safe assets play in a global financial system. The third strategic objective—assessed as a focus area for improvement in our FY 2022 SOAR process—centers on promoting a financial system that delivers inclusive financial services, by way of expanding access to digital financial services, and encouraging the responsible use of innovative financial technology.

Financial System Vulnerabilities

As part of the FSOC's efforts to address risks posed by nonbank financial intermediaries, we and other FSOC members evaluated risks hedge funds, open-end funds, and money market funds pose. The FSOC began work to establish an interagency risk monitoring system for hedge funds and considered potential options to mitigate associated risks. On climate-related financial risk, the FSOC published its *Report on Climate-Related Financial Risk* in FY 2022, which identified climate change as an emerging risk to financial stability. The FSOC continued its work to identify emerging broader vulnerabilities to the financial system through its monthly interagency staff-level Systemic Risk Committee meetings, as well as through recommendations to address those vulnerabilities published in December 2021 in its annual report.

Through our participation at the Financial Stability Board (FSB), we advanced work to address these vulnerabilities internationally, including by shaping policy proposals to enhance money market fund resilience, promoting progress under the *FSB Roadmap for Addressing Climate-related Financial Risks*, and contributing to a proposed framework for the international regulation of digital asset activities.

The Office of Financial Research (OFR)—which is charged with looking across the financial system to collect and standardize financial data, monitor and analyze risks, and perform research and analysis related to financial stability—supported the FSOC's assessment of financial stability risks and advanced long-term research towards the goal of promoting and maintaining financial stability.

Resilient Treasury and Municipal Securities Markets

In FY 2022, the Office of Debt Management, along with the Office of State and Local Finance, have been instrumental in enhancing the resilience of the debt market. The Office of Debt Management continued to work in collaboration with the Inter-Agency Working Group (IAWG) on Treasury Market Surveillance—comprised of staff from Treasury, the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, the U.S. Securities and Exchange Commission, and the Commodity Futures Trading Commission—on various workstreams. The IAWG published a staff progress report and hosted the annual Treasury Market Conference in November 2021, and IAWG member agencies continued to make progress on these objectives throughout the year. In September 2022, we published a fact sheet highlighting 12 key accomplishments from this year and will issue another staff progress report before the next annual conference in November 2022.

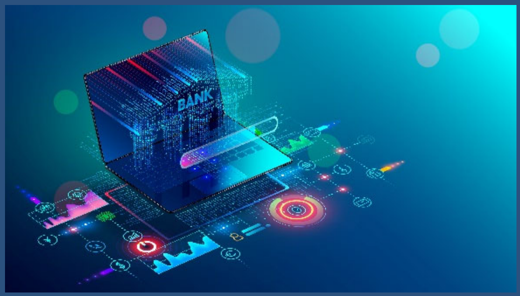
In March 2022, the Office of State and Local Finance convened a roundtable on climate transition among Treasury, federal and regulatory partners, and state and local government representatives. The participants considered policy issues and best practices for funding and financing the transition to a net-zero economy, including disclosure of climate-related financial risks to investors.

FINANCIAL INNOVATION

In November 2021, the President's Working Group on Financial Markets, joined by the Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency, published a report on stablecoins, which are a type of digital asset with the potential to become widely used for payments. The report identified potential risks of continued growth in stablecoin markets and usage, absent appropriate regulation, and contained recommendations related to digital assets, which similarly built upon on our work in international forums, including the FSB.

We collaborated with FSB members on two reports related to digital assets regulation, including (1) the FSB's revised *High-Level Principles on the Regulation, Oversight, and Supervision of Global Stablecoin Arrangements,* and (2) the report on the *Regulation, Supervision and Oversight of Crypto-Asset Activities and Markets.* Recommendations from these reports are intended to be flexible, so that they can be easily incorporated into a wide variety of regulatory frameworks and for any type of crypto-asset activities that may pose risks to financial stability.

In March 2022, President Biden convened experts from across the Administration to ensure a coordinated and comprehensive approach to digital assets policy, and charged us with a leadership role in this work. In March 2022, Executive Order (EO) 14067, *Ensuring Responsible Development of Digital Assets*, established the following policy objectives with respect to digital assets: (1) protect consumers, investors, and businesses in the U.S.; (2) protect U.S. and global financial stability and mitigate systemic risk; (3) mitigate the illicit finance and national security risks posed by misuse of digital assets; (4) reinforce U.S. leadership in the global financial system and in technological and economic competitiveness, including through the responsible development of payment innovations and digital assets; (5) promote access to safe and affordable financial services; and (6) support technological advances that promote responsible development and use of digital assets.



Source: Adobe Stock

Digital Currency

In FY 2022, we participated in the development of the G7's *Public Policy Principles for Retail Central Bank Digital Currencies (CBDC)* report, which set out a common set of considerations on the public policy implications of CBDC, reflecting the shared and enduring values of the G7 on transparency, the rule of law, and sound economic governance.

In July 2022, we and the interagency partners delivered to the President the *Framework for International Engagement on Digital Assets,* which outlines a U.S. government-wide approach to promoting the responsible development of digital assets globally. The framework is intended to ensure that, with respect to the development of digital assets, we: (1) respect America's core democratic values; (2) protect consumers, investors, and businesses; (3) preserve appropriate global financial system connectivity and platform and architecture interoperability; and (4) maintain the safety and soundness of the global financial system and international monetary system. The framework calls for us to amplify and expand international work on digital assets through forums and international financial institutions, including at the G7 and FSB. The framework also encourages the U.S. to identify where it can strengthen existing regional and bilateral engagements and, where appropriate, ramp up engagement with new partners to achieve our objectives with respect to digital assets.

Also as charged by EO 14067, in September 2022, we published a report on the future of the U.S. money and payments systems, in which Treasury encourages continued work on innovations to promote a system that is more competitive, efficient, and inclusive, and that also helps maintain and build on the U.S.' global financial leadership. The report recommends advancing policy and technical work on a potential U.S. CBDC, so that the U.S. is prepared if a CBDC is determined to be in the nation's interest. We also published a report on the implications of digital assets for consumers, investors and businesses, and laid out a detailed action plan to prevent digital assets from being used for financial crimes, such as money laundering and terrorism financing. In October 2022, the FSOC released a report on potential financial stability risks, and recommended steps to address gaps in the regulation of digital assets in the United States.

Separately, financial innovation can be seen with our focus on addressing counterfeiting. As of FY 2022, counterfeiting is an increasingly important issue for the Bureau of Engraving and Printing (BEP) and the U.S. Mint. To combat increasingly sophisticated counterfeiting threats, related to U.S. currency notes, the BEP, the Federal Reserve Board, and the U.S. Secret Service continue to collaborate extensively on redesigning notes to make counterfeiting more difficult. In FY 2022, the BEP successfully executed the first of many large-scale testing activities, which included security features approved by the Secretary and a new tactile feature for the visually impaired. Extensive, ongoing testing and factory trials will lead to a planned rollout of redesigned U.S. currency notes beginning in 2026 with the targeted issuance of the new $10 design.

Similarly, the Anti Counterfeit Division at the U.S. Mint is actively working on characterizing coins in circulation and evaluating scanning methods for high-speed detection of counterfeit coins. We are also exploring image registration for coins using surface morphology, which could potentially be used for validating U.S. Mint coinage.

Related to financial innovation and in support of the Improving the Payment Experience APG, Fiscal Service collaborated with top check-producing federal agencies (such as the Social Security Administration and the IRS) to improve the payment experience, reduce the number of check payments, and promote the benefits of increasing electronic payments. To promote inclusion, Fiscal Service is leveraging the Treasury-sponsored Direct Express debit card program to deliver payments to unbanked and underserved Americans. Additionally, Fiscal Service initiated an evaluation to understand how we can improve the delivery of government payments to hard-to-reach populations.

Moreover, in FY 2022, Fiscal Service developed a working blockchain prototype to explore how blockchain technology can improve the transparency and reporting of federal grant payments. Under the Joint Financial Management Improvement Program, Fiscal Service and the Government Accountability Office collaborated to successfully connect the first multi-agency blockchain in the federal government. Learnings from this collaboration will help other agencies understand the benefits and impacts of a multi-agency blockchain for various use cases.

Lastly, with the announcement of new Series I United States Savings Bond interest rates, Fiscal Service witnessed unprecedented demand for Series I savings bonds and a surge in call and case volumes. Fiscal Service executed a number of steps to respond to customers and focused on providing a positive customer experience, including: (1) adding resources to the call center, (2) updating to the website and phone menus to provide answers to common questions, and (3) developing system enhancements to better enable customers to complete transactions without requiring customer service support.

GOAL 3: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 19	FY 20	FY 21	FY 22	FY 22 Target	Result vs Target
Dollar Amount (in billions) of Delinquent Debt Collected through All Tools (Fiscal Service)[1]	$9.65	$10.68	$5.04	$5.52	$5.26	Exceeded
Percentage of Treasury Payments Made Electronically (Fiscal Service)[2]	95.6%	96.0%	96.2%	96.4%	96.4%	Pending
Percentage of Total Federal Government Receipts Settled Electronically (Fiscal Service)[3]	98.4%	99.0%	99.6%	99.8%	99.0%	Exceeded
Number of Paper Checks Printed Fiscal Year to Date (millions) (Fiscal Service)[4]	54.2	50.5	48.8	45.7	45.7	Pending

Explanation of Results
[1]This measure provides the total amount of delinquent debt collected, in billions, through debt collection tools Fiscal Service operates. FY 2020 totals include collection of $3.4 billion from Economic Impact Payments to satisfy delinquent child support. Several state and federal creditor agencies suspended collection activity beginning in April 2020 due to economic concerns around COVID-19.
[2]This measure provides the portion of the total volume of electronic payments. FY 2020, FY 2021, and FY 2022 data does not include pandemic-related relief payments such as economic impact payments and advance child tax credit payments. The FY 2022 final actual is pending.
[3]This measure provides the percentage of total federal government revenue collection dollars settled electronically.
[4]This measure provides the number of payments made via paper checks. This measure provides the number of payments made via paper checks. FY 2020, FY 2021, and FY 2022 data does not include pandemic-related relief payments such as economic impact payments and advance child tax credit payments. The FY 2022 final actual is pending.

Goal 4: Combat Climate Change

We work ambitiously with domestic and international partners to emphatically respond to the challenges of climate change, including taking action to adapt to an already changing climate. With our partners, we work on mitigating risks associated with climate change and strive toward positioning the global economy for a clean and sustainable future. Our work in this area will strengthen the country's energy security and enhance the country's competitiveness in the clean energy economy.

Of the four strategic objectives for achieving this goal, the first is to demonstrate global leadership through re-engagement with international partners to put the world on a sustainable climate pathway. The second strategic objective—assessed as a focus area of improvement in our FY 2022 SOAR process—aims to promote the flow of capital towards clean and renewable investments, creating a more resilient and climate-forward economy.

The third strategic objective focuses on identifying and mitigating climate-related financial risks through improved approaches to measure, monitor, and address climate impacts. The fourth strategic objective focuses on our efforts to reduce greenhouse gas emissions, increase resiliency of our facilities and operations, and increase climate change knowledge and expertise within Treasury.

Global Climate Commitment and Leadership

We elevated U.S. leadership in global climate action through leadership roles in multilateral forums. We are pressing the World Bank and other development banks to raise their climate ambitions while pursuing existing development priorities.

In October 2022, we signed a loan agreement for the Clean Technology Fund (CTF)—a multilateral trust fund that helps to scale up low carbon technologies in developing countries. This contribution made good on the U.S.'s pledge to support the CTF's Accelerating Coal Transition Investment Program made at the 2021 G7 Summit alongside G7 partners. CTF will use the loan to support U.S. climate commitments, including Just Energy Transition Partnerships.

Source: Adobe Stock

Inflation Reduction Act (IRA)

In August 2022, Congress passed, and the President signed into law the IRA, which makes the largest investment in addressing climate change in our nation's history. Of the IRA's total $369 billion climate investment, $270 billion will be delivered via tax incentives, putting us at the forefront of implementing this historic legislation.

Climate Incentives and Investment

In FY 2022, we worked with stakeholders, Congress and other agencies to develop proposals to use tax incentives to encourage individuals and businesses to invest in renewable energy and transmission, expand usage of household clean energy and energy efficient technologies, and drive meaningful reductions in carbon emissions.

Climate-Related Financial Risks

The FSOC and its members made considerable progress in advancing the recommendations identified in its October 2021 *Report on Climate-Related Financial Risk*, including significant actions members took to address climate related capacity building, disclosures, data, and risk assessments. The FSOC also established a new staff-level interagency committee to serve as a coordinating body to share information, facilitate the development of common approaches and standards, and foster communication across the FSOC members. Lastly, the OFR conducted a data and analytics hub pilot to help the FSOC assess climate-related risks to financial stability.

Sustainable Treasury Operations

Executive Order 14008, *Tackling the Climate Crisis at Home and Abroad* directs federal agencies to develop a Climate Action Plan (CAP) to assess and combat climate-related vulnerabilities. In collaboration with the National Oceanic and Atmospheric Administration, we are developing a climate literacy curriculum that will provide basic education on the causes and effects of climate change, alongside strategies for building Departmentwide resiliency. Through the Increasing Treasury Sustainability APG, we are working to model best practices in sustainable operations, supporting the Department's key role in the whole-of-government effort to manage climate-related risks and enable the transition to a net-zero emissions economy.

Resilience-building efforts are focused on the main priority action areas identified in the CAP, such as financial investment, real property weatherization, and procurement. Activities in the CAP action areas include the incorporation of climate risk considerations in our retrofitting and new construction efforts, as well as purchasing of renewable energy credits and energy-savings performance contracts, which are critical to meeting the Administration's requirements to convert our operations to cleaner sources of electricity.

Other major projects to strengthen climate resiliency include:

- expanding the IRS's presence in Puerto Rico, which will not only mitigate service disruptions from extreme weather, but also create jobs and allow for increased taxpayer access to bilingual services;
- constructing a new, weather-resilient production facility in Maryland for BEP, which will greatly reduce operational risks associated with the current older Washington, D.C., facility; and
- weatherizing and updating the Main Treasury building's exterior façade, deterring water damage through extensive repair and restoration work.

To provide more quantitative strategic planning support for adapting to and building resilience against climate-related concerns, we considered our growing need for ready access to a central repository of climate data (quantitative, machine-readable information) in multiple formats (shapefiles, excel tables, csv files), as well as data analysts and subject matter experts who can understand and use the data to better propose and support policy decisions.

GOAL 4: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 19	FY 20	FY 21	FY 22	FY 22 Target	Result vs Target
Treasury-wide Footprint (Thousands of Square Feet) (Management)[1]	33,209	32,517	32,006	TBD	31,948	TBD
Explanation of Results						
[1]The actual FY 2022 square footage of Treasury-wide real property is not available until December 2022, at which time the comparison can be made of actual results versus target.						

Goal 5: Modernize Treasury Operations

Modernizing our operations is critical to achieving our mission and accomplishing our strategic priorities, which begins with making enterprise-wide improvements. Our first strategic objective under this goal—assessed as a focus area for improvement in our FY 2022 SOAR process—is intended to help us become a more diverse and inclusive workforce. The second strategic objective focuses on modernizing our workplace infrastructure and work routines to increase our agility, flexibility, and resilience. The third strategic objective—assessed as a focus area for improvement in our FY 2022 SOAR process—centers on improving Treasury's data maturity and capacity for evidence building. Our fourth strategic objective is to create a customer-focused culture, leveraging approaches to improving customer experience and simultaneously our overall capabilities and practices.

Recruit and Retain a Diverse and Inclusive Workforce

In FY 2022, we established the Office of Diversity, Equity, Inclusion, and Accessibility (ODEIA), which will serve as a center of excellence to modernize our overall DEIA strategy and drive cohesive implementation and accountability across the departmental offices and bureaus. The new structure allows for a more significant, more concentrated, and dedicated focus on civil rights compliance and mitigation, as well as DEIA-related accountability, competencies, and transparency.

In addition, ODEIA is championing organizational cultural change to move the agency into a more equitable organization through developing policy and innovative approaches. These policies are designed to ensure that families, businesses, and neighborhoods historically excluded from economic opportunities or that experienced persistent poverty are fully included in the nation's economic recovery and future growth.

The ODEIA centralizes four essential functions:

- carrying out policy analysis on how we can unlock the unrealized potential of marginalized communities;
- developing a workforce that reflects the diversity of the nation;
- ensuring fair and equitable business utilization; and
- guaranteeing compliance with civil rights laws and regulations.

We made a few changes to improve our ability to modernize our approach to DEIA. First, we developed a Treasury-wide expansion of the Office of Minority and Women Inclusion (OMWI) (that does not duplicate or override the efforts of the Office of the Comptroller of the Currency's OMWI). We combined the OMWI with the Office of Civil Rights and Equal Employment Opportunity, formerly known as the Departmental Office's Office of Civil Rights and Diversity. Additionally, ODEIA is adding a new component – the Equity Hub. This new office will focus on economic analysis and public policy as it relates to how we ensure DEIA is a focal point for reaching and providing services and resources to the public.

We implemented an internal DEIA Issuance System, through which we issue Equal Employment Opportunity, civil rights, diversity and inclusion, and equity guidance or policies to our workforce. We also published the first DEIA Strategic Plan to guide our work into the future.

Furthermore, ODEIA has implemented a number of new initiatives to improve our focus on diversity and inclusion in hiring and recruitment including contracting with the Professional Diversity Network to specifically target a more diverse applicant pool for our vacancies. We rolled out the new DEI Learning Journey in Integrated Talent Management System to help managers and employees better understand what it means to embrace diversity and inclusion. We also obtained support and resources to establish a recruitment program and developed a retention program to identify ways to retain current employees, which we will implement across Treasury. Finally, we incorporated new performance standards into all Senior Executive Service performance plan to focus leadership on their role in this expanded vision for DEIA.

Source: Adobe Stock

Professional Diversity Network

Our new partnership with the Professional Diversity Network strengthens our focus on diversity hiring by intentionally matching Treasury job announcements with a broad range of diverse groups including People of Color, LGBTQ+, Veterans, People with Disabilities and many others. This combined with the new DEIA Learning Journey, provides managers with training to promote hiring from a more diverse candidate pool. This training also supports managers and employee awareness about inclusion to ensure we are cultivating a culture that embraces the diversity of new and current Treasury employees.

In addition to ODEIA efforts, the IRS also obtained Direct Hire Authority (DHA) through the Office of Personnel Management (OPM) and the *Consolidated Appropriations Act of 2022* to reach a broader applicant pool and reduce the number of days to hire. Through these authorities, the IRS can hire tax examiners, clerks, customer service representatives and critical operations support personnel. The OPM DHA allows 10,000 new hires through December 2023 and is limited to the Submission Processing and Accounts Management functions in the IRS's Wage & Investment organization. The DHA granted under the *Consolidated Appropriations Act of 2022* allowed unlimited hires through September 30, 2022, in support of backlog reduction.

Future Work Routines

We displayed outstanding engagement across leadership and with the workforce to protect employee health and safety during the pandemic, while navigating re-entry of employees to the physical workplace. The Treasury COVID-19 Coordination Team, established in response to Executive Order 13991, *Protecting the Federal Workforce and Requiring Mask-Wearing*, continues to oversee the implementation of a comprehensive, science-based COVID-19 workplace safety plan.

We leveraged information technology tools to: (1) simplify vaccination status reporting, (2) centralize information resources regarding re-entry, (3) enable staff to reserve "hoteling" spaces for remote workers, and (4) provide access to training and Human Resources forms required for remote work. We began planning for the gradual increase in employees reporting to the physical workplace in early FY 2022, and successfully completed our re-entry by August 2022. To support the workforce post re-entry, we offered new flexible work arrangements and remote work, deployed improved collaboration technologies for hybrid teams, and tested new approaches to space configurations and sharing.

Better Use of Data

We made good progress in formulating an initial data infrastructure strategy designed to maximize the value of data for delivering improved business outcomes. This strategy leverages the *Foundations for Evidence-Based Policymaking Act of 2018* (Evidence Act) and key elements of the Federal Data Strategy to promote data sharing and use, further enabling enterprise investments in evidence building activities. Through this work, we are better positioned to leverage our newly created data inventory to improve enterprise visibility into our key data assets, which accelerates opportunities to turn data into insights for addressing Administration and Treasury leadership priorities. Enterprise-wide engagement has enabled us to reach consensus on several key multi-year priorities aligned to critical management initiatives in our Strategic Plan.

Similarly, Fiscal Service is committed to modernizing the publication of Fiscal Service data. Fiscal Service continued to make progress on FiscalData.treasury.gov, migrating a total of 39 datasets to the site and establishing continuous data feeds with eight existing datasets.

CUSTOMER EXPERIENCE PRACTICES

We have a responsibility to manage customer experience and improve service delivery using leading practices and a human centered approach. Due to the large customer base and high impact of those served by our programs, in FY 2022, OMB identified Treasury as a High Impact Service Provider (HISP), designating the Community Development Financial Institutions Fund and Fiscal Service's Direct Express programs as High Impact Services. In addition, the IRS continues to be designated as an HISP.

In May 2022, we launched a customer experience (CX) Community of Practice that brings together CX leaders and practitioners from across Treasury to build a customer-centric culture, foster collaboration, and share CX best practices and knowledge. Several of our offices have established dedicated CX teams, including a Taxpayer Experience Office at the IRS and the Office of the Chief Customer Officer at Fiscal Service.

GOAL 5: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 19	FY 20	FY 21	FY 22	FY 22 Target	Result vs Target
Percentage of Aged Hardware (IRS)[1]	31.0%	16.0%	9.3%	7.1%	20%	Exceeds
Treasury-wide EVS Satisfaction Index (Management)[2]	65%	71%	67%	65%	67%	Unmet

Explanation of Results

[1]The percent of aged hardware was 7.1 percent which exceeded the 20 percent target for FY 2022. The major driver in exceeding this goal was the focus on hardware selections and timely refresh implementations. For FY 2023, IRS will continue with standard operations and review options for process improvements.

[2]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.

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 personnel 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 originated from ORM's efforts to support agencies in their implementation of ERM, including the July 2016 publication of the Playbook: *Enterprise Risk Management for the U.S. Federal Government*. This government-wide working group meets bimonthly to discuss common risks and various methods of implementing the guidelines of the circular.

RISKS AND CHALLENGES

Through the FY 2022 SOAR and enterprise risk management process, we identified the following cross-cutting operational risks.

Evolving Cyber Climate: We and the financial services sector face increasing attacks from criminal and nation-state threat actors attempting to disrupt operations or steal data from sensitive systems. The tactics, techniques, and procedures that these threat actors employ are constantly evolving.

Human Resources: Our mission capability and capacity may be eroded due to operational challenges in human resources, such as in the areas of recruitment, training and development, personnel security, and diversity and inclusion. These challenges may be intensified when paired with changing mission and skill requirements.

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. Due to lack of administrative funding for the ORP programs, we were forced to curtail the operations of our contact center, which provided vital support to recovery program recipients.

Data and Evidence: Infrastructure, Analytics Capabilities, and Sharing: Insufficient or aging IT infrastructure, lack of data accessibility and reliability, or inability to successfully use and interpret data may deteriorate our decision-making ability in critical mission areas.

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. This may impact our ability to successfully deliver on our mission, constrain our progress in critical work areas, and create challenges for employees, contractors, customers, and taxpayers.

Procurement, Acquisition, and Vendors: Our ability to achieve mission outcomes through procuring high-quality goods and services may be negatively affected by the ever-increasing complex burden layered on the procurement environment and the decline of available acquisition program management skillsets.

CLIMATE-RELATED RISKS AND CHALLENGES

We issue broad guidelines rather than overly restrictive instructions for conducting climate risk assessments as we have diverse missions and operations. These guidelines included, but were not limited to, key factors such as flooding, heat, and extreme weather (*e.g.*, hurricanes). Additionally, climate change presents challenges through supply chain disruptions, since extreme weather events in other areas of the world may affect production of critical materials that we need to complete our mission. Such disruptions may be similar to the supply chain shortage experienced during the COVID-19 pandemic. While we have several efforts under way to address these risks across the Department, a significant gap exists in the need for a central repository of climate, data, as well as data analysts and subject matter experts who can understand and use the data to propose and support policy decisions.

FY 2023 STRATEGIC OUTLOOK

In March 2022, we published our FY 2022 – 2026 Strategic Plan, which describes the long-term goals and objectives we aim to achieve during this Administration, building from the progress we made and the challenges we identified.

Our FY 2022 SOAR outlined several critical leadership actions in the following priority areas for the coming year: (1) transparency in the financial system; (2) financial innovation; (3) climate incentives and investment; (4) diverse and inclusive workforce; and (5) better use of data.

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

- implement the Transparency in the Financial System APG, establishing a robust regulatory framework to ensure timely information on the highest priority threats to combat criminals' misuse of companies (Goal 2: Enhance National Security);
- support legislative proposals that advance payment integrity and financial management innovation programs (Goal 3: Protect Financial Stability and Resiliency);
- implement tax incentives for climate-friendly investments and energy security tax credits for manufacturing as authorized by the IRA (Goal 4: Combat Climate Change);
- implement the Equity Action Plan, consistent with Executive Order 13985: *Advancing Racial Equity and Support for Underserved Communities through the Federal Government*, which outlines how we are building the infrastructure necessary to identify and reduce barriers to equal opportunity and to help ensure that our programs and services better reach historically underserved communities. The standing-up of the ODEIA helped develop and drive DEIA strategy across Treasury (Goal 5: Modernize Treasury Operations); and
- prioritize recommended actions in our Evidence-Building Capacity Assessment to help inform investment and resource alignment decisions and determine how we can best coordinate to address gaps in evidence building and use (Goal 5: Modernize Treasury Operations).

In addition, we will work diligently to support implementation of the IRA, legislation that takes a critical step toward correcting the two-tiered tax system to ensure large corporations and high-income earners cannot avoid paying the taxes they owe, as well as making operational improvements to enhance taxpayer experience.

The IRA also addresses climate change, putting Treasury at the forefront of implementing this historic legislation. We have begun work on implementation, which will be a priority over the coming year as many of the law's provisions take effect in FY 2023.

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, 2022 compared to September 30, 2021.

Summary Financial Information (*dollars in billions*)

	2022	2021	$ Change	% Change
Total Assets	$ **34,846.9**	$ 32,591.1	$ 2,255.8	6.9 %
Total Liabilities	$ **33,991.1**	$ 31,626.2	$ 2,364.9	7.4 %
Total Net Position	$ **855.8**	$ 964.9	$ (109.1)	(11.3)%
Total Net Cost of Treasury Operations	$ **186.8**	$ 137.0	$ 49.8	36.4 %
Federal Debt Interest Costs, Net	$ **675.9**	$ 525.9	$ 150.0	28.5 %
Other Federal Costs, Net	$ **17.2**	$ 23.6	$ (6.4)	(27.2)%
GSEs Non-Entity Cost (Revenue), Net	$ **(2.9)**	$ (112.0)	$ 109.1	(97.4)%
COVID-19 Non-Entity Cost (Revenue), Net	$ **1.9**	$ (8.9)	$ 10.8	(121.3)%
Total Net Cost of Treasury Operations and Non-Entity Costs	$ **878.1**	$ 565.3	$ 312.8	55.3 %
Total Budgetary Resources	$ **1,341.8**	$ 1,550.0	$ (208.2)	(13.4)%
Agency Outlays, Net	$ **828.2**	$ 832.6	$ (4.4)	(0.5)%
Net Revenue Received (Custodial)	$ **4,392.5**	$ 3,100.8	$ 1,291.7	41.6 %

Financial Overview. Our financial performance as of and for the fiscal year ended September 30, 2022, 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. During FY 2022 and FY 2021, pursuant to these three legislations, we had distributed over $214 billion and $900 billion, respectively, to individuals, state, territorial, local, and Tribal governments, and certain businesses to accelerate our nation's economic recovery (refer to Note 10 of the Consolidated Financial Statements).

The outstanding federal debt, including interest, rose by $2.5 trillion, to $31.0 trillion, to finance the U.S. government's operations that included support of the economic relief and recovery efforts.

Additionally, our "Total Net Cost of Treasury Operations and Non-Entity Costs" for FY 2022 increased by $312.8 billion in fiscal year 2022 primarily stemming from non-entity activity, including $147.6 billion of higher federal debt interest costs, corresponding to the increase in federal debt as mentioned above, along with a $109.1 billion decrease in 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).

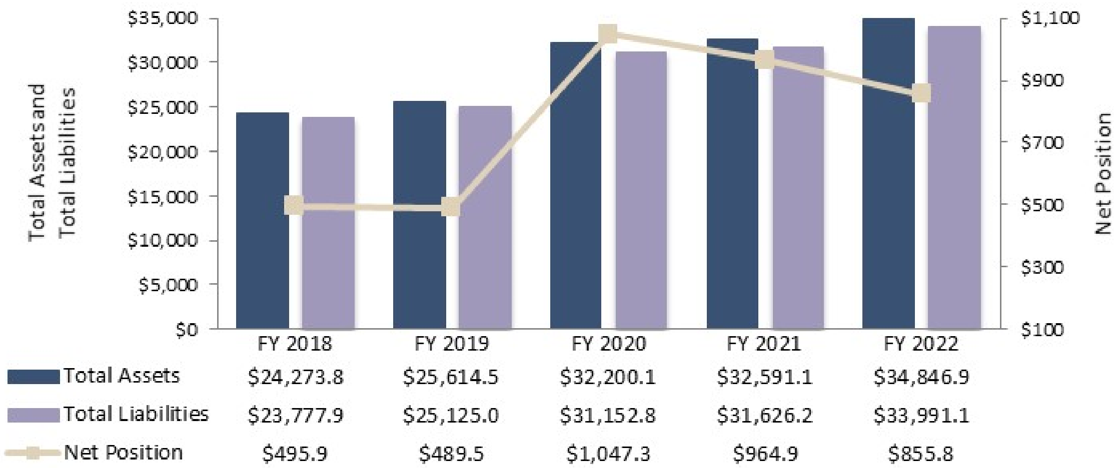


Figure 1: Total Assets, Total Liabilities, and Net Position (*in billions*)

Total Assets of $34.8 trillion at September 30, 2022 consist of a receivable due from the General Fund of the U.S. government (General Fund) of $31.1 trillion, intra-governmental loans and interest receivable of $1.6 trillion, and fund balance and various other assets totaling $2.1 trillion (Figure 2).

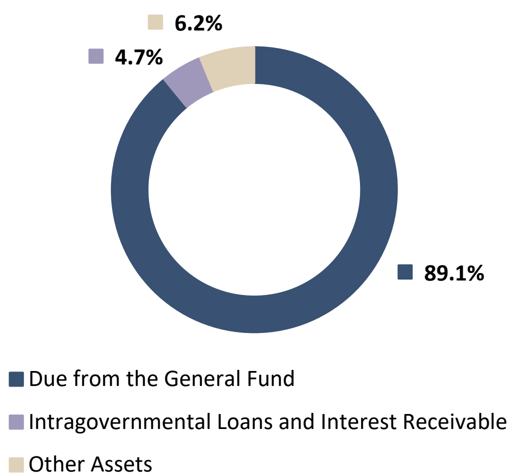


Figure 2: FY 2022 Total Assets (Composition)

The $2.3 trillion (or 6.9 percent) increase in total assets at the end of FY 2022 over the prior year is primarily due to a $2.3 trillion increase in our receivable, "*Due from the General Fund,*" which corresponds to a $2.5 trillion increase in federal debt and interest payable. The "*Due from the General Fund*" asset 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 decreased by $182.5 billion (or 10.2 percent) during 2022 due to lower borrowings from the Department of the Education, partially offset by increased borrowings by various federal agencies—such as Small Business Administration and Department of Housing and Urban Development—to fund their programs.

Other assets primarily include *"Fund Balance," "Cash, Foreign Currency, and Other Monetary Assets," "Taxes Interest, and Other Receivables, Net," "Advances and Prepayments", and "Investments in Government Sponsored Enterprises.*" Other assets totaling $2.1 trillion increased by $183.9 billion or (9.3 percent), largely reflecting a $405.0 billion increase in our "*Cash, Foreign*

Currency, and Other Monetary Assets," offset by decreases in "*Fund Balance,*" "*Taxes, Interest, and Other Receivables, Net,*" "*Advances to Trust Funds,*" and "*Advances and Prepayments*". 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 $418.7 billion increase in operating cash is largely due to the 2021 debt ceiling constraints, which forced us to maintain a significantly lower operating cash balance during FY 2021. When the debt ceiling was increased in December 2021, we were able to bring the operating cash balance back to its 1-week prudent policy level (refer to Note 5 to the Consolidated Financial Statements entitled "*Cash, Foreign Currency, and Other Monetary Assets*").

The $71.9 billion decrease in "*Fund Balance*" reflects additional disbursements made in FY 2022 in support of our COVID-19 financial assistance programs.

The *"Taxes, Interest, and Other Receivables, Net"*, primarily comprised of federal taxes receivable, decreased by $66.6 billion principally due to FY 2021 payments on the employer portion of the *Federal Insurance Contributions Act* (FICA) Social Security taxes owed to us, which had been deferred for two-years pursuant to the CARES Act (refer to Note 8 to the Consolidated Financial Statements entitled *Taxes, Interest, and Other Receivables, Net*).

Other assets also reflect decreases of $44.1 billion in "*Advances to Trust Funds*" and $30.9 billion in "*Advances and Prepayments,*" respectively. The decrease in Advances to Trust Funds is a result of states and HHS repaying their outstanding borrowings from the Unemployment Trust Fund and Federal Supplementary Medical Insurance Trust Fund, respectively, to the General Fund (refer to Note 3 within the Consolidated Financial Statements). The decrease in "*Advances and Prepayments*" represents additional liquidation of advances paid to state, local, territorial, and Tribal governments pursuant to the COVID-19 related legislations enacted during FY 2021 and FY 2020 (refer to Note 10 within the Consolidated Financial Statements).

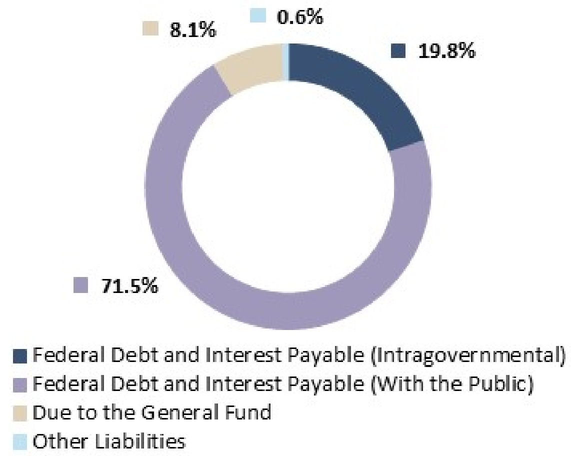


Figure 3: FY 2022 Total Liabilities (Composition)

Total Liabilities of $34.0 trillion at September 30, 2022 principally consist of the federal debt held by the public, including interest, of $24.3 trillion (Figure 3), which was mainly issued as Treasury Notes, Bonds, and Bills. Liabilities also include intra-governmental liabilities totaling $9.5 trillion (of which $6.7 trillion represent principal and interest of federal debt in the form of Treasury securities held by other federal agencies), and various other liabilities totaling $189.9 billion. Federal debt, including interest, held by the public and other federal agencies together totaled $31.0 trillion at the end of FY 2022, an increase of $2.5 trillion over the prior year. This increase in the federal debt accounts for the $2.4 billion (or 7.4 percent) increase in total liabilities over the prior year. Federal debt is needed to finance the U.S. government's operations, including our continued financial support of the COVID-19 recovery efforts.

Total Net Position of $855.8 billion at September 30, 2022 represents the combined total of our cumulative results of operations and unexpended appropriations at the end of the fiscal year. The $109.1 billion decrease in the net position at the end of FY 2022 was principally attributable to a $322.0 billion decrease in appropriations received in FY 2022 as the prior year included appropriations received pursuant to CAA and ARP in connection with implementing pandemic relief programs.

This decrease was partially offset by an increase in appropriations used primarily in connection with financing the interest charges on the public debt and disbursements under the pandemic relief program.

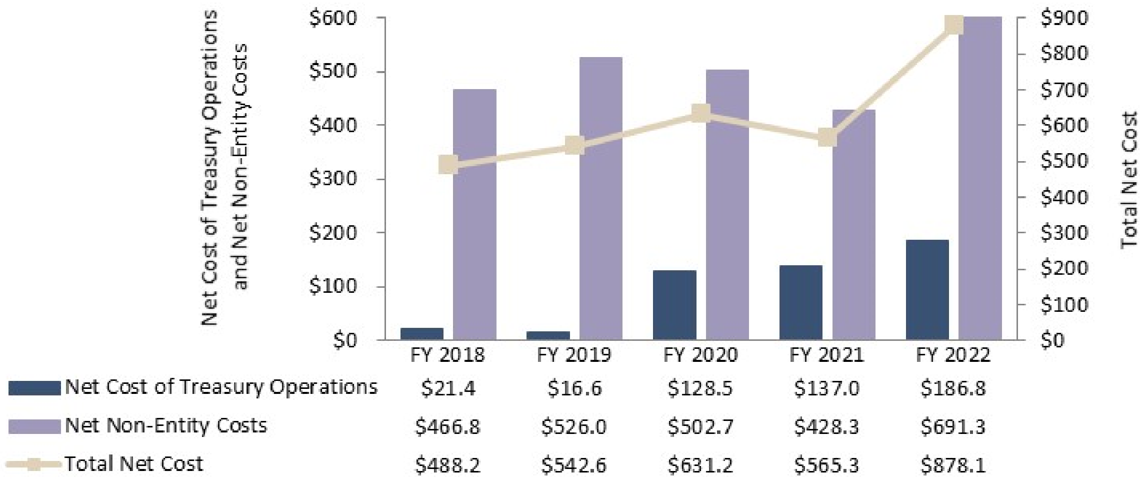


Figure 4: Net Cost of Treasury Operations and Non-Entity Costs (*in billions*)

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*" represents 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 $878.1 billion and $565.3 billion for FY 2022 and FY 2021, respectively, an increase of $312.8 billion (or 55.3 percent) over the prior year. Net costs associated with our entity operations (*"Net Cost of Treasury Operations"*) increased $49.8 billion year-over-year primarily as a result of increased costs associated with our pandemic relief programs. Net costs associated with our non-entity operations ("*Net Non-Entity Costs*") also increased by $263.0 billion year-over-year, primarily driven by a combination of $147.6 billion of higher federal debt interest costs and $109.1 billion of decreased revenue from our GSE investments.

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 based on the costs and revenues associated with three major program segments for achieving Treasury's mission—Financial, Economic, and Security (Figure 5). The following is a description of each program segment as it relates to our mission.

Table 2: Program Segments by Treasury Mission

Program Segments	Treasury Mission
Financial Program	Managing the government's finances and resources effectively, protecting the integrity of financial systems that are critical to the nation's financial infrastructure, and fostering improved governance in financial institutions
Economic Program	Promoting economic prosperity and maintaining stability, encouraging sustainable and global economic growth
Security Program	Enhancing national security by implementing economic sanctions against foreign threats to the U.S., identifying and targeting the financial support networks of national security threats, and improving the safeguards of the financial systems

Our *"Net Cost of Treasury Operations"* totaled $186.8 billion for FY 2022 compared to $137.0 billion for FY 2021, an increase of $49.8 billion (or 36.3 percent). This increase primarily stems from the year-over-year $43.3 billion net increase in costs associated with COVID-19 pandemic relief efforts (refer to Note 10 of the Consolidated Financial Statements).

Federal Debt Interest Costs, Net (*a non-entity cost*) totaling $675.9 billion for FY 2022 primarily reflect interest expense on the federal debt, net of interest income on loans. This net cost increased $150.0 billion (or 28.5 percent) from the prior year, primarily attributable to an increase in inflation adjustments, an increase in interest rates, and an increase in outstanding debt held by the public.

Other Federal Costs, Net (*a non-entity cost*) of $17.2 billion in FY 2022 decreased by $6.4 billion from the prior year primarily due to decreased Court of Claims judgment expenses for payments to health insurance companies related to the *Affordable Care Act*.

GSEs Non-Entity Cost (Revenue), Net (*a non-entity cost or revenue*) is reported as a net revenue totaling $2.9 billion and $112.0 billion for FY 2022 and FY 2021, respectively. 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 asset value of our GSE investments grew slightly by $2.9 billion in FY 2022 compared to 2021, reflecting a fair value loss in our senior preferred stock and warrants of $27.9 billion in FY 2022, which was more than offset by a $30.8 billion growth in the liquidation preference of the senior preferred stock. The FY 2022 $27.9 billion fair value loss when compared to the $80.1 billion fair value gain in the prior year, resulted in a year-over-year loss of $108.0 billion as reflected in the current fiscal year's net costs of non-entity operations. The $108.0 billion year-over-year fair value loss, coupled with a $1.1 billion year-over-year decrease in our senior preferred stock liquidation preference (discussed below), resulted in a total $109.1 billion year-over-year change in this line.

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, 2022 and 2021 as the GSEs' had not achieved their capital requirement as of the fiscal years ended (refer to Note 11 to the Consolidated Financial Statements).

As compensation to Treasury for the replacement of the dividend, the SPSPA amendments call for the liquidation preference of the GSEs' senior preferred stock to increase by a specified amount until each GSE has achieved its capital reserve requirement. The liquidation preference of our senior preferred stock increased in value by $30.7 billion in FY 2022 compared to $31.8 billion in FY 2021, pursuant to the amended SPSPA, which had the effect of increasing the year-over-year net costs of non-entity operations by $1.1 billion. 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*) primarily reflects fair value losses or gains recognized on financial instruments received from U.S. airlines in FY 2020 and 2021 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 CAA and ARP in FY 2021, the U.S. government received promissory notes and common stock warrants for providing financial support to the aviation industry. We recognized a fair value loss of $1.9 billion in FY 2022 compared to an $8.9 billion fair value gain in FY 2021 on these instruments.

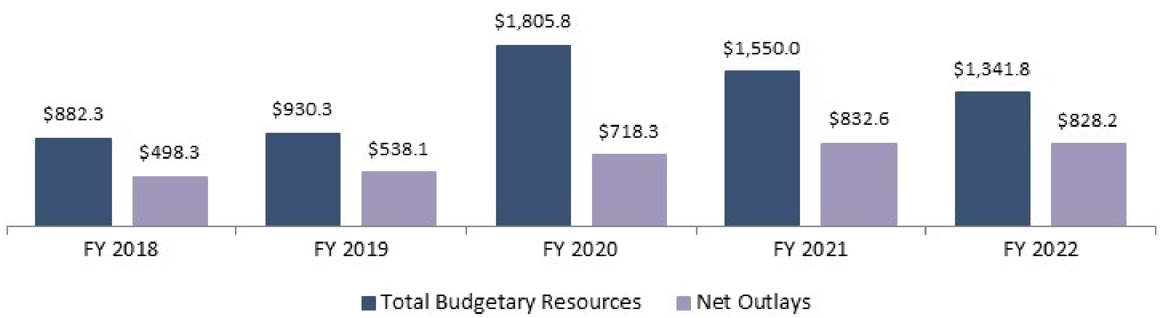


Figure 6 : Total Budgetary Resources and Agency Outlays, Net (*in billions*)

Total Budgetary Resources of $1.3 trillion in FY 2022 (Figure 6) decreased by $208.2 billion (or 13.4 percent), primarily due to a $428.7 billion year-over-year reduction in unobligated balances brought forward from the prior years, partially offset by a $229.3 billion increase in appropriations. 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.

The $229.3 billion increase in appropriations stems primiarly from a $156.3 billion year-over-year increase in new resources required to finance the increased public debt (including increased inflation adjustments and avergae interest rates), and $77.9 billion of new resources received to implement the provisions of the *Inflation Reduction Act* (IRA) which was passed into law in August 2022. The IRA authorizes the IRS to offer tax incentives for climate-friendly investments.

Agency Outlays, Net of $828.2 billion were slightly lower in FY 2022 (Figure 6) by $4.4 billion (or 0.5 percent) primarily due to a year-over-year decrease in outlays in the form of financial assistance payments to states, territorial, local, and Tribal governments, as well as to the air carrier industry, in response to the COVID pandemic. This was mostly offset by an increase in federal debt interest costs as discussed above.

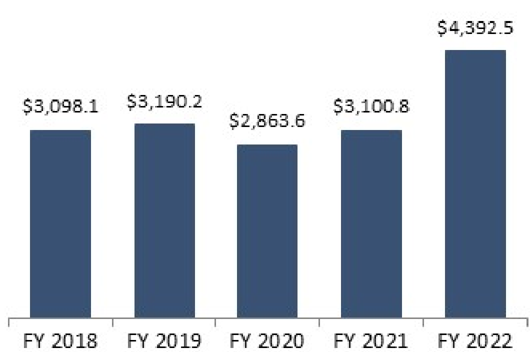


Figure 7 : Net Revenue Received (Custodial) (*in billions*)

Net Revenue Received (Custodial), representing the net revenue we collect 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 $4.4 trillion for FY 2022, an increase of $1.3 trillion (or 41.6 percent) over the prior fiscal year. This increase is attributable mainly to an overall growth in income tax collections, primarily from individuals and corporations, coupled with decreased tax refunds and other payments that we issued to individuals in the prior fiscal year pursuant to the ARP, CAA, and CARES Act to help stimulate the economy through taxpayer support payments. In FY 2022 and FY 2021, the IRS disbursed $89.2 billion and $625.8 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, 2022. In addition, we can provide reasonable assurance that, as of September 30, 2022, 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, 2022. However, we were successful this year in downgrading a major component of one of our significant deficiencies, related to the Fiscal Service's debt management systems.

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 systems requirements. Additional information on the lack of compliance can be found in Part 3, Section A, of this report.

Janet L. Yellen

Janet L. Yellen
Secretary of the Treasury
November 15, 2022

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 our 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 OMB Circular A-123, Appendix A, *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 testing 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, 2022.

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.

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 a 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, 2022, 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 2022 to continue to enhance its 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 systems. During FY 2022, we were successful in downgrading a major component of the long-standing significant deficiency related to Fiscal Service's 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 our 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 our 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; and
- 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 monthly. 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). The shared service approach enables bureaus and offices to access core financial systems without maintaining 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, to support new financial management requirements and to support data-driven financial decision making by management. In FY 2022, we performed assessment activities related to potentially modernizing and replacing certain FARS applications.

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 we remediate security weaknesses we identify through those assessments 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. Representatives of the OIG evaluate our compliance with FISMA annually.

We continue to focus on financial innovation and transformation. For example, in FY 2022, we worked toward mandating bureaus that broker buy/sell transactions use of the government-wide G-Invoicing solution to reduce intragovernmental differences. During FY 2022, we continued to partner closely with federal agencies and system vendors to encourage them to adopt G-Invoicing and ensure overall readiness for mandate compliance. In FY 2022, ARC implemented more than 17 Robotic Process Automations (RPAs) to improve efficiency, timeliness, and quality in its service operations and business processes, for a total of 101 RPAs implemented to date.

OTHER LAWS

In May 2022, we reported three violations of the Antideficiency Act (ADA) to the President, the President of the Senate, the Speaker of the House of Representatives, and the Comptroller General, in accordance with 31 U.S.C. § 1517(b). The three violations occurred in our *Guam World War II Claims Fund,* in the amounts of $3,478,000.00, $2,086,472.33, and $2,078,541.12, and occurred between March 2020 and January 2021. All three instances were the result of obligations exceeding the applicable apportionment, although one also resulted in expenditures exceeding the apportionment. The violations occurred because the Guam claims program has a unique statutory requirement for certification of payments. Specifically, because the Guam claimants are assured of receiving 100 percent of their awards upon the Department of Justice's Foreign Claims Settlement Commission's (the "Commission") certification of the claim to the Fiscal Service, the obligations occur at the time of the Commission's certifications. The Commission and the Fiscal Service were unaware of the timing of the obligations in the Guam claims programs and therefore lacked appropriate processes and controls to prevent obligations and expenditures from exceeding related apportionments. After identifying these violations, the Fiscal Service took prompt action to establish appropriate processes and controls to ensure that such violations will not recur.

Other than the three related violations noted above, we are not aware of any other violations of the ADA.

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

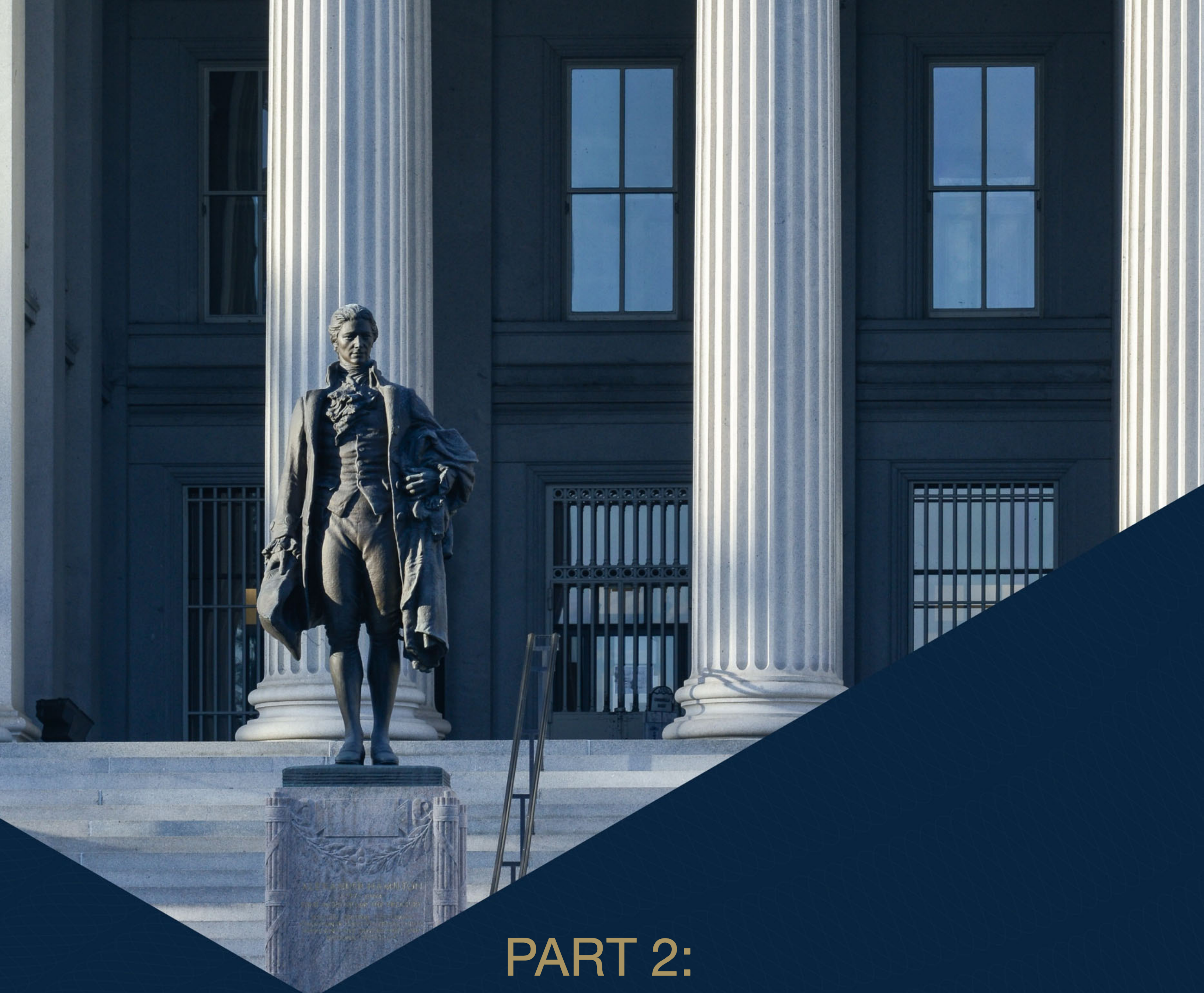
In FY 2022, we completed a full program inventory and performed risk assessments to identify programs that have a significant risk of improper payments. We perform our assessment of each program on a three-year rotational schedule, excluding the Earned Income Tax Credit (EITC), the American Opportunity Tax Credit (AOTC), the Additional Child Tax Credit (ACTC), and the net Premium Tax Credit (PTC), using the eleven qualitative risk factors identified in OMB Circular A-123, Appendix C, *Requirements for Payment integrity Improvement*. We 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 net PTC were susceptible to significant improper payments.

The EITC, AOTC, ACTC and net PTC are refundable tax credits that offset income tax taxpayers owe. 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 2022, 31.6 percent ($18.2 billion) of the total EITC payments of $57.5 billion were improper. For the AOTC, the IRS estimates that for FY 2022, 36.1 percent ($2.0 billion) of the total payments of $5.6 billion were improper. For the ACTC, the IRS estimates that for FY 2022, 15.8 percent ($5.2 billion) of the total payments of $32.8 billion were improper. For Net PTC, the IRS estimates that for FY 2022, 27.4 percent ($578.0 million) of the total payments of $2.1 billion were improper. The IRS has a robust enforcement program for its refundable tax credits which consist of examinations and audits, math error notices, and document matching.

We are reporting improper payment estimates for these four 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 B: *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 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 at https://paymentaccuracy.gov/.



PART 2:

FINANCIAL SECTION


THE TREASURY DEPARTMENT

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

Anna Canfield Roth
Acting Assistant Secretary for Management

Carole Y. Banks
Deputy Chief Financial Officer

In fiscal year 2022, Treasury pursued an aggressive set of initiatives to manage the Department more efficiently and implement the President's Management Agenda. Treasury took a leadership role in undertaking some of the government's most persistent challenges: continue improving workplace safety and planning for our future workspace as we hopefully move towards a post-pandemic environment; further promoting diversity, equity, inclusion, and accessibility; eliminating improper payments; modernizing information technology, improving workforce performance, leveraging data as a strategic asset, and delivering excellent financial management services.

In fiscal year 2022, we also demonstrated effective fiscal and management leadership by:

- establishing or refining complex accounting and internal controls in support of ongoing economic recovery programs created under the *Coronavirus Aid, Relief, and Economic Security Act of 2020*, *Consolidated Appropriations Act, 2021*, and the *American Rescue Plan Act of 2021*;
- improving our data infrastructure through establishing a data literacy framework to further support *Financial Data Transparency Act* data standardization efforts;
- developing Treasury's Climate Action Plan, which includes assessing our financial investments in property and the procurement of renewable energy credits and energy-savings performance contracts; 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 our consolidated financial statements for the 23rd consecutive year. We were successful this past year in downgrading a major component of our significant deficiency related to the Bureau of the Fiscal Service's debt management systems. Despite the complexity of Treasury's financial systems, we continue to make steady progress toward fully resolving all remaining deficiencies associated with our systems.

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.

Anna Canfield Roth	Carole Y. Banks
Acting Assistant Secretary for Management	Deputy Chief Financial Officer
November 15, 2022	November 15, 2022

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Pages 53 - 61 have been moved to the front of this report prior to Section II:
For the Memorandum for the Secretary (was 53-54, now pages E - F);
For the Independent Auditors' Report (was 55-60, now pages I - N); and
For Management's Response (was 61, now page O).

Consolidated Balance Sheets

As of September 30, 2022 and 2021

(in millions)	2022	2021
ASSETS		
Intra-Governmental		
Fund Balance (Note 2)	$ **554,590**	$ 626,456
Loans Receivable:		
Loans and Interest Receivable (Note 3)	**1,611,875**	1,794,390
Advances to Trust Funds (Note 3)	**47,298**	91,378
Other Assets:		
Due From the General Fund (Note 4)	**31,064,578**	28,810,092
Other (Note 15)	**1,370**	1,328
Total Intra-Governmental	**33,279,711**	31,323,644
Other Than Intra-Governmental		
Cash and Other Monetary Assets:		
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	**784,073**	379,105
Gold and Silver Reserves (Note 6)	**11,062**	11,062
Reserve Position in the International Monetary Fund (Note 7)	**31,334**	32,743
Accounts Receivable, Net:		
Taxes, Interest, and Other Receivables, Net (Note 8)	**238,027**	304,629
Loans Receivable, Net:		
Loans and Interest Receivable, Net (Notes 7 and 10)	**12,072**	14,621
Credit Program Receivables, Net (Notes 9 and 10)	**3,415**	4,073
Advances and Prepayments (Note 10)	**225,180**	256,072
Investments in Government Sponsored Enterprises (GSEs) (Note 11)	**223,720**	220,860
Investments in Special Purpose Vehicles (Note 10)	**17,835**	25,579
Other Investments:		
Investments in Multilateral Development Banks (Note 12)	**8,727**	8,466
Other, Net (Notes 10 and 13)	**6,799**	6,164
General Property, Plant, and Equipment, Net (Note 14)	**3,072**	2,996
Other Assets (Note 15)	**1,867**	1,058
Total Other Than Intra-Governmental	**1,567,183**	1,267,428
Total Assets	$ **34,846,894**	$ 32,591,072

Heritage Assets (Note 14)

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

Consolidated Balance Sheets

As of September 30, 2022 and 2021

(in millions)	2022	2021
LIABILITIES		
Intra-Governmental		
Federal Debt and Interest Payable:		
Federal Debt and Interest Payable (Notes 4 and 16)	$ **6,717,361**	$ 6,225,208
Other Federal Debt and Interest Payable (Note 17)	**4,878**	6,093
Other Liabilities:		
Due To the General Fund (Note 4)	**2,768,781**	2,649,003
Liability for Restoration of Federal Debt Principal and Interest (Notes 4 and 16)	**-**	60,562
Other (Note 19)	**1,551**	1,675
Total Intra-Governmental	**9,492,571**	8,942,541
Other Than Intra-Governmental		
Federal Debt and Interest Payable (Notes 4 and 16)	**24,308,695**	22,325,218
Accounts Payable:		
Refunds Payable (Note 4)	**6,961**	6,249
Other Payables	**1,402**	1,096
Other Liabilities:		
Special Drawing Right Certificates Issued to the Federal Reserve (Note 5)	**5,200**	5,200
Allocation of Special Drawing Rights (Note 5)	**147,009**	161,825
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)	**8,461**	8,010
Liability for Restoration of Federal Debt Principal and Interest (Notes 4 and 16)	**-**	157,035
Other (Note 19)	**9,776**	8,005
Total Other Than Intra-Governmental	**24,498,541**	22,683,675
Total Liabilities (Note 19)	**33,991,112**	31,626,216
Commitments and Contingencies (Note 27)		
NET POSITION		
Unexpended Appropriations		
Funds from Dedicated Collections (Note 24)	**200**	200
Funds from Other than Dedicated Collections	**785,761**	878,410
Total Unexpended Appropriations	**785,961**	878,610
Cumulative Results of Operations		
Funds from Dedicated Collections (Note 24)	**45,259**	49,178
Funds from Other than Dedicated Collections	**24,562**	37,068
Total Cumulative Results of Operations	**69,821**	86,246
Total Net Position (Note 20)	**855,782**	964,856
Total Liabilities and Net Position	$ **34,846,894**	$ 32,591,072

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

Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2022 and 2021

(in millions)	2022	2021
COST OF TREASURY OPERATIONS:		
Financial Program		
Gross Cost	**$ 25,708**	$ 24,716
Less Earned Revenue	**(10,511)**	(10,464)
Net Program Cost	**15,197**	14,252
Economic Program		
Gross Cost (Note 10)	**190,762**	129,707
Less Earned Revenue	**(20,173)**	(7,692)
Net Program Cost	**170,589**	122,015
Security Program		
Gross Cost	**548**	515
Less Earned Revenue	**(28)**	(26)
Net Program Cost	**520**	489
Total Program Gross Costs	**217,018**	154,938
Total Program Earned Revenues	**(30,712)**	(18,182)
Total Net Program Cost before Changes in Actuarial Assumptions	**186,306**	136,756
Loss on Pension, ORB, or OPEB Assumption Changes	**519**	243
Total Net Cost of Treasury Operations (Note 21)	**186,825**	136,999
NON-ENTITY COSTS:		
Federal Debt Interest	**722,233**	574,594
Restoration of Foregone Federal Debt Interest (Note 16)	**726**	-
Less Interest Revenue from Loans	**(47,064)**	(48,665)
Federal Debt Interest Costs, Net	**675,895**	525,929
Accrued Restoration of Foregone Federal Debt Interest (Note 16)	**-**	409
Other Federal Costs, Net (Note 21)	**17,180**	23,566
GSEs Non-Entity Revenue, Net (Note 11)	**(2,860)**	(111,950)
COVID-19 Non-Entity Cost (Revenue), Net (Note 10)	**1,945**	(8,937)
Other, Net	**(858)**	(721)
Total Net Non-Entity Costs	**691,302**	428,296
Total Net Cost of Treasury Operations and Non-Entity Costs	**$ 878,127**	$ 565,295

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

Consolidated Statement of Changes in Net Position
For the Fiscal Year Ended September 30, 2022

(in millions)	Consolidated Funds from Dedicated Collections	Consolidated Funds from Other than Dedicated Collections	Eliminations	2022 Total
UNEXPENDED APPROPRIATIONS (Notes 20 and 24)				
Beginning Balance	$ 200	$ 878,410	$ -	$ 878,610
Appropriations Received (Note 10)	-	802,456	-	802,456
Appropriations Transferred In/Out	-	200	-	200
Other Adjustments (Note 10)	-	(18,236)	-	(18,236)
Appropriations Used (Note 10)	-	(877,069)	-	(877,069)
Net Change in Unexpended Appropriations	-	(92,649)	-	(92,649)
Total Unexpended Appropriations	200	785,761	-	785,961
CUMULATIVE RESULTS OF OPERATIONS (Notes 20 and 24)				
Beginning Balance	49,178	37,068	-	86,246
Appropriations Used (Note 10)	-	877,069	-	877,069
Non-Exchange Revenue	453	(1)	(41)	411
Donations and Forfeitures of Cash/Equivalent	721	-	-	721
Transfers In/Out Without Reimbursement	(691)	547	(3)	(147)
Donation/Forfeiture of Property	172	-	-	172
Accrued Interest and Discount on Debt	-	38,873	-	38,873
Accrued Interest on Restoration of Federal Debt Principal (Note 16)	-	(409)	-	(409)
Imputed Financing Sources (Note 21)	71	709	-	780
Transfers to the General Fund and Other	554	(56,322)	-	(55,768)
Net Cost of Treasury Operations and Non-Entity Costs	(5,199)	(872,972)	44	(878,127)
Net Change in Cumulative Results of Operations	(3,919)	(12,506)	-	(16,425)
Total Cumulative Results of Operations	45,259	24,562	-	69,821
Net Position	$ 45,459	$ 810,323	$ -	$ 855,782

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

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

(in millions)	Consolidated Funds from Dedicated Collections	Consolidated Funds from Other than Dedicated Collections	Eliminations	2021 Total
UNEXPENDED APPROPRIATIONS (Notes 20 and 24)				
Beginning Balance	$ 200	$ 903,758	$ -	$ 903,958
Appropriations Received (Note 10)	-	1,124,489	-	1,124,489
Appropriations Transferred In/Out	-	50	-	50
Other Adjustments (Note 10)	-	(488,673)	-	(488,673)
Appropriations Used (Note 10)	-	(661,214)	-	(661,214)
Net Change in Unexpended Appropriations	-	(25,348)	-	(25,348)
Total Unexpended Appropriations	200	878,410	-	878,610
CUMULATIVE RESULTS OF OPERATIONS (Notes 20 and 24)				
Beginning Balance	48,844	94,539	-	143,383
Appropriations Used (Note 10)	-	661,214	-	661,214
Non-Exchange Revenue	443	2	(4)	441
Donations and Forfeitures of Cash/Equivalent	285	-	-	285
Transfers In/Out Without Reimbursement	(250)	(394)	-	(644)
Donation/Forfeiture of Property	185	-	-	185
Accrued Interest and Discount on Debt	-	22,591	-	22,591
Accrued Interest on Restoration of Federal Debt Principal (Note 16)	-	409	-	409
Imputed Financing Sources (Note 21)	80	682	-	762
Transfers to the General Fund and Other	849	(177,934)	-	(177,085)
Net Cost of Treasury Operations and Non-Entity Costs	(1,258)	(564,041)	4	(565,295)
Net Change in Cumulative Results of Operations	334	(57,471)	-	(57,137)
Total Cumulative Results of Operations	49,178	37,068	-	86,246
Net Position	$ 49,378	$ 915,478	$ -	$ 964,856

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

Combined Statement of Budgetary Resources
For the Fiscal Year Ended September 30, 2022

(in millions)	Budgetary	Non-Budgetary Financing	2022 Total
BUDGETARY RESOURCES			
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 22)	$ 489,225	$ 313	$ 489,538
Appropriations (discretionary and mandatory) (Notes 10 and 20)	834,390	-	834,390
Borrowing authority (discretionary and mandatory)	-	5,463	5,463
Spending authority from offsetting collections (discretionary and mandatory)	11,571	834	12,405
Total Budgetary Resources	$ 1,335,186	$ 6,610	$ 1,341,796
STATUS OF BUDGETARY RESOURCES			
New obligations and upward adjustments (Note 10)	$ 930,261	$ 6,316	$ 936,577
Unobligated balance, end of year:			
Apportioned, unexpired accounts	306,461	216	306,677
Exempt from apportionment, unexpired accounts	1,935	-	1,935
Unapportioned, unexpired accounts	95,808	78	95,886
Unexpired unobligated balance, end of year	404,204	294	404,498
Expired unobligated balance, end of year	721	-	721
Unobligated balance, end of year	404,925	294	405,219
Total Status of Budgetary Resources	$ 1,335,186	$ 6,610	$ 1,341,796
OUTLAYS, NET, AND DISBURSEMENTS, NET			
Outlays, net (discretionary and mandatory)	$ 893,311	$ -	$ 893,311
Distributed offsetting receipts	(65,142)	-	(65,142)
Agency Outlays, Net (Discretionary and Mandatory)	$ 828,169	$ -	$ 828,169
Disbursements, net (mandatory)		$ (4,722)	$ (4,722)

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)	-	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.

Statements of Custodial Activity
For the Fiscal Years Ended September 30, 2022 and 2021

(in millions)	2022	2021
SOURCES OF CUSTODIAL REVENUE (Note 23)		
Individual Income and FICA Taxes	$ **4,308,098**	$ 3,594,002
Corporate Income Taxes	**475,871**	419,009
Estate and Gift Taxes	**33,355**	28,046
Excise Taxes	**90,240**	78,534
Railroad Retirement Taxes	**6,148**	5,307
Unemployment Taxes	**7,046**	6,276
Deposit of Earnings, Federal Reserve System	**106,675**	100,054
Fines, Penalties, Interest and Other Revenue	**7,305**	7,843
Total Revenue Received	**5,034,738**	4,239,071
Less Refunds and Other Payments (Note 10)	**(642,230)**	(1,138,267)
Net Revenue Received	**4,392,508**	3,100,804
Non-Cash Accrual Adjustment	**(66,747)**	63,958
Total Custodial Revenue	**4,325,761**	3,164,762
DISPOSITION OF CUSTODIAL REVENUE (Note 23)		
Amounts Provided to Fund Non-Federal Entities	**421**	528
Amounts Provided to Fund the Federal Government	**4,392,087**	3,100,276
Non-Cash Accrual Adjustment	**(66,747)**	63,958
Total Disposition of Custodial Revenue	**4,325,761**	3,164,762
Net Custodial Revenue	$ **-**	$ -

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

NOTES TO THE FINANCIAL STATEMENTS

TABLE OF CONTENTS

1. Summary of Significant Accounting Policies

A. Reporting Entity

The accompanying financial statements include the operations of the 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), Office of Recovery Programs (ORP), 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) 2022 and 2021 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 we use 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 2021 activity and balances presented on the financial statements to conform to the presentation in the current year. In FY 2022, we changed the classification of certain of our reporting entities' program gross costs and earned revenues as reported on the Consolidated Statements of Net Cost to better align them based on their core function and responsibility. We reclassified corresponding gross costs and earned revenues reported for the prior fiscal year to conform to the current year's presentation (refer to Note 21). Furthermore, in FY 2022, we changed the presentation of the Consolidated Balance Sheets in accordance with revisions in OMB Circular No. A-136. We reclassified corresponding balances reported for the prior fiscal year 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 Receivable – Intra-Governmental

Loans and Interest Receivable

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.

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.

E. 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.

Foreign currency and Foreign Currency Denominated Assets (FCDAs) represent foreign deposit accounts and securities with original maturities of three months.

Special Drawing Rights (SDR) holdings comprise most of the other monetary assets (refer to the accounting policy below entitled "*Special Drawing Rights*").

F. Taxes, Interest, and Other Receivables, Net

We do not accrue federal taxes receivable, net, and the corresponding liability due to the General Fund, until the taxpayer files related tax returns, or the IRS makes assessments and either the taxpayer or the court agrees to them. 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 U.S.. 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 that 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.

G. Loans Receivable, Net – Other Than Intra-Governmental

Loans and Interest Receivable, Net

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 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*, P.L. 116-136 (CARES Act), *Consolidated Appropriations Act, 2021*, P.L. 116-260 (CAA), and *American Rescue Plan Act of 2021*, P.L. 117-2 (ARP) (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 borrowers make this PIK election.

This receivable is an asset of the U.S. government, and we are precluded from using the cash proceeds realized from the financial instruments we receive. 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 "*Loans 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. We derived the fair value of the notes portfolio 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 Cost (Revenue), Net*" line of the Consolidated Statements of Net Cost. This receivable also results in a corresponding increase to "*Due To the General Fund*."

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.

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 we use 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;
- forward interest rates;

- historical prepayments;
- option adjusted spread;
- default and recovery reports Moody's and Standard and Poor's publish;
- modeled asset prices from third-party market sources; and
- forecast and historical Special Purpose Vehicles (SPVs) 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.

H. Advances and Prepayments

We issue advances to COVID-19 pandemic-related recovery financial assistance 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 when disbursed within the "*Advances and Prepayments*" 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.

I. Investments

Investments in GSEs

We hold senior preferred stock and warrants for the purchase of common stock of two GSEs: the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). We present these non-federal investment holdings at their fair value (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. We estimate the value of the senior preferred stock 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). We base the fair value of the total equity 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 Market. 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 Special Purpose Vehicles

Pursuant to the CARES Act enacted in FY 2020 in response to the COVID-19 pandemic, we hold preferred equity investments in SPVs the Board of Governors of the Federal Reserve System (Federal Reserve Board or Board) established through the Federal Reserve Bank of New York (FRBNY) and Federal Reserve Bank of Boston (FRBB) to enhance the liquidity of the U.S. financial system (refer to Note 10). 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 entity exchange transactions on the Consolidated Statements of Net Cost.

The annual valuation of these investments as of September 30 incorporates various forecasts, projections and cash flow analyses to develop an estimate of the assets' fair value. We estimate the fair value of our SPV preferred equity investments based on a discounted cash flow valuation methodology which calculates the present value of the projected annual cash flows associated with these investments.

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

In connection with our Emergency Capital Investment Program established pursuant to the FY 2021 enactment of the CAA, we hold preferred stock and subordinate debt we received in exchange for our capital disbursed to low- and moderate-income community financial institutions to augment their efforts to support small businesses and consumers in their communities (refer to Notes 10 and 13). 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 entity exchange transactions on the Consolidated Statements of Net Cost. We recognize preferred stock dividend income when declared and interest income on subordinate debt when earned.

In connection with other emergency relief programs established in response to the COVID-19 pandemic, we also hold warrants for the purchase of common stock we 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 we received. We present these non-entity, non-federal investment holdings at their fair value (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 these investments 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 Cost (Revenue), Net*" line of the Consolidated Statements of Net Cost.

The annual valuation as of September 30 of the preferred stock, subordinate debt, and common stock warrants incorporates various forecasts, projections and cash flow analyses to develop an estimate of the assets' fair value. We estimate the fair value of our preferred stock, and subordinate debt 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 preferred stock is dividend rates; our subordinate debt primarily incorporates interest rates and percentage of deferred interest payments (interest deferral rates). Both our preferred stock and subordinate debt inputs include redemption rates, annual qualified lending growth rates, issuer credit scores, and market yield discount rates.

We estimate the fair value of our common stock warrants that are closely held 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.

The ESF holds most of our foreign currency investments (refer to Note 13). We present the ESF's foreign currency denominated assets and investment securities 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 relevant observable inputs and minimizes 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 we use 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 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. We capitalize major alterations and renovations, including leasehold and land improvements, while we charge maintenance and repair costs to expense as incurred. We record costs for construction projects as construction-in-progress until completed and value the costs 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 we successfully complete testing and final acceptances. 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.

We expense depreciation on a straight-line basis over the estimated useful life of the asset except for leasehold improvements and capital leases, which we depreciate over the term of the lease or the useful life of the improvement or asset, whichever is shorter. Service life ranges (two 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. We accrue interest costs as an expense as incurred and report the costs 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 we determine 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 the IMF created 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 because 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. We redeem certificates issued at such times and in such amounts as the Secretary may determine. The certificates 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 DOL adminsters the FECA program, 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 the DOL paid but which we have not yet reimbursed. The second component is the estimated liability for future workers compensation as a result of past events. We report both components in the *"Other"* line item within "*Other Liabilities*" on the Consolidated Balance Sheets. DOL generates these future workers' compensation estimates 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 employees earn, but have 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 the *"Other"* line item within "*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 16.6 percent and 18.4 percent for regular employees, and between 35.8 percent and 37.6 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, the OCC administers 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 we use 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 we use to determine the cost and actuarial liability for the D.C. Federal Pension Fund is the Projected Unit Credit Cost Method, which recognizes that participants have fully accrued all service and does not generate a normal cost. These methodologies base actuarial liabilities on long-term economic assumptions. The pension benefit costs the plans incur 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 it 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 decreases or increases 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, we recognize that amount. 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 we meet one or more, but not all, of the above criteria for recognition, 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

We finance our activities either through exchange revenue we receive from others or through non-exchange revenue and financing sources (such as appropriations the Congress provides and penalties, fines, and certain user fees we collect). 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 we earn it, *i.e.,* we delivered goods or rendered services. We recognize revenue from reimbursable agreements when providing services. We record non-exchange revenues when we receive them or when we accrue revenues due to a legal claim. We recognize appropriations used as financing sources when we incur related expenses or purchase assets.

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 we receive pursuant to laws law enforcement bureaus that participate in the TFF enforce or administer. We report forfeited property balances in other than intra-governmental "*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 other federal agencies collect, 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 we collect cash, 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. We record incurred obligations of appropriations 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. We record outlays when we make disbursements.

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 we use appropriations. 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. We use one permanent and indefinite appropriation to pay interest on the public debt securities, and use the other 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 the FCRA requires.

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 any governing body imposes, 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 our financial position in future periods. Transactions subject to estimates principally include our GSE and other non-federal investment holdings, loan and credit program receivables, credit reform subsidy costs, tax receivables, impairment to any of our investments and 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, 2022, the effects of any new developments that may have occurred subsequent to September 30, 2022.

We derive credit program receivables 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.

We estimate our non-federal investment holdings 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 fair value estimations."

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, we must remit excess residual proceeds we realize from our SPV capital contributions and direct loans to air carriers and other related businesses 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 we discuss 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 the GSEs receive 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

We account for 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 as an impairment, and reduce the carrying value 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 outweighs evidence to the contrary.

X. Credit, Market and Foreign Currency Risk

Credit risk is the potential, no matter how remote, for financial loss from a failure of a borrower or counterparty to perform in accordance with underlying contractual obligations. We take on possible credit risk when we make direct loans or guarantees to non-federal entities, provide credits to foreign entities, or become exposed to institutions that engage in financial transactions with foreign countries (refer to Note 13). The 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 funding commitments related to our COVID-19 and GSE programs; and GSE direct loans receivable 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. We describe the extent of the risk we assumed in more detail in the notes to the financial statements and, where applicable, we factor it into credit reform models and reflect it 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 that we use 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. We credit all allocation transfers of balances to this account, and charge subsequent obligations and outlays the child entity incurs to this allocation account as they execute the delegated activity on behalf of the parent. Parent federal agencies report both the proprietary and budgetary activity and the child agency does not report any financial activity related to budget authority allocated from the parent federal agency to the child federal agency. However, OMB guidance requires Treasury to report the activity when we receive allocation transfers, as the child, from the Executive Office of the President (see Circular No. A-136, II.3.1, *Parent-Child Reporting* for two exceptions).

We allocate funds, as the parent, to the DOL and HHS. Also, we receive allocation transfers, as the child, from HHS, Department of Justice (DOJ), the Department of Transportation, Agency for International Development, 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 we report an organization meeting the inclusion principles 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 the U.S. government owns and/or controls 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, 2022.

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 the FR System undertakes 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 we issue in which the certificates are collateralized by gold (refer to Note 6).
- The FRBs hold SDR certificates we issue 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 by providing 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 *William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021* (P.L. 116-283).

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. 116-283, if an FRB's earnings for the year are not sufficient to provide for the cost of operations, dividend payments, 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 $106.7 billion and $100.1 billion for fiscal years ended September 30, 2022 and 2021, respectively, are reported as custodial revenues on our Statements of Custodial Activity. They constituted 2.1 percent and 2.4 percent of our total custodial revenues collected in FY 2022 and 2021, 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 the Federal Reserve Board established through the FRBNY and FRBB to enhance 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 Receivable, Net – Other Than Intra-Governmental*," "*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 six 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 increases when we receive appropriations, reappropriations, continuing resolutions, appropriation restorations, and allocations; and when we receive transfers and reimbursements from other federal agencies. 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 we make disbursements 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 made to other federal entities, non-federal entities, or the General Fund; and due to sequestration or rescission of appropriations.

Status of Fund Balance

As of September 30, 2022 and 2021, the status of the fund balance consisted of the following:

(in millions)	2022	2021
Unobligated Balance - Available	**$ 308,612**	$ 445,017
Unobligated Balance - Not Available	**96,607**	44,143
Obligated Balance Not Yet Disbursed	**181,515**	175,467
Subtotal	**586,734**	664,627
Adjustment for ESF	**(188,154)**	(207,601)
Adjustment for Intra-Treasury Investments	**(10,481)**	(9,906)
Adjustment for Borrowing Authority	**(7,180)**	(6,117)
Adjustment for IMF	**150,041**	163,962
Adjustment for Authority Unavailable for Obligations	**17,371**	17,188
Other Adjustments	**6,259**	4,303
Total Status of Fund Balance	**$ 554,590**	$ 626,456

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 we ordered but have not received, or goods and services we received but for which payment has not yet been made. The decline in Unobligated Balance - Available is primarily due to the reduction in COVID-19 relief funding (refer to Note 10). The increase in Unobligated Balance - Not Available is primarily due to additional funding provided by the *Inflation Reduction Act* (IRA). In August 2022, Congress passed, and the President signed into law the IRA, which, among other things, addresses climate change by providing tax incentives.

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

- Adjustments for ESF – ESF investments in Treasury securities (which are eliminated on the Consolidated Balance Sheets), foreign investments, SDR holdings, and related balances that meet the criteria for reporting as part of budgetary resources are reported on the Combined Statements of Budgetary Resources; however, they are not a component of the Fund Balance as they represent invested funds.

- Adjustments for Intra-Treasury Investments – Budgetary resources include Treasury security investments; however, we have moved the money from the Fund Balance to Investments, which we eliminate on the Consolidated Balance Sheets;
- Adjustments for Borrowing Authority – Borrowing authority is in budgetary status reported on the Combined Statements of Budgetary Resources but not in the Fund Balance because we have not received the amounts.
- Adjustments for IMF – We report the funding we receive through appropriation warrants for IMF quota subscription and borrowing arrangement as a component of Fund Balance; however, we do not report the IMF transactions as budgetary resources and uses on the Combined Statements of Budgetary Resources (refer to Note 7); and
- Adjustment for Authority Unavailable for Obligations – Resources unavailable for obligations reduced the budgetary resources reported on the Combined Statements of Budgetary Resources; however, they do not impact the Fund Balance.

As of September 30, 2022 and 2021, 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 federal agencies issue, sell, or guarantee. 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, 2022 and 2021, entity intra-governmental loans (issued by FFB) and interest receivable consisted of the following:

(in millions)	Loans Receivable	Interest Receivable	2022 Total	Loans Receivable	Interest Receivable	2021 Total
Department of Agriculture	**$ 51,814**	**$ 30**	**$ 51,844**	$ 48,742	$ 30	$ 48,772
Department of Energy	**15,449**	**73**	**15,522**	15,904	72	15,976
United States Postal Service(1)	**10,000**	**39**	**10,039**	11,000	35	11,035
Department of Housing & Urban Development	**2,716**	**8**	**2,724**	2,630	8	2,638
Other Agencies	**623**	**3**	**626**	476	2	478
Total Entity Intra-Governmental	**$ 80,602**	**$ 153**	**$ 80,755**	$ 78,752	$ 147	$ 78,899

(1) The United States Postal Service (USPS) has experienced an operating deficit in the past fiscal years, including FY 2021. On April 6, 2022, the President signed the Postal Service Reform Act of 2022 ("PSRA"), enacted as Public Law 117-108. The objective of this legislation is to return the USPS to a sound financial position. We, along with Congress and other stakeholders, will continue monitoring the USPS progress towards this objective.

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

As of September 30, 2022 and 2021, 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	2022 Total	Loans Receivable	Interest Receivable	2021 Total
Department of Education	**$ 905,076**	**$ -**	**$ 905,076**	$ 1,221,382	$ -	$ 1,221,382
Small Business Administration	**362,801**	**-**	**362,801**	262,655	-	262,655
Department of Housing and Urban Development	**93,585**	**-**	**93,585**	66,289	-	66,289
Department of Agriculture	**87,342**	**-**	**87,342**	84,049	-	84,049
Department of Homeland Security	**20,533**	**-**	**20,533**	20,618	-	20,618
Department of Transportation	**16,066**	**-**	**16,066**	14,753	-	14,753
Export Import Bank of the U.S.	**13,501**	**-**	**13,501**	14,531	-	14,531
US International Development Finance Corporation	**8,965**	**-**	**8,965**	7,724	-	7,724
Department of Labor	**6,557**	**-**	**6,557**	6,353	-	6,353
Department of Energy	**6,442**	**31**	**6,473**	6,968	28	6,996
Railroad Retirement Board	**4,418**	**35**	**4,453**	4,567	38	4,605
Department of Defense	**1,598**	**-**	**1,598**	1,600	-	1,600
Environmental Protection Agency	**1,557**	**-**	**1,557**	747	-	747
Executive Office of the President Security Assistance Accounts	**1,022**		**1,022**	1,652		1,652
Other Agencies	**1,591**	**-**	**1,591**	1,537	-	1,537
Total Non-Entity Intra-Governmental	**$ 1,531,054**	**$ 66**	**$ 1,531,120**	$ 1,715,425	$ 66	$ 1,715,491
Total Intra-Governmental Loans and Interest Receivable (Entity and Non-Entity)	**$ 1,611,656**	**$ 219**	**$ 1,611,875**	$ 1,794,177	$ 213	$ 1,794,390

ADVANCES TO TRUST FUNDS

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. 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 DOL's and HHS's repayment of these advances to the General Fund.

As of September 30, 2022 and 2021, Advances to Trust Funds consisted of the following:

(in millions)		Loans Receivable	Interest Receivable	2022 Total	Loans Receivable	Interest Receivable	2021 Total
Advances to the Unemployment Trust	$	**39,500 $**	**51 $**	**39,551** $	55,000 $	66 $	55,066
Advances to the Federal Supplementary Medical Insurance Trust Fund		**7,747**	**-**	**7,747**	36,312	-	36,312
Total Advances to Trust Funds	**$**	**47,247 $**	**51 $**	**47,298** $	91,312 $	66 $	91,378

Advances to these two trust funds decreased by a combined total of $44.1 billion from the end of the prior fiscal year, largely due to states and HHS repaying their outstanding borrowings from the Unemployment Trust Fund and Federal Supplementary Medical Insurance Trust Fund, respectively, to the General Fund.

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, 2022 and 2021, the General Fund liabilities we owed exceeded the assets we hold on behalf of the General Fund by $28.3 trillion and $26.2 trillion, respectively. This represents the amount the U.S. government needs, through a combination of future tax collections or continued borrowing from the public and federal agencies to meet its obligations.

As of September 30, 2022 and 2021, Due From the General Fund included the following non-entity liabilities:

Liabilities Requiring Funding from the General Fund (in millions)	2022	2021
Federal Debt and Interest Payable - Held by the Public (Note 16)	**$ 24,308,695**	$ 22,325,218
Federal Debt and Interest Payable - Intra-Governmental (Note 16)	**6,717,361**	6,225,208
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	**6,961**	6,249
Adjustment for Eliminated Liabilities	**31,561**	35,820
Total Due From the General Fund	**$ 31,064,578**	$ 28,810,092

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

As of September 30, 2022 and 2021, Due To the General Fund included the following non-entity assets:

Assets to be Distributed to the General Fund (in millions)	2022	2021
Fund Balance	**$ 3,147**	$ 2,958
Loans and Interest Receivable - Intra-Governmental (Note 3)	**1,531,120**	1,715,491
Advances to Trust Funds (Note 3)	**47,298**	91,378
Cash Due To the General Fund (Held by the Department) (Note 5)	**617,114**	198,396
Taxes and Other Non-Entity Receivables Due To the General Fund	**237,763**	303,806
Credit Reform Downward Subsidy Re-estimates	**84**	3,420
Loans and Interest Receivable, Net (Note 10)	**11,585**	13,684
Common Stock Warrant Investments (Notes 10 and 13)	**493**	847
Investments in Government Sponsored Enterprises (Note 11)	**223,720**	220,860
Adjustment for Eliminated Assets	**94,977**	96,679
Other	**1,480**	1,484
Total Due To the General Fund	**$ 2,768,781**	$ 2,649,003

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. We use it to administer programs such as the Presidential Election Campaign and payments for Legal Services Corporation and thus it is not available for our general use.

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 our Treasury reporting entities owe, which were eliminated against Loans and Interest Receivable Intra-governmental the Fiscal Service holds.

5. CASH, FOREIGN CURRENCY, AND OTHER MONETARY ASSETS

Cash, Foreign Currency, and Other Monetary Assets held as of September 30, 2022 and 2021 were as follows:

(in millions)	2022	2021
Entity:		
Cash	**$ 25**	$ 113
Foreign Currency and Foreign Currency Denominated Assets	**12,816**	15,669
Other Monetary Assets:		
Special Drawing Right Holdings	**153,596**	163,885
U.S. Dollars Held in Cash by the IMF	**319**	375
Total Entity	**166,756**	180,042
Non-Entity:		
Operating Cash of the U.S. government	**617,013**	198,313
Foreign Currency	**144**	169
Miscellaneous Cash Held by All Treasury Reporting Entities	**160**	581
Total Non-Entity	**617,317**	199,063
Total Cash, Foreign Currency, and Other Monetary Assets	**$ 784,073**	$ 379,105

We hold non-entity operating and other miscellaneous cash due to the General Fund which consisted of the following as of September 30, 2022 and 2021:

(in millions)	2022	2021
Operating Cash - FRB Account	**$ 635,994**	$ 215,160
Outstanding Checks	**(18,981)**	(16,847)
Total Operating Cash of the U.S. government	**617,013**	198,313
Miscellaneous Cash	**110**	92
Subtotal	**617,123**	198,405
Amounts Due to the Public	**(9)**	(9)
Total Cash Due to the General Fund (Note 4)	**$ 617,114**	$ 198,396

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, 2022 and 2021 using current exchange rates plus accrued interest.

Special Drawing Rights

The SDR is an international reserve asset the IMF created 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 the COVID-19 pandemic caused (the last increase was in 2009 due to the global economic crisis). During FY 2022, we purchased an additional 3.3 billion SDRs valued at $4.5 billion from 10 IMF participants. 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, 2022 and 2021, the total amount of SDR holdings of the U.S. (including interest receivable) was the equivalent of $153.6 billion and $163.9 billion, respectively. As of September 30, 2022 and 2021, the total value of SDR allocations to the U.S. was the equivalent of $147.0 billion and $161.8 billion, respectively. The outstanding SDR certificates issued to the Federal Reserve are valued at $5.2 billion which we reported as a liability on the Consolidated Balance Sheets as of September 30, 2022 and 2021.

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 increased by $418.7 billion at September 30, 2022 compared to the end of the prior fiscal year largely due to Treasury investment and borrowing policy decisions to manage the balance and timing of the government's cash position. During FY 2021, the debt ceiling constraints forced us to maintain a significantly lower operating cash balance. When the debt ceiling was increased in December 2021, we were able to bring the operating cash balance back to its 1-week prudent policy level.

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 the Secretary issued to the FRBs at the statutory rate, as provided in 31 USC 5117. Since 1934, we have issued Gold Certificates 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 U.S. Mint and the FRBs hold the gold and silver bullion reserves. We report these reserves 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 we disclose below are based on the London Gold Fixing. As of September 30, 2022 and 2021, the values of gold and silver reserves consisted of the following:

	FTOs	Statutory Rate	2022 Statutory Carrying Value (in millions)	Market Rate Per FTO	2022 Market Value (in millions)
Gold Held by U.S. Mint	**248,046,116**	**$ 42.2222**	**$ 10,473**	**$ 1,671.75**	**$ 414,671**
Gold Held by Federal Reserve Banks	**13,452,811**	**$ 42.2222**	**568**	**$ 1,671.75**	**22,490**
Total Gold	**261,498,927**		**11,041**		**437,161**
Silver	**16,000,000**	**$ 1.2929**	**21**	**$ 19.02**	**304**
Total Gold and Silver Reserves			**$ 11,062**		**$ 437,465**

	FTOs	Statutory Rate	2021 Statutory Carrying Value (in millions)	Market Rate Per FTO	2021 Market Value (in millions)
Gold Held by U.S. Mint	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

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 the IMF created—and partly by making domestic currency available as needed through a non-interest-bearing letter of credit. This letter of credit, which we issue and the FRBNY maintains, 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 the U.S. holds, and is available at any time to meet U.S. funding needs.

The U.S. quota is denominated in SDRs. As of September 30, 2022 and 2021, 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)	2022	2021
Letter of Credit (1)	**$ 74,708**	$ 83,965
Reserve Position (2)	**31,334**	32,743
Total U.S. Quota in the IMF	**$ 106,042**	$ 116,708

(1) We include Letter of Credit amounts 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) We report the Reserve Position amounts 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, 2022 and 2021, the U.S. quota reflects a net downward adjustment in value of $10.7 billion and a net upward adjustment in value of $0.1 billion, respectively, due to the appreciation and depreciation of the U.S. dollar against the SDR, respectively.

IMF Loans and Interest Receivable

In addition to quota subscriptions, the IMF maintains borrowing arrangements to supplement its resources in order to forestall or cope with an impairment of the international monetary system when IMF liquidity is low. The U.S. has the authority to participate in the NAB. When the U.S. transfers funds to the IMF under the NAB, the U.S. receives in exchange a liquid and interest-bearing claim on the IMF.

In accordance with 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, 2022 and 2021 was SDR 56.4 billion, which was equivalent to $72.2 billion and $79.5 billion, respectively. As of September 30, 2022 and 2021, under the U.S. NAB arrangement with the IMF, there was $0.5 billion and $0.9 billion, respectively, of U.S. loans outstanding, which we reported as "*Loans and Interest Receivable, Net*" on the Consolidated Balance Sheets. There was $0.4 billion in principal repayments during FY 2022.

8. Taxes, Interest, and Other Receivables, Net

As of September 30, 2022 and 2021, Taxes, Interest, and Other Receivables, Net consisted of the following:

(in millions)	2022	2021
Non-Entity		
Federal Taxes Receivable, Gross	**$ 437,271**	$ 493,275
Less Allowance on Taxes Receivable	**(201,200)**	(191,253)
Receivable on FRB Deposits of Earnings	**7**	267
Other Receivables	**1,814**	1,662
Less Allowance on Other Receivables	**(113)**	(137)
Total Non-Entity (Note 15)	**237,779**	303,814
Entity		
Miscellaneous Entity Receivables and Related Interest	**248**	815
Total Taxes, Interest, and Other Receivables, Net	**$ 238,027**	$ 304,629

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 Railroad Retirement Tax (RRTA), as provided for by the CARES Act. The decrease in the net federal taxes receivable amount is largely due to payments received for these deferrals.

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, 2022 and 2021, Credit Program Receivables, Net (including our Credit Program Receivables associated with our COVID-19 programs, which are discussed in Note 10) consisted of the following:

(in millions)	2022	2021
State and Local Housing Finance Agency Program (GSE sponsored)	**$ 1,083**	$ 1,416
Direct Loans to Air Carriers and Other Related Businesses (Note 10)	**1,046**	1,311
Other[1]	**1,286**	1,346
	$ 3,415	$ 4,073

(1) Includes CDFI, SBLF, and TARP credit program receivables valued at $1.2 billion, $36 million, and $3 million, respectively, as of September 30, 2022, and $1.3 billion, $36 million, and $4 million, respectively, as of September 30, 2021.

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 HFAs issued. As of September 30, 2022 and 2021, the HFA net credit program receivable of $1.1 billion and $1.4 billion, respectively, included a positive subsidy allowance of $184 million and $249 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, 2022 and 2021. These re-estimates resulted in a downward re-estimate, or a decrease in the cost of the program, of $55 million and $140 million as of September 30, 2022 and 2021, respectively. The downward re-estimates in FY 2022 and 2021 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.

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 and FY 2022, 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, including the *Coronavirus Aid, Relief, and Economic Security Act,* P.L. 116-136 (CARES Act), the *Consolidated Appropriations Act, 2021,* P.L. 116-260 (CAA), and the *American Rescue Plan Act of 2021,* P.L. 117-2 (ARP). The relief funding these legislative Acts provided helped reduce the financial burden on individuals and their families, minimized business and employment losses, and enhanced the liquidity of the U.S. financial system.

The tables below summarize our key budgetary resources, as of September 30, 2022 and 2021, for each Treasury program established under the three legislative Acts enacted in response to the COVID-19 pandemic:

(in millions)	Fiscal Year Ended September 30, 2022 Beginning Available Budgetary Resources	Rescissions and Other Adjustments (1)	Less: Obligations Incurred	Remaining Available Budgetary Resources
ARP Authority				
Economic Impact Payments to Individuals	$ -	$ 10,534	$ (10,534)	$ -
Advances for Child Tax Credits	-	46,649	(46,649)	-
Other COVID-19 Related Tax Credits	-	29,470	(29,470)	-
Total Taxpayer Support Programs	-	86,653	(86,653)	-
Coronavirus State and Local Fiscal Recovery Funds	107,066	-	(107,000)	66
Emergency Rental Assistance	13,084	-	(12,690)	394
Homeowners Assistance Fund	8,988	-	(8,959)	29
Coronavirus Capital Projects Fund	10,000	-	(9,873)	127
State Small Business Credit Initiative	9,994	(100)	(4,370)	5,524
Local Assistance and Tribal Consistency Fund	2,000	-	(2,000)	-
Total State, Local, Territorial, and Tribal Programs	151,132	(100)	(144,892)	6,140
Payroll Support to Aviation Workers	329	-	29	358
Total American Industry and Financial Markets Programs	329	-	29	358
Total ARP Authority (2)	$ 151,461	$ 86,553	$ (231,516)	$ 6,498
CAA Authority				
Economic Impact Payments to Individuals	$ -	$ 2,721	$ (2,721)	$ -
Total Taxpayer Support Programs	-	2,721	(2,721)	-
Emergency Rental Assistance	6	-	20	26
Total State, Local, Territorial and Tribal Programs	6	-	20	26
Payroll Support to Aviation Workers	317	(200)	16	133
Coronavirus Economic Relief for Transportation Services	705	-	(689)	16
Total American Industry and Financial Markets Programs	1,022	(200)	(673)	149
Emergency Capital Investment Program	8,976	-	(8,298)	678
CDFI Rapid Response and Equitable Recovery Programs	1,751	(2)	(2)	1,747
Total CDFI Programs	10,727	(2)	(8,300)	2,425
Total CAA Authority (2)	$ 11,755	$ 2,519	$ (11,674)	$ 2,600

(1) Rescissions and Other Adjustments primarily include permanent and indefinite authority obtained as of September 30, 2022, to fund certain tax provision programs that extended beyond September 30, 2021. We will obtain permanent and indefinite appropriations in FY 2023 to fund certain tax provision programs that extend beyond September 30, 2022.

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

	Fiscal Year Ended September 30, 2022			
(in millions)	Beginning Available Budgetary Resources	Rescissions and Other Adjustments [1]	Less: Obligations Incurred	Remaining Available Budgetary Resources
CARES Act Authority				
Economic Impact Payments to Individuals	$ -	$ (147)	$ 147	$ -
Total Taxpayer Support Programs	-	(147)	147	-
Direct Loans to Air Carriers and National Security Business	1,591	(1,363)	-	228
Payroll Support to Aviation Workers	3,347	(3,000)	22	369
Total American Industry and Financial Markets Programs	4,938	(4,363)	22	597
Total CARES Act Authority [2]	$ 4,938	$ (4,510)	$ 169	$ 597

(1) Rescissions and Other Adjustments primarily includes a $3.0 billion rescission of CARES Act authority related to the Payroll Support to Aviation Workers program, and a $1.4 billion rescission of CARES Act authority related to the Direct Loans to Air Carriers and National Security Business pursuant to the IIJA.

(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, 2021 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 Equitable Recovery 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 we 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 was 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.

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. We reported these outlays as "*Refunds and Other Payments*" on the Statements of Custodial Activity (refer to Note 23).

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 were available to eligible employers that paid sick and family leave for leave from April 1, 2021, through September 30, 2021. The ARP also increased 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 was made fully refundable for taxpayers whose principal residence for more than one-half of the tax year was in the United States.

OTHER RELATED TAX CREDITS

The *Families First Coronavirus Response Act of 2020* (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, to 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 employers paid 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.

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 2022 and 2021 were as follows:

(in millions)		2022		2021
Economic Impact Payments	$	13,108	$	569,508
Advances for Child Tax Credits		46,649		46,144
Other COVID-19 Related Tax Credits		29,470		10,143
Total COVID-19 Related Refunds and Other Payments	**$**	**89,227**	**$**	625,795

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 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 eligible jurisdictions assistance to support:

- 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;
- vital public services and help retain jobs and to replace lost state, local, territorial, and Tribal government revenue; 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 obligate funds 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 have disbursed an aggregate total of $348.9 billion through September 30, 2022, of which $106.0 billion and $242.9 billion were disbursed during the fiscal years ended September 30, 2022 and 2021, respectively.

EMERGENCY RENTAL ASSISTANCE (HOUSING SUPPORT)

Even as the American economy recovered from the devastating impact of the pandemic, millions of Americans faced 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 funding expired on September 30, 2022, and the ERA 2 funding will generally remain available until September 30, 2025.

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 2022	Total Disbursed FY 2021
CAA (ERA 1)	$ 25,000	$ -	$ 24,994
ARP (ERA 2)	21,550	**9,767**	8,319
Total ERA Programs	$ 46,550	**$ 9,767**	$ 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 have disbursed an aggregate total of $9.6 billion through September 30, 2022, of which $8.6 billion and $1.0 billion were disbursed during the fiscal years ended September 30, 2022 and 2021, respectively.

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. We commenced disbursements under this program in FY 2022 for which we disbursed $31 million during the fiscal year ended September 30, 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 socially and economically disadvantaged individuals own and control 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 commenced disbursements under this program in FY 2022 for which we disbursed $1.3 billion during the fiscal year ended September 30, 2022.

LOCAL ASSISTANCE AND TRIBAL CONSISTENCY FUND

The ARP provided us $2.0 billion of appropriated funds to establish the 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. We commenced disbursements under this program in FY 2022, for which we disbursed $59 million during the fiscal year ended September 30, 2022.

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 for payments to state, local, territorial, and Tribal governments, to cover expenditures incurred due to COVID–19 during the period beginning March 1, 2020, through December 31, 2021 (as extended by the CAA from December 30, 2020). We disbursed an aggregate total of $149.9 billion between fiscal years 2020 and 2021. Any remaining amounts are reserved for administrative disbursements or disbursement pending litigation as of September 30, 2022.

Advances and Prepayments:

During FY 2022 and FY 2021, we disbursed an aggregate total of $125.8 billion and $277.7 billion, respectively, in appropriated and obligated funds to state, local, territorial, and Tribal governments related to the programs discussed above to cover eligible costs that recipients incurred in response to the pandemic. Of the aggregate amounts disbursed, we initially recorded $115.8 billion and $276.7 billion as an advance during FY 2022 and FY 2021, respectively, within the line item *"Advances and Prepayments"* on the Consolidated Balance Sheets, and recorded the remaining $10.0 billion and $1.0 billion disbursed in FY 2022 and FY 2021, respectively, as *"Economic Program"* costs on the Consolidated Statements of Net Cost. We subsequently recognized $146.6 billion and $89.5 billion of this advance as an expense which were recorded as "*Economic Program*" costs on the Consolidated Statements of Net Cost for the fiscal years ended September 30, 2022 and 2021, respectively, to reflect the estimated amount of eligible costs incurred during those years by recipients.

SUPPORT TO AMERICAN INDUSTRY AND FINANCIAL MARKETS

INVESTMENTS AND DIRECT LOANS OVERVIEW

In FY 2020, the CARES Act appropriated $500.0 billion to our Exchange Stabilization Fund 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. 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) and Regulation A of the Board, authorizing the Federal Reserve Bank of New York (FRBNY) and Federal Reserve Bank of Boston (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.

During FY 2020, we disbursed an aggregate total of $104.3 billion (comprised of $102.5 billion and $1.8 billion for investments and direct loans, respectively), which we financed with a combination of $19.3 billion of appropriations to fund the credit subsidy portion and $85.0 billion of Fiscal Service borrowings. The enactment of the CAA on December 27, 2020, 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. Further, on November 15, 2021, the *Infrastructure Investment and Jobs Act* (P.L. 117-58) rescinded an additional $1.4 billion of the remaining appropriation. The remaining appropriation as of September 30, 2022, is $228 million.

SECTION 13(3) FEDERAL RESERVE PROGRAMS

In FY 2020, pursuant to its emergency-lending authority under Section 13(3), the FRBNY and FRBB implemented certain emergency lending 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 to make loans and purchase debt and other commercial paper of eligible entities affected by COVID-19. 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 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.

In FY 2020, we disbursed an aggregate total of $102.5 billion in equity to the SPVs (and committed to future disbursements of an additional $92.5 billion) 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 SPVs. The managing member and preferred equity member are the sole members of the SPVs.

Under the initial 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 pursuant to the amendments to the LLC agreements, 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. We will use the final distribution amount we receive 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.

In December 2020, 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, at that time, of Treasury's undisbursed investment commitments totaling an aggregate of $92.5 billion, which we de-obligated in FY 2021. The amendment also provided for interim distributions to Treasury, received in FY 2021, totaling an aggregate of $62.2 billion. In November 2021, Treasury and the Federal Reserve further amended the SPV LLC Agreements which provided for additional interim distributions to Treasury, received in November 2021 and May 2022, totaling an aggregate of $8.5 billion. The interim distributions to Treasury in both FY 2022 and FY 2021 represent the amounts by which funds that were contributed by Treasury to each facility (and earnings thereon) exceeded the purchase price of the assets, loans, and/or loan participations, as the case may be, within each facility at such time. We used this cash we received to repay outstanding debt to the Fiscal Service that we used to finance the non-subsidized portion of these investment transactions. Future interim distributions will take place in November and May of each fiscal year in accordance with the terms of the most recent amended agreements. We cannot use our funds remaining in the SPVs funded under the CARES Act for further lending, asset purchases, or extensions of credit.

(in millions)	Outstanding Equity Contribution 9/30/21	FY 2022 Interim Distribution	FY 2022 Final Dissolution	Remaining Outstanding Equity Contribution 9/30/22 (1)
Main Street Facilities LLC	$ 16,572	$ (2,681)	$ -	$ 13,891
Municipal Liquidity Facility LLC	6,276	(3,381)	-	2,895
Term Asset-Backed Securities II LLC	3,549	(2,395)	-	1,154
Total 13(3) Facilities	**$ 26,397**	**$ (8,457)**	**$ -**	**$ 17,940**

(1) These amounts exclude cumulative 9/30/22 fair valuations associated with these assets. See table below for such fair valuations.

(in millions)		Outstanding Equity Contribution 9/30/20	FY 2021 Interim Distribution	FY 2021 Final Dissolution (1)	Remaining Outstanding Equity Contribution 9/30/21 (2)
Corporate Credit Facilities LLC (3)	$	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 (3)		10,000	-	(10,000)	-
Money Market Mutual Fund Liquidity Facility (3)		1,500	-	(1,500)	-
Total 13(3) Facilities	$	114,000	$ (62,222)	$ (25,381)	$ 26,397

(1) These amounts exclude residual amounts we 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.
(3) The FRBNY or FRBB established these liquidity facilities in FY 2020. During FY 2021, the facilities ceased making loans and extending credit and capital contributions (and earnings thereon) were returned to Treasury. The Commercial Paper and Money Market facilities were dissolved in FY 2021 and the Corporate Credit Facility was dissolved in FY 2022.

The following is a description of the remaining liquidity lending facilities. Following these descriptions is a section entitled, *"Investments in Special Purpose Vehicles"* which discusses the accounting treatment for these facilities.

Main Street Facilities LLC

On May 18, 2020, the FRBB established the Main Street Facilities LLC (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. The SPV ceased purchasing loan participations on January 8, 2021.

Municipal Liquidity Facility LLC

On May 1, 2020, the FRBNY established the Municipal Liquidity Facility LLC (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. The SPV ceased purchasing eligible notes on December 31, 2020.

Term Asset-Backed Securities Loan Facility II LLC

FRBNY established the Term Asset-Backed Securities Loan Facility II LLC (TALF) SPV on March 23, 2020, to support the flow of credit to consumers and businesses to stabilize 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. No new credit extensions were made after December 31, 2020.

Investments in Special Purpose Vehicles

As of September 30, 2022 and 2021, our preferred equity investments in the SPVs were valued as follows:

Investments in SPVs (in millions)	Gross Investments As of 9/30/22	Cumulative Valuation Gain (Loss)	9/30/22 Fair Value
Main Street Facilities LLC (1)	**$ 13,891**	**$ (200)**	**$ 13,691**
Municipal Liquidity Facility LLC (1)	**2,895**	**44**	**2,939**
Term Asset-Backed Securities II LLC (1)	**1,154**	**51**	**1,205**
Total Investments in SPVs	**$ 17,940**	**$ (105)**	**$ 17,835**

(1) In FY 2022, Treasury received interim distributions equivalent to the amount by which its initial capital contribution to the facility (and earnings thereon) exceeded the purchase price of the assets held within these SPVs.

Investments in SPVs (in millions)	Gross Investments As of 9/30/21	Cumulative Valuation Gain (Loss)	9/30/21 Fair Value
Main Street Facilities LLC (1)	$ 16,572	$ (998)	$ 15,574
Municipal Liquidity Facility LLC (1)	6,276	177	6,453
Term Asset-Backed Securities II LLC (1)	3,549	3	3,552
Total Investments in SPVs	**$ 26,397**	**$ (818)**	**$ 25,579**

(1) In FY 2021, Treasury received interim distributions equivalent to the amount by which its initial capital contribution to the facility (and earnings thereon) exceeded the purchase price of the assets held within these SPVs.

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. For budgetary accounting purposes, we accounted for the initial investment financing and subsequent activity 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 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*" on the Consolidated Statements of Net Cost. 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, 2022 and 2021, we recorded an unrealized fair value net gain of $0.7 billion and $3.8 billion related to these investments, respectively.

Fair Value Estimation Factors. In determining the fair value of our SPV investments, we use available market pricing data, forward interest rates, expected loss rates, historical prepayment 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, historical prepayment rates, and, where applicable, forward interest rates, 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 we 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 investment assets also incorporates 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 $186 million and $222 million as of September 30, 2022 and 2021, respectively.

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.

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 they incurred as a result of COVID-19. We chose to make only direct loans under this authorization. We disbursed an aggregate total of $2.7 billion between fiscal years 2020 and 2021, of which we disbursed $858 million in FY 2021. As of September 30, 2022 and 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.

Credit Program Receivables, Net

We present the direct loans as credit program receivables on our Consolidated Balance Sheets. As of September 30, 2022, the net credit program receivables of the passenger airlines and other related businesses programs of $358 million and $688 million, respectively, included a negative subsidy allowance of $123 million and a positive subsidy allowance of $91 million, respectively. The other related businesses include national security, air cargo carriers, ticket agents, and maintenance and repair businesses. As of September 30, 2021, the net credit program receivables of the passenger airlines and other related businesses of $594 million and $717 million, respectively, included a negative subsidy allowance of $213 million and a positive subsidy allowance of $56 million, respectively. The negative or positive subsidies at the end of fiscal years 2022 and 2021 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 we performed as of September 30, 2022 resulted in a upward re-estimate, or an increase of $79 million, and a downward re-estimate, or a decrease of $1 million, in the cost of the passenger airline programs and other related businesses programs, respectively. The upward re-estimate primarily stemmed from a decline in the value of warrants we hold. The downward re-estimate stemmed from lower expected losses for outstanding investments, which is partially offset by a decline in the value of equity we hold. The re-estimates we performed as of September 30, 2021, resulted in a downward re-estimate, or a decrease of $415 million and $268 million, in the cost of the passenger airline programs and other related businesses programs, respectively. This re-estimate stemmed from lower expected losses for the outstanding investments and collections we received during FY 2021, which included several large prepayments. The FY 2022 and FY 2021 re-estimates we recorded included the expected Federal Old-Age and Survivors Insurance Trust Fund liabilities for passenger airlines and other related businesses.

We treat our net credit program receivables, including loan principal repayments, interest, fees, and proceeds from common stock sales, as entity exchange transactions since we will use all such future proceeds we realize from the net credit program receivables to repay all of our borrowing and other funding costs we incur 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, 2022 and 2021, we recorded a liability of $184 million and $261 million, respectively, due to the Federal Old-Age and Survivors Insurance Trust Fund.

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. 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.

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. For the fiscal years ended September 30, 2022 and 2021, we recorded $21 million and $30.7 billion, respectively, of financial assistance disbursements under the PSPs as "*Economic Program*" costs on 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 providing the financial assistance. 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 no promissory notes and warrants during the period ended September 30, 2022. The contractors repaid an aggregate total of $351 million and $103 million of promissory notes during fiscal years 2022 and 2021, respectively. We report the promissory notes and warrants we received as compensation within "*Loans and Interest Receivable, Net*" and *"Other Investments, Net,"* respectively, on the Consolidated Balance Sheets.

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

Loans and Interest Receivable, Net

We present our promissory notes totaling $11.6 billion and $13.7 billion as of September 30, 2022 and 2021, respectively, net of an allowance for doubtful accounts estimated at $3.2 billion and $1.4 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, 2022 and 2021, we recognized interest revenue of $166 million and $131 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 Cost (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).

Other 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 Cost. As of September 30, 2022 and 2021, our common stock warrants were valued at $493 million and $847 million, respectively, which includes a fair value loss of $354 million and $14 million, respectively, recognized for the fiscal years ended September 30, 2022 and 2021, respectively.

Our common stock warrants are comprised of those that give us a right to purchase common shares of either 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 provided up to $2.0 billion in grants to eligible companies that certified they had experienced an annual revenue loss of 25 percent or more as a direct or indirect result of COVID-19. CERTS grant funds primarily 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).

A recipient who does not use disbursed funds for qualified purposes within one year upon receipt of such funds must return the funds to Treasury. Of the $2.0 billion appropriated in FY 2021 for this program, we disbursed $688 million and $1.3 billion during the fiscal years ended September 30, 2022 and 2021, respectively, which we reported as "*Economic Program*" costs on the Consolidated Statements of Net Cost.

Support to American Small Businesses Through CDFIs

Emergency Capital Investment Program

Established under the CAA, the Emergency Capital Investment Program encourages low- and moderate-income community financial institutions to augment their efforts to support small businesses and consumers in their communities. Under this program, we are providing up to $9.0 billion in capital directly to depository institutions through purchases of preferred stock or subordinated debt 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. We commenced disbursements under this program in FY 2022. As of September 30, 2022, we have disbursed $8.3 billion in connection with this program. This funding will remain available for obligation until six months after the date on which the President of the U.S. terminates the national emergency concerning the COVID-19 pandemic.

With the permission of the institution, we may transfer or sell the interest in the capital investment for no consideration or for a de minimis amount to a mission-aligned nonprofit affiliate of an applicant that is an insured community development financial institution. We will transfer all cash proceeds we receive in connection with these investments, including dividend and payments, and proceeds from the sale of the investments, to the CDFI Fund—a Treasury component—to be used to provide financial and technical assistance pursuant to the *Community Development Banking and Financial Institutions Act of 1994*.

We account for the preferred stock and subordinated debt investments at fair value, with changes in the fair value of these investments recorded as realized or unrealized gains or losses within the *"Economic Program*" on the Consolidated Statements of Net Cost. As the incentives and other conditions of our capital investments result in more favorable terms than available to the CDFIs and MDIs from private investors and more favorable terms compared to investment pricing available in the conventional financial markets, their fair values are less than the amounts we paid at acquisition. As of September 30, 2022, our preferred stock and subordinated debt investments were valued at $2.5 billion, which includes a fair value loss of $5.8 billion recognized for the fiscal year ended September 30, 2022.

CDFI Fund's Rapid Response and Equitable Recovery Programs

The CAA also provided $1.25 billion in appropriations to our CDFI Fund, which awarded CDFIs with grants to deliver immediate assistance in communities impacted by the COVID-19 pandemic. The CDFI Fund awarded these funds through its newly established CDFI Rapid Response Program (CDFI RRP), which was 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 $108 million and $1.1 billion in grants for the fiscal years ended September 30, 2022 and 2021, respectively, which we reported as "*Economic Program*" costs on 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 its newly established Equitable Recovery Program commencing in FY 2023. 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, 2022 and 2021, the primary impact of COVID-19 relief efforts reported as "*Economic Program*" costs on the Consolidated Statements of Net Cost were as follows:

(in millions)		2022		2021
Entity Cost/(Revenue):				
Expense Recognition of Support to States, Local, Territorial, and Tribal Governments	$	**156,360**	$	90,517
Emergency Capital Investment Program - Fair Value Loss		**5,848**		-
Section 13(3) SPV Investments - Fair Value Gain [(1)]		**(715)**		(3,802)
Payroll Support to Aviation Workers - Financial Assistance Payments		**21**		30,727
Coronavirus Economic Relief for Transportation Services Payments		**686**		1,295
CDFI Fund's Rapid Response and Equitable Recovery Programs Payments		**110**		1,085
Other		**125**		(690)
Total Net Entity Costs (Economic Program) (Note 21)		**162,435**		119,132
Non-Entity Cost/(Revenue):				
Payroll Support for Aviation Workers - Promissory Note Compensation		**1,591**		(8,577)
Payroll Support for Aviation Workers - Common Stock Warrant Compensation		**354**		(360)
Total Non-Entity Cost/(Revenue)		**1,945**		(8,937)
Total COVID-19 Pandemic Relief Costs, Net	$	**164,380**	$	110,195

(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). In the third amendment in August 2012, this dividend structure was changed 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 entered into letter agreements 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. Under the letter agreements, the suspension will terminate six months after Treasury notifies the GSEs. As of September 30, 2022, Treasury has not provided notice to the GSEs to terminate the suspension.

As of September 30, 2022, Treasury's liquidation preference in Fannie Mae and Freddie Mac increased by $19.1 billion and $11.7 billion, respectively. 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. 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, 2022 and 2021, as the GSEs had not achieved their capital reserve end date as of September 30, 2022.

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 $284 billion and $254 billion as of September 30, 2022 and 2021, respectively. There were no payments to the GSEs for the fiscal years ended September 30, 2022 and 2021.

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, 2022 and 2021, our investments in the GSEs consisted of the following:

GSEs Investments (in millions)		Gross Investments As of 9/30/22	Cumulative Valuation Gain/(Loss)	9/30/22 Fair Value
Fannie Mae Senior Preferred Stock	$	**177,746** $	**(62,046)** $	**115,700**
Freddie Mac Senior Preferred Stock		**106,572**	**(2,072)**	**104,500**
Fannie Mae Warrants Common Stock		**3,104**	**(854)**	**2,250**
Freddie Mac Warrants Common Stock		**2,264**	**(994)**	**1,270**
Total GSEs Investments	**$**	**289,686 $**	**(65,966) $**	**223,720**

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

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 Market, 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 Level 3 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 GSE's 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, 2022, when compared to September 30, 2021. Freddie Mac's senior preferred stock drove this increase primarily due to higher projected cash flows and a decrease in the market value of Freddie Mac's other equity securities that comprise its total equity (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 as of September 30, the principal market, and the market participants. Other factors impacting the fair value include, among other things, the holding period risk related directly to the assumption of the amount of time that it will take to sell the exercised shares without depressing the market. The fair value of the warrants—as measured by observable inputs—decreased at the end of FY 2022, when compared to 2021, 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, 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 2047 and 2046 in assessing if a contingent liability was required as of September 30, 2022 and 2021, 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, 2022 and 2021, and thereby accrued no contingent liability. However, as of September 30, 2022, 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, 2022. There were no payments to the GSEs for the fiscal year ended September 30, 2022. At September 30, 2022 and 2021, 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, 2022 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, 2022, 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.

GSEs Non-Entity Revenue

For the fiscal years ended September 30, 2022 and 2021, GSEs Non-Entity Revenue, Net consisted of the following:

Summary of GSEs Non-Entity Revenue (in millions)	2022	2021
General Fund Revenue from Increase in Liquidation Preference of GSEs Preferred Stock	**$ (30,761)**	$ (31,828)
Fair Value Loss/(Gain) on GSEs Warrants/Preferred Stock	**27,901**	(80,122)
Total GSEs Non-Entity Revenue, Net	**$ (2,860)**	$ (111,950)

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 extended by the *Infrastructure Investment and Jobs Act of 2021* (P.L. 117-58) through September 30, 2032. 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 2022 and 2021, the GSEs remitted to us the incremental fees totaling $5.8 billion and $4.9 billion, respectively, which are reported within the line item entitled "*Fines, Penalties, Interest and Other Revenue*" on our Statements of Custodial Activity.

12. Investments in Multilateral Development Banks

As of September 30, 2022 and 2021, Investments in Multilateral Development Banks consisted of the following:

(in millions)		2022		2021
International Bank for Reconstruction and Development	**$**	**3,470**	$	3,264
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		**543**		488
North American Development Bank		**450**		450
Multilateral Investment Guarantee Agency		**45**		45
Total	**$**	**8,727**	$	8,466

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 $3.8 billion fair value of foreign investments (excluding interest receivable) held at September 30, 2022, $0.3 billion will mature within one year, $2.4 billion will mature after one year but before five years, and $1.1 billion will mature after five years but before ten years.

Other Investments, Net also include non-federal investment holdings acquired pursuant to the establishment of emergency relief programs in response to the COVID-19 pandemic, including investments as of September 30, 2022, of $2.5 billion in preferred stock and subordinated debt pursuant to the Emergency Capital Investment Program, and $0.5 billion of common stock warrants for the Payroll Support to Aviation Workers Program (refer to Note 10).

The table below presents the fair value measurements hierarchy classification by investment type:

	Fair Value Measurement of Other Investments, Net as of September 30, 2022			
Investment Type (in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Foreign Investments	**$ 3,796**	**$ -**	**$ -**	**$ 3,796**
COVID-19 Investments (Note 10)	**-**	**-**	**2,945**	**2,945**
Other Investments	**58**	**-**	**-**	**58**
Total Fair Value Measurements	**$ 3,854**	**$ -**	**$ 2,945**	**$ 6,799**

	Fair Value Measurements of Other Investments, Net as of September 30, 2021			
Investment Type (in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Foreign Investments	$ 5,265	$ -	$ -	$ 5,265
COVID-19 Investments (Note 10)	-	-	847	847
Other Investments	52	-	-	52
Total Fair Value Measurements	$ 5,317	$ -	$ 847	$ 6,164

The following table provides a roll forward of our investment balances for the fiscal years ended September 30, 2022 and 2021:

(in millions)	**2022**	**2021**
Beginning Balance	**$ 6,164**	$ 6,309
Acquisition of Investments[1]	**21,343**	9,315
Sale/Repayment of Investments	**(12,208)**	(9,199)
Valuation Adjustments[2]	**(7,436)**	(253)
(Loss)/Gain on Sales/Dispositions	**(943)**	-
Change in Accrued Dividend/Interest Income and Other	**(121)**	(8)
Ending Balance	**$ 6,799**	$ 6,164

(1) The significant increase in acquisition of investments includes $8.3 billion of investments related to the Emergency Capital Investment Program. The remaining increase in acquisition of investments and the increase in sale/repayment of investments are primarily related to foreign investments activity.

(2) Valuation adjustments of $5.8 billion in the fiscal year ended September 30, 2022 represent fair value losses on investments purchased under the Emergency Capital Investment Program. No investment purchases under this program occurred in the fiscal year ended September 30, 2021 (refer to Note 10).

14. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

As of September 30, 2022 and 2021, General Property, Plant, and Equipment, Net consisted of the following:

(in millions)	Service Life	Cost	Accumulated Depreciation	2022 Net Book Value
Buildings, Structures and Facilities	**3 - 50 years**	**$ 1,040**	**$ (597)**	**$ 443**
Furniture, Fixtures and Equipment	**2 - 20 years**	**2,671**	**(1,972)**	**699**
Construction-in-Progress	**N/A**	**377**	**-**	**377**
Land	**N/A**	**12**	**-**	**12**
Internal-Use Software in Use	**2 - 15 years**	**3,968**	**(3,223)**	**745**
Internal-Use Software in Development	**N/A**	**612**	**-**	**612**
Assets Under Capital Lease	**2 - 25 years**	**32**	**(24)**	**8**
Leasehold Improvements	**2 - 25 years**	**446**	**(270)**	**176**
Total		**$ 9,158**	**$ (6,086)**	**$ 3,072**

(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

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, 2022 and 2021:

(in millions)	2022 PP&E	2022 Accumulated Depreciation	2022 Net PP&E	2021 PP&E	2021 Accumulated Depreciation	2021 Net PP&E
Balance Beginning of Year	**$ 8,854**	**$ (5,858)**	**$ 2,996**	$ 8,747	$ (5,789)	$ 2,958
Capitalized Acquisitions	**597**	**-**	**597**	575	(4)	571
Dispositions	**(293)**	**286**	**(7)**	(468)	443	(25)
Depreciation Expense	**-**	**(514)**	**(514)**	-	(508)	(508)
Balance at End of Year	**$ 9,158**	**$ (6,086)**	**$ 3,072**	$ 8,854	$ (5,858)	$ 2,996

HERITAGE ASSETS

We have 15 heritage assets, of which five are considered multi-use, for FY 2022 and 2021. 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, 2022 and 2021:

	2022		
(in millions)	**Non-Entity**	**Entity**	**Total**
Intra-Governmental			
Fund Balance (Note 2)[a]	$ 5,888	$ 548,702	$ 554,590
Loans Receivable: (Note 3)			
Loans and Interest Receivable	1,531,120	80,755	1,611,875
Advances to Trust Funds	47,298	-	47,298
Other Assets:			
Due From the General Fund (Note 4)	31,064,578	-	31,064,578
Other [b]	1,311	59	1,370
Total Intra-Governmental	32,650,195	629,516	33,279,711
Other Than Intra-Governmental			
Cash and Other Monetary Assets:			
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	617,317	166,756	784,073
Gold and Silver Reserves (Note 6)	11,062	-	11,062
Reserve Position in the International Monetary Fund (Note 7)	-	31,334	31,334
Accounts Receivable, Net:			
Taxes, Interest, and Other Receivables, Net (Note 8)	237,779	248	238,027
Loans Receivable, Net:			
Loans and Interest Receivable, Net (Notes 7 and 10)	11,585	487	12,072
Credit Program Receivables, Net (Notes 9 and 10)	-	3,415	3,415
Advances and Prepayments (Note 10)	-	225,180	225,180
Investments in GSEs (Note 11)	223,720	-	223,720
Investments in Special Purpose Vehicles (Note 10)	-	17,835	17,835
Other Investments:			
Investments in Multilateral Development Banks (Note 12)	-	8,727	8,727
Other, Net (Notes 10 and 13)	493	6,306	6,799
General Property, Plant, and Equipment, Net (Note 14)	-	3,072	3,072
Other Assets [c]	-	1,867	1,867
Total Other Than Intra-Governmental	1,101,956	465,227	1,567,183
Total Assets	$ 33,752,151	$ 1,094,743	$ 34,846,894

(a) *$3.1 billion of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*
(b) *Consists of accounts receivable, net and advances and prepayments totaling $1.3 billion and $37 million, respectively.*
(c) *Consists of inventory and related property.*

	2021		
(in millions)	Non-Entity	Entity	Total
Intra-Governmental			
Fund Balance (Note 2)[d]	$ 4,203	$ 622,253	$ 626,456
Loans Receivable: (Note 3)			
Loans and Interest Receivable	1,715,491	78,899	1,794,390
Advances to Trust Funds	91,378	-	91,378
Other Assets:			
Due From the General Fund (Note 4)	28,810,092	-	28,810,092
Other [e]	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
Reserve Position in the International Monetary Fund (Note 7)	-	32,743	32,743
Accounts Receivable, Net:			
Taxes, Interest, and Other Receivables, Net (Note 8)	303,814	815	304,629
Loans Receivable, Net:			
Loans and Interest Receivable, Net (Notes 7 and 10)	13,684	937	14,621
Credit Program Receivables, Net (Notes 9 and 10)	-	4,073	4,073
Advances and Prepayments (Note 10)	-	256,072	256,072
Investments in GSEs (Note 11)	220,860	-	220,860
Investments in Special Purpose Vehicles (Note 10)	-	25,579	25,579
Other Investments:			
Investments in Multilateral Development Banks (Note 12)	-	8,466	8,466
Other, Net (Notes 10 and 13)	847	5,317	6,164
General Property, Plant, and Equipment, Net (Note 14)	-	2,996	2,996
Other Assets [f]	-	1,058	1,058
Total Other Than Intra-Governmental	749,330	518,098	1,267,428
Total Assets	$ 31,371,784	$ 1,219,288	$ 32,591,072

[d] *$3.0 billion of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*
[e] *Consists of accounts receivable, net and advances and prepayments totaling $1.3 billion and $16 million, respectively.*
[f] *Consists of inventory and related property.*

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 other governmental agencies issue, including 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, 2022 and 2021 is as follows:

Held by Other Federal Agencies (Intra-Governmental) (in millions)	2022	2021
Beginning Balance	$ **6,104,279**	$ 5,897,192
New Borrowings/(Repayments) - Net	**489,048**	207,087
Subtotal at Par Value	**6,593,327**	6,104,279
Premium/(Discount)	**88,757**	86,081
Debt Principal Not Covered by Budgetary Resources (Note 19)	**6,682,084**	6,190,360
Interest Payable Covered by Budgetary Resources	**35,277**	34,848
Total	$ **6,717,361**	$ 6,225,208

Held by the Public (in millions)	2022	2021
Beginning Balance	$ **22,282,900**	$ 21,018,952
New Borrowings - Net of Repayments	**2,016,293**	1,263,948
Subtotal at Par Value	**24,299,193**	22,282,900
Premium/(Discount)	**(71,681)**	(26,840)
Debt Principal Not Covered by Budgetary Resources (Note 19)	**24,227,512**	22,256,060
Interest Payable Covered by Budgetary Resources	**81,183**	69,158
Total	$ **24,308,695**	$ 22,325,218

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 we issue 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 2022 and 2021 was 2.3 percent and 2.1 percent, respectively. The average intra-governmental interest rate on TIPS for FY 2022 and 2021 was 1.0 percent and 1.1 percent, respectively. The average interest rate on FRNs for FY 2022 and 2021 was 3.0 percent and 0.1 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 federal agencies held at par value (not including premium/discount or interest payable) as of September 30, 2022 and 2021 is as follows:

(in millions)		2022		2021
Social Security Administration	$	**2,838,279**	$	2,853,817
Office of Personnel Management		**1,120,736**		1,036,772
Department of Defense Agencies		**1,528,954**		1,334,074
Department of Health and Human Services		**349,663**		310,928
All Other Federal Entities — Consolidated		**755,695**		568,688
Total Federal Debt Held by Other Federal Agencies	**$**	**6,593,327**	$	6,104,279

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, 2022 and 2021 consisted of the following:

(at par value in millions)	Term	Average Interest Rates		2022
Marketable:				
Treasury Bills	**1 Year or Less**	**2.5%**	**$**	**3,643,675**
Treasury Notes	**Over 1 Year - 10 Years**	**1.6%**		**13,696,488**
Treasury Bonds	**Over 10 Years**	**3.0%**		**3,867,672**
Treasury Inflation-Protected Securities (TIPS)	**5 Years or More**	**0.5%**		**1,839,843**
Treasury Floating Rate Notes (FRN)	**2 Years**	**3.3%**		**625,897**
Total Marketable				**23,673,575**
Non-Marketable	**On Demand to Over 40 Years**	**2.7%**		**625,618**
Total Federal Debt Held by the Public			**$**	**24,299,193**

(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

We generally issue Treasury bills, notes, bonds, and TIPS to meet the borrowing needs of the U.S. government. We issue marketable bills at a discount or at par, and pay the par amount of the security upon maturity. The average interest rate on Treasury bills represents the original issue effective yield on securities outstanding at year end. We issue marketable notes and bonds as long-term securities that pay semi-annual interest based on the securities' stated interest rates. We issue these securities at either par value or at an amount that reflects a discount or premium. The average interest rate on marketable notes and bonds represents the stated interest rate adjusted by any discount or premium on securities outstanding at year-end.

We also issue TIPS that have interest and redemption payments tied to the 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 $336.1 billion and $217.1 billion as of September 30, 2022 and 2021, 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, 2022, the FRB's SOMA had total holdings of $2.7 trillion which: *(i)* excluded $2.9 trillion in Treasury securities used in overnight reverse repurchase transactions, and *(ii)* includes a net of $3.7 billion held by the FRB as collateral for securities lending activities. 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 $1.4 billion lent to dealers and not collateralized by other Treasury securities. For the years ended September 30, 2022 and 2021, we incurred interest expense of $114.7 billion and $87.1 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, 2022 and 2021. 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 2022 and FY 2021 was $7.0 billion and $73.4 billion, respectively; including $122 million and $22 million in capitalized interest, respectively. There were no issuances of SPV securities in fiscal years 2022 and 2021. As of September 30, 2022 and 2021, the total amount of SPV securities outstanding was $15.4 billion and $22.3 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 $30.9 trillion and $28.4 trillion as of September 30, 2022 and 2021, 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 using 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. 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 P.L. 117-50, raising 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. On December 16, 2021, Congress enacted P.L. 117-73, raising the debt limit by $2.5 trillion, from $28.881 trillion to $31.381 trillion. On December 16, 2021, we restored uninvested principal totaling $326.7 billion, of which $262.0 billion was restored to the G Fund and $64.7 billion was restored to the OPM administered Civil Service Fund. We also restored foregone interest totaling $1.1 billion, of which $812.3 million was restored to the G Fund on the next interest payment date of December 17, 2021, and $322.4 million was restored to the OPM funds on the next semi-annual interest payment date of December 31, 2021.

Of the $1.1 billion of foregone interest we paid in FY 2022, we reported $726 million in FY 2022 as a current year, non-entity expense within the line item "*Restoration of Foregone Federal Debt Interest,*" and reported $409 million in FY 2021 as an accrued non-entity expense within the line item "*Accrued Restoration of Foregone Federal Debt Interest*" on our Consolidated Statements of Net Cost. In FY 2022, we reversed the $409 million of the FY 2021 accrued foregone interest within the line item "*Accrued Interest on Restoration of Federal Debt Principal,*" on the Consolidated Statements of Changes in Net Position.

Since the delay in raising the statutory debt limit did not end until December 16, 2021, none of the uninvested principal and foregone interest payable as of result of the extraordinary measures had been restored to the G Fund and the OPM Funds as of September 30, 2021. Accordingly, we recorded a liability as of September 30, 2021, totaling $217.6 billion, 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.

We reported the liability for the uninvested principal and foregone interest payable as of September 30, 2021, 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. We reported corresponding amounts 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, we reported the accrued foregone interest expense totaling $409 million 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, 2022 and 2021, FFB had outstanding borrowings of $4.9 billion and $6.1 billion, inclusive of $31 million and $40 million of accrued interest payable, respectively. The outstanding borrowings at September 30, 2022, had stated interest rates that ranged from 2.25 percent to 2.88 percent per annum, and an effective interest rate of 2.53 percent. 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. Maturity dates ranged from June 30, 2023, to June 30, 2029, for outstanding borrowings at September 30, 2022, and from June 30, 2022, to June 30, 2029, for outstanding borrowings at September 30, 2021.

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, 2022 and 2021 is as follows:

(in millions)	2022	2021
Beginning Liability Balance	**$ 8,010**	$ 8,272
Pension Expense:		
Normal Cost	**7**	6
Interest on Pension Liability During the Year	**67**	72
Actuarial (Gains) Losses During the Year:		
From Experience	**384**	(42)
From Discount Rate Assumption Change	**194**	337
From Other Economic Assumption Changes	**326**	(7)
From Non-Economic Assumption Changes	**28**	(83)
Total Pension Expense	**1,006**	283
Less Amounts Paid	**(555)**	(545)
Ending Liability Balance	**$ 8,461**	$ 8,010

Additional Information ($ in millions):		D.C. Federal Pension Fund	Judicial Retirement Fund	2022 Total
Amount Received from the General Fund	$	**540 $**	**19 $**	**559**
Annual Rate of Investment Return Assumption		**0.87% - 3.21%**	**0.87% - 3.21%**	
Future Annual Rate of Inflation and Cost-Of-Living Adjustment:				
Police Officers		**2.15%**	**N/A**	
Firefighters		**2.15%**	**N/A**	
Teachers		**2.14%**	**N/A**	
Judicial		**N/A**	**1.88%**	
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**	**1.26%**	

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%	

19. LIABILITIES

LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30, 2022 and 2021, liabilities not covered by budgetary resources consisted of the following:

(in millions)	2022	2021
Intra-Governmental Liabilities Not Covered by Budgetary Resources		
Federal Debt Principal, Premium/Discount (Note 16)	**$ 6,682,084**	$ 6,190,360
Liability for Restoration of Federal Debt Principal and Interest (Note 16)	**-**	60,562
Other Intra-Governmental Liabilities	**75**	80
Total Intra-Governmental Liabilities Not Covered by Budgetary Resources	**6,682,159**	6,251,002
Federal Debt Principal, Premium/Discount (Note 16)	**24,227,512**	22,256,060
Other Payables	**5**	6
Liability for Restoration of Federal Debt Principal and Interest (Note 16)	**-**	157,035
Other Liabilities	**1,078**	1,138
Total Liabilities Not Covered by Budgetary Resources	**30,910,754**	28,665,241
Total Liabilities Covered by or Not Requiring Budgetary Resources	**3,080,358**	2,960,975
Total Liabilities	**$ 33,991,112**	$ 31,626,216

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, 2022 and 2021, consisted of the following:

(in millions)	Current	Non-Current	2022 Total	Current	Non-Current	2021 Total
Intra-Governmental						
Accounts Payable	**$ 855**	**$ -**	**$ 855**	$ 887	$ -	$ 887
Advances From Others and Deferred Revenue	**27**	**-**	**27**	32	-	32
Other Accrued Liabilities	**611**	**58**	**669**	694	62	756
Total Intra-Governmental	**$ 1,493**	**$ 58**	**$ 1,551**	**$** 1,613	$ 62	$ 1,675
Other Than Intra-Governmental						
Federal Employee Benefits Payable	**$ 29**	**$ 592**	**$ 621**	$ 22	$ 665	$ 687
Unfunded Leave	**648**	**1**	**649**	668	1	669
Advances From Others and Deferred Revenue	**1,164**	**-**	**1,164**	471	-	471
Accrued Funded Payroll and Leave	**664**	**-**	**664**	604	-	604
Other Liabilities Without Related Budgetary Obligations	**316**	**28**	**344**	660	-	660
Other Liabilities With Related Budgetary Obligations	**604**	**-**	**604**	458	-	458
Liability for Non-Fiduciary Deposit Funds and Clearing Accounts	**5,729**	**-**	**5,729**	4,453	-	4,453
Other Accrued Liabilities	**-**	**1**	**1**	1	2	3
Total Other Than Intra-Governmental	**$ 9,154**	**$ 622**	**$ 9,776**	**$** 7,337	$ 668	$ 8,005

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 includes the following for the years ended September 30, 2022 and 2021:

(in millions)	2022	2021
Categories of Transfers to the General Fund and Other		
Interest Revenue	**$ (49,204)**	$ (51,222)
U.S. Quota in the IMF - Valuation (Downward)/Upward Adjustment	**(3,177)**	10
Increase in Liquidation Preference of GSEs Preferred Stock and Valuation Changes (Note 11)	**(2,860)**	(111,950)
Downward Re-estimates of Credit Reform Subsidies	**(1,349)**	(4,613)
COVID-19 Non-Entity Cost/(Revenue) (Note 10)	**1,945**	(8,937)
Other	**(1,123)**	(373)
Total	**$ (55,768)**	$ (177,085)

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. Also included are unrealized gains and losses recognized on the U.S. Quota in the IMF due to SDR exchange rate fluctuation. Additionally, there is the increase in liquidation preference in the GSE Senior Preferred Stock investments and annual valuation adjustment. The credit reform downward re-estimate subsidies transferred to the General Fund is driven by a change in forecasted future cash flows. Also, our *"COVID-19 Non-Entity Cost (Revenue)"* relates to notes receivable and common stock warrants received pursuant to the CARES Act, CAA, and ARP.

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 Departmental Offices (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 from providing 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 $1.4 billion and $1.3 billion during FY 2022 and 2021, 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 other agencies pay on our behalf were $780 million and $762 million for the fiscal years ended September 30, 2022 and 2021, respectively.

CONSOLIDATED STATEMENTS OF NET COST PRESENTATION

Basis of Presentation and Prior Year Reclassification

On our Consolidated Statements of Net Cost, we present the net cost of operations by major programs. Specifically, we present our gross costs and earned revenues by three major program categories aligned with Treasury's mission: (i) *Financial program* – our mission of managing the government's finances and resources effectively, protecting the integrity of financial systems that are critical to the nation's financial infrastructure, and fostering improved governance in financial institutions; (ii) *Economic program* – our mission of promoting economic prosperity and maintaining stability, encouraging sustainable and global economic growth; and (iii) *Security program* – our mission of enhancing national security by implementing economic sanctions against foreign threats to the U.S., identifying and targeting the financial support networks of national security threats, and improving the safeguards of the financial systems. We assign each of our bureaus and reporting entities to one of the above three program categories based on their major function and core mission responsibility. Our bureaus' and reporting entities' gross costs and earned revenues fall within a single program category in the Consolidated Statements of Net Cost, with the exception of DO for which we allocate gross costs and earned revenues to multiple programs using a net cost percentage calculation.

Prior to FY 2022, we presented the gross costs and earned revenues by major program categories aligned with Treasury's Strategic Plan. In FY 2022, for comparative purposes, we reclassified the FY 2021 gross costs and earned revenues for certain bureaus and reporting entities to conform to the current year's presentation of such costs and revenues. Reclassifications made to the FY 2021 Consolidated Statement of Net Cost primarily included $14.8 billion of IRS program net costs (gross costs net of revenues, before eliminations), which were reclassified from the Economic to the Financial program category. We also reclassified $1.6 billion of International Assistance Programs' net costs (included in DO) from the Financial to the Economic program category, as well as other reclassifications totaling $0.2 billion. On an aggregated basis (after $1.5 billion of eliminations reclassification), for FY 2021, total consolidated net cost of the Economic program category decreased by $11.5 billion and total consolidated net cost of the Financial program category increased by $11.5 billion as a result of this reclassification.

Non-Entity Costs and Revenues

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 present these costs and revenues separately from the net cost of Treasury operations. 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, 2022 and 2021 consisted of the following:

(in millions)	2022	2021
Credit Reform Interest on Uninvested Funds (Intra-Governmental)	**$ 12,699**	$ 12,617
Judgment Claims and Contract Disputes	**2,170**	8,215
Resolution Funding Corporation	**920**	1,367
Legal Services Corporation	**529**	465
Corporation for Public Broadcasting	**485**	640
All Other Payments	**377**	262
Total	**$ 17,180**	$ 23,566

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

For Fiscal Year Ended September 30, 2022

Program Costs	Bureau of Engraving & Printing	Bureau of the Fiscal Service	Departmental Office[a]	Financial Crimes Enforcement Network	Internal Revenue Service	U.S. Mint
FINANCIAL PROGRAM						
Gross Cost	$ 874	$ 2,562	$ 4,175	$ -	$ 16,201	$ 4,857
Less Earned Revenue	(1,012)	(476)	(3,497)	-	(534)	(5,006)
Net Program Cost	(138)	2,086	678	-	15,667	(149)
ECONOMIC PROGRAM						
Gross Cost	-	-	191,038	-	-	-
Less Earned Revenue	-	-	(20,348)	-	-	-
Net Program Cost	-	-	170,690	-	-	-
SECURITY PROGRAM						
Gross Cost	-	-	538	154	-	-
Less Earned Revenue	-	-	(35)	(2)	-	-
Net Program Cost	-	-	503	152	-	-
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	(138)	2,086	171,871	152	15,667	(149)
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	-	-	548	-	-	-
Total Net Cost of (Revenue From) Treasury Operations	$ (138)	$ 2,086	$ 172,419	$ 152	$ 15,667	$ (149)

(a) *The total $170.7 billion of the Economic Program net costs DO reported consisted of $163.0 billion of net costs from ORP: $122.1 billion for Coronavirus State and Local Fiscal Recovery Funds, $13.3 billion for Emergency Rental Assistance, $10.9 billion for Coronavirus Relief Fund, $8.6 billion for Homeowners Assistance Fund, $5.9 billion for Emergency Capital Investment Program, $1.3 billion for State Small Business Credit Initiative, and $0.9 billion for other COVID-19 relief programs (refer to Note 10); $4.2 billion of net costs from ESF; and $2.5 billion from IAP. 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, 2022

Program Costs	Office of the Comptroller of the Currency	Alcohol and Tobacco Tax and Trade Bureau	Combined Total	Eliminations	2022 Consolidated
FINANCIAL PROGRAM					
Gross Cost	$ 1,135	$ -	$ 29,804	$ 4,096	$ 25,708
Less Earned Revenue	(1,205)	-	(11,730)	(1,219)	(10,511)
Net Program Cost	(70)	-	18,074	2,877	15,197
ECONOMIC PROGRAM					
Gross Cost	-	137	191,175	413	190,762
Less Earned Revenue	-	(8)	(20,356)	(183)	(20,173)
Net Program Cost	-	129	170,819	230	170,589
SECURITY PROGRAM					
Gross Cost	-	-	692	144	548
Less Earned Revenue	-	-	(37)	(9)	(28)
Net Program Cost	-	-	655	135	520
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	(70)	129	189,548	3,242	186,306
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	(29)	-	519	-	519
Total Net Cost of (Revenue From) Treasury Operations	$ (99)	$ 129	$ 190,067	$ 3,242	$ 186,825

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	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	$ 945	$ 2,459	$ 3,722	$ -	$ 15,447	$ 4,911
Less Earned Revenue	(929)	(469)	(3,351)	-	(624)	(5,025)
Net Program Cost	16	1,990	371	-	14,823	(114)
ECONOMIC PROGRAM						
Gross Cost	-	-	130,383	-	-	-
Less Earned Revenue	-	-	(7,847)	-	-	-
Net Program Cost	-	-	122,536	-	-	-
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 $122.5 billion of the Economic Program net costs DO reported 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); $1.5 billion of net costs from CDFI including $1.1 billion for Rapid Response Program; and $1.6 billion of net costs from IAP; 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	$ 1,114	$ -	$ 28,598	$ 3,882	$ 24,716
Less Earned Revenue	(1,145)	-	(11,543)	(1,079)	(10,464)
Net Program Cost	(31)	-	17,055	2,803	14,252
ECONOMIC PROGRAM					
Gross Cost	-	132	130,515	808	129,707
Less Earned Revenue	-	(7)	(7,854)	(162)	(7,692)
Net Program Cost	-	125	122,661	646	122,015
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

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, 2022 and 2021 consisted of the following:

(in millions)		2022		2021
Unobligated Balance, Brought Forward From Prior Year	**$**	**489,160**	$	771,181
Adjustments to Budgetary Resources Made During Current Year				
Downward Adjustments of Prior Year Undelivered Orders		**1,329**		126,845
Downward Adjustments of Prior Year Delivered Orders		**19,123**		2,712
Other Adjustments		**(20,074)**		17,456
Unobligated Balance From Prior Year Budgetary Authority, Net (Discretionary and Mandatory)	**$**	**489,538**	$	918,194

The decrease in *Unobligated Balance, Brought Forward From Prior Year Budgetary Authority, Net* is primarily the result of FY 2021 activity related to a $478.8 billion CARES Act appropriation rescission in FY 2021 pursuant to the CAA (refer to Note 10) and a $112.8 billion IMF allocation to us of new SDRs during FY 2021 (refer to Note 5). These FY 2021 reductions in unobligated balances was partially offset by the effects of $168.2 billion of unobligated ARP, CAA, and CARES Act resources carried forward from FY 2021 (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 decrease in *Undelivered Orders - Paid* as of September 30, 2022, primarily reflects the use of COVID-19 financial assistance by recipients for covered eligible costs incurred in response to the pandemic (refer to Note 10). The increase in *Undelivered Orders - Unpaid* as of September 30, 2022, primarily reflects the amounts associated with those COVID-19 financial assistance programs that had not yet fully commenced program disbursements as of September 30, 2022 (refer to Note 10). Undelivered orders as of September 30, 2022 and 2021 consisted of the following:

		2022									
							2021				
(in millions)		Federal		Non-Federal		Total		Federal		Non-Federal		Total

(in millions)		2022 Federal		2022 Non-Federal		2022 Total		2021 Federal		2021 Non-Federal		2021 Total
Paid	**$**	**38**	**$**	**225,181**	**$**	**225,219**	$	16	$	256,075	$	256,091
Unpaid		**830**		**26,416**		**27,246**		609		5,889		6,498
Undelivered Orders at the End of the Year	**$**	**868**	**$**	**251,597**	**$**	**252,465**	$	625	$	261,964	$	262,589

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. Contributed capital for the fiscal year ended September 30, 2022, was $114 million. We did not have any contributed capital for the fiscal year ended September 30, 2021.

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. We calculate interest expense due 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 0.54 percent to 5.50 percent.

Available Borrowing

The available borrowing authority and related changes in available borrowing authority as of and for the fiscal years ended September 30, 2022 and 2021 are shown below:

(in millions)	2022	2021
Beginning Balance	**$ 6,117**	$ 99,676
Current Authority[1]	**5,513**	15,008
Borrowing Authority Withdrawn	**(59)**	(93,318)
Borrowing Authority Converted to Cash	**(4,391)**	(15,249)
Ending Balance	**$ 7,180**	6,117

(1) The significant decrease in borrowing authority is primarily related to the expiration of authority to make loans and investments in accordance with the CARES Act (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 2022, was not published at the time that these financial statements were issued. We expect OMB to publish the FY 2024 President's Budget in February 2023, 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 2021 AFR and the actual FY 2021 balances included in the FY 2023 President's Budget.

Reconciliation of FY 2021 Combined Statement of Budgetary Resources to the FY 2023 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	$ 1,550,008	$ 1,060,848	$ 906,270	$ (73,645)	$ 832,625
IRS non-entity tax credit payments and other outlays not in SBR [1]	808,260	808,260	804,173	-	804,173
Tax and Trade Bureau (TTB) non-entity collections for Puerto Rico not in SBR	520	520	520	-	520
Expired funds in SBR	(535)	-	-	-	-
Non-Treasury offsetting receipts	-	-	-	(33)	(33)
Non-Budgetary Financing Disbursements, net[2]	-	-	(64,396)	-	(64,396)
Other	(12)	(6)	4	-	4
President's Budget Amounts	**$ 2,358,241**	**$ 1,869,622**	**$ 1,646,571**	**$ (73,678)**	**$ 1,572,893**

(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.*

(2) *These are credit reform financing account net outlays. The SBR excludes gross disbursements and offsetting collections from credit financing accounts.*

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, 2022 and 2021:

	Tax Year				
(in millions)	2022	2021	2020	Pre-2020	2022 Collections
Individual Income and FICA Taxes	$ 2,495,597	$ 1,679,952	$ 99,529	$ 33,020	$ 4,308,098
Corporate Income Taxes	294,023	156,609	3,428	21,811	475,871
Estate and Gift Taxes	2,310	25,840	1,785	3,420	33,355
Excise Taxes	69,930	19,916	36	358	90,240
Railroad Retirement Taxes	4,417	1,341	389	1	6,148
Unemployment Taxes	4,799	2,050	22	175	7,046
Fines, Penalties, Interest & Other Revenue - Tax Related	320	1	-	1	322
Tax Related Revenue Received	2,871,396	1,885,709	105,189	58,786	4,921,080
Deposit of Earnings, Federal Reserve System	79,961	26,714	-	-	106,675
Fines, Penalties, Interest & Other Revenue - Non-Tax Related	5,599	1,384	-	-	6,983
Non-Tax Related Revenue Received	85,560	28,098	-	-	113,658
Total Revenue Received	$ 2,956,956	$ 1,913,807	$ 105,189	$ 58,786	$ 5,034,738
Less Amounts Collected for Non-Federal Entities					421
Total					$ 5,034,317

	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

AMOUNTS PROVIDED TO FUND THE U.S. GOVERNMENT

For the fiscal years ended September 30, 2022 and 2021, collections of custodial revenue transferred to other federal entities were as follows:

(in millions)		2022		2021
General Fund	$	**4,390,703**	$	3,098,877
Other Federal Agencies		**1,384**		1,399
Total	**$**	**4,392,087**	$	3,100,276

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 2022 and 2021, the IRS disbursed $13.1 billion and $569.5 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, 2022 and 2021:

	Tax Year				
(in millions)	2022	2021	2020	Pre-2020	2022 Refunds/ Payments
Individual Income and FICA Taxes	**$ 85,825**	**$ 418,527**	**$ 63,548**	**$ 15,433**	**$ 583,333**
Corporate Income Taxes	**4,378**	**12,267**	**6,047**	**32,919**	**55,611**
Estate and Gift Taxes	**1**	**10**	**589**	**248**	**848**
Excise Taxes	**540**	**921**	**425**	**389**	**2,275**
Railroad Retirement Taxes	**-**	**45**	**(16)**	**-**	**29**
Unemployment Taxes	**-**	**73**	**13**	**47**	**133**
Fines, Penalties, Interest & Other Revenue	**-**	**-**	**-**	**1**	**1**
Total	**$ 90,744**	**$ 431,843**	**$ 70,606**	**$ 49,037**	**$ 642,230**

	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

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/Trust Revolving		
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	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 Agent 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, 2022

(in millions)	Exchange Stabilization Fund	Public Enterprise/ Revolving/ Trust Revolving Funds	Other FDC Funds	Combined FDC Funds	Eliminations between FDC Funds	Consolidated FDC Funds
ASSETS						
Intra-Governmental:						
Fund Balance	$ -	$ 1,587	$ 1,821	$ 3,408	$ -	$ 3,408
Investments, Net	18,401	2,225	4,143	24,769	-	24,769
Other Assets	-	4	-	4	-	4
Total Intra-Governmental	18,401	3,816	5,964	28,181	-	28,181
Other Than Intra-Governmental						
Cash, Foreign Currency, and Other Monetary Assets	166,412	-	12	166,424	-	166,424
Taxes, Interest, and Other Receivables, Net	-	113	126	239	-	239
Advances and Prepayments	-	2	-	2	-	2
Other Investments, Net	3,796	20	-	3,816	-	3,816
General Property, Plant, and Equipment, Net	-	993	20	1,013	-	1,013
Other Assets	-	1,026	842	1,868	-	1,868
Total Other Than Intra-Governmental	170,208	2,154	1,000	173,362	-	173,362
Total Assets	$ 188,609	$ 5,970	$ 6,964	$ 201,543	$ -	$ 201,543
LIABILITIES						
Intra-Governmental						
Due To the General Fund	$ -	$ -	$ 728	$ 728	$ -	$ 728
Other	-	33	848	881	-	881
Total Intra-Governmental	-	33	1,576	1,609	-	1,609
Other Than Intra-Governmental						
Other Payables	404	137	76	617	-	617
Special Drawing Right Certificates Issued to the Federal Reserve	5,200	-	-	5,200	-	5,200
Allocation of Special Drawing Rights	147,009	-	-	147,009	-	147,009
Other	-	674	975	1,649	-	1,649
Total Other Than Intra-Governmental	152,613	811	1,051	154,475	-	154,475
Total Liabilities	152,613	844	2,627	156,084	-	156,084
Net Position						
Unexpended Appropriations	200	-	-	200	-	200
Cumulative Results of Operations	35,796	5,126	4,337	45,259	-	45,259
Total Liabilities and Net Position	$ 188,609	$ 5,970	$ 6,964	$ 201,543	$ -	$ 201,543

Summary Information for Funds from Dedicated Collections as of and for the Fiscal Year Ended September 30, 2022

(in millions)		Exchange Stabilization Fund	Public Enterprise/ Revolving/ Trust Revolving Funds	Other FDC Funds	Combined FDC Funds	Eliminations between FDC Funds	Consolidated FDC Funds
Statement of Net Cost							
Gross Cost	$	24,750 $	6,865 $	1,346 $	32,961 $	- $	32,961
Less: Earned Revenue		(20,126)	(7,223)	(384)	(27,733)	-	(27,733)
Gains/Losses on Pension, ORB, or OPEB Assumption		-	(29)	-	(29)	-	(29)
Total Net Cost of (Revenue From) Operations	$	4,624 $	(387)$	962 $	5,199 $	- $	5,199
Statement of Changes in Net Position							
Cumulative Results of Operations:							
Beginning Balance	$	40,420 $	4,888 $	3,870 $	49,178 $	- $	49,178
Individual Income Tax		-	-	21	21	-	21
Intra-Governmental Non-Exchange Revenue		-	-	432	432	-	432
Donations and Forfeitures of Cash/Equivalent		-	-	721	721	-	721
Transfers In/Out Without Reimbursement		(95)	(114)	(482)	(691)	-	(691)
Donation/Forfeiture of Property		-	-	172	172	-	172
Imputed Financing Sources		-	64	7	71	-	71
Transfers to the General Fund and Other		95	(99)	558	554	-	554
Net Revenue (Cost) of Operations		(4,624)	387	(962)	(5,199)	-	(5,199)
Net Change in Cumulative Results of Operations		(4,624)	238	467	(3,919)	-	(3,919)
Ending Balance	$	35,796 $	5,126 $	4,337 $	45,259 $	- $	45,259

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/ Trust Revolving Funds	Other FDC Funds	Combined FDC Funds	Eliminations between FDC Funds	Consolidated FDC Funds
ASSETS						
Intra-Governmental:						
Fund Balance	$ -	$ 1,647	$ 1,672	$ 3,319	$ -	$ 3,319
Investments, Net	22,837	2,103	3,748	28,688	-	28,688
Other Assets	-	5	-	5	-	5
Total Intra-Governmental	22,837	3,755	5,420	32,012	-	32,012
Other Than Intra-Governmental						
Cash, Foreign Currency, and Other Monetary Assets	179,554	-	100	179,654	-	179,654
Taxes, Interest, and Other Receivables, Net	-	122	219	341	-	341
Other Investments, Net	5,265	5	-	5,270	-	5,270
General Property, Plant, and Equipment, Net	-	898	23	921	-	921
Other Assets	-	902	161	1,063	-	1,063
Total Other Than Intra-Governmental	184,819	1,927	503	187,249	-	187,249
Total Assets	$ 207,656	$ 5,682	$ 5,923	$ 219,261	$ -	$ 219,261
LIABILITIES						
Intra-Governmental						
Due To the General Fund	$ -	$ -	$ 893	$ 893	$ -	$ 893
Other	-	34	848	882	-	882
Total Intra-Governmental	-	34	1,741	1,775	-	1,775
Other Than Intra-Governmental						
Other Payables	11	79	112	202	-	202
Special Drawing Right Certificates Issued to the Federal Reserve	5,200	-	-	5,200	-	5,200
Allocation of Special Drawing Rights	161,825	-	-	161,825	-	161,825
Other	-	681	200	881	-	881
Total Other Than Intra-Governmental	167,036	760	312	168,108	-	168,108
Total Liabilities	167,036	794	2,053	169,883	-	169,883
Net Position						
Unexpended Appropriations	200	-	-	200	-	200
Cumulative Results of Operations	40,420	4,888	3,870	49,178	-	49,178
Total Liabilities and Net Position	$ 207,656	$ 5,682	$ 5,923	$ 219,261	$ -	$ 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/ Trust Revolving Funds	Other FDC Funds	Combined FDC Funds	Eliminations between FDC Funds	Consolidated FDC Funds
Statement of Net Cost						
Gross Cost	$ 8,230	$ 6,970	$ 955	$ 16,155	$ -	$ 16,155
Less: Earned Revenue	(7,523)	(7,098)	(272)	(14,893)	-	(14,893)
Gains/Losses on Pension, ORB, or OPEB Assumption	-	(4)	-	(4)	-	(4)
Total Net Cost of (Revenue From) Operations	$ 707	$ (132)	$ 683	$ 1,258	$ -	$ 1,258
Statement of Changes in Net Position						
Cumulative Results of Operations:						
Beginning Balance	$ 41,127	$ 4,407	$ 3,310	$ 48,844	$ -	$ 48,844
Individual Income Tax	-	-	24	24	-	24
Intra-Governmental Non-Exchange Revenue	-	-	419	419	-	419
Donations and Forfeitures of Cash/Equivalent	-	-	285	285	-	285
Transfers In/Out Without Reimbursement	(23)	-	(227)	(250)	-	(250)
Donation/Forfeiture of Property	-	-	185	185	-	185
Imputed Financing Sources	-	74	6	80	-	80
Transfers to the General Fund and Other	23	275	551	849	-	849
Net Revenue (Cost) of Operations	(707)	132	(683)	(1,258)	-	(1,258)
Net Change in Cumulative Results of Operations	(707)	481	560	334	-	334
Ending Balance	$ 40,420	$ 4,888	$ 3,870	$ 49,178	$ -	$ 49,178

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, we use budgetary accounting information for planning and control purposes, and it 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 $81.2 billion and $69.2 billion of interest accrued on outstanding public debt as of September 30, 2022 and 2021, respectively; as well as $28.7 billion and $9.3 billion of net amortization of discounts on outstanding public debt as of September 30, 2022 and 2021, 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:

- 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. We removed this activity from Net Cost through inclusion of change in asset activity, however, it 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. We removed this activity Net Cost through inclusion of change in liability activity, however, it 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, we exclude this intra-agency activity. 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, 2022 and 2021, 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	2022 Total
Total Net Cost of Treasury Operations and Non-Entity Costs	**$ 194,394**	**$ 683,733**	**$ 878,127**
Components of Net Operating Cost Not Part of Budgetary Outlays:			
Liquidation Preference of GSEs Preferred Stock and Valuation Changes (Notes 11 and 20)	-	2,860	2,860
Property, Plant, and Equipment Depreciation Expense and Disposals (Note 14)	-	(521)	(521)
Unrealized Valuation (Loss) on Special Drawing Rights	-	(473)	(473)
Unrealized Valuation (Loss) and Sales/Dispositions (Loss) on Investments (Note 13)	-	(8,379)	(8,379)
Year-End Credit Reform Subsidy Accrual Re-Estimates	-	(804)	(804)
Adjustments to Prior Year Credit Reform Re-Estimates accrual	-	1,163	1,163
Increase/(Decrease) in Assets:			
Loans and Interest Receivable (Notes 3, 7, and 10)	(182,515)	(2,549)	(185,064)
Advances to Trust Funds (Note 3)	(44,080)	-	(44,080)
Due From the General Fund (Note 4)	2,254,486	-	2,254,486
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	-	420,257	420,257
Advances and Prepayments (Note 10)	-	(30,892)	(30,892)
Other Assets	42	382	424
(Increase)/Decrease in Liabilities:			
Federal Debt and Interest Payable (Notes 4 and 16)	(492,153)	(1,983,477)	(2,475,630)
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)	(185,470)	-	(185,470)
Other Liabilities	1,339	(3,240)	(1,901)
Other Financing Sources:			
Imputed Costs	(780)	-	(780)
Total Components of Net Operating Cost Not Part of Budgetary Outlays	**1,411,431**	**(1,448,638)**	**(37,207)**
Components of Budgetary Outlays That Are Not Part of Net Cost:			
Acquisition of Property, Plant and Equipment (Note 14)	-	597	597
Acquisition of Other Investments, Net (Note 13)	-	21,343	21,343
Sale/Repayment of Other Investments, Net (Note 13)	-	(12,208)	(12,208)
Other Financing Sources:			
Transfers (In)/Out Without Reimbursement	147	-	147
Total Components of Budgetary Outlays That Are Not Part of Net Cost	**147**	**9,732**	**9,879**
Other Reconciling Items:			
Distributed Offsetting Receipts	-	(65,142)	(65,142)
Non-Entity Activity	53,405	-	53,405
Accrued Liabilities on Federal Debt	(4,882)	-	(4,882)
Other	781	(1,476)	(695)
Intradepartmental Eliminations	(5,316)	-	(5,316)
Total Other Reconciling Items	**43,988**	**(66,618)**	**(22,630)**
Agency Outlays, Net	**$ 1,649,960**	**$ (821,791)**	**$ 828,169**

(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 3)		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

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

	2022			2021		
(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	**$ 890**	**$ 154**	**$ 1,044**	$ 855	$ 150	$ 1,005
Increases:						
Contributions to Fiduciary Net Assets	**84**	**1,096**	**1,180**	43	5,734	5,777
Total Increases	**84**	**1,096**	**1,180**	43	5,734	5,777
Decreases:						
Disbursements to and on behalf of beneficiaries	**-**	**(1,106)**	**(1,106)**	(8)	(5,730)	(5,738)
Total Decreases	**-**	**(1,106)**	**(1,106)**	(8)	(5,730)	(5,738)
Net Increase (Decrease) in Fiduciary Assets	**84**	**(10)**	**74**	35	4	39
Fiduciary Net Assets, End of Year	**$ 974**	**$ 144**	**$ 1,118**	$ 890	$ 154	$ 1,044

Schedule of Fiduciary Net Assets

	2022			2021		
(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						
Fund Balance with Treasury	$ 974	$ 143	$ 1,117	$ 890	$ 153	$ 1,043
Investments in Treasury Securities	-	1	1	-	1	1
Total Fiduciary Assets	974	144	1,118	890	154	1,044
Total Fiduciary Net Assets	$ 974	$ 144	$ 1,118	$ 890	$ 154	$ 1,044

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 Treasury 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). 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 U.S. Court of Appeals for the Federal Circuit dismissed all of the claims. Certain plaintiffs filed petitions for a writ of certiorari with the Supreme Court. 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 an injunction that (i) results in changes to Treasury's liquidation preference, or (ii) converts Treasury's senior preferred stock to common stock. Following the Supreme Court's decision in June 2021, the Court left open the possibility that the plaintiffs may be entitled to retrospective relief if the unconstitutional provision inflicted "compensable harm". The Fifth and Eighth Circuit Courts of Appeal remanded cases to the U.S. District Court for the Southern District of Texas and the U.S. District Court for the District of Minnesota, where plaintiffs filed amended complaints and motions to dismiss are pending. The Sixth Circuit Court of Appeals remanded a case to the U.S. District Court for the Western District of Michigan to determine if the unconstitutional provision inflicted "compensable harm." 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 IRS 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 IRS is 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, 2022, the Department has determined the likelihood of an unfavorable outcome as reasonably possible and estimated a potential loss within a range of $0 to $230 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. 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. As of September 30, 2022 and 2021, we have determined there is a reasonably possible likelihood of an unfavorable outcome in some of the cases totaling approximately $265 million and $324 million, respectively.

- *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.

- *Johnathan Dinh, et. al. v. United Sates:* A purported class action lawsuit on behalf of certain bondholders was filed in the U.S. Court of Federal Claims seeking to determine if the enactment of the Puerto Rico Oversight, Management, and

Economic Stability Act, brought about the taking of the principal and interest due to them, as well as the destruction of their lien on the fund that secured the bonds. 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, 2022 and 2021, we had remaining loan commitments totaling $34.7 billion and $40.7 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, 2022 and 2021, U.S. callable capital in MDBs was as follows:

(in millions)	2022	2021
Inter-American Development Bank	$ **49,181**	$ 49,181
International Bank for Reconstruction and Development	**47,785**	46,363
Asian Development Bank	**18,701**	18,702
African Development Bank	**7,321**	6,464
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	$ **127,888**	$ 125,610

(1) Both FY 2022 and 2021 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 2022 and 2021, the program trigger amount was $200 million. Insurance companies and the U.S. government will share insured losses above insurer deductibles. 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, 2022 or 2021.

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, 2022 and 2021.

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, 2022 and 2021, we had committed up to $32.6 billion for these programs. Outstanding commitments totaled $0.9 billion and $1.2 billion as of September 30, 2022 and 2021, respectively. For FY 2022 and 2021, payments made on behalf of the housing programs under TARP totaled $334 million and $479 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 statement includes the Reclassified Statement of Net Cost, that is 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 Statements of Net Cost is 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 2021 Financial Report can be found on the Fiscal Service website and a copy of the FY 2022 Financial Report will be posted to the site as soon as it is released.

Consolidated Statement of Net Cost
For the Fiscal Year Ended September 30, 2022

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	$ 217,018	$ 31,817	$ -	$ 179,594	$ -	$ 211,411	Non-Federal Gross Costs
							Intra-governmental Costs
		267	-	2,136	-	2,403	Benefit Program Costs
		71	-	709	-	780	Imputed Costs
		422	1	1,492	219	1,694	Buy/Sell Cost
		52	-	1	-	53	Purchase of Assets
		-	-	149	-	149	Federal Securities Interest Expense
		-	-	6	-	6	Borrowing Losses
		17	-	558	-	575	Other Expenses (without Reciprocals)
		(52)	-	(1)	-	(53)	Purchase of Assets Offset
		777	1	5,050	219	5,607	*Total Intra-governmental Costs*
Total Program Gross Costs	**217,018**	**32,594**	**1**	**184,644**	**219**	**217,018**	**Total**
Total Program Earned Revenues	(30,712)	(27,322)	-	(837)	-	(28,159)	Non-Federal Earned Revenue
							Intra-governmental Revenue
		(50)	-	(591)	(215)	(426)	Buy/Sell Revenue
		(164)	-	-	(164)	-	Federal Securities Interest Revenue Including Associated Gains and Losses
		-	-	(2,050)	-	(2,050)	Borrowing and Other Interest Revenue
		-	-	(13)	-	(13)	Borrowing Gains
		(64)	-	-	-	(64)	Collections Transferred in to a TAS Other Than the General Fund of the U.S. Government - Exchange
		(278)	-	(2,654)	(379)	(2,553)	*Total Intra-governmental Earned Revenue*
Total Program Earned Revenues	**(30,712)**	**(27,600)**	**-**	**(3,491)**	**(379)**	**(30,712)**	**Total**
Loss on Pension, ORB, or OPEB Assumption Changes	519	(29)	-	548	-	519	Non-Federal Gross Costs
Total Net Cost of Treasury Operations	**186,825**	**4,965**	**1**	**181,701**	**(160)**	**186,825**	**Total**

Consolidated Statement of Net Cost
For the Fiscal Year Ended September 30, 2022

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	$ 722,233	$ -	$ -	$ 495,721	$ -	$ 495,721	Interest on Debt Held by the Public (Non-Federal)
		-	-	226,714	202	226,512	Federal Securities Interest Expense (Federal)
Total Federal Debt Interest	722,233	-	-	722,435	202	722,233	*Total*
Restoration of Foregone Federal Debt Interest	726	-	-	(339)	-	(339)	Non-Federal Gross Costs
		-	-	812	-	812	Interest on Debt Held by the Public (Non-Federal)
							Intra-governmental Costs
		-	-	(70)	-	(70)	Buy/Sell Cost
		-	-	323	-	323	Federal Securities Interest Expense (Federal)
		-	-	253	-	253	*Total Intra-governmental Costs*
Total Restoration of Foregone Federal Debt Interest	726	-	-	726	-	726	*Total*
Less Interest Revenue from Loans	(47,064)	-	-	(47,064)	-	(47,064)	Borrowing and Other Interest Revenue (Federal)
Other Federal Costs, Net	17,180	321	-	4,451	-	4,772	Non-Federal Gross Costs
							Intra-governmental Costs
		-	-	118	-	118	Buy/Sell Cost
		-	-	12,699	-	12,699	Borrowing and Other Interest Expenses
		-	-	12,817	-	12,817	*Total Intra-governmental Costs*
		(132)	-	-	-	(132)	Non-Federal Earned Revenue
		-	-	(277)	-	(277)	Buy/Sell Revenue (Federal)
Total Other Federal Costs, Net	17,180	189	-	16,991	-	17,180	*Total*

Consolidated Statement of Net Cost
For the Fiscal Year Ended September 30, 2022

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	All Other Amounts (with Eliminations)	Eliminations between Dedicated and All Other	Total (in millions)	Reclassified Financial Statement Line
GSEs Non-Entity Revenue, Net	(2,860)	-	-	(2,860)	-	(2,860)	Non-Federal Earned Revenue
COVID-19 Non-Entity Cost (Revenue), Net	1,945	-	-	2,124	-	2,124	Non-Federal Gross Costs
		-	-	(179)	-	(179)	Non-Federal Earned Revenue
Total COVID-19 Non-Entity Cost (Revenue), Net	1,945	-	-	1,945	-	1,945	*Total*
Other, Net	(858)	46	-	1	-	47	Non-Federal Gross Costs
		-	-	(4)	-	(4)	Non-Federal Earned Revenue
		-	-	(901)	-	(901)	Buy/Sell Revenue (Federal)
Total Other, Net	(858)	46	-	(904)	-	(858)	*Total*
Total Net Non-Entity Costs	691,302	235	-	691,269	202	691,302	**Total**
		27	-	338,243	-	338,270	Non-Federal Gross Costs (1)
Total Net Cost of Treasury Operations and Non-Entity Costs	**$ 878,127**	**$ 5,227**	**$ 1**	**$ 1,211,213**	**$ 42**	**$ 1,216,397**	**Total Net Cost (1)**

(1) Includes income tax credits of $338.3 billion, which are reported on the Treasury Statement of Custodial Activity within the "Less Refunds and Other Payments" line item. These costs are reported as part of net cost on the reclassified financial statements for the purpose of presenting these costs in the manner presented in the Financial Report.

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

INTRODUCTION

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

OTHER CLAIMS FOR REFUNDS

We estimated that $3.4 billion and $2.5 billion as of September 30, 2022 and 2021, 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 2022, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts and appeals courts is $2.1 billion and $1.3 billion, respectively. In FY 2021, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts and appeals courts was $1.5 billion and $1.0 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 that 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, 2022 and 2021, were as follows:

(in millions)		2022	2021
Total Unpaid Assessments	$	**602,000**	$ 658,000
Less Compliance Assessments		**(88,000)**	(80,000)
Write-Offs		**(77,000)**	(85,000)
Gross Federal Taxes Receivable		**437,000**	493,000
Less Allowance for Doubtful Accounts		**(201,000)**	(191,000)
Federal Taxes Receivable, Net	$	**236,000**	$ 302,000

Total unpaid assessments include $182 billion of non-delinquent taxes receivable, including $135 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 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 $1.1 billion and $1.2 billion as of September 30, 2022 and 2021, 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 2022 and 2021, TTB collected approximately $19.6 billion and $20.3 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 2022 and 2021, 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.

LAND

We hold land for BEP and Mint operational use in the production of U.S. currency and circulating coins.

The estimated land acreage for operational use as of September 30, 2022, was as follows:

(in acreage)	2022
Beginning Balance	**175**
Increase in land for operational use	**104**
Total Land	**279**

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, 2022 and 2021 disaggregated by Treasury reporting entity rather than by Treasury major budget account, since we manage our budget at the reporting entity level.

Fiscal Year 2022 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)	$ 610	$ 1,910	$ 481,367	$ 29	$ 2,694
Appropriations (discretionary and mandatory)	-	738,997	2,536	202	92,527
Borrowing authority (discretionary and mandatory)	-	-	5,463	-	-
Spending authority from offsetting collections (discretionary and mandatory)	1,253	321	4,515	24	154
Total Budgetary Resources	$ 1,863	$ 741,228	$ 493,881	$ 255	$ 95,375
STATUS OF BUDGETARY RESOURCES					
New obligations and upward adjustments	$ 1,038	$ 739,482	$ 174,836	$ 180	$ 14,569
Unobligated balance, end of year:					
Apportioned, unexpired accounts	704	1,636	269,422	72	34,338
Exempt from apportionment, unexpired accounts	-	4	90	-	7
Unapportioned, unexpired accounts	121	93	49,095	-	46,196
Unexpired unobligated balance, end of year	825	1,733	318,607	72	80,541
Expired unobligated balance, end of year	-	13	438	3	265
Unobligated balance, end of year	825	1,746	319,045	75	80,806
Total Status of Budgetary Resources	$ 1,863	$ 741,228	$ 493,881	$ 255	$ 95,375
OUTLAYS, NET, AND DISBURSEMENTS, NET					
Outlays, net (discretionary and mandatory)	$ (39)	$ 739,117	$ 140,249	$ 143	$ 13,855
Distributed offsetting receipts	-	(52,374)	(12,192)	-	(576)
Agency Outlays, Net (Discretionary and Mandatory)	$ (39)	$ 686,743	$ 128,057	$ 143	$ 13,279
Disbursements, net (mandatory)	$ -	$ -	$ (4,722)	$ -	$ -

(a) Of the $494 billion of Total Budgetary Resources for DO, ORP, GSE, ESF and OAS had $166 billion, $254 billion, $41 billion and $16 billion, respectively. The remainder is spread throughout other offices.

Fiscal Year 2022 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)	$ 1,182	$ 1,738	$ 8	$ 489,225	$ 313
Appropriations (discretionary and mandatory)	-	-	128	834,390	-
Borrowing authority (discretionary and mandatory)	-	-	-	-	5,463
Spending authority from offsetting collections (discretionary and mandatory)	4,905	1,224	9	11,571	834
Total Budgetary Resources	$ 6,087	$ 2,962	$ 145	$ 1,335,186	$ 6,610
STATUS OF BUDGETARY RESOURCES					
New obligations and upward adjustments	$ 5,206	$ 1,128	$ 138	$ 930,261	$ 6,316
Unobligated balance, end of year:					
Apportioned, unexpired accounts	500	-	5	306,461	216
Exempt from apportionment, unexpired accounts	-	1,834	-	1,935	-
Unapportioned, unexpired accounts	381	-	-	95,808	78
Unexpired unobligated balance, end of year	881	1,834	5	404,204	294
Expired unobligated balance, end of year	-	-	2	721	-
Unobligated balance, end of year	881	1,834	7	404,925	294
Total Status of Budgetary Resources	$ 6,087	$ 2,962	$ 145	$ 1,335,186	$ 6,610
OUTLAYS, NET, AND DISBURSEMENTS, NET					
Outlays, net (discretionary and mandatory)	$ (18)	$ (123)	$ 127	$ 893,311	$ -
Distributed offsetting receipts	-	-	-	(65,142)	-
Agency Outlays, Net (Discretionary and Mandatory)	$ (18)	$ (123)	$ 127	$ 828,169	$ -
Disbursements, net (mandatory)	$ -	$ -	$ -		$ (4,722)

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)

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PART 3:

OTHER INFORMATION (UNAUDITED)


THE TREASURY DEPARTMENT

SECTION A: 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	1	0	0	0
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	1	0	0	3

[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 controls 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, 2022, we had no material weaknesses under Section 2 or Section 4 of the FMFIA. However, we have three instances of non-conformance with the federal financial management systems requirements of Section 4 of the FMFIA down from four instances in FY 2021. In FY 2022, we were successful in downgrading a major component of one of our significant deficiencies, related to the Bureau of the Fiscal Service's debt management systems, which resolved the related nonconformance. These remaining three 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 one nonconformance related to the deficiencies in its cash 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 B: 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 associated with tax underreporting. Underreporting can manifest as either understatements of the liability due at the time the taxpayer files the return, the taxpayer 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 for those components of the tax gap that depend on the NRP. In October 2022, the IRS released new estimates covering the tax year (TY) 2014 – 2016 timeframe. 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 2014 – 2016 (https://www.irs.gov/pub/irs-pdf/p1415.pdf); and
- News Release: IRS updates tax gap estimates; new data points the way toward enhancing taxpayer service, compliance efforts (https://www.irs.gov/newsroom/irs-updates-tax-gap-estimates-new-data-points-the-way-toward-enhancing-taxpayer-service-compliance-efforts).

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 2014 – 2016 timeframe is $496 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 $68 billion of the gross tax gap will eventually be paid, resulting in a net tax gap of $428 billion.

The tax gap structure separates noncompliance into components by the type of tax and source of noncompliance. The three primary sources of noncompliance that result in payment of less than the tax owed are: (*i*) the nonfiling 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, $398 billion, and $59 billion, respectively, of the $496 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 $357 billion, $41 billion, $93 billion, and $5 billion, respectively. The estimates below are excerpted from a schematic representation, known as the tax gap "map" from the Tax Gap Estimates for Tax Years 2014 – 2016 publication.

TAX GAP MAP: TAX GAP ESTIMATES FOR TAX YEARS 2014 – 2016 (EXCERPT) ($ IN BILLIONS)

	Total True Tax Liability	Tax Paid Voluntarily & Timely	Gross Tax Gap: Nonfiling	Gross Tax Gap: Underreporting	Gross Tax Gap: Under-payment	Gross Tax Gap	Enforced & Other Late Payments	Net Tax Gap (Tax Not Collected)
Total	$3,307	$2,811	$39	+ $398	+ $59	= $496	$68	= $428
By Type of Tax								
Individual Income Tax	$1,740	$1,383	$32	+ $278	+ $47	= $357	$51	= $306
				Business Income $130; Non-Business Income $60; Credits $42; Income Offsets [1] $25; Filing Status $5; Other Taxes [2] $4; Unallocated Marginal Effects [3] $11				
Corporation Income Tax	$354	$313	#	+ $37	+ $4	= $41	$8	= $34
				Large Corpo-rations $23; Small Corpo-rations $14				
Employment Tax	$1,131	$1,038	$7 (Employment Tax [4])	+ $82	+ $5	= $93	$6	= $87
				Self-Employ-ment Tax $53; FICA & Uncollected FICA TAX $28; FUTA $1				
Estate Tax	$22	$17	$<0.5	+ $1	+ $3	= $5	$3	= $2

Notes:

**Totals include Excise Tax*

 # - No estimate

Detail may not add to totals due to rounding.

(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) 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.

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 2014 – 2016 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 underreporting tax gap related to individual income taxes. Since this 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 2014 – 2016

The estimates in the table below provide a breakout of the components of the individual income tax underreporting tax gap, which is 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 47 percent of the total individual income tax underreporting tax gap for TY 2014 – 2016. This primarily consists of nonfarm proprietor income, which accounts for 29 percent; flow-through income (partnerships, S corporations, and estates and trusts), which accounts for nine 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 2014–2016 (1) ($ IN BILLIONS)

Tax Return Line Items		Tax: Tax Gap	Tax: Share of Gross Tax Gap	Tax: Share of Individual Income Tax Underreporting Tax Gap	Line Item Amount: Net Misreporting Percentage (2)
Gross Tax Gap	**$**	**496**	**100%**	**N/A**	**N/A**
Individual Income Tax Underreporting Tax Gap	**$**	**278**	**56%**	**100%**	**17%**
Items Subject to Substantial Information Reporting and Withholding	**$**	**7**	**1%**	**2%**	**1%**
Wages, salaries, tips	$	7	1%	2%	1%
Items Subject to Substantial Information Reporting	**$**	**15**	**3%**	**5%**	**6%**
Interest income		1	(3)	(3)	4%
Dividend income	$	1	(3)	(3)	4%
State income tax refunds	$	1	(3)	(3)	9%
Pension & annuities	$	7	1%	2%	4%
Unemployment Compensation		(3)	(3)	(3)	12%
Taxable Social Security benefits	$	6	1%	2%	13%
Items Subject to Some Information Reporting	**$**	**43**	**9%**	**15%**	**15%**
Partnership, S-Corp, Estate & Trust, etc.	$	25	5%	9%	12%
Alimony income		(4)	(4)	(4)	(4)
Capital Gains	$	18	4%	6%	18%
Short-term Capital Gains	$	6	1%	2%	17%
Long-Term Capital Gains	$	12	2%	4%	16%
Items Subject to Little or No Information Reporting	**$**	**126**	**25%**	**45%**	**55%**
Form 4797 income	$	4	1%	1%	35%
Other income	$	16	3%	6%	42%
Nonfarm proprietor income	$	80	16%	29%	57%
Farm income	$	5	1%	2%	64%
Rents and royalties	$	21	4%	7%	53%
Other Taxes	**$**	**4**	**1%**	**1%**	**6%**
Unallocated Marginal Effects	**$**	**11**	**2%**	**4%**	**N/A**
Income Offsets (Adjustments, Deductions, Exemptions)	**$**	**25**	**5%**	**9%**	**6%**
Total Tax Credits	**$**	**42**	**9%**	**15%**	**38%**
Filing Status	**$**	**5**	**1%**	**2%**	**N/A**

(1) The estimates are the annual averages for the TY 2014 – 2016 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 5 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 non-refundable individual income tax credits, including the Earned Income Tax Credit (EITC), American Opportunity Tax Credit (AOTC), and Additional Child Tax Credit (ACTC). Total tax credits account for 15 percent of the individual income tax underreporting tax gap. EITC accounts for 10 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 (two percent).

INDIVIDUAL INCOME TAX UNDERREPORTING TAX GAP ESTIMATES FOR TAX CREDITS: TY 2014 – 2016 ($ 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	**$**	**496**	**100%**	**N/A**
Individual Income Tax Underreporting Tax Gap	**$**	**278**	**56%**	**100%**
Total Credits	**$**	**42**	**9%**	**15%**
Earned Income Tax Credit	$	28	6%	10%
Education Credits (Including AOTC)	$	5	1%	2%
Child Tax Credit and Additional Child Tax Credit	$	8	2%	3%
All Other Credits	$	2	(2)	1%

(1) The estimates are the annual averages for the TY 2014 – 2016 timeframe.

(2) Less than 0.5 percent.

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

Earned Income Tax Credit (EITC)

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 (AOTC)

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.

Additional Child Tax Credit (CTC) and Additional Child Tax Credit (ACTC)

Congress enacted the CTC to help ease the financial burdens for families with children as part of the *Taxpayer Relief Act of 1997* (P.L. 105-34). If the CTC exceeds the tax liability, taxpayers may receive some or all of the credit as a refund, known as the ACTC. Various legislative changes over the past 20 years have made significant changes to the CTC, which have expanded it from a generally non-refundable 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.

[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.

Tax Gap Projections for Tax Years 2017-2019

The IRS included average annual tax gap projections for the TY 2017-2019 timeframe in its most recent release of tax gap estimates. The tax gap projections are available for more recent years than are tax gap estimates, but tax gap projections rely more heavily on assumptions because less data is available in these years.

As shown in the table, the average annual gross tax gap is projected to be $540 billion for TY 2017-2019. The projection of enforced and other late payments is $70 billion, which yields a net tax gap projection of $470 billion. The projections of the gross tax gap components for nonfiling, underreporting, and underpayment for the TY 2017-2019 timeframe are $41 billion, $433 billion, and $66 billion respectively.

TAX GAP PROJECTIONS BY COMPONENT: TAX YEARS 2017-2019 ($ IN BILLIONS)

Tax Gap Component	TY 2017-2019	Share of Gross Tax Gap
Estimated Total True Tax	**$3,621**	
Gross Tax Gap	**$540**	**100%**
Voluntary Compliance Rate	***85.1%***	
Enforced and Other Late Payments	**$70**	6%
Net Tax Gap	**$470**	1%
Net Compliance Rate	***87.0%***	2%
Nonfiling Tax Gap	**$41**	**8%**
Individual Income Tax	$33	6%
Self-Employment Tax	$7	1%
Estate Tax	[3]	[2]
Underreporting Tax Gap	**$433**	**80%**
Individual Income Tax	**$304**	**56%**
Corporation Income Tax	**$37**	**7%**
Small Corporations (assets under $10M)	$15	3%
Large Corporations (assets of $10M or more)	$22	4%
Employment Tax	**$91**	**17%**
Self-Employment Tax	$58	11%
Uncollected Social Security and Medicare Tax	[3]	[2]
FICA and FUTA Tax	$32	6%
Estate Tax	**$1**	**[2]**
Underpayment Tax Gap	**$66**	**12%**
Individual Income Tax	$53	10%
Corporation Income Tax	$6	1%
Employment Tax	$4	1%
Estate Tax	$3	1%
Excise Tax	[3]	[2]

[1)] The projections are the annual averages for the TY 2017 – 2019 timeframe.

[(2)] Less than 0.5 percent.

[(3)] Less than $0.5 billion.

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

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, ACTC and net PTC (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 enacted 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 process measures compliance with the current tax system and always includes noncompliance with refundable and non-refundable tax credits. Whether a tax credit results in a refund instead of a reduction in tax liability depends on all of the taxpayers' characteristics, such as income, deductions, and other credits claimed, and is not simply driven by the credit itself.

The IRS's risk assessments on refundable tax credits have consistently concluded that 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. 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 as RTCs are not "payments" as intended under the improper payments legislation. A payment system is generally designed to implement internal controls that provide for appropriate verification and validation prior to payments being made; however, 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, 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. Therefore, errors in taxpayer claims for credits are more appropriately included in the 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 and 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. In some cases, due also in part to the complex rules, overclaims by an ineligible taxpayer could go to another family member who is eligible for, but fails to claim, the credit. The lack of third-party data to verify eligibility requirements for these refundable credits complicates the ability of the IRS to administer the 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. 50 percent of taxpayers claiming refundable credits use paid preparers. Unenrolled return preparers, who prepare a significant number of EITC returns, are not subject to the same level of training and certification requirements as other tax professionals and have higher error rates for EITC returns than taxpayers who prepare their own returns or who hire enrolled return preparers.

The IRS has a responsibility to detect and address errors and misreporting on tax returns, including those claiming the refundable credits. 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 with the Supplemental Security Income or Temporary Assistance for Needy Families programs. Increasing pre-refund screening for eligibility would increase the administrative costs for refundable tax credits and may discourage eligible taxpayers from claiming the credits.

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 2022, the IRS conducted 310,081 refundable credit exams, the majority through correspondence audits..

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 2020) and corporations (TY 2019).

Individual Income Tax Liability

FIGURE 1.1: AVERAGE AGI REPORTED AND AVERAGE INDIVIDUAL INCOME TAX LIABILITY FOR TY 2020

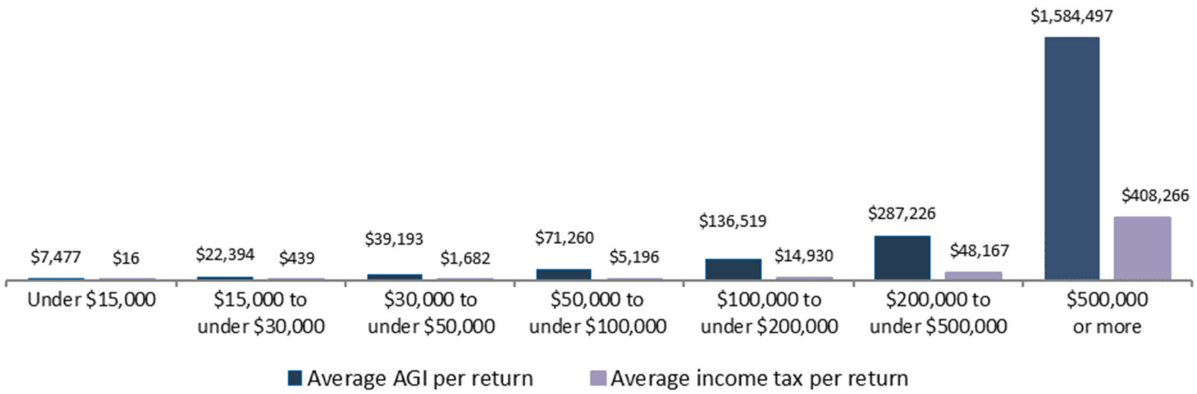

FIGURE 1.2: INDIVIDUAL INCOME TAX LIABILITY AS A PERCENTAGE OF AGI FOR TY 2020

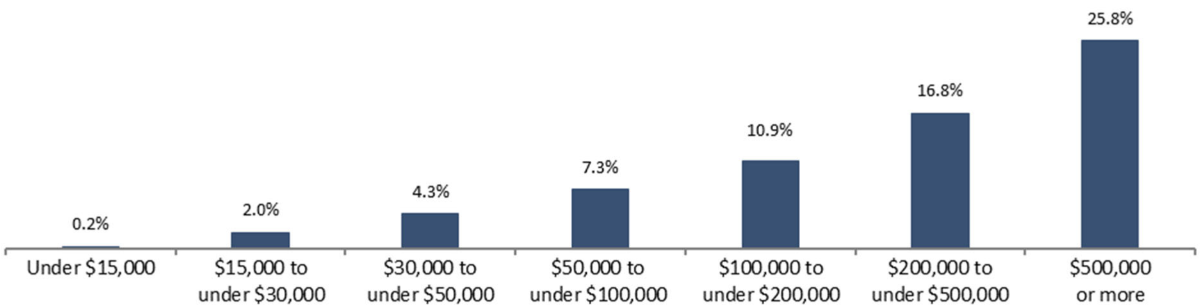

TABLE 1: INDIVIDUAL INCOME TAX DATA BY AGI FOR TY 2020

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	31,045	$ 232,112	$ 491	$ 7,477	$ 16	0.2%
$15,000 under $30,000	29,265	655,347	12,849	22,394	439	2.0%
$30,000 under $50,000	29,930	1,173,046	50,346	39,193	1,682	4.3%
$50,000 under $100,000	36,983	2,635,417	192,163	71,260	5,196	7.3%
$100,000 under $200,000	22,415	3,060,066	334,648	136,519	14,930	10.9%
$200,000 under $500,000	7,615	2,187,229	366,794	287,226	48,167	16.8%
$500,000 or more	1,845	2,923,397	753,251	1,584,497	408,266	25.8%
Total	**159,098**	**$ 12,866,614**	**$ 1,710,542**			

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 2019

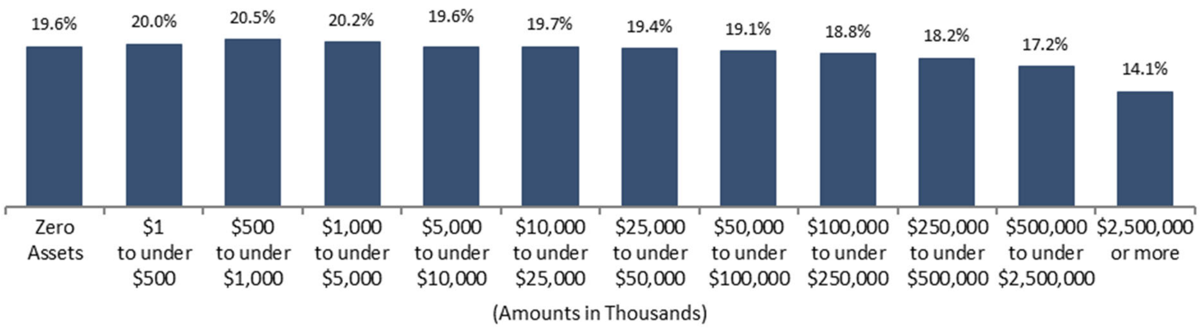

TABLE 2: CORPORATION TAX DATA BY TOTAL ASSETS FOR TY 2019

Total Assets (in thousands)	Income subject to tax (in millions)	Total income tax after credits (in millions)	Percentage of income tax after credits to taxable income
Zero Assets	$ 26,676	$ 5,240	19.6%
$1 under $500	8,235	1,669	20.0%
$500 under $1,000	5,279	1,080	20.5%
$1,000 under $5,000	18,004	3,629	20.2%
$5,000 under $10,000	11,642	2,281	19.6%
$10,000 under $25,000	15,884	3,122	19.7%
$25,000 under $50,000	14,549	2,821	19.4%
$50,000 under $100,000	16,588	3,166	19.1%
$100,000 under $250,000	25,381	4,781	18.8%
$250,000 under $500,000	25,573	4,652	18.2%
$500,000 under $2,500,000	111,437	19,156	17.2%
$2,500,000 or more	1,453,939	205,533	14.1%
Total	**$ 1,733,187**	**$ 257,130**	

SECTION C: MANAGEMENT AND PERFORMANCE 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 its 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, 2022

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-23-002)

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 (herein "Treasury" or "the Department"). In this year's memorandum, my office is reporting five challenges, one of which is new and reports on the challenges faced with implementing climate initiatives. As shown below, four 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, as well as its impacts on related workforce and workstreams.

- COVID-19 Pandemic Relief (Repeat)
- Cyber Threats (Repeat)
- Anti-Money Laundering/ Terrorist Financing and Bank Secrecy Act Enforcement (Repeat)
- Information Technology Acquisition and Project Management (Repeat)
- Climate Initiatives Risk (New)

In addition to the above challenges, we are reporting a concern about regulating digital assets.

We identified challenges and a concern 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 caused a global health emergency and economic crisis that Treasury continues to tackle. Furthermore, 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 draw on its existing resources to meet 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: Anna Canfield Roth
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. In the early stages of the COVID-19 outbreak, Congress passed 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.[1] 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.[2] The *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act)[3] passed on March 27, 2020 and 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 2021, Congress legislated additional relief in passing the *Consolidated Appropriations Act, 2021*[4] (CAA, 2021) on December 27, 2020, and the *American Rescue Plan Act of 2021*[5] (ARP) on March 11, 2021. These laws provided another $900 billion and $1.9 trillion of economic stimulus, respectively.

The Department of the Treasury (hereinafter Treasury or the Department) has been instrumental to the implementation of economic relief provisions of the CARES Act, CAA, 2021, and ARP. As a result, Treasury's responsibilities and workloads expanded enormously. Treasury is tasked with disbursing over $655 billion[6] in aid to more than 35,000 recipients, including state, local, territorial, and tribal government entities, in a relatively short period of time and with limited staffing. The Department is challenged with (1) filling and transitioning key leadership positions for pandemic programs not fully established, (2) quickly establishing internal controls, guidance, and methodologies for monitoring, reporting, and oversight of funds disbursed, (3) data collection, quality, and reliability, and (4) lack of funding to sustain operations. In addition, Treasury must carry the administrative and monitoring responsibilities in its new role resolving Single Audit findings and potentially serving as cognizant agency for a significant number of entities[7] under the Office of Management and Budget's (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.[8]

Because of Treasury's expanded responsibilities and workloads, 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. The pandemic programs Treasury is responsible for and their challenges are discussed below.

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[1] Public Law 116-123 (March 6, 2020).
[2] Public Law 116-127 (March 18, 2020).
[3] Public Law 116-136 (March 27, 2020).
[4] Public Law 116-260 (December 27, 2020).
[5] Public Law 117-2 (March 11, 2021).
[6] Amount excludes Economic Impact Payments distributed by the Internal Revenue Service and support to small businesses under the Paycheck Protection Program administered by the Small Business Administration.
[7] Single Audit Act of 1984 (P.L 98-502; October 19, 1984), as amended by the Single Audit Act Amendments of 1996 (P.L 104-156; July 5, 1996).
[8] https://www.ecfr.gov/current/title-2/part-200

Financial Assistance Programs - Air Carrier Worker Support and Other Transportation Services

Payroll Support Programs
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 $63 billion of direct financial assistance for passenger air carriers, cargo air carriers, and contractors. Using existing resources and contractor support, Treasury quickly stood up the Payroll Support Program (PSP1) and made direct payments of approximately $28.6 billion to 611 applicants as of April 7, 2022. 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 $16 billion and $15 billion, respectively. Using the mechanisms that established PSP1, Treasury implemented the Payroll Support Program Extension (PSP2) and the Payroll Support Program 3 (PSP3) to make corresponding payments. As of July 27, 2022, Treasury disbursed approximately $15.6 billion to 489 applicants under PSP2 and $14.6 billion to 484 applicants under PSP3.

My office will continue audits of PSP1 recipients' certifications and initiate audits of certifications submitted by PSP2 recipients in fiscal year 2023. My office is 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-award 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. Treasury disbursed approximately $1.97 billion to 1,464 recipients as of May 20, 2022. It is incumbent upon the Department to establish and maintain strong internal controls over recipients' compliance with grant agreements. 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 Programs - State, Local, U.S. Territorial, and Tribal 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 the entire $150 billion in 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. 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 is 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 has authority to recoup funds if it is determined that recipients fail to comply with uses of funds for COVID-19 related costs under Section 601 (d), "Uses of Funds," of the *Social Security Act*, as amended.[9]

The Department also has a fundamental role to clarify its policy[10] over the uses of funds when interpretation matters arise. As recipients are still in the process of reporting on and closing out their awards, we anticipate that questions will continue to arise that will require interpretation. Providing as much clarity as possible 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 300 complaints regarding recipient, and in some instances sub-recipient, uses of CRF proceeds that require continued collaboration between the Department and my office.

<u>Coronavirus State and Local Fiscal Recovery Funds</u>
The *Coronavirus State and Local Fiscal Recovery Funds* provisions of ARP provide state, local, U.S. territorial, and tribal governments another $350 billion under the Coronavirus State Fiscal Recovery Fund and the Coronavirus Local Fiscal Recovery Fund (together referred to as SLFRF); $10 billion under the Coronavirus Capital Projects Fund (CPF); and $2 billion under the Local Assistance and Tribal Consistency Fund (LATCF).

<u>*SLFRF*</u>
As of August 2022, Treasury has disbursed approximately $349.9 billion of the $350 billion SLFRF through non-competitive direct assistance to over 35,000 direct recipients, including approximately 26,000 Non-Entitlement Units (NEU) of Local Governments that received funding through a state or U.S. territory. Administering SLFRF poses 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 26,000 NEUs. States and U.S. territories were required to establish a process for NEUs to provide pre-pandemic budget and other critical information and documentation before distributing funds. In addition to the volume of NEUs for Treasury to oversee, reconciliation between states' and U.S. territories' disbursements to NEUs and recipient performance reporting may be challenging. That is, performance reporting for NEU funding is the responsibility of the NEUs and not the states and U.S. territories where accountability for the disbursement of funds resides. Furthermore, due to increased pandemic funding many NEUs are now required to have a Single Audit or alternate compliance examination engagement over which Treasury may have agency cognizance as detailed below related to challenges with Treasury's ongoing compliance monitoring of SLFRF recipients and related administrative issues.

While Treasury has built a portal within Salesforce[11] for recipient communication and reporting, there are still challenges obtaining sufficient quality data from SLFRF recipients. Treasury allows for lengthy narrative responses as part of the data collection that may be more cumbersome to review and lack critical data details. Confirming data quality and timely providing data to the public and oversight community has been challenging for Treasury. To effectively administer and monitor SLFRF recipients' compliance, Treasury must have access to sufficient data that accurately reflects how recipients have

[9] Section 601 (d), Use of Funds, to cover only those costs of the state, tribal government, or unit of local government that (1) are necessary expenditures incurred due to the public health emergency with respect to COVID–19; (2) were not accounted for in the budget most recently approved as of the date of enactment of this section for the State or government; and (3) were incurred during the period that begins on March 1, 2020, and ends on December 31, 2021, as extended by the CAA, 2021.
[10] *Coronavirus Relief Fund Guidance for State, Territorial, Local, and Tribal Governments* Federal Register, Vol. 86, No. 10; January 15, 2021.
[11] Salesforce is a cloud-based customer- relationship management software platform.

expended SLFRF awards. As Treasury continues to receive quarterly and annual reports on SLFRF recipients' uses of funds, it is critical that Treasury continues to refine mechanisms to ensure the data is complete, accurate, reliable, and transparent in reflecting how recipients have expended SLFRF awards.

Treasury management has expressed difficulty finding the staff needed to administer and monitor the SLFRF program. The Office of Recovery Programs had a number of key leadership positions that were either vacant or temporarily staffed throughout fiscal year 2022. As discussed in more detail under the accountability and transparency section below, Treasury faces future funding challenges to support the Office of Recovery operations, to include ongoing administration of the SLFRF program and recipient monitoring.

CPF

As of September 2022, Treasury awarded $1.4 billion to 13 states[12] from the $10 billion of CPF available to address infrastructure challenges, such as reliable internet, that low to moderate income and rural communities have experienced during the COVID-19 pandemic. Although Treasury issued recipient reporting guidance for states, U.S. territories, and Freely Associated States in August 2022, Treasury still needs to inform eligible tribal government recipients of their reporting obligations to provide full accountability and transparency as to how CPF awards are used. To do this, Treasury needs to begin collecting sufficient and accurate CPF data.

LATCF

Treasury has been delayed in standing up the LATCF program, which was appropriated $2 billion for fiscal years 2022 and 2023 to make COVID-19 assistance payments to eligible revenue sharing counties and Tribes. Treasury issued LATCF guidance, including general reporting requirements to eligible recipients, and as of September 30, 2022, both tribal governments and revenue counties are able to apply for funds. Now, Treasury will need to prepare for the collection of sufficient and accurate LATCF data for monitoring recipients' compliance with the program.

With the overlap of recipients of CRF, SLFRF, CPF, and LATCF, we expect that there will be confusion between the uses of funds requirements, and reporting mechanisms that may be a challenge for recipients 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 have agency cognizance over many smaller local governments (particularly NEUs) and tribal governments now required to have a Single Audit for the first time. To minimize recipient burden, Treasury developed alternate reporting requirements for smaller SLFRF recipients, which would otherwise be subject to Single Audit. In the Compliance Supplement for 2022, Treasury provides the option of an alternate compliance examination engagement for SLFRF recipients meeting certain eligibility requirements. Treasury has been working with OMB and the audit community to find a solution for receiving these reports as the Federal Audit Clearinghouse (FAC) was not designed to collect non-audit products. Treasury plans to collect these reports directly for fiscal year 2021 compliance examinations, and is continuing to work with the FAC to receive these reports for fiscal year 2022, which is expected to begin as soon as October 2022. While the alternative compliance examination engagement addresses the burden to these smaller government entities and auditors, Single Audit and alternative compliance examination procedures may be new to thousands of SLFRF recipients, so there will be much more guidance and oversight required of Treasury in its cognizance role and related to the Compliance Supplement. Treasury must be prepared to use results of

[12] Treasury announced awards for Louisiana, New Hampshire, Virginia, West Virginia, Kansas, Maine, Maryland, Minnesota, Arkansas, Connecticut, Indiana, Nebraska, and North Dakota.

Single Audits and alternate compliance examinations as part of its compliance monitoring of recipients and will need the appropriate level of staffing to address these issues on such a large scale. As discussed in more detail under the accountability and transparency section below, Treasury is evaluating whether it will have cognizance over thousands of non-federal recipients of SLFRF and its impact as it faces budget shortfalls in fiscal year 2023 to carry out its ongoing administration and monitoring of SLFRF recipients.

Emergency Rental Assistance and Homeowner Assistance Programs

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 $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.

ERA1

Treasury established ERA1 and as of September 30, 2022, disbursed $24.93 billion of the $25 billion appropriated by CAA, 2021. The $24.93 billion was disbursed to states (including Washington, DC), U.S. 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 to pay for rent, utilities, and other housing-related expenses and arrears through September 30, 2022. In addition to disbursing the funds, Treasury provided guidance on ERA1 fund usage and set up a Portal where government 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.

ERA2

For ERA2, as of June 30, 2022, Treasury disbursed $21.51 billion of the $21.55 billion appropriated in ARP. 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. ERA2 funds are to remain available until September 30, 2027. Treasury has also provided ERA2 guidance 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.

HAF

ARP also created HAF 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. As of August 2022, Treasury has disbursed more than $9.5 billion of the $9.9 billion authorized to 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 and Treasury provided guidance on HAF. 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.

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 disburse 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.

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 comply 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[13]

Emergency Capital Investment Program

As authorized under CAA, 2021, Treasury has invested $8.26 billion in 161 Community Development Financial Institutions (CDFI) and Minority Deposit Institutions of the $9 million available under the Emergency Capital Investment Program (ECIP), providing capital to low-to-moderate income community financial institutions that support small businesses and consumers. Treasury has experienced challenges in fully implementing ECIP. As reported in our audit of ECIP's implementation, Treasury had not completed key documentation, such as policies and procedures to include a post-investment compliance and monitoring plan to fully implement and administer investments.[14] With investments now underway, it is more imperative that Treasury develop and implement policies and procedures to govern its post–

[13] 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.
[14] OIG, *Audit of Treasury's Implementation of the Emergency Capital Investment Program* (OIG-22-028; March 8, 2022)

investment activities. Because of the demands for resources within the Office of Recovery Programs, Treasury may continue to experience further delays and challenges administering the ECIP.

CDFI Rapid Response Program

Treasury has disbursed $1.19 billion of the $3 billion, authorized under the CAA, 2021, under the CDFI Fund Rapid Response Program (CDFI RRP), to deliver immediate assistance to low-income communities through competitive grants to CDFIs. However, as we reported in our audit of the CDFI RRP implementation,[15] the CDFI Fund did not include the award term and condition for integrity and performance matters in its assistance agreement template. CDFI Fund stated this was rectified before the agreements were signed. We will confirm that CDFI Fund included the required language in the executed assistance agreements with CDFI RRP grant recipients as part of our ongoing mandated audits of the CDFI RRP.

CDFI Equitable Recovery Program

The CDFI Fund is delayed in awarding the remaining $1.75 billion of the $3 billion authorized under CAA, 2021 for the CDFI Fund Equitable Recovery Program (CDFI ERP). Awards granted under ERP are intended for low- or moderate-income minority communities that have significant unmet capital or financial services needs, and were disproportionately impacted by the COVID-19 pandemic. This program will be more challenging for the CDFI Fund to administer in fiscal year 2023 because of unique and complex program materials for the application process and award administration needed to address program policy priorities in order to meet the statutory intent. In addition, CDFI Fund plans to implement designation of minority lending institutions as defined under the CAA, 2021 separately from the award of ERP funds and will begin in fiscal year 2023.

Accountability and Transparency

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. As noted above, Treasury is evaluating whether it will have cognizance over thousands of non-federal recipients of SLFRF and be required to carry out a larger administrative and monitoring role to ensure compliance under OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Among its responsibilities as a Federal awarding agency, Treasury must follow-up on audit findings to ensure that recipients take appropriate and timely corrective action and issue management decision letters.[16] Many recipients are smaller governments, which for the first time are subject to Single Audit or the alternative compliance examination available to eligible recipients meeting eligibility requirements. Regardless of cognizance, Treasury will have to work with recipients to resolve Single Audit and alternative compliance examination findings specific to each of its pandemic relief programs. Given the anticipated budget short-falls as noted below, carrying out this level of oversight of thousands of recipients will be very challenging for Treasury.

[15] OIG, *Audit of the Community Development Financial Institutions Fund's Implementation of the CDFI Rapid Response Program* (OIG-22-023; December 21, 2021).

[16] 2 CFR § 200.521, "The management decision must clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given…" (https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-F/subject-group-ECFR4424206eaecf751/section-200.521)

In addition to my office's ongoing work on pandemic programs, Treasury is subject to additional Congressional oversight bodies, the Special Inspector General for Pandemic Recovery[17] (SIGPR), the Government Accountability Office (GAO), and the Pandemic Response Accountability Committee (PRAC). 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. As noted above, data collection and quality are still challenges for Treasury under the various pandemic programs. 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 economic fallout of COVID-19 pandemic continues, Treasury must persevere in navigating this challenging time. While Treasury has leveraged its existing workforce, hired contractors, and obtained detailees from other Federal agencies to address the demands of the pandemic programs, it faces future funding challenges to carry out its expansive administrative and compliance monitoring role. Treasury projected an administrative funding shortfall of $35 million to continue compliance activities over SLFRF and ERA recipients in its *Congressional Budget Justification and Annual Performance Plan and Report for FY 2023*.[18] Treasury requested "Administrative Funding Transfer Authority" to move appropriated administrative funding amounts from one pandemic program to another to cover the anticipated shortfall. Without this flexibility, Treasury estimated that funds to administer the SLFRF program will run out by mid-fiscal year 2023 and early fiscal 2024 for ERA, causing further shortages in resources. Treasury is pro-actively working to reduce spending across the board on SLFRF and other impacted programs, as well as in central service areas to extend essential operations, but this may not be enough to carry out the large-scale compliance monitoring responsibilities in the event Congress does not approve the "Administrative Funding Transfer Authority" timely. On September 23, 2022 Treasury notified recipients of funding constraints impacting Treasury's ability to provide ongoing administrative support and monitoring of funds distributed under SLFRF, CPF, ERA, HAF, and LATCF. Treasury advised that a number of functions will be halted or reduced, such as recipient monitoring and reporting, if its request for administrative funding flexibility is not provided. Given the adverse impacts of Treasury's planned measures, my office expressed concerns to Congress, most notably to the reduction of recipient monitoring and reporting, in a letter dated October 3, 2022. We stressed that Treasury's funding constraints jeopardize accountability and transparency of more than $400 billion distributed to thousands of recipients of SLFRF, CPF, ERA, HAF, and LATCF. In addition, we highlighted the cascading effect of Treasury's reduced recipient monitoring and reporting on oversight functions performed by my office and the PRAC as we depend on Treasury obtaining quality data from recipients on uses of pandemic funds.

Going forward, Treasury may experience difficulties in balancing its ongoing pandemic oversight responsibilities and workloads while managing several ongoing challenges as described throughout this memorandum. While I am hopeful that fiscal year 2023 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.

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[17] SIGPR was authorized under the CARES Act to oversee loans, loan guarantees, and other investments provided by Treasury and must report to congress quarterly on the SIGPR's activities and Treasury's loan programs. SIGPR terminates five years after enactment of the CARES Act (March 27, 2025).

[18] https://home.treasury.gov/system/files/266/07A.-COVID-FY-2023-CJ.pdf

Challenge 2: Cyber Threats (Repeat)

Cybersecurity remains a long-standing and serious challenge facing the Nation as reported by GAO as a government-wide issue in its 2021 high- risk list published biennially.[19] 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. As cyber threats continue to evolve and become more sophisticated, subtle, and easier to perform, Treasury must fortify and safeguard its internal systems and operations while modernizing and maintaining them. Although 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, the recent conflict in the Ukraine, [20] the 2020 SolarWinds attack,[21] or when serious flaws are discovered in software or systems, such as Log4J[22] and VMWare,[23] that allow for remote administrative-level access.[24]

Threat actors 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 information sharing, federal agencies are better prepared to thwart potential attacks to the cyber infrastructure of the Federal government and the financial sector.

The tools used to perpetrate cyber-attacks continue to become easier to use and more widespread, lowering the technological knowledge and resources needed to launch successful attacks of increasing sophistication. Such attacks include distributed denial of service, phishing, fraudulent wire payments, business email compromise, malicious spam (malspam), ransomware, and compromise of supply chains (both hardware and software). While the federal workforce shifts from a primarily telework status to a hybrid work environment, Treasury must remain cognizant of the increased risk profile a remote workforce, which provides threat actors with a broader attack surface. Increased network traffic from remote sources provides cover for attackers to blend in with the federal workforce and launch cyber assaults. These opportunities may allow threat actors to launch a denial of service attack upon a network that can prevent remote workers from performing their duties and disrupt operations.

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 2020 SolarWinds attack that affected many federal agencies and private sector companies. Executive Order (EO) 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

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[19] GAO, *High-Risk Series, Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas* (GAO-21-119SP: March 2021).
[20] A joint Cybersecurity Advisory was issued by the Cybersecurity and Infrastructure Security Agency to "warn organizations that Russia's invasion of Ukraine could expose organizations both within and beyond the region to increased malicious cyber activity. This activity may occur as a response to the unprecedented economic costs imposed on Russia as well as materiel support provided by the United States and U.S. allies and partners." (*Alert (AA22-110A) Russian State-Sponsored and Criminal Cyber Threats to Critical Infrastructure*; April 20, 2022)
[21] The SolarWinds attack, reported in December 2020, was a supply chain attack that used the update mechanism for legitimate software to distribute malicious software.
[22] Log4j is software used by other software to enable logging of selected events upon a system.
[23] VMWare, Inc. provides a variety of software tools to manage virtual or cloud environments.
[24] Cybersecurity and Infrastructure Security Agency, *Emergency Directive 22-02 Mitigate Apache Log4J Vulnerability* (April 8, 2022), *Emergency Directive 22-03 Mitigate VMWare Vulnerabilities* (May 18, 2022).

owned or controlled by governments defined as hostile to the United States.[25] On May 12, 2022, this EO was extended again for 1 year.[26] 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 continue to monitor developments in this area closely and plan for the possibility that its current supply chain may no longer be available.

Furthermore, EO 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,[27] among other things. To achieve the goals outlined in EO 14028, OMB issued M-22-09, *Moving the U.S. Government Toward Zero Trust Cybersecurity Principles*[28] to provide the strategy for achieving a zero-trust architecture, and requires agencies to meet specific cybersecurity standards and objectives by the end of fiscal year 2024. OMB also issued M-22-18, *Enhancing the Security of the Software Supply Chain through Secure Software Development Practices*[29] to use only software that complies with secure software development standards. 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. In response to our prior year memorandum, Treasury reported the Enterprise Cyber Risk Management program enhanced the risk assessment process to identify compliance items separately from cybersecurity risk reporting, and continued to grow the Supply Chain Risk Management program.

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. Issues related to management of cloud systems were reported in four consecutive *Federal Information Security Modernization Act of 2014* [30] audits (fiscal years 2015, 2016, 2017, and 2018), with one repeat recommendation, related to third-party cloud service providers demonstrating FISMA compliance, remaining unimplemented as of fiscal year 2022.

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

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[25] EO 13873, *Securing the Information and Communications Technology and Services Supply Chain* (May 15, 2019).

[26] *Notice on the Continuation of the National Emergency with Respect to Securing the Information and Communications Technology and Services Supply Chain* (May 12, 2022).

[27] 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.

[28] OMB M-22-09, *Moving the U.S. Government Toward Zero Trust Cybersecurity Principles* (January 26, 2022), (https://www.whitehouse.gov/wp-content/uploads/2022/01/M-22-09.pdf).

[29] OMB M-22-18, *Enhancing the Security of the Software Supply Chain through Secure Software Development Practices* (September 14, 2022), (https://www.whitehouse.gov/wp-content/uploads/2022/09/M-22-18.pdf).

[30] Public Law 113-283 (December 18, 2014).

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 and the conflict in Ukraine place on financial institutions and the financial sector, 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.[31] In 2018, GAO had reported that the extent of adoption of the NIST framework by critical infrastructure sectors was unknown since agencies were not measuring framework implementation.[32] 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 May 10, 2022 letter[33] regarding its top open recommendations, GAO acknowledged that Treasury had developed a cybersecurity profile for the sector that maps the NIST Cybersecurity Framework's (CSF) five core functions[34] to existing regulations and guidance for financial services entities, but had not developed methods to determine the level and type of framework adoption; the recommendation remained open.

The Department continues to report progress in managing risk as Treasury obtained an overall rating of "Managing Risk" across all NIST CSF categories (Identify, Protect, Detect, Respond and Recover) on the OMB Cybersecurity Risk Management Assessment for the first time in fiscal year 2021. Treasury also reported the creation of enhanced risk profiles to allow senior leadership greater visibility into the risks for all Departmental High Value Assets.[35] While addressing increases in cyber threats, Treasury will need to continue to balance cybersecurity demands while maintaining and modernizing Information Technology (IT) systems. To this end, Treasury must ensure that cybersecurity is fully integrated into its IT investment decisions as discussed in Challenge 4.

[31] NIST, *Framework for Improving Critical Infrastructure Cybersecurity* (Version 1.0, February 12, 2014; superseded by Version 1.1; April 16, 2018).
[32] GAO, *Critical Infrastructure Protection: Additional Actions Are Essential for Assessing Cybersecurity Framework Adoption* (GAO-18-211; February 18, 2018)
[33] GAO, *Priority Open Recommendations: Department of the Treasury* (GAO-22-105633; May 10, 2022)
[34] The NIST Cybersecurity Framework functions include: Identify, Protect, Detect, Respond and Recover.
[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 3: 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 these networks continue to be challenging as TFI's 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, by using designations and economic sanctions. TFI has significantly increased sanctions against Russia related to its actions against Ukraine and other malign activities. 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 privacy and information sharing are challenges for the Financial Crimes Enforcement Network (FinCEN), which has experienced unauthorized disclosures of Bank Secrecy Act (BSA) information. FinCEN is required to maintain a highly secure database for financial institutions to report BSA information. 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. The challenge for FinCEN is to ensure the BSA information remains secure in order to maintain the confidence of the financial sector, while meeting the access needs of law enforcement, regulatory, and intelligence partners. FinCEN also faces an additional challenge, to develop and implement a new secure database for small businesses to report their beneficial ownership information, as required by the Corporate Transparency Act.[36] However, FinCEN does not expect to implement the database until January 2024.

[36] Public Law 116-283 (January 1, 2021).

Challenge 4: 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* [37] which was designed to improve the Federal Government's acquisition and management of its resources to include IT investment. Among other things, it expanded the involvement of Chief Information Officers (CIO) of federal agencies in IT decision making, including annual and multi-year planning, programming, budgeting, execution, reporting, management, governance, and oversight functions.[38] 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.[39] 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 Services Administration and OMB had fewer funds available than anticipated to award to new projects for replacing aging IT systems.[40] Furthermore, GAO recommended that, in general, agencies needed to improve CIOs' authorities, enhance transparency and improve risk management of IT investments, and consolidate federal data centers.[41]

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 2021, Treasury received a B for its FITARA implementation efforts, and dropped to a C in July 2022. Areas needing most improvement were enhanced transparency and risk management (i.e. IT investment risk), improved cybersecurity, and agency CIO authority enhancements. The latest scorecard features seven grading categories – down from eight categories on the December 2021 scorecard due to the sunsetting of the data center optimization category.

As of March 16, 2022, Treasury reported that approximately $2.56 billion was spent on major IT investments, which is expected to increase in fiscal year 2023. 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 2 that addresses cybersecurity concerns. Treasury's bureaus reported 48 major IT investments. Treasury's CIO assessed 46 IT investments as having moderately low or low risk to accomplishing their goals. Two IT investments, which reside at the Bureau of the Fiscal Service (Fiscal Service), were assessed as having medium risk[42] to accomplishing their goals:

- Post Payment Services, and
- Debt Collection Services (DCS).

Projects identified with medium overall risk in cost and scheduling require special attention from the highest level of agency management. During fiscal year 2022, some projects within DCS were behind schedule and over budget. Treasury also identified projects within DCS as having a high risk to accomplishing their goals. In June 2022, Treasury reported that Fiscal Service has conducted internal "chat stats" to address project schedule variances for both Post Payment Services and DCS. Treasury is also meeting about one project within the Post Payment Services investment to prepare an updated plan and integrated master schedule to address prior schedule and cost variances. Overall, approximately 91 percent of Treasury's total IT projects were on schedule and approximately 78 percent were within budget. As of March 16, 2022, approximately 43 percent of Treasury's total IT spending is on 48 major investments.

Another major investment of note, Treasury's Wholesale Securities Services (WSS), includes the Financing Modernization project, a multi-year program to modernize the debt financing system to align with Treasury's strategic priorities and long-term business requirements. This modernization will include development of a new system to support operations, meet customer expectations, become current with existing technologies, manage technical debt, and improve the delivery of secure, flexible, and resilient financing services. Fiscal Service expects to complete the project's network connectivity design by the first quarter of fiscal year 2023.

[37] Public Law 104-106 (February 10, 1996).
[38] Public Law 113-291 (December 19, 2014).
[39] GAO, *High- Risk Series, An Update* (GAO-15-290; February 11, 2015).
[40] GAO, *High-Risk Series, Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas* (GAO-21-119SP: March 2020).
[41] GAO, *High-Risk Series, Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas* (GAO-21-119SP: March 2021).
[42] 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.

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 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. 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. Fiscal Service's financial community was trained on TBM and has eliminated all uncategorized IT spending, or spending that is not categorized into standard IT buckets but are continuing efforts on maturity of that data.

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 2016, 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 was estimated to cost $1.25 billion. However, this cost estimate will be updated to better reflect supply chain and industry labor limitations as well as further analysis of project cost. The Board of Governors of the Federal Reserve System (Board) requested a project management assessment be conducted by MITRE Corporation with specific reporting around costs, schedule, and change management.[43] This report had several recommendations, and BEP has worked with the Board to address them. BEP has resumed the design and engineering work for the new facility. In fiscal year 2022, BEP continued site preparation for construction of the new building. Until the estimated completion of the facility in 2027, 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.

[43] In 2016, BEP provided its Western Currency Facility expansion plans to the Board. According to Board officials, the Board's role is to reimburse expenses related to the Western Currency Facility expansion, which did not require a formal approval request or cost justifications from BEP for initiating the expansion.

Challenge 5: Climate Initiatives Risk (New)

In January 2021, EO 14008, *Tackling the Climate Crisis at Home and Abroad*, identified the immediate need for comprehensive action to address the catastrophic impacts of climate change. EO 14008 emphasizes that U.S. leadership, and that of federal departments and agencies, will be required to significantly enhance global action and achieve the necessary policy outcomes on climate change. Furthermore, in May 2021, 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 (FSOC), will lead several efforts related to EO 14030. Taken together, these two EOs place an emphasis on ensuring climate change is at the forefront of U.S. foreign policy and national security; establishing a government-wide approach to the climate crisis; and bolstering the resiliency of our communities, States, Tribes, territories, and financial institutions to position the United States to lead the global economy to a more prosperous and sustainable future. Treasury will play a significant role working with other federal agencies, foreign governments, and international financial institutions to stimulate global action on addressing climate change, environmental justice, and climate change-created economic and financial crises. In 2021, Treasury created a new Climate Hub and appointed a Climate Counselor to coordinate and lead many of its efforts to address climate change. The Treasury Climate Hub will coordinate and enhance existing climate-related activities by utilizing the tools, capabilities, and expertise from across the Department – including officials from Domestic Finance, Economic Policy, International Affairs, and Tax Policy. With a view of all Treasury climate initiatives, the Hub will enable Treasury to prioritize climate action.

As stated in its July 2021 Climate Action Plan, Treasury anticipates that climate change will continue to be a significant global challenge and that aspects of its mission and operations will be impacted by global warming, sea level rise, increased intensity and frequency of major weather events, and impacts on energy availability. To manage the process of climate change adaptation and resilience within Treasury's operations and its facilities, the Department has developed a comprehensive management framework, in accordance with the Interim Instructions for Preparing Draft Climate Action Plans under EO 14008. Treasury's Departmental Offices and operating bureaus will continually assess changing conditions and scientific understanding of climate change to adjust policies, programs, and activities to improve resilience and adaptation. Treasury's Climate Action Plan establishes the following five priority actions to strengthen and build upon Treasury's climate resilience and adaptive capabilities: (1) rebuilding programs and capabilities that may have atrophied or stagnated in recent years; (2) addressing climate change impacts and vulnerabilities across the range of Departmental operations, including administrative, manufacturing, and law enforcement activities; (3) ensuring a climate-focused approach to managing Treasury's real property portfolio footprint; (4) enabling procurement management to fully consider climate change realities; and (5) providing, measuring, and accounting for a financial investment approach appropriate to the Department's climate objectives.

Treasury is also engaged in the Administration's domestic efforts through its role as a leading banking regulator, with the Office of the Comptroller of the Currency (OCC), and its responsibilities within FSOC. Internationally, Treasury represents the United States at the G7 and G20, at the Financial Stability Board, and other institutions and forums such as the International Monetary Fund. In October 2021, FSOC issued its Report on Climate-Related Financial Risk, as mandated by EO 14030. In it, FSOC details the activities of each member to date to address climate-related financial risk, including Treasury, the Office of Financial Research, the Federal Insurance Office, and OCC. The report highlights challenges in efforts to comprehensively understand and address climate-related financial risk. Those challenges include the types and quality of available data and measurement tools, the ability to assess climate-related financial risks and vulnerabilities, and how best to incorporate these risks into management practices and supervisory expectations as appropriate. FSOC concluded the report with thirty-five recommendations. Many, if not most, apply to the Department, the Office of Financial Research, the Federal Insurance Office, and OCC. It will be important that each recommendation be addressed not only timely, but collectively with the other FSOC members to ensure a cohesive response.

Furthermore, OCC has implemented multiple initiatives to address climate change and climate-related financial risk. They have partnered with other Federal banking regulators to work collaboratively in understanding the risks and development of climate-related risk management. OCC has also engaged with international groups to share best practices. Internally, OCC established a Climate Risk Implementation Committee chaired by a Climate Change Risk Officer to assess climate risks and advise management on OCC policy, banking supervision, and research. These collaborations will continue to be important in developing a common understanding of climate-related financial risks and their impact to ensure the continued safety and soundness of the banking system. OCC also continues to work with FSOC and other member agencies to understand the broader implications of climate-related financial risks and their potential impact on financial stability.

Other Matter of Concern

Although we are not reporting digital assets as a management and performance challenge, we are highlighting it as an area of concern.

Use of digital assets, including cryptocurrencies, stablecoins, and in some countries, central bank digital currency (CBDC), has grown significantly over the past several years. As of September 15, 2022, digital assets reached a combined market capitalization of over $1 trillion, up from approximately $14 billion in late 2016 but down from $3 trillion during November of 2021.[44]

Treasury supports responsible innovation and seeks to maximize the gains from this new technology while protecting against possible risks to consumers, financial stability, and illicit finance. In the absence of sufficient oversight and regulatory safeguards, the increase in use of digital assets could pose risks to consumers, investors, and the broader financial system.

In March 2022, President Biden convened experts from across the Administration to ensure a coordinated and comprehensive approach to digital assets policy and charged Treasury with a leadership role in this work. EO 14067, *Ensuring Responsible Development of Digital Assets*, establishes the following policy objectives with respect to digital assets: (1) protect consumers, investors, and businesses in the United States; (2) protect the United States and global financial stability and mitigate systemic risk; (3) mitigate the illicit finance and national security risks posed by misuse of digital assets; (4) reinforce United States leadership in the global financial system and in technological and economic competitiveness, including through the responsible development of payment innovations and digital assets; (5) promote access to safe and affordable financial services; and (6) support technological advances that promote responsible development and use of digital assets.

In September 2022, Treasury published a report on the future of the U.S. money and payments systems, in which Treasury encourages continued work on innovations to promote a system that is more competitive, efficient, and inclusive – and that also helps maintain and build on the United States' global financial leadership.[45] The report recommends advancing policy and technical work on a potential U.S. CBDC, so that the United States is prepared if a CBDC is determined to be in the national interest. Treasury also published a report on the implications of digital assets for consumers, investors and businesses, laid out a detailed Action Plan to prevent digital assets from being used for financial crimes, such as money laundering and terrorism financing, and sent a framework to the President for international engagement on digital asset issues. In October 2022, FSOC released a report on potential financial stability risks, and recommended steps to address gaps in the regulation of digital assets in the United States.[46]

Following the publication of these reports, Treasury has a number of responsibilities, including participating in an interagency working group regarding a potential central bank digital currency and working with other agencies to prepare resources for consumers. The Office of Domestic Finance, Office of Terrorism and Financial Intelligence, and Office of International Affairs will be primarily driving this work, in coordination with other parts of Treasury and the interagency, as appropriate.

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[44] Please click on the following link for current market capitalization information: Cryptocurrency Prices, Charts, and Crypto Market Cap | CoinGecko

[45] Treasury Report, *The Future of Money and Payments: Report Pursuant to Section 4(b) of Executive Order 14067* (September 2022).

[46] Financial Stability Oversight Council. *Report on Digital Asset Financial Stability Risks and Oversight* (October 2022).

TREASURY MANAGEMENT RESPONSE TO THE OFFICE OF 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. The Department has been instrumental in implementing the economic relief provisions of the Coronavirus Aid, Relief and Economic Safety (CARES) Act, the Consolidated Appropriations Act (CAA), 2021, and the American Rescue Plan Act (ARP). As a result, Treasury's responsibilities and workloads expanded enormously. Because of this, the Department faced challenges in (1) filling and transitioning key leadership positions for pandemic programs, (2) establishing internal controls, guidance, and methodologies for monitoring, reporting, and overseeing funds disbursed, (3) data collection, quality, and reliability, and (4) lack of funding to sustain operations. In addition, Treasury must carry the administrative and monitoring responsibilities in its new role in resolving Single Audits, including potentially serving as cognizant agency for a significant number of entities[1] under the Office of Management and Budget's (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.[1]*

Management Response: As the nation continues to recover from the COVID-19 pandemic, we remain instrumental to successful implementation of key CARES Act, CAA, and ARP programs that are designed to support communities, households and small businesses. In response to the size, scope and complexity of these efforts, we created the Office of Recovery Programs (ORP). Since we established the office in April 2021, ORP built a strong foundation to serve more than 35,000 recipients across the nation, through 10 different programs that support economically disadvantaged small businesses, households, communities, and individuals. ORP significantly increased capacity over the past year to fulfill its mission to lead Treasury's implementation of over $600 billion in economic recovery programs, including the American Rescue Plan. ORP onboarded over 100 current employees and cumulatively over 175 staff (including detailees), across policy, reporting, recipient monitoring, compliance, and other key functions.

In contrast to the ad hoc approach to program implementation that characterized the initial period of CARES Act implementation, creating and building ORP allows Treasury to put in place processes that support responsible, effective service delivery, including:

- more robust communication and engagement with recipients, particularly smaller entities with less experience working with the federal government;
- a focus on equity and access embedded into all programs, including through innovative approaches for outreach, documentation, and data collection;
- the ability to monitor and adjust programs on an ongoing basis using data through the sharing of best practices and other resources, including updated guidance in programs like the Emergency Rental Assistance Programs (ERA) and State and Local Fiscal Recovery Fund (SLFRF); and
- a strategic data-centric approach to monitoring, compliance, and audit resolution and remediation that focuses on areas of greatest risk in a resource-constrained environment.

[1] https://www.ecfr.gov/current/title-2/part-200

Supported by the robust infrastructure that ORP developed, the CARES Act, CAA, and ARP programs made significant impacts on leading the federal government's approach to the economic recovery. Together, these programs helped build an infrastructure that promotes economic resilience through equitable, effective, and accountable recovery assistance. For example:

- SLFRF is the first program of its kind to provide economic relief to states, localities, and tribes of all sizes. This program provided flexible funding that allowed communities to put the funds where they were needed most for relief, including support for housing, water, broadband infrastructure, and small business. We have taken unprecedented efforts to help deploy these funds to over 30,000 recipients.

- ERA provided over seven million payments to households at risk of eviction while helping to keep the average number of eviction filings since the expiration of federal eviction moratoria below historic averages, contrary to the eviction tsunami many predicted. At the same time, the program helped build a national infrastructure for eviction prevention, including lasting initiatives that will continue to help prevent evictions even as funds are ultimately exhausted.

- By September 2022, the Emergency Capital Investment Program (ECIP) deployed over $8.28 billion of investments in 162 community development financial institutions and minority development institutions to support community development.

- The State Small Business Credit Initiative (SSBCI) approved a majority of state and territorial plans as it obligates up to $10 billion for small business capital access. These plans support small businesses through a range of programs that are intended to provide up to $10 of private capital for every $1 of SSBCI capital invested, including through equity investments and small business loans.

- ORP developed a strong foundation for agency wide support for tribes through its Tribal Policy and Engagement Team, providing the groundwork for a new department-level office called the Office of Tribal and Native Affairs.

- Through the Coronavirus Economic Relief for Transportation Services Program, the Payroll Support Program, and the Airline Loan Program, ORP deployed critical assistance to help companies maintain payrolls and the nation maintain capacity for airline and critical transportation services while building robust reporting, compliance, and recipient monitoring structures.

ORP made this significant progress in the last year, as programs established guidance, allocated funds, signed award agreements, and issued the bulk of payments. In addition, ORP employed innovative approaches to making the most use of available resources and minimized administrative burden where appropriate while promoting program integrity. For example, in SLFRF, we created a multi-tier reporting structure to provide balance in our collection of high-quality data, while being sensitive to administrative burden especially among lower-capacity recipients. Furthermore, in several programs, such as ERA and the Homeowners Assistance Fund (HAF), we prioritized building dedicated outreach teams that are tasked with working with grantees to share promising practices and answer grantee questions; including by explaining guidance through website updates, emails, webinars, and calls. With limited resources in these programs, these same teams continue to provide support for ongoing program administration.

However, significant work remains to complete successful implementation with monitoring and oversight until awards are fully closed out. This includes building and maintaining additional capacity to conduct audit resolution for new recipients receiving Single Audits for the first time. Proper oversight is critical for us to maintain accountability over funds and spot emerging risks, as well as for recipients wanting to avoid reputational risk from findings and who seek the prompt resolution of findings. This work will extend at least a year after each program ends. In addition, we continue to provide information to grantees to maximize clarity and administrability in programs that are disbursing funds.

Further, we are facing constraints that will put our ability to continue this level of support to recipients at risk. The greatest impact is likely to be felt by the smallest jurisdictions and Tribal governments, which often rely on more in-depth engagement with Treasury. Congress appropriated funding to Treasury to administer recovery programs, and some programs were given more than enough funding to cover their operations. But in the case of several other programs, the available funding is insufficient to allow us to maintain current levels of administrative support. These programs with insufficient funding include the SLFRF, the Coronavirus Capital Projects Fund, the ERA, the HAF, and the Local Assistance and Tribal Consistency Fund programs.

We continue to work with Congress to seek flexibilities in the use of administrative funds across programs, which would preserve our ability to provide support without impacting operations. These changes would not require Congress to appropriate any additional funds , but instead would permit us to repurpose some funds from other pandemic programs that are in later stages of implementation to ARP programs with significant outstanding needs. However, pending those changes, these funding shortfalls will have a significant impact on our ability to provide support to recipients of its programs. In October 2022, for example, we closed our call center support, and we are in the process of other changes, including reducing our reporting and recipient monitoring footprint while slowing our responses to incoming questions from jurisdictions, among other impacts. Beyond these preliminary steps, without the necessary funding flexibility, we will have to undertake more significant steps to reduce staffing and service in the weeks ahead.

In addition, as part of the CAA, the Community Development Financial Institutions Fund (CDFI) received supplemental appropriations for the Rapid Response Program (RRP) and the Economic Recovery Program (ERP). The RRP had a FY 2021 statutory deadline of September 30, 2021 to obligate funding, and therefore received priority in terms of existing staffing, time, and attention. By contrast, the ERP funding retains no statutory deadline for obligating funds and the funds do not expire. However, for the ERP program, new staff needed to be hired—the hiring process began in February 2021 and was not completed until October 2021—and applications could not be completed until we made final decisions about key program design elements. The CDFI Fund released the ERP Notice of Funding Availability on June 23, 2022. The applications are under review and we will make awards in early 2023.

Separately, although no federal funding will be associated with a Minority Lending Institution (MLI) designation at this time, the CDFI Fund seeks to implement the designation for those CDFIs that wish to be recognized for their high levels of service and accountability to minority populations, as well as to identify any unique barriers CDFIs experience in providing access to capital.

On July 28, 2022, the CDFI Fund published a Request for Public Comment related to this MLI designation. Through this RFC, the CDFI Fund seeks feedback from the public on certain aspects of the criteria and process the CDFI Fund will use to designate a CDFI as an MLI. The CDFI Fund also seeks any additional information beyond these questions that members of the public believe would assist the CDFI Fund in establishing policies and procedures related to MLI designation. The CDFI Fund will consider the feedback received through this RFC prior to establishing a final definition and MLI designation.

OIG Challenge 2 Cyber Threats: *Cybersecurity remains a long-standing and serious challenge facing the nation as reported by GAO as a government-wide issue in its 2021 high- risk list published biennially.*[2] *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. In addition, 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 cyber threats continue to evolve and become more sophisticated, subtle, and easier to perform, Treasury must fortify and safeguard its internal systems and operations while modernizing and maintaining them. Given the stress that the global COVID-19 pandemic and the conflict in Ukraine place on financial institutions and the financial sector, it is important that the Department monitors cyber risks in these areas as well. Treasury must also be ready to reinforce and redirect cybersecurity efforts when unforeseen events occur.*

Management Response: While cybersecurity remains a long-standing and serious challenge, we continue, as part of our broader cybersecurity strategy, to transition duplicative, decentralized, cybersecurity services to shared enterprise capabilities. This drives not only operational efficiencies but also enables our stakeholders to obtain robust services with defined outcomes at competitive costs, all while helping develop a common operating environment to increase agility to respond to high-velocity threats. Additionally, the Office of Terrorism and Financial Intelligence (TFI) monitors the cybersecurity infrastructure of the high-side classified network for any hostile intrusion attempts or potential data breaches. Under TFI, the Office of Intelligence and Analysis (OIA) fulfills these responsibilities in its Cyber Security and Support and Technology Divisions.

In response to the data breach of the federal government using SolarWinds software in 2020[3], Treasury implemented numerous changes to improve its ability to identify and detect, protect from, respond to, and recover from significant cybersecurity threats or incidents. These broadly include:

- increasing the stringency of protections around our electronic mail systems, which were a deliberate target of the threat actors behind the 2020 incident;
- expanding enterprise security operations capabilities to increase the level of observability of potentially malicious activity in Treasury operating environments;
- leveraging outside equities (both government and commercial) to routinely perform independent assessments (penetration testing, threat hunting) of our cybersecurity posture, with a focus on confirming/denying the existence of ongoing intrusion activity; and
- focusing network defense efforts on High Value Assets, which are information systems that directly support our mission essential functions and often contain our most sensitive information.

In addition, we have made strategic investments in evolving our cybersecurity infrastructure to mitigate risks associated with the modern threat landscape, transitioning to a "zero trust" approach that conjoins devices with multi-factor authentication, supported by strong encryption, to form the basis for systems access and authorization. These investments are directly aligned to Executive Order (EO) 14028, *Improving the Nations Cybersecurity.*[4]

[2] GAO, *High-Risk Series, Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas* (GAO-21-119SP: March 2021).
[3] https://www.cisa.gov/uscert/ncas/current-activity/2020/12/13/active-exploitation-solarwinds-software
[4] https://www.whitehouse.gov/briefing-room/presidential-actions/2021/05/12/executive-order-on-improving-the-nations-cybersecurity/

The Office of Cybersecurity and Critical Infrastructure Protection (OCCIP) continues to advocate that the financial services sector adopt the National Institute of Standards and Technology (NIST) Cybersecurity Framework and the included Financial Sector Profile. We continue to work with private sector and regulatory partners to identify how adoption of the framework could be quantifiably measured. OCCIP hosted a widely attended virtual outreach session for small- to mid-sized financial firms that enabled NIST to receive sector input regarding the upcoming revisions to the Framework. OCCIP continues to work with the sector to improve the Financial Sector Profile with actionable and specific best practices that enhances the value to the sector, while increasing the likelihood that the financial sector adopt the profile.

Recognizing the impact of supply chain risks, the Bureau of the Fiscal Service implemented processes to maintain inventories of software in use on systems and embedded into custom developed code. These processes allowed us to quickly identify instances of impacted software during incidents such as the Log4j supply chain risk event in 2021 and support ongoing updates to the Cybersecurity and Infrastructure Security Agency's Known Exploitable Vulnerability catalog. This quick identification of impacted assets during the Log4j event enabled the remediation of 23 custom-coded applications within a two-week period, thus mitigating risks of the supply chain threat.

The Fiscal Service also integrated threat intelligence and attack surface assessments into its ongoing continuous monitoring processes. By understanding the vulnerabilities present in systems and tactics, and the techniques and procedures threat actors who may target our systems use, we can use risk-based decision making and approach cybersecurity investments strategically and tactically, improving both protection against attacks and optimizing processes for detection, response, and recovery.

Lastly, the Fiscal Service has begun the Security Fusion Center (SFC) initiative, which is operationalizing a centralized, intelligence-driven decision-making entity to correlate and enrich technical and non-technical threat information for actionable insights. The SFC enables us to proactively identify, contain, mitigate, and recover from security-related incidents, and identify vulnerabilities and weaknesses upstream to apply countermeasures before exploits occur. This is achieved by formalizing a centralized risk-identification approach that integrates Cyber Threat Intelligence, Attack Surface Assessment, Advanced Threat Hunt, Vulnerability Management, and related mission support efforts such as asset protection, infrastructure management, emergency, and security programs to provide a comprehensive, real-time, and historical perspective on contextualized threats facing the Fiscal Service. This effort is building the foundation for managing, curating, and delivering enterprise-wide situational awareness to inform threat and risk-based mitigation decisions, reducing the time to identify and respond to events and issues, and improving internal and external SFC stakeholder collaboration, communication, and operational efficiency.

OIG Challenge 3-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 criminals and other bad actors evolve and continue to develop more sophisticated money laundering methods in an attempt to avoid detection, identifying, disrupting, and dismantling these 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. In addition, the Financial Crimes and Enforcement Network (FinCEN) faces the challenge of ensuring the Bank Secrecy Act (BSA) information remains secure to maintain the confidence of the financial sector, while meeting the access needs of law enforcement, regulatory, and intelligence partners, and to develop and implement a new secure database for small businesses to report their beneficial ownership information, as required by the Corporate Transparency Act.***

Management Response: TFI continues to lead Treasury's efforts formulating and coordinating policies for anti-money laundering and combatting the financing of terrorism (AML/CFT) in addition to developing strategies to deploy the full range of financial authorities to combat national security threats. To achieve this end, TFI employs a highly collaborative approach among its components to ensure we establish and implement AML/CFT programs that meet the Administration's goals.

FinCEN continues to prioritize efforts to maintain our unclassified systems at the stringent Federal Information System Modernization Act (FISMA) high levels of security, and take all steps required to conform with our security standards and programs. While FinCEN had unauthorized disclosures of sensitive data three years ago, which it pursued aggressively, it has since had no known system breaches that compromised BSA data.

In FY 2022, FinCEN published the Beneficial Ownership Reporting Notice of Proposed Rulemaking (NPRM), and then spent several months reviewing the extensive comments we received. These comments informed the final Beneficial Ownership Reporting Rule, which was published in the Federal Register on September 30, 2022. Following the Reporting Rule, FinCEN is on track to publish the Access Rule NPRM—which seeks to govern access to Beneficial Ownership Information (BOI) by law enforcement, national security agencies, and financial institutions—and issue a final rule in FY 2023. The third and final necessary beneficial ownership regulation is a revised Customer Due Diligence regulation, which is on schedule per timelines provided in the Corporate Transparency Act. The President's FY 2023 budget for FinCEN requests an increase of $49 million and 45 full-time equivalent staff to further support FinCEN's important efforts to implement the Anti-Money Laundering and Corporate Transparency Acts.

OIG Challenge 4-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 Information Technology (IT) management since the passage of the Clinger-Cohen Act of 1996, [5] which was designed to improve the federal government's acquisition and management of its resources to include IT investments. Among other things, it expanded of Chief Information Officers (CIO) of federal agencies involvement in IT decision making, including annual and multi-year planning, programming, budgeting, execution, reporting, management, governance, and oversight functions.[6] While FITARA is intended for agencies to better manage their IT investments, implementation continues to be a government-wide challenge.***

Management Response: As enshrined in the Federal Information Technology Acquisition Reform Act (FITARA), which Congress passed in December 2014, and later memorialized in OMB Memorandum M-15-14: *Management and Oversight of Federal Information Technology,* the Treasury Chief Information Officer (CIO) is required to review and approve all our information technology acquisitions. Prior to FITARA, IT acquisitions largely rested with each departmental component. This has provided us the opportunity to evolve and further develop shared services, optimize technology spending through centralized capabilities, eliminating duplicate common platforms, using service providers for commodity technology services, and generally obtaining services at competitive price points. As we look to the future, particularly with the recent passage of the Inflation Reduction Act, which provides a windfall of funding to the IRS for modernization, using enterprise services will become all the more important.

[5] Public Law 104-106 (February 10, 1996).
[6] Public Law 113-291 (December 19, 2014).

In addition to the progress we made in IT-related acquisitions and project management, the Bureau of Engraving and Printing (BEP) has implemented formal project governance and a change management structure for replacing its Washington, D.C. facility. The BEP effectively responded to the recommendations cited in the MITRE Corporation report on reporting on costs, schedule, and change management, to the satisfaction of the Federal Reserve Board (FRB) and has resumed the design and engineering work for the new facility. In September 2022, the U.S. Army Corps of Engineers (USACE), working in coordination with BEP, awarded a contract to finish 100 percent of the design, architect, and engineering work for the DC Replacement Facility (DCRF). The BEP anticipates completing the design by the end of FY 2023 and anticipates that USACE will award a contract for and commence construction of the DCRF during FY 2024. The current schedule anticipates the DCRF construction will be completed by calendar year 2027.

In FY 2022, the Fiscal Service also improved transparency of IT and non-IT program and project performance through establishing and implementing a pilot of the Program Management Improvement Accountability Act (PMIAA) framework. The framework includes policy; standards; a formalized process designed to identify issues and risks and assist with the formulation of actionable recommendations to improve program or project outcomes; and a Governance Enterprise Marketplace tool, enabling full integration of enterprise planning, governance, enterprise architecture, and IT portfolio financials to ensure appropriate investment lifecycle management and business value-outcomes. We produce an executive dashboard monthly, as a single source of truth to report on the performance of the Fiscal Service's projects, presenting trend-over-time views of individual project performance on scope, cost, schedule, efficiency, and quality, along with calculated project health scores and self-assessed stakeholder ratings. In support of our PMIAA program, the Fiscal Service is working to improve program and project management (P/PM) workforce capabilities through targeted training and development based on PMIAA P/PM workforce competency assessment results.

Additionally, the Fiscal Services' Financing Modernization (FinMod) project completed the Scaled Agile Framework (SAFe) training to prepare the team to deliver a modernized system using a new development methodology. The SAFe method guides the agile development progress and communication events. FinMod has adopted SAFe to establish project guidelines for defining the high-level product roadmap, defining targets for program increments, and conducting review sessions to evaluate project efficiency and effectiveness. A key aspect of SAFe implementation was the creation of an architectural runway that provided a smooth transition to the development phase of the project. The runway is an important part of our planning and will continue throughout agile development lifecycle.

The Fiscal Service continues to make significant progress implementing the Technology Business Management Framework (TBM), including improving both data maturity and automation. The Fiscal Service was the first Treasury bureau to implement Apptio, the new Treasury enterprise TBM solution, in May 2022. This initial implementation resulted in access to federal IT financials, labor, and acquisition reports. TBM is expected to improve IT spending data accountability and transparency, empowering agency executive leadership to drive mission value and improve customer experience through technology. Data maturity metrics are in place and improving. Going forward, the Fiscal Service will continue to mature the use of TBM.

OIG Challenge 5-Climate Initiatives Risk (NEW): ***In January 2021, EO 14008, Tackling the Climate Crisis at Home and Abroad, identified the immediate need for comprehensive action to address the catastrophic impacts of climate change. EO 14008 emphasizes that U.S. leadership, and that of federal departments and agencies, will be required to significantly enhance global action and achieve the necessary policy outcomes on climate change. Treasury will play a significant role working with other federal agencies, foreign governments, and international financial institutions to stimulate global action on addressing climate change, environmental justice, and climate change-created economic and financial crises. In 2021, Treasury created a new Climate Hub and appointed a Climate Counselor to coordinate and lead many of its efforts to address climate change.***

Management Response: The Financial Stability Oversight Council (FSOC), of which the Secretary serves as its chair, published its Report on Climate-Related Financial Risk in October 2021. Since the publication of that report, FSOC and its member agencies have made considerable progress in advancing the report's recommendations, including significant actions to address capacity building, disclosure, data, and assessment and mitigation of risks. The FSOC also established a new staff-level interagency committee to serve as a coordinating body to share information, facilitate the development of common approaches and standards, and foster communication across FSOC members. Additionally, our Office of Financial Research conducted a data and analytics hub pilot to help FSOC assess climate-related risks to financial stability. Specific progress across FSOC members can be reviewed in the FSOC's July 2022 biannual update on climate-related financial risk efforts.

In line with EO 14030, *Climate-Related Financial Risk*, the Federal Insurance Office recently issued a request for public comments on a proposed collection of data from property and casualty insurers regarding current and historical underwriting data on homeowners' insurance. More information on this request can be reviewed here.

In FY 2022, the Office of the Comptroller of the Currency (OCC) issued "*Principles for Climate-Related Financial Risk Management for Large Banks*" for public feedback and completed the range of practice review of the large banks on their management of climate-related financial risks. In addition, OCC started climate risk management reviews of banks with over $100 billion in total consolidated assets to develop in depth understanding of these banks' practices on a wide range of areas related to climate risk management such as corporate governance, reporting, metrics, data, risk identification and management, and scenario analysis. OCC is currently engaged in an interagency effort with the FRB and the Federal Deposit Insurance Corporation to provide guidance on climate-related financial risk management.

In line with EO 14008, *Tackling the Climate Crisis at Home and Abroad*, we have has helped to renew U.S. leadership on international climate finance and increased global climate ambition. In 2021, for example, we helped launch the first U.S. International Climate Finance Plan; developed new policies to phase out international financing of unabated fossil fuels at the multilateral development banks; helped launch a multilateral framework (Just Energy Transition Partnership, or JETP) with South Africa to accelerate its transition to a clean energy future; negotiated a landmark agreement ending support for coal-fired power generation export credits at the Organization for Economic Cooperation and Development (OECD); and co-chaired the development of a Sustainable Finance Roadmap for the Group of 20 (G20). This year, we have continued to support increased global ambition on climate change. For example, we continue to work extensively with those Multilateral Development Banks in which the U.S. is a major shareholder to discuss how to scale climate finance and how to increase work on adaptation and resilience; we are leading the development of a new JETP with Indonesia, we continue to co-chair the G20 Sustainable Finance Working Group; and Treasury signed a $950 million dollar loan agreement for the Clean Technology Fund (CTF), a multilateral trust fund which helps to scale up low carbon technologies in developing countries.

In collaboration with National Oceanic and Atmospheric Administration, we are developing a climate literacy curriculum that will provide basic education on the causes and effects of climate change, alongside strategies for building resilience throughout the Department. Resilience-building will focus on the main priority action areas identified in the Climate Action Plan, such as financial investment, real property weatherization, and procurement. Examples include incorporation of climate risk considerations in our retrofitting and new construction efforts. Additionally, purchasing renewable energy credits and energy-savings performance contracts will be critical in meeting the administration's requirements to convert our operations to cleaner sources of electricity in the coming years and reduce reliance on the fossil-fuel energy market.

A major project includes operational fortification through the planned investments to expand and support the IRS's presence in Puerto Rico. Due to its geographic location, the island is particularly vulnerable to disruption from hurricanes, which cause widespread destruction and impose a disproportionate economic, environmental, and public health burden on the American citizens living there. This investment is expected to not only mitigate the risk of damages from extreme weather events, but also to create jobs and allow for increased taxpayer access to bilingual services. An estimated 2,000 new federal positions will be created on the island, which has a median household income of less than $21,000 (or 32 percent of the U.S. median household income). Thus, it is both an operational win and a crucial step forward toward equity.

Further examples of operational resilience-building include the BEP's construction of a new, weather-resilient production facility in Maryland, greatly reducing operational risks associated with the current older Washington D.C. facility. Additionally, the Main Treasury building is undergoing extensive repair and restoration work to weatherize and update its exterior façade, preventing water intrusion. Expansion of telework capabilities will allow the workforce to continue essential functions if the Main Treasury building is catastrophically impacted by a climate-related event such as major flooding or power disruptions.

Because our bureaus have diverse missions and operations, Departmental Offices issued broad guidelines rather than overly restrictive instructions for conducting climate risk assessments. However, to provide more quantitative strategic planning support for adaptation and resilience of its facilities, we have considered the growing need for ready access to a central repository of climate-related data (quantitative, machine-readable information) in multiple formats, as well as data analysts and subject matter experts who can understand and use the data to propose and support operational decisions. Closing this data and personnel gap will not only allow for more effective adaptation efforts of operations, but also help achieve goals set for the other priority action areas in the CAP, particularly financial investment and policy.

Other Matter of Concern

Digital Assets (NEW)- ***Use of digital assets, including cryptocurrencies, stablecoins, and in some countries, central bank digital currency, has grown significantly over the past several years. The U.S. has an interest in responsible financial innovation and technological advances, but must protect its consumers, investors, and businesses. Additionally, it must protect the U.S. and global financial stability, mitigating systemic risk in the absence of sufficient oversight.***

Management Response: Treasury has been charged with a leadership role to ensure a coordinated and comprehensive approach to digital assets policy. Treasury supports responsible innovation and seeks to maximize the gains from new technology while protecting against possible risks to consumers, financial stability, and illicit finance. These efforts will include:

- The Office of Domestic Finance, along with the Office of General Counsel and Legislative Affairs, will identify potential legislative changes necessary to mitigate consumer protection and financial stability risks of digital assets.
- As appropriate, the Office of Domestic Finance and other offices across Treasury will support our efforts to promote greater coordination among U.S. regulatory agencies on issues related to digital assets.
- In work following from the reports Treasury published in 2022 as charged by EO 14067, *Ensuring Responsible Development of Digital Assets*, Treasury will:

- Participate in an interagency working group to support the advancement of policy and technical work on a potential U.S. Central Bank Digital Currency (CBDC), so that the United States is prepared if a CBDC is determined to be in the national interest. This work will be led by the Office of Domestic Finance.
- Collaborate with other agencies to prepare resources for consumers and retail investors related to participation in the digital asset market. This work will be led by the Office of Domestic Finance.
- Continue collaborating with international partners regarding digital asset opportunities and risks. This work will be led by the Office of International Affairs.
- Continue to monitor illicit finance risks related to digital assets. This work will be led by the Office of Terrorism and Financial Intelligence.

- OCC has established a process pursuant to OCC Interpretive Letter #1179[7] for banks intending to launch crypto-asset products and services to obtain a prior written supervisory non-objection.

- FinCEN will address select high-risk issues in the evolving digital asset domain through rulemakings and interpretive guidance.

- OCC is working to improve interagency information sharing and coordination, including with the other federal banking agencies, the FSOC, market regulators and state supervisors along with continued internal capacity building, which includes working groups, written internal guidance/exams, and procedures/training initiatives.

[7] https://www.occ.gov/topics/charters-and-licensing/interpretations-and-actions/2021/int1179.pdf

Treasury Inspector General for Tax Administration Management Challenges

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

October 13, 2022

MEMORANDUM FOR SECRETARY YELLEN

FROM: J. Russell George
Inspector General

SUBJECT: Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2023

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) 2023, the passage of the Inflation Reduction Act of 2022[2] (IRA) will provide the IRS with approximately $79 billion in funding that will remain available through the end of FY 2031. This funding supplements the IRS's annual appropriations. In addition, the IRA contains numerous tax provisions. It will be a significant challenge for the IRS to administer these provisions and effectively use the additional funding to address the challenges of improving taxpayer service, modernizing outdated technological infrastructure, and increasing equity in the tax system through added enforcement actions.

As in years past, the IRS must balance its tax compliance activities against the rights of taxpayers to receive fair and equitable treatment. Protecting taxpayer rights, such as the right to be informed, the right to quality service, the right to challenge the IRS's position and be heard, and the right to privacy and confidentiality, are interconnected with the management and performance challenges outlined in this memorandum. In addition, as required by the IRS Restructuring and Reform Act of 1998,[3] TIGTA performs audits of certain taxpayer rights provisions and reports whether the IRS complied with those provisions. However, we are mindful of the IRS's need to protect the rights of taxpayers in all of our oversight work.

For FY 2023, we have identified the IRS's top management and performance challenges as:

- Improving Taxpayer Service;
- Protecting Taxpayer Data and IRS Resources;
- Modernizing IRS Operations;
- Administering Tax Law Changes;
- Increasing Domestic and International Tax Compliance and Enforcement; and
- Reducing Tax Fraud and Improper Payments.

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[1] 31 U.S.C. § 3516(d) (2006).

[2] Pub. L. No. 117-169.

[3] Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of Titles 2, 5, 16, 19, 22, 23, 26, 31, 38, and 49 U.S.C.).

Although not listed separately, human capital is also a significant concern and it affects the IRS's ability to address the above challenges. It remains a serious, underlying issue with wide-ranging implications for both the IRS and taxpayers. At a time when the IRS is taking on new challenges, such as implementation of the IRA, 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.

The following information detailing the management and performance challenges is provided to promote the economy, efficiency, and effectiveness of the IRS's administration of the Nation's tax laws.

IMPROVING TAXPAYER SERVICE

As the IRS prepares for the 2023 Filing Season, it continues to struggle with eliminating the backlog of unprocessed tax returns and other types of tax account work from prior filing seasons. The pandemic, pandemic-related tax law changes, and significant staffing shortages hampered the IRS's efforts to address the backlog inventories, resulting in millions of tax returns not being timely processed, refunds not being timely issued, the Federal Government paying interest on delayed refunds, and taxpayers not timely receiving assistance with their tax account issues. As of August 12, 2022, the IRS had more than 14 million individual and business paper returns waiting to be processed.

Figure 1: Status of Paper Returns Waiting to Be Processed as of August 12, 2022

Category	Returns			
	Individual	Business	Unspecified	Total
Received in Calendar Year 2021	0	135,240	0	135,240
Received in Calendar Year 2022	7,560,022	6,531,163	259,754	14,350,939
Totals	**7,560,022**	**6,666,403**	**259,754**	**14,486,179**

Source: IRS Submission Processing Weekly Inventory Report, as of August 12, 2022.

The IRS Accounts Management function, which is responsible for assisting individual and business taxpayers with tax law and tax account inquiries, including making adjustments to taxpayer accounts, is also dealing with correspondence backlogs. The IRS requires taxpayers to use written correspondence as the primary method when responding to an IRS notice or letter; however, TIGTA reported that the IRS has not taken any significant actions to address the continued lack of quality customer service it offers taxpayers corresponding with the IRS.[4]

In addition to the processing delays, during the 2022 Filing Season, the IRS saw the number of calls answered and Level of Service (*i.e.*, how many of those who call are able to speak to a Customer Service Representative) for its toll-free telephone lines decline, and wait times increase. Figure 2 shows a comparison for Calendar Years 2021 and 2022.

[4] TIGTA, Report No. 2022-46-027, *Program and Organizational Changes Are Needed to Address the Continued Inadequate Tax Account Assistance Provided to Taxpayers* (Mar. 2022).

Figure 2: Toll-Free Performance Statistics for Calendar Years 2021 and 2022

Performance Statistics	Calendar Year	
	2021	2022
Assistor Calls Answered	15,400,000	7,783,000
Level of Service	16.4%	14.1%
Average Speed of Answer (Minutes)	20	30
Level of Access[5]	23.8%	28.0%

Source: IRS management information reports (as of August 14, 2021, for Calendar Year 2021 and as of August 13, 2022, for Calendar Year 2022).

Significant staffing shortages have hampered the IRS's efforts to address the backlog inventories and provide the level of customer service expected by taxpayers. Demand for IRS toll-free telephone assistance has increased each year since November 2018, which directly correlates with the increase in tax law changes in recent years, including the tax law changes related to the pandemic. However, TIGTA reported that many Accounts Management employees split their time between working Accounts Management cases and answering IRS toll-free telephone calls.[6]

To address the backlogs and staffing shortages, the IRS announced its *Get Healthy Plan* on March 10, 2022. The *Get Healthy Plan* is an effort to return the IRS to pre-pandemic inventory levels by the end of Calendar Year 2022. As shown in Figure 1, as of August 12, 2022, the IRS had processed all of the individual paper tax returns received in 2021. While this is a step in the right direction, the IRS still has a significant backlog of returns received during the 2022 Filing Season that needs to be worked. Additionally, as the IRS develops and deploys more automated tools for taxpayers, it will need to ensure that the tools are operating as intended and improving the quality of its customer service.

In the IRS's *Strategic Plan FY 2022-2026*,[7] providing quality and accessible services to enhance the taxpayer experience is the IRS's top strategic goal. The IRS notes in its plan that it will continue to be challenged to meet this goal due to insufficient funding, a shrinking workforce, hiring difficulties, and reliance on paper processes. The passage of the IRA will provide the IRS with an additional $3.2 billion through FY 2031 to improve customer service, representing a 9 percent increase over current budget projections.[8]

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[5] A TIGTA calculated telephone measure determined by taking the sum of all assistor and automated calls answered divided by the total number of call attempts made while the various toll-free help lines are open. The hours each toll-free help line are open vary by line.

[6] TIGTA, Report No. 2022-46-027, *Program and Organizational Changes Are Needed to Address the Continued Inadequate Tax Account Assistance Provided to Taxpayers* (Mar. 2022).

[7] *Strategic Plan FY 2022-2026*, IRS Pub. 3744 (Rev. 7-2022).

[8] Congressional Research Service, *IRS-Related Funding in the Inflation Reduction Act* (Updated August 9, 2022).

PROTECTING TAXPAYER DATA AND IRS RESOURCES

The trillions of dollars that flow through the IRS each year make it an attractive target for criminals who want to exploit the tax system for personal gain. The proliferation of stolen Personally Identifiable Information poses a significant threat to tax administration by making it difficult for the IRS to distinguish legitimate taxpayers from fraudsters. Tax-related scams, and the methods used to perpetrate them, are continually changing and require constant monitoring by the IRS. The IRS's ability to continuously monitor and improve its approach to taxpayer authentication is a critical step in defending the agency against evolving cyber threats and fraud schemes and in protecting trillions of taxpayer dollars. According to the Commissioner of Internal Revenue, the IRS was experiencing just over 1 million cyberattacks per day in 2017. Currently, the IRS sustains more than 1.5 billion attacks each year.[9]

Security controls provide a range of safeguards and countermeasures for organizations and information systems to protect information during processing, while in storage, and during transmission. However, TIGTA reported that the IRS's mainframe computer platforms did not satisfy the minimum mainframe security requirements in several key areas, which can have serious adverse effects on tax administration and the protection of taxpayer data.[10] The failure to timely remediate high-risk and medium-risk security vulnerabilities could compromise the security posture of the mainframe platform and could lead to unauthorized accesses, increased vulnerability to attacks, and unauthorized data sharing, all of which compromise the integrity, confidentiality, and availability of the platform.

In addition, the failure to resolve or track existing computer vulnerabilities compromises the security posture of an organization, potentially exposing taxpayer data and information to unnecessary risks. Vulnerability scanners are commonly used in organizations to identify known vulnerabilities on hosts and networks and on commonly used operating systems and applications. Scanning tools can proactively identify vulnerabilities, provide a fast and easy way to measure exposure, identify out-of-date software versions, validate compliance with an organizational security policy, and generate alerts and reports about identified vulnerabilities. In December 2021, TIGTA reported that the IRS does not effectively oversee vulnerability remediation across the enterprise.[11] For example, the IRS did not verify or monitor the remediation efforts for all vulnerabilities or consistently track and report vulnerability remediation metrics.

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. For the 2022 Filing Season, the IRS initially required taxpayers to use a third-party service, ID.me, to help authenticate individuals creating online accounts by using facial recognition to verify their identity. The IRS adopted the technology as a way to enhance the security of taxpayer information. However, in response to privacy concerns related to taxpayers providing biometric data to a private company, the IRS announced in February 2022 that taxpayers could sign up for IRS online accounts with ID.me without the use of any biometric data. In addition, the IRS stated that it would shift from ID.me to the General Services Administration's Login.gov identity authentication service after the current tax filing season.

[9] Testimony of Charles P. Rettig, Commissioner of Internal Revenue, *On the Filing Season and the IRS Budget,* House Appropriations Committee, Subcommittee on Financial Services and General Government (May 18, 2022).
[10] TIGTA, Report No. 2022-20-050, *Mainframe Platform Configuration Compliance Controls Need Improvement* (Sept. 2022).
[11] TIGTA, Report No. 2022-20-006, *Vulnerability Scanning and Remediation Processes Need Improvement* (Dec. 2021).

IRS systems are often prime targets that are exploited both internally and externally in an effort to steal taxpayer data. Individuals constantly attempt to corrupt or impede tax administration through the manipulation and the unauthorized access of IRS systems. The IRS continually works with application developers and third-party contractors who assist in the taxpayer identity verification process known as the Secure Access Digital Identity initiative. This program is an effort to be compliant with new Federal mandates and regulations governing the protection of Personally Identifiable Information.

In addition to safeguarding taxpayer data, the IRS also faces the daunting task of protecting its employees and facilities. Recent incidents involving taxpayers who threatened or assaulted IRS employees underscore the dangers that these employees face. As reported by the IRS, threat-related reports have rapidly increased. TIGTA attributes this to the increased presence of IRS personnel returning to the office, as well as recent legislation that directly impacts the IRS. After passage of the IRA, threats directed at the IRS and its employees increased. As a result, the Commissioner of Internal Revenue announced efforts to perform a comprehensive review of existing IRS safety and security measures. 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.

Funding provided to the IRS by the IRA is expected to significantly increase IRS staffing levels over the course of the next 10 years. As a result, the IRS should anticipate the potential for increased employee misconduct allegations. The IRA also includes funding for the IRS to study the cost and feasibility of creating a free direct e-file program, which would expand the overall scope and control of the current IRS Free File Program. The implementation of such a system will create additional avenues for malicious actors looking to exploit the IRS network and its online portals.

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. The IRS uses different legacy case management systems that vary widely in complexity, size, and customization to support tax administration. Modernization is necessary to deliver efficient taxpayer services and enforcement with enhanced user experiences. Modernizing the IRS's computer systems has been a persistent challenge for many years and will likely remain a challenge for the foreseeable future.[12]

According to the Commissioner of Internal Revenue, delays in updating the IRS's information technology system have resulted in the IRS's continued use of certain paper-based processes.[13] These paper processes can result in significant delays, contributing to IRS backlogs and limiting taxpayers' ability to know the status of their cases. The Commissioner testified that this will continue to present challenges because the IRS has not sustained sufficient multi-year investment for information technology modernization. As part of the IRA, the IRS will receive an additional $4.7 billion for modernization efforts through FY 2031, representing a 153 percent increase over current budget projections.

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[12] TIGTA, Report No. 2022-20-005, *Annual Assessment of the IRS's Information Technology Program for Fiscal Year 2021* (Dec. 2021).

[13] Written testimony of Charles P. Rettig, Commissioner of Internal Revenue, *On the Filing Season and IRS Operations,* House Oversight and Reform Committee, Subcommittee on Government Operations (April 21, 2022).

One of the most complex modernization programs in the Federal Government is the IRS's Customer Account Data Engine 2 (CADE 2) Program, which involves major changes to core IRS tax processing systems. One of the goals of CADE 2 is to reengineer core components of the Individual Master File. The IRS currently has a project that is converting lines of legacy code to a modern software language. The code conversion is a major milestone towards retiring the Individual Master File. TIGTA reported that the IRS has taken steps to improve the process for estimating the development time required to convert the lines of code and that the IRS's methodology is consistent with industry best practices.[14] However, due to completing an extensive analysis to account for the project's complexity and capturing all required work, the IRS determined in September 2019 that the development end date for the project should be moved from August 2021 to September 2022. In August 2020, the IRS extended the development end date again from September 2022 to April 2023.

TIGTA reported that more effective program management would help the IRS coordinate information technology investments in a cost-effective and efficient manner. Specifically, the Next Generation Infrastructure program is part of the *IRS Integrated Modernization Business Plan* that emphasizes modernizing core tax administration systems, operations, and cybersecurity to improve the taxpayer experience. The Plan is a road map for achieving necessary modernization of systems and taxpayer services in two three-year phases that are comprised of a series of discrete projects and programs. Although TIGTA determined the IRS implemented several capabilities of the Next Generation Infrastructure program in Calendar Years 2019 and 2020, no clear or comprehensive program management structure was established. This decentralized approach makes it difficult to determine ultimate responsibility and accountability over the Next Generation Infrastructure program.[15]

Successful modernization of systems and the development and implementation of new information technology applications will continue to be a critical challenge for the IRS to meet its evolving business needs and enhance services provided to taxpayers.

ADMINISTERING TAX LAW CHANGES

One of the continuing challenges the IRS faces each year in processing tax returns is the implementation of new tax law changes as well as changes resulting from expired tax provisions. Legislative actions generating the changes often occur late in the year, shortly before the filing season begins. The recently passed IRA includes numerous tax provisions, including the creation of a corporate alternative minimum tax and tax incentives for companies and consumers who make cleaner energy choices. This will require the IRS to act quickly to assess the change and determine the necessary actions to ensure that all legislative requirements are satisfied. These actions may require revisions to various tax forms, instructions, and publications, as well as reprogramming computer systems to ensure that tax returns are accurately processed based on the changes. Errors in the IRS's tax return processing systems may delay tax refunds, affect the accuracy of taxpayer accounts, or result in incorrect taxpayer notices.

The primary legislation affecting the 2022 Filing Season was the American Rescue Plan Act of 2021 (ARPA),[16] signed into law on March 11, 2021, which included approximately $1.9 trillion in economic relief and stimulus to address the continuing impact of the pandemic on the economy, public health, State and local governments, individuals, and businesses. It also contained numerous tax-related provisions intended to provide relief to individuals and businesses. The ARPA modified several credits, including the Child and Dependent Care Credit (CDCC) and Child Tax Credit (CTC), as well as creating a third Recovery Rebate Credit.

One key provision in the ARPA is the expanded CTC. Determining eligibility for and the amount of the CTC is a complex process. As of March 2, 2022, the IRS processed more than 14.9 million tax returns claiming $82.7 billion in CTCs, of which $33.7 billion was paid in advance. This required a significant undertaking on the IRS's part as it needed to develop processes and procedures to determine eligibility, compute advance payment amounts, and develop an online portal and nonelectronic assistance options for taxpayers to provide the IRS with updates to key information used to compute the advance payment amounts.

TIGTA reported that the IRS established controls to track advance CTC updates and detect potentially fraudulent tax returns.[17] Although the IRS also developed a process to identify discrepancies between the advance payments reported on the tax return and advance payments recorded on the taxpayer's account, the process did not account for undelivered checks. In these situations, taxpayers do not receive their payments and need to work with the IRS, after filing their tax returns, to recover them. TIGTA recommended that the IRS develop a process to continue to proactively identify and correct accounts with undelivered advance CTCs that post to accounts after the IRS processes the Tax Year 2021 tax return.

In addition to legislative changes, the IRS must frequently issue additional guidance to taxpayers on emerging trends that impact tax administration, such as cryptocurrencies and gig work. Expanding access to information about new or expiring tax legislation is a critical step in improving voluntary compliance. In the IRS's *Strategic Plan FY 2022-2026*, the IRS noted that it needs to engage with more segments of the population, like those with limited English proficiency, that face unique challenges in accessing the information, forms, or services they need.

INCREASING DOMESTIC AND INTERNATIONAL TAX COMPLIANCE AND ENFORCEMENT

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 from those who do not pay their taxes to those who pay their taxes on time every year. If the IRS can increase the rate of voluntary compliance, it can reduce the Tax Gap. The Tax Gap is defined as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for a tax year.

However, the IRS has indicated that insufficient funding remains a constraint to address its operations.[18] Specifically, the Commissioner of Internal Revenue indicated the IRS's budget has decreased by more than 15 percent in real dollars over the past decade. Because of this decrease, the IRS indicates its staffing is close to 1974 levels. Over the next six years, the IRS estimates it will need to hire 52,000 employees just to maintain its current staffing levels.[19] As part of the IRA, the IRS will receive an additional $45.7 billion for enforcement activities through FY 2031, representing a 69 percent increase over current budget projections. Although increased funding will assist the IRS in replacing employees lost through attrition,

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[14] TIGTA, Report No. 2022-25-029, *The Individual Tax Processing Engine Project's Estimation Methodology Aligns with Best Practices and the Project Addressed the Independent Verification and Validation Recommendations* (Mar. 2022).

[15] TIGTA, Report No. 2022-20-001, *Some Next Generation Information Technology Infrastructure Capabilities Were Implemented, but Program Management Improvements Are Needed* (Nov. 2021).

[16] Pub. L. No. 117-2, 135 Stat 4 (codified in scattered sections of Titles 7, 12, 15, 19, 20, 26, 29, 42, and 45 U.S.C.).

[17] TIGTA, Report No. 2022-47-042, *American Rescue Plan Act: Assessment of the Child Tax Credit Update Portal's Capabilities and Related Processes* (July 2022).

[18] Testimony of Charles P. Rettig, Commissioner of Internal Revenue, *On the Filing Season and the IRS Budget,* Senate Finance Committee (April 7, 2022).

[19] Testimony of Charles P. Rettig, Commissioner of Internal Revenue, *On the Filing Season and the IRS Budget,* House Appropriations Committee, Subcommittee on Financial Services and General Government (May 18, 2022).

onboarding, training, and assimilating large numbers of employees will create its own challenges for the IRS.

The IRS's research shows that examinations have a strong positive impact on voluntary compliance.[20] Comparing FYs 2016 and 2020, there were 55 percent fewer correspondence examinations and 59 percent fewer field examinations conducted in FY 2020.[21] The decrease in staffing within the Examination functions has contributed to the decline in examinations. Specifically, the number of Examination staff decreased 9.9 percent from 10,101 in FY 2017 to 9,116 in FY 2020. The trending decline in enforcement activity is likely causing growth in the overall Tax Gap as taxpayers are less likely to be subject to an examination. While examinations have declined over the years, the Secretary of the Treasury has directed that any additional resources not be used to increase the share of small business or households below the $400,000 threshold that are audited relative to historical levels.

The IRS will continue to be challenged to enforce international tax compliance. U.S. taxpayers, regardless of whether they live in the U.S. or abroad, are required to report and pay applicable taxes on worldwide income to the IRS, including income from offshore accounts and other assets. While taxpayers can hold offshore accounts for a number of legitimate reasons, some taxpayers have used such accounts to hide income and evade taxes, and 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.[22] Complexity and change in the international tax environment will continue to challenge the IRS in enforcing compliance in this area.

The Foreign Account Tax Compliance Act (FATCA) was intended to reduce tax evasion by creating greater transparency and accountability with respect to offshore accounts and other assets held by U.S. taxpayers.[23] However, TIGTA reported that due to resource limitations, the IRS has significantly departed from its original comprehensive FATCA Compliance Roadmap in favor of a more limited compliance effort.[24] Continued emphasis by the IRS will be necessary to address offshore tax noncompliance.

To ensure confidence in the tax system, American taxpayers expect that everyone pays their Federal tax obligations. This includes entities receiving the benefits of contracts and grants from the Federal Government. Starting with the Consolidated and Further Continuing Appropriations Act, 2015,[25] Congress now prohibits Federal agencies from using appropriated funds to award a contract or grant to a corporation that owes any amount of delinquent Federal tax, unless suspension or debarment is considered. Congress provided the IRS $30 million to establish an application through which entities could request from the IRS a certification that the entity did or did not owe seriously delinquent taxes.

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[20] IRS, *The Impact of the IRS on Voluntary Tax Compliance: Preliminary Empirical Results* (Nov. 2002).

[21] TIGTA, Report No. 2022-30-033, *Trends in Compliance Activities Through Fiscal Year 2020* (May 2022).

[22] 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).

[23] Pub. L. No. 111-147, Subtitle A, 124 Stat 97 (2010) (codified in scattered sections of 26 U.S.C.).

[24] TIGTA, Report No. 2022-30-019, *Additional Actions Are Needed to Address Non-Filing and Non-Reporting Compliance Under the Foreign Account Tax Compliance Act* (Apr. 2022).

[25] Pub. L. No. 113-235, 128 Stat. 2130 (2014).

However, TIGTA reported that Federal agencies across the Government awarded contracts and grants to entities that owed millions in delinquent Federal taxes.[26] Between October 2018 and December 2019, the Federal Government awarded 2.1 million Federal contracts and grants to more than 83,000 awardees. Of these, 3,040 contractors received almost $10.2 billion in Federal contracts while owing $621.8 million in delinquent Federal taxes. Figure 3 depicts the amounts of contracts and grants the Federal Government awarded to entities with delinquent taxes between October 2018 and December 2019.

Figure 3: Federal Contracts and Grants Awarded to Entities With Delinquent Taxes

	Contractors	Grantees
Entities owing delinquent taxes that received Federal awards between October 2018 and December 2019.	3,040 Entities	938 Entities
Federal awards that went to entities owing delinquent taxes.	$10.2 billion	$22.7 billion
Delinquent Federal taxes owed.	$621.8 million	$269.2 million

Source: TIGTA analysis of entity data from the System for Award Management, contracts data from the Federal Procurement Data System, grants data from USAspending.gov, and tax data from the IRS's Transaction Category Reports.

Increasing voluntary taxpayer compliance and reducing the Tax Gap will remain a persistent challenge facing the IRS. As such, the IRS will need to stay committed to a strong, visible, and robust tax enforcement presence to support voluntary compliance and protect the integrity of the tax system.

[26] TIGTA, Report No. 2022-10-066, *Reliance on Self-Certifications Resulted in Federal Agencies Awarding Contracts and Grants to Entities With Delinquent Federal Taxes; However, the IRS Is Making Progress on Establishing the Federal Contractor Tax Check* (Sept. 2022).

REDUCING TAX FRAUD AND IMPROPER PAYMENTS

Identity theft tax refund fraud involves the use of another person's name and Taxpayer Identification Number[27] to file a fraudulent tax return reporting false income and withholding in an effort to receive a fraudulent tax refund. The IRS continues to increase the number of fraudulent tax returns detected and stopped from entering the tax processing system (*i.e.*, rejecting e-filed tax returns and preventing paper tax returns from posting).[28] For the 2022 Filing Season, the IRS used 168 filters to identify potential identity theft tax returns and prevent the issuance of fraudulent refunds. In comparison, the IRS used 155 filters for the 2021 Filing Season. These filters incorporate criteria based on characteristics of confirmed identity theft tax returns, including amounts claimed for income and withholding, filing requirements, prisoner status, taxpayer age, and filing history. Tax returns identified by these filters are held during processing until the IRS can verify the taxpayer's identity.

Identity theft not only affects individuals, it can also affect businesses. The IRS defines business identity theft as creating, using, or attempting to use a business's information without authority to obtain tax benefits. The IRS continues to improve and expand its detection capabilities to include additional types of business tax returns. During Processing Year 2021, the IRS used 84 selection filters to identify business tax returns claiming refunds for potential fraud. These filters identified and selected for review 62,096 business returns as potentially fraudulent.

However, TIGTA's assessment of the IRS's efforts to combat business identity theft and assist these types of victims identified that efforts can be improved if the IRS adopts successful taxpayer detection and assistance options, similar to what it provides to individual taxpayers. These include developing clustering filters for business identity theft detection and expanding Identity Protection Personal Identification Numbers to business taxpayers.[29]

In addition, TIGTA continues to find that IRS processes and procedures do not ensure that Individual Taxpayer Identification Numbers (ITIN) are issued only to individuals who have a Federal income tax need.[30] An ITIN is a tax processing number issued by the IRS for certain resident and nonresident aliens, their spouses, and their dependents who are not eligible to obtain a Social Security Number from the Social Security Administration. Only individuals who have a valid filing requirement, who are filing a return to claim a refund, or who are claiming reduced withholding under an applicable income tax treaty are eligible to receive an ITIN. TIGTA made several recommendations to improve administration of the ITIN program, such as ensuring that the IRS receives complete data extracts for identifying ITIN applications with duplicate entity information or supporting documents, regularly identifying and addressing retroactive claims that were processed incorrectly, and updating programming to systemically identify and deactivate all ITINs when required.

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[27] 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.
[28] TIGTA, Report No. 2022-40-035, *Interim Results of the 2022 Filing Season* (May 2022).
[29] TIGTA, Report No. 2022-40-041, *Successful Detection and Assistance Processes Used to Combat Individual Identity Theft Should Be Implemented for Business Identity Theft* (July 2022).
[30] TIGTA, Report No. 2022-40-013, *Administration of the Individual Taxpayer Identification Number Program* (Jan. 2022).

The IRS continues to work diligently to combat various scams designed to steal taxpayers' money or personal information. Compiled annually, the IRS's "Dirty Dozen" lists a variety of common scams that taxpayers may encounter. In 2022, the IRS added pandemic–related scams to its list. These scams involve the theft of a person's money and identity with bogus e-mails, social media posts, and unexpected telephone calls, among other things. The scams can take a variety of forms, including using unemployment information and fake job offers to steal money and information from people. All of these efforts can lead to sensitive personal information being stolen, with scammers using it to try filing a fraudulent tax return as well as harming victims in other ways.

Improper payments (*i.e.*, payments that should not have been made, were made in an incorrect amount, or were made to an ineligible recipient) continue to be a challenge facing the IRS. TIGTA found that the IRS inaccurately assessed the risk for the U.S. Coronavirus Economic Impact Payment program as not susceptible to improper payments despite reports issued by TIGTA suggesting otherwise.[31]

In addition, the IRS continues not to be in compliance with the goal of reducing the overall improper payment rate for the Earned Income Tax Credit (EITC), the Additional Child Tax Credit (ACTC), and the American Opportunity Tax Credit (AOTC) to less than 10 percent. The IRS estimates it issued approximately $26.1 billion in potentially improper EITC, ACTC, and AOTC payments in FY 2021. As shown below, this represents a significant loss to the Federal Government:

- EITC – The IRS estimates 28 percent ($19.0 billion) of the total EITC payments of $68.3 billion were improper.
- ACTC – The IRS estimates 13 percent ($5.2 billion) of the total ACTC payments of $39.4 billion were improper.
- AOTC – The IRS estimates 26 percent ($1.9 billion) of the total AOTC payments of $7.1 billion were improper.

Further, the passage of the ARPA temporarily expands the CDCC. 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's review of nearly 6.3 million Tax Year 2019 tax returns that received the CDCC identified a number of weaknesses in the controls over the processing of CDCC claims.[32] Although IRS management agreed to take actions to address some of these processing weaknesses, the IRS is not taking actions to address all deficiencies identified by TIGTA. This includes not taking the steps needed to ensure that requirements to claim the CDCC are met at the time tax returns are processed. In addition, the IRS is not taking actions to update its filing instructions and publications to provide additional guidance to taxpayers or revising programming and processes to identify potentially erroneous CDCC claims. As a result, the IRS may potentially allow improper payments associated with erroneous CDCC claims.

CONCLUSION

[31] TIGTA, Report No. 2022-40-037, *Programs Susceptible to Improper Payments Are Not Adequately Assessed and Reported* (May 2022).

[32] TIGTA, Report No. 2022-47-023, *American Rescue Plan Act: Assessment of Processes to Identify and Address Improper Child and Dependent Care Credit Claims* (Mar. 2022).

This memorandum is provided as our annual summary of the most serious major management and performance challenges confronting the IRS in FY 2023. TIGTA's *Fiscal Year 2023 Annual Audit Plan* and *Fiscal Year 2023 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

IRS Management Response to TIGTA Identified Challenges

The IRS appreciates TIGTA's management and performance challenges as valuable feedback to improving administrative processes and accomplishing our mission. Currently, the IRS is moving quickly to begin implementing the Inflation Reduction Act (IRA) signed into law in August 2022, which provides the resources needed to address many of the issues addressed in TIGTA's report. The IRA funding will help provide resources for tax enforcement, taxpayer service and technology. The funding will also ensure that a steady flow of resources will be in place to protect the nation's future revenue needs. Many of the employee gains will occur in future years of the IRS plan, and we will continue to focus on retaining existing employees to share knowledge and help train new staff. The IRS created a new centralized IRA Transformation & Implementation Office which will oversee the implementation of all IRS -related provisions in the IRA.

TIGTA Challenge 1: Improving Taxpayer Service

In FY 2022, the IRS took aggressive actions to address challenges related to pandemic recovery and new tax laws that led to an unprecedented amount of unprocessed tax returns and correspondence that contributed to an extraordinarily high level of call volumes and related taxpayer inquiries. To improve the overall level of customer service and processing of tax returns, we implemented mandatory overtime, increased access to online self-service tools, and deployed surge teams, consisting of employees with relevant experience from other operations, to work on reducing inventory levels.

The IRS obtained direct hiring authority through OPM and the Consolidated Appropriations Act of 2022 to reach a broader applicant pool and reduce the number of days to hire. We used these authorities to hire personnel, such as tax examiners, clerks, customer service representatives and critical operations support positions.

The IRS also deployed technology to aid in processing returns and improving the toll-free experience, to include:

- deploying an automated tool to process many of the Error Resolution System cases;
- expanding voicebot options to help taxpayers with general payment and notice questions, to get answers quickly and avoid waiting; and
- expanding customer callback, which saved taxpayers over 3.4 million hours of hold time in FY 2022.

The IRS will continue to pursue technology to improve paper processing and the toll-free experience, and will continue to evaluate processes for improvement, including the appropriate resources and staffing allocation.

TIGTA Challenge 2: Protecting Taxpayer Data and IRS Resources

The IRS is committed to improving information technology configuration compliance controls and making significant progress in FY 2023. The IRS will:

- continue to address additional improvements to mainframe platform configuration compliance controls in several key areas, including logical partition configuration compliance controls, vulnerability age tracking and remediation, and compliance with required checklists; and
- implement a monitoring process for all production z/Series Operating System (z/OS) logical partitions and formalize the checklist adjudication process for z/OS to align with the current process for Tier II devices.

In FY 2022, the IRS took the following critical steps to improve the overall effectiveness of vulnerability remediation:

- We established a forum for sharing across the agency to ensure rightful ownership of the remediation responsibility to address security risk management issues within required timeframes. Identified owners will continue performing weekly scans for vulnerabilities and prioritizing the remediation of those identified vulnerabilities based on a risk model formula. For vulnerabilities exceeding remediation time frames, the IRS will remedy the vulnerabilities and/or create a Plan of Action and Milestones or Risk-Based Decisions to establish prioritization for the remediation of vulnerabilities.

- We implemented a process to ensure we properly communicate network updates related to vulnerability scanning.

- We deployed enterprise vulnerability scanning tool agents to ensure that we complete privileged access scans on required devices to determine the full extent of vulnerabilities affecting the installed operating systems and applications.

- We revised current guidance on conducting periodic reviews of the scanning exception list to ensure we properly document vulnerability scanning exceptions and add devices lacking the required documentation to the vulnerability scanning footprint.

TIGTA Challenge 3: Administering Tax Law Changes

The IRS implemented controls to track advance Child Tax Credit (CTC) updates and detect potentially fraudulent tax returns. A TIGTA review shows an accuracy rate of 98 percent on these payments. To address undelivered checks, the IRS updated programming to generate a new internal account transcript when a taxpayer returns an advance CTC payment (or Economic Impact Payment) after the tax return is posted. This allows the IRS to proactively adjust the account without the taxpayer having to contact the IRS. We updated our website to ensure accuracies in information on the CTC and Credit for Other Dependents.

The IRS is committed to improve the tax system and to serve taxpayers, ensuring they have a positive experience when interacting with the IRS. In FY 2022, the IRS released Form 1040 in Spanish, completed the conversion of 34 Spanish notice inserts to Braille, text, audio and large print, and converted Form 1040 and its main schedules, Form 1040 NR , Form 1040 SR , Form W-4 and six IRS publications into Spanish Braille, text and large print. The IRS also developed a new Schedule LEP (Limited English Proficiency) for taxpayers to indicate their preferred contact language other than English.

TIGTA Challenge 4: Modernizing IRS Operations

The nation's tax system has changed significantly since the IRS was established more than 150 years ago, and over time, the agency harnessed the opportunity to leverage technology and provide services the public needs to fulfill their tax obligations. The IRS continues to implement modernization efforts to improve the taxpayer experience by modernizing core tax administration systems, IRS operations, and cybersecurity. In FY 2022, the IRS published the *IT Strategic Plan FY 2022-2026,* which is structured to address key factors, such as meeting the public's expectations, simplifying the existing IRS technology base, adopting emerging technology trends, staying ahead of cybersecurity threats, continually driving the adoption of new ways of working, complying with federal mandates and guidelines, and supporting the workforce with advanced technology training to enhance their skills. Technology innovation and the multi-year funding required to modernize the legacy systems and technology at the IRS will be critical to improving the taxpayer experience and protecting the integrity of our nation's tax system.

The IRS is building the foundation to become a digital-first agency with the ability to unlock the power of data, adapt to evolving taxpayer expectations, and create innovative tools to match the pace of change throughout the technology landscape. The IRS will transform with automated digital workflows, real-time access to impactful data, and intelligently automated submission reviews, all of which take the foundational modernization steps to support this future vision. The IRS will also continue to make progress toward quickly implementing tax law changes and responses to legislation and mandates, which requires an increasingly agile organization.

TIGTA Challenge 5: Increasing Domestic and International Tax Compliance and Enforcement

The IRS develops and implements international compliance workstreams for the many groups of taxpayers, including U.S. citizens living or working abroad or in a U.S. Territory, U.S. citizens or resident aliens who hold income producing assets in a foreign country or claim the foreign earned income exclusion or foreign tax credit, and permanent residents and non-resident aliens who have a U.S. filing requirement. In addition, the Foreign Payments Practice and Automatic Exchange of Information operation interacts with and monitors a variety of entities and individuals who have reporting and payment requirements under Chapter 3 (Withholding of Tax on Nonresident Aliens and Foreign Corporations) and Chapter 4 (Taxes to Enforce Reporting on Certain Foreign Accounts) of the Internal Revenue Code and collaborates with treaty partners in automatically exchanging data used for tax compliance purposes. Some of the workstreams include Virtual Currency, Offshore Service Providers, Section 965 for Individuals, Voluntary Disclosures, Offshore Private Banking, Form 1042 Compliance, and Foreign Account Tax Compliance Act (FATCA) Filing Accuracy campaigns. Since the start of the campaign compliance program, IRS has initiated over 70 compliance campaigns.

Processing information under the FATCA and identifying individual offshore and foreign financial entity noncompliance remain a resource intensive undertaking. FATCA is an information reporting regime designed to encourage reporting of foreign bank and brokerage accounts of U.S. persons and closely held entities. As such, FATCA is a data source that is woven into the IRS 's enforcement framework throughout the organization. The IRS will continue to increase analytics around comparing submissions it receives on Form 8938, *Statement of Specified Foreign Financial Assets*, that U.S. persons file, and Form 8966, *FATCA Report*, that foreign financial institutions file to identify both substantial discrepancies in individual reporting and individuals potentially failing to report their foreign financial accounts or not providing appropriate customer information to their foreign financial institution.

The IRS implemented a multi-pronged compliance approach around this analysis, which includes the issuance of soft letters, education letters, civil and criminal examinations, penalty consideration when appropriate, termination of the Global Intermediary Identification Numbers for foreign financial institutions, and a Horizontal Scan Project geared towards emerging tax risks and trends in FATCA compliance.

The IRS is ensuring its compliance workforce is well prepared to examine complex tax returns, especially those with offshore compliance and transfer pricing issues, through a continued emphasis on training and knowledge sharing. The IRS has faced challenges in hiring revenue agents who specialize in cross border tax issues. Because of this and the relatively few numbers of specialists in this and other international areas, the IRS 's hiring challenges have impacted the ability to enforce international tax compliance. In providing directives to the IRS on the implementation of the IRA, Secretary Yellen emphasizes the priority to hire and invest in training employees for identifying the most complex tax evasion schemes.

The IRS continues to prioritize development of its cross-functional Federal Contractor Tax Check System (FCTCS). Its FCTCS working group is coordinating with Treasury and the OMB to resolve legislative and regulatory requirements necessary to obtain approval for further development, deployment and use. The FCTCS technology solution is on track for a foundational release in November 2022, which will automate the rules that perform a tax check at the request of authenticated business taxpayers and has the capability of identifying whether a business has a seriously delinquent tax debt pursuant to legislative mandate of the Consolidated Appropriations Act. The IRS technology solution satisfies the requirements of the Act and Congressional intent and can be implemented without further legislative changes or any dependence on updates to the System for Award Management by the General Services Administration.

TIGTA Challenge 6: Reducing Tax Fraud and Improper Payments

Reducing improper payments continues to be a top priority for the IRS. The IRS improper payment strategy is to intervene early to ensure compliance with the law. In FY 2022, the IRS addressed improper payments through its compliance programs as well as expansive outreach and education efforts to taxpayers and preparers. Programs that contribute to the IRS 's strategy of identifying and reducing improper refund claims associated with various refundable tax credits include examinations, math error notices, document matching, utilizing two- and ten-year bans, identity theft and fraud, criminal investigations, and soft notices.

To reduce improper payments and protect taxpayers from tax-related identity theft, the IRS included *Form 8849, Claim for Refund of Excise Taxes*, in the 2021 Business Identity Theft Risk Assessment. The IRS is currently conducting an analysis to determine the feasibility of assigning Identity Protection Personal Identification Numbers (IP PINs) to business taxpayers since it presents numerous challenges that are not associated with the assignment of IP PINs to individual taxpayers.

The IRS will also evaluate various common tax return characteristics to determine if clustering filters should be developed for business tax returns and will explore opportunities to reduce improper payments while promoting the availability of refundable credits to eligible taxpayers.

The IRS continues to improve processes associated with erroneous Child and Dependent Care Credit (CDCC) claims. For Processing Year 2022, the IRS developed a compliance filter to identify tax returns claiming CDCC for an adult dependent who may not be disabled for possible post-refund treatment. Also, returns that claim the CDCC for further review per the duplicate TIN process when any child has been claimed as a dependent by more than one taxpayer.

For tax year 2021, the IRS revised the *Instructions for Form 2441, Child and Dependent Care Expenses*, by adding a caution paragraph to address the issue of potentially ineligible individuals being listed as qualifying individuals. Further, to better educate taxpayers, the IRS added examples to Publication 503, Child and Dependent Care Expenses, to help clarify the requirements for qualifying care and expenses.

For tax year 2022, the IRS will revise Form 2441 by adding a checkbox to indicate whether a taxpayer or their spouse was a student or disabled during the tax year and they intend to enter deemed income on Form 2441. Form 2441 will also include a new question to identify disabled individuals. Once adequate data is available, the IRS will assess the effectiveness of these changes and evaluate the population of returns with couples who filed using the Married Filing Separately status on at least one of the tax returns and claimed more than the maximum amount of the credit per family.

The IRS will work with the Office of Tax Policy to identify issues with CDCC for consideration of legislative changes.

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 B: *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 claims 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 four[1] refundable tax credits—the EITC, AOTC, ACTC, and net PTC—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, ACTC, and net PTC 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 2022, our error rates for EITC have ranged from 22.8 percent to 31.6 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, 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 costs. As such, it is our position that RTC 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

The 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. The 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 by the taxpayer, 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 and RTC refunds, our

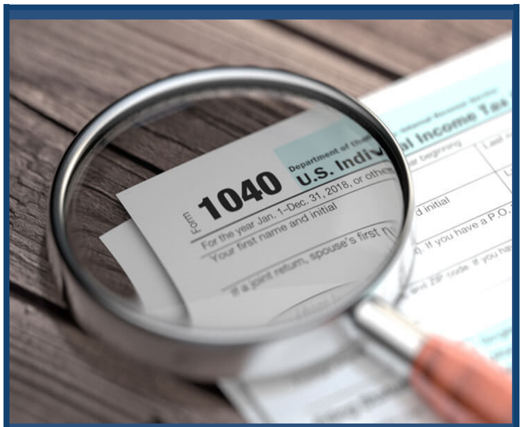
[1] *In FY 2021, the IRS US Coronavirus Payments and IRS US Coronavirus Refundable Credits were determined to be susceptible to significant improper payments through the risk assessment process. However, Treasury notified OMB in August 2022 that we will not be reporting improper payment estimates for these programs due to the limitations inherent in quantifying the improper payment amount and rate of short-term COVID-19 programs.*

position is that RTC refunds 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 paying entity 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

The 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 we accurately calculate payments and make them to the correct recipient. The OMB Appendix C also 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; instead, they 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 generally 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 containing 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 Inspector General for Tax Administration audits have concluded that RTC errors are largely due to the statutory design and complexity of the RTC programs, 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 B: *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 taxpayers 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 8,300 preparers attended the seminar entitled *Looking to Tax Year 2022: American Rescue Plan Tax Changes to the Earned Income Tax Credit and Other Child-Related Credits* at the 2022 virtual Nationwide Tax Forums.
Interactive Due Diligence Training Module	The training module on IRS.gov covers the technical aspects of the due diligence requirements. In FY 2022, more than 10,400 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 taxpayers and paid preparers make 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 2022, nearly 900 preparers attended the virtual webinar on due diligence requirements entitled *Keys to Mastering Due Diligence Requirements and What to Expect During a Due Diligence Audit.*
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 2022, 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. The IRS held an additional summit to discuss administering the advance child tax credit provisions in the American Rescue Plan.

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 2023, the Administration included the following proposals in its Budget submission:

- Expand and increase Penalties for Return Preparation and E-filing - The proposal would increase and expand the IRS's authority to address noncompliance or inappropriate behavior by paid tax return preparers and e-file providers. First, it would increase the penalty amounts that apply to paid tax return preparers for willful, reckless or unreasonable understatements, as well as for forms of noncompliance that do not involve an understatement of tax. Second, the proposal would establish new penalties for the appropriation of Preparer Tax Identification Numbers (PTINs) and Electronic Filing Identification Numbers (EFINs) and for failing to disclose the use of a paid tax return preparer. Third, the proposal would increase the limitations period during which the penalty for a failure to furnish the preparer's identifying number may be assessed from three years to six years. Fourth, the proposal would clarify the Secretary's authority to regulate the conduct and suitability of persons who participate in the authorized e-file program, including setting standards and imposing sanctions to protect the integrity of the e-file program.

- Increase Oversight of Paid Tax Return Preparers - The proposal would amend Title 31, U.S. Code (Money and Finance) to provide the Secretary with explicit authority to regulate all paid preparers of federal tax returns, including by establishing mandatory minimum competency standards.

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. In an 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 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 2022, RTC programs would need to reduce erroneous payments by $16.2 billion), based on FY 2022 estimates. Table 2 illustrates this data.

TABLE 2:

RTC Claims and Improper Payments, TY 2020[1] (dollars in billions)				Reduction of Improper Payments to 10% of claims value	
Program	Claims	Improper Payments	Improper Payment Rate	10% of claims value	Reduction needed for ≤ 10%
EITC	$57.5	$18.2	31.6%	5.7	$12.5
ACTC	32.8	5.2	15.8%	3.3	1.9
AOTC	5.6	2.0	36.1%	0.6	1.4
net PTC[3]	2.1	0.6	27.4%	0.2	0.4
Total	**$98.0**	**$26.0**	**26.5%** [2]	**$9.8**	**$16.2**

(1) In FY 2022, Treasury begins reporting improper payment amounts and rates on a tax year basis rather than fiscal year basis. For FY 2022, Treasury is reporting on claims and improper payments associated with tax year 2020 tax returns filed in 2021 and 2022.
(2) Total improper payments ÷ Total RTC claims ($26.0 ÷ $98.0).
(3) Includes amounts for federal and state exchanges.

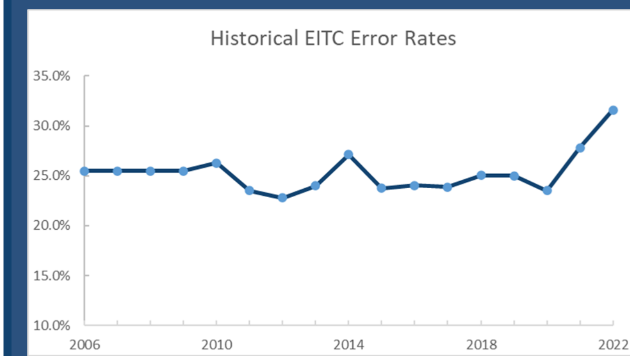
The Patient Protection and Affordable Care Act (PPACA) established the Health Insurance Marketplace through which qualified individuals and qualified employers can purchase health insurance coverage. The Premium Tax Credit (PTC) is a refundable credit that helps eligible individuals and families cover the premiums for their health insurance purchased through the Marketplace. PTC can be paid in advance directly to the consumer's Qualified Health Plan insurer. Consumers then claim the premium tax credit on the federal tax returns, reconciling the credit allowed with any advance payments made throughout the year. The PTC program is operationally divided between the Department of Health and Human Services (HHS) and Treasury. The HHS, through the Centers for Medicare & Medicaid Services (CMS), administers advance payments to insurance providers on behalf of applicants/taxpayers through the federally facilitated exchange. These payments are referred to as advance payments of the Premium Tax Credit (advance PTC or APTC). Treasury and the IRS administer the federal income tax return process where a tax credit (repayment or zero are other possibilities) is based on reconciliation of APTC amounts with final allowable PTC determined in tax filing. Payment of this credit is referred to as net PTC. As PTCs have been determined to be susceptible to significant improper payments, we collaborated with HHS to develop a joint methodology for reporting improper payment information for PTC.

We report net PTC for both the federal and state exchanges in our improper payment table within our Agency Financial Report (AFR) (see Table 2 above). HHS reports APTC in its improper payment table within its AFR[2]. Both departments disclose the combined advance and net PTC rates in their AFRs. To satisfy reporting to OMB and PaymentAccuracy.gov requirements, CMS reports disbursements/outlays, estimated error rate, and other data for APTC. The IRS similarly reports estimated overclaims and error rate for net PTC. The combined advance and net PTC rates are for informational purposes only and will not be included in either Department's overall improper payment rate and will not be reported to PaymentAccuracy.gov. For Tax Year 2020, CMS reported APTC outlays of $41.3 billion and improper payments of $255.8 million. For Tax Year 2020, IRS reported net PTC claims of $1.2 billion and improper payments of $342.1 million. The combined APTC and net PTC improper payment estimate is $597.9 million out of $42.5 billion total Premium Tax Credit outlays/claims, or 1.4 percent.[3]

[2] Please also see the Fiscal year 2022 U.S. Department of Health and Human Services Agency Financial Report for more information.

[3] The combined APTC and net PTC improper payment amounts in this paragraph reflects payment amounts for taxpayers using the federal exchange only.

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.



DEPARTMENT OF THE TREASURY

Estimated Errors Have Remained Steady Despite Efforts to Reduce Error Rates

EITC estimated error rates have ranged from 22.8 percent to 31.6 percent between FY 2006 and FY 2022, with an average annual error rate estimate of 25.3 percent.

The error rate for EITC has averaged 25.3 percent from FY 2006 to FY 2022 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.

The estimated improper payment rate for the EITC was 31.6 percent in FY 2022, which is not statistically different from the estimated rate of 27.8 percent for FY 2021. The estimated improper payment rate for the ACTC was 15.8 percent in FY 2022, which is not statistically different from the estimated rate of 13.3 percent for FY 2021. The FY 2022 estimated rates for EITC and ACTC fall within sample precision margins of +/- 5.83 percent and +/- 5.09 percent, respectively. 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 IRS designed the initial TY 2018 NRP Individual Income Tax Reporting Compliance sample, upon which the FY 2022 estimates are based, to include the original sample of 11,080 returns, a 20 percent decrease compared to study years prior to the TY 2016 NRP sample. Due to a 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 EITC and ACTC point estimates are not statistically significant because the FY 2021 estimates fall within the wider FY 2022 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 designs for TY 2017 (+/- 5.51 percent) and TY 2018 (+/- 6.18 percent). Although the FY 2022 estimated AOTC improper payment rate (based on data from the TY 2018 NRP sample) and the FY 2021 estimated refundable AOTC improper payment rate (based on data from the TY 2017 NRP sample) are technically statistically significantly different, we cannot conclude that the improper payment rates are actually different because of changes in the NRP classification and examination procedures beginning with the TY 2018 NRP study that impacted examinations of refundable AOTC.

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 CMPs 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	2022	$97,529	DO (Office of Foreign Assets Control (OFAC))	87 Federal Register 7369 (February 9, 2022) https://www.govinfo.gov/content/pkg/FR-2022-02-09/pdf/2022-02736.pdf
50 USC 1705 International Emergency Economic Powers Act, Section 206	Sanctions violation	1977	2022	The greater of $330,947 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	2022	The greater of $87,361 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	2022	$1,644,396	DO (OFAC)	Same as above
19 USC 3901-3913 Clean Diamond Trade Act	Sanctions violation	2003	2022	$14,950	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	2022	$25,542	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	2022	$63,855	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	2022	$3,192	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	2022	$6,386	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	2022	$1,278	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	2022	$63,973	DO (OFAC)	Same as above
15 USC 6701 note Terrorism Risk Insurance Act, as amended	Civil Penalty	2002	2021[3]	$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	2022	$23,011	FinCEN	87 Federal Register 3433 (January 24, 2022) https://www.govinfo.gov/content/pkg/FR-2022-01-24/pdf/2022-01284.pdf
12 USC 1955 Bank Secrecy Act, as amended	Willful/Grossly Negligent Recordkeeping Violations	1988	2022	$23,011	FinCEN	Same as above
31 USC 5318(k)(3)(C) Bank Secrecy Act, as amended	Failure to Terminate Correspondent Relationship with Foreign Bank	2001	2022	$15,565	FinCEN	Same as above
31 USC 5321(a)(1) Bank Secrecy Act, as amended	General Civil Penalty Provision for Willful	1986	2022	$62,689 to $250,759	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	2022	$14,489	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	2022	$144,886	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	2022	$1,253	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	2022	$97,529	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	2022	$1,556,481	FinCEN	Same as above
31 USC 5330(e) Bank Secrecy Act, as amended	Civil Penalty for Failure to Register as Money Transmitting Business	1994	2022	$9,250	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	2022	$11,011	OCC	87 Federal Register 1657 (January 12, 2022) https://www.govinfo.gov/content/pkg/FR-2022-01-12/pdf/2022-00109.pdf
12 USC 93(b) Section 5239(b) of the Revised Statutes	Tier 2 Violation of Various Provisions of the National Bank Act	1978	2022	$55,052	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	2022	$2,202,123	OCC	Same as above
12 USC 164 Section 5213 of the Revised Statutes	Tier 1 Violation of Reporting Requirements	1869(2)	2022	$4,404	OCC	Same as above
12 USC 164 Section 5213 of the Revised Statutes	Tier 2 Violation of Reporting Requirements	1869(2)	2022	$44,043	OCC	Same as above
12 USC 164 Section 5213 of the Revised Statutes	Tier 3 Violation of Reporting Requirements	1869(2)	2022	$2,202,123	OCC	Same as above
12 USC 481 Section 5240 of the Revised Statutes	Refusal of Affiliate to Cooperate in Examination (National Banks)	1864(2)	2022	$11,011	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	2022	$11,011	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	2022	$55,052	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	2022	$2,202,123	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	2022	$11,011	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	2022	$55,052	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	2022	$2,202,123	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	2022	$11,011	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	2022	$55,052	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	2022	$2,202,123	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	2022	$362,217	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	2022	$3,198	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	2022	$2,907	OCC	Same as above
12 USC 1884 Section 5 of the Bank Protection Act of 1968	Violation of the Bank Protection Act	1968	2022	$320	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	2022	$11,011	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	2022	$55,052	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	2022	$2,202,123	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	2022	$50,326	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	2022	$4,027	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	2022	$40,259	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	2022	$2,013,008	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	2022	$2,739	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	2022	$10,360	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	2022	$103,591	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	2022	$103,591	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	2022	$517,955	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	2022	$207,183	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	2022	$1,035,909	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	2022	$12,647	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	2022	$25,293	OCC	Same as above
42 USC 4012a(f)(5) Section 102(f)(5) of the Flood Disaster Protection Act of 1973	Flood Insurance	1994	2022	$2,392	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	2022	$4,404	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	2022	$44,043	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	2022	$2,202,123	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	2022	$11,011	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	2022	$4,404	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	2022	$44,043	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	2022	$2,202,123	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	2022	$22,979	TTB	87 Federal Register 8947 (February 17, 2022) https://www.govinfo.gov/content/pkg/FR-2022-02-17/pdf/2022-03410.pdf
31 USC 333 Prohibition of Misuse of Department of the Treasury Names, Symbols, etc.	Misuse of Treasury name or symbol	1994	2021[3]	$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[3]	$41,056	Department Wide	Same as above
31 USC 3802 Program Fraud Civil Remedies Act	Program Fraud Civil Remedies Act	1986	2021[3]	$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.

(3) The regulation for the inflation adjustment to this CMP will be updated in 2023.

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	4-5 Years	More than 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	195	3	-
Number of Grants/Cooperative Agreements with Undisbursed Balances	43	2	-
Total Amount of Undisbursed Balances	**$ 745,929**	**$ 34,713**	**$ -**

These awards are with the IRS Low Income Tax Clinics (LITC) program and the Volunteer Income Tax Assistance (VITA) program. The IRS continues making the closeout of awards a priority every fiscal year. Due to the two-year cycle of the VITA grants, the IRS did see an increase in the number of grants and cooperative agreements with period of performance over two years from 81 in FY 2021 to 243 in FY 2022. Grant recipients not correctly completing and submitting all progress reporting forms and financial forms in the Payment Management System, competing priorities, employee turnover, and integrating a new grants management system continue to be challenges preventing closeout of awards. The program offices are reviewing closeout procedures and are dedicated to closing out the remaining accounts in FY 2023.

SECTION G: CLIMATE-RELATED FINANCIAL RISK

Treasury is committed to using our broad and far-reaching policy influence to lead and support Executive Order 14008, *Tackling the Climate Crisis at Home and Abroad*. We will play a significant role working with other federal agencies, foreign governments, and international financial institutions to stimulate global action on addressing climate change, environmental justice, and working to prevent climate change-created economic and financial crises.

Our latest Climate Action Plan can be found on our website: https://home.treasury.gov/about/budget-financial-reporting-planning-and-performance/climate-action-plan.

APPENDIX: GLOSSARY OF ACRONYMS

Abbreviation	Description
2015 Act	Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015
ACTC	Additional Child Tax Credit
AFR	Agency Financial Report
AGI	Adjusted Gross Income
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
AOTC	American Opportunity Tax Credit
APG	Agency Priority Goal
APR	Annual Performance Report
ARC	Administrative Resource Center
ARP	American Rescue Plan Act of 2021
ARRA	American Recovery and Reinvestment Tax Act of 2009
ASM	Assistant Secretary for Management
BEP	Bureau of Engraving and Printing
BSA	Bank Secrecy Act
CAA	Consolidated Appropriations Act, 2021
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CCF	Corporate Credit Facilities, LLC
CDFI	Community Development Financial Institutions
CDFI RRP	CDFI Rapid Response Program
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
CPF	Coronavirus Capital Projects Fund
CPFF	Commercial Paper Funding Facility II LLC
CPI	Consumer Price Index
CRF	Coronavirus Relief Fund
CRO	Chief Risk Officer
CSRS	Civil Service Retirement System
CTC	Child Tax Credit
D.C.	District of Columbia
D.C. Federal Pension Fund	D.C. Teachers', Police Officers', and Firefighters' Federal Pension Fund
DEIA	Diversity, Equity, Inclusion, and Accessibility
DO	Departmental Offices
DOJ	Department of Justice

Abbreviation	Description
DOL	Department of Labor
ECIP	Emergency Capital Investment Program
EIP	Economic Impact Payment
EITC	Earned Income Tax Credit
EO	Executive Order
ERA	Emergency Rental Assistance
ERM	Enterprise Risk Management
ESA	Exchange Stabilization Agreement
ESF	Exchange Stabilization Fund
Evidence Act	Foundations for Evidence-Based Policymaking Act of 2018
Fannie Mae	Federal National Mortgage Association
FARS	Financial Analysis and Reporting System
FASAB	Federal Accounting Standards Advisory Board
FATCA	Foreign Account Tax Compliance Act
FCDA	Foreign Currency Denominated Assets
FCRA	Federal Credit Reform Act
FDC	Funds from Dedicated Collections
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
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
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
FTO	Fine Troy Ounce
FY	Fiscal Year

Abbreviation	Description
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
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
IAP	International Assistance Programs
IMF	International Monetary Fund
Inflation Adjustment Act	Federal Civil Penalties Inflation Adjustment Act of 1990
IRA	Inflation Reduction Act
IRC	Internal Revenue Code
IRS	Internal Revenue Service
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
NIBP	New Issue Bond Program
NIST	National Institute of Standards and Technology
NRP	National Research Program
OAS	International Assistance Programs
OCC	Office of the Comptroller of the Currency
OCRD	Office of Civil Rights and Diversity
ODCP	Office of D.C. Pensions
ODEIA	Office of Diversity, Equity, Inclusion, and Accessibility
OFAC	Office of Foreign Assets Control
OFR	Office of Financial Research

Abbreviation	Description
OFS	Office of Financial Stability
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
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
P.L.	Public Law
PIIA	Payment Integrity Information Act of 2019
PIK	Payment-in-Kind
PIO	Performance Improvement Officer
PMIAA	Program Management Improvement Accountability Act
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
SBLF	Small Business Lending Fund
SBR	Statement of Budgetary Resources
SDR	Special Drawing Rights
Secretary	Secretary of the Treasury
SEDI	Socially and Economically-Disadvantaged Individuals
SFFAS	Statement of Federal Financial Accounting Standards
SIGPR	Special Inspector General for Pandemic Recovery
SIGTARP	Special Inspector General for the Troubled Asset Relief Program
SLFRF	Coronavirus State and Local Fiscal Recovery Funds
SLGS	State and Local Government Series
SOAR	Strategic Objective Annual Review
SOMA	System Open Market Account
SPSPA	Senior Preferred Stock Purchase Agreements
SPV	Special Purpose Vehicle
SSBCI	State Small Business Credit Initiative

Abbreviation	Description
SSN	Social Security Number
TALF	Term Asset-Backed Securities II LLC
TARP	Troubled Asset Relief Program
TBM	Technology Business Management
TFF	Treasury Forfeiture Fund
TFI	Terrorism and Financial Intelligence
TFS	TIER Financial Statements
TGA	Treasury General Account
TIER	Treasury Information Executive Repository
TIGTA	Treasury Inspector General for Tax Administration
TIPS	Treasury Inflation-Protected Securities
TRIP	Terrorism Risk Insurance Program
TSP	Thrift Savings Plan
TTB	Alcohol and Tobacco Tax and Trade Bureau
TY	Tax Year
U.S.	United States
U.S. Mint	United States Mint
USC	United States Code
USPS	United States Postal Service
USSGL	United States Standard General Ledger
VITA	Volunteer Income Tax Assistance
WSS	Wholesale Securities Services

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