Audit Report

OIG-19-016

FINANCIAL MANAGEMENT

Audit of the Department of the Treasury's Consolidated Financial Statements for Fiscal Years 2018 and 2017

November 15, 2018

Office of Inspector General
Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

November 15, 2018

INFORMATION MEMORANDUM FOR SECRETARY MNUCHIN

FROM: Eric M. Thorson /s/
Inspector General

SUBJECT: Audit of the Department of the Treasury's Consolidated Financial Statements for Fiscal Years 2018 and 2017

INTRODUCTION

The Chief Financial Officer's Act, as amended, requires the Department of the Treasury's (Treasury) Inspector General or an independent auditor, as determined by the Inspector General, to audit Treasury's consolidated financial statements. We contracted with the certified independent public accounting firm of KPMG LLP (KPMG) to audit the consolidated financial statements of Treasury as of September 30, 2018 and 2017, and for the years then ended, to provide a report on internal control over financial reporting, to report instances in which Treasury's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and to report any reportable noncompliance with laws, regulations, contracts, and grant agreements tested. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget (OMB) Bulletin No. 19-01, *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 information systems and a significant deficiency in internal control over Federal debt information systems at the Bureau of the Fiscal Service, collectively representing a significant deficiency for Treasury as a whole;
- a significant deficiency in internal control over unpaid tax assessments and a significant deficiency in internal control over financial reporting systems at the Internal Revenue Service, collectively representing a significant deficiency for Treasury as a whole;
- two Anti-deficiency Act violations where the Treasury Departmental Offices expended amounts that were in excess of the available fund balance in fiscal year 2015; and
- noncompliance with requirements of FFMIA related to Federal financial management systems requirements.

EVALUATION OF AUDITORS' PERFORMANCE

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on Treasury's consolidated financial statements or conclusions about the effectiveness of internal control; whether Treasury's financial management systems substantially complied with FFMIA; and compliance with laws, regulations, contracts, and grant agreements. KPMG is responsible for the attached auditor's report dated November 15, 2018, 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. Should you or your staff have questions, you may contact me at (202) 622-1090 or Deborah L. Harker, Assistant Inspector General for Audit, at (202) 927-5400.

Attachment

cc: David F. Eisner
Assistant Secretary for Management

Carole Y. Banks
Deputy Chief Financial Officer

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

Inspector General
Department of the Treasury:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Department of the Treasury (Department), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of net cost, consolidated statements of changes in net position, combined statements of budgetary resources and statements of custodial activity for the years then ended, and the related notes to the consolidated financial statements (hereinafter referred to as "consolidated financial statements").

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the Internal Revenue Service (IRS), a component entity of the Department, which statements reflect total assets of $66.7 and $60.3 billion, net cost of operations of $12.6 and $12.1 billion before applicable eliminating entries, budgetary resources of $13.1 and $12.8 billion, and custodial activity of $3,471 and $3,420 billion, as of and for the years ended September 30, 2018 and September 30, 2017, respectively. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for IRS, is based solely on the report of the other auditors.

We also did not audit the financial statements of the Office of Financial Stability (OFS), a component entity of the Department, which statements reflect total assets of $17.2 and $19.5 billion, net cost of operations of $2.2 and $4.1 billion before applicable eliminating entries, and budgetary resources of $240 and $447 million, as of and for the years ended September 30, 2018 and September 30, 2017, respectively. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for OFS, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-01, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud

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

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

Opinion

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Department of the Treasury as of September 30, 2018 and 2017, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 10, the Department is a participant in transactions with certain entities as part of significant legislation whose purpose is to assist in stabilizing the financial markets. Also as discussed in Note 1A and 1AB, the U.S. government's interventions with regards to these entities are not expected to be permanent. Furthermore, as discussed in Notes 1V and 10, the value of certain investments and commitments is based on estimates. These estimates are inherently subject to substantial uncertainty arising from the likelihood of future changes in general economic, regulatory, and market conditions. As such, there will likely be differences between the estimated value of these investments and commitments as of September 30, 2018 and 2017, and the amounts that may ultimately be realized from these investments or may be required to settle these commitments. Such differences may be material and will also affect the ultimate cost of these programs. Our opinion is not modified with respect to these matters.

Other Matters

Interactive Data

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

Required Supplementary Information

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

Other Information

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

Other Reporting Required by *Government Auditing Standards*

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2018, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting that are reported on separately by those other auditors. However, this reporting, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. We, and the other auditors, did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

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

Effective information system controls and security programs over financial systems are essential to protecting information resources in accordance with OMB Circular No. A-130, *Managing Information as a Strategic Resource*. The Bureau of the Fiscal Service (Fiscal Service) relies on a number of information systems to manage government-wide cash and the federal debt. Fiscal Service did not consistently implement adequate controls over the government-wide cash and the federal debt information systems or controls did not operate effectively as follows:

1. Cash Management Information Systems

Fiscal Service's general information technology controls over its cash management systems had several newly identified control deficiencies and did not provide reasonable assurance that: (1) security control policies and procedures were documented and implemented; (2) the concept of least privilege is employed to prevent significant security exposures; (3) accounts were reviewed for compliance with account management requirements and access to systems is protected against unauthorized modification, loss, or disclosure; (4) systems are monitored and potential vulnerabilities are investigated and resolved; (5) responsibilities are

properly segregated; (6) network sessions were appropriately controlled; and (7) changes to systems are authorized, properly configured, and secured as intended. These deficiencies resulted because Fiscal Service did not identify all risks and implement controls to address such risks, establish policies with sufficient detail to effectively implement the controls, prioritize the importance of performing the control responsibilities, focus sufficient resources to perform the controls, properly identify and effectively confirm that the controls were properly designed, implemented and operating effectively. Until these control deficiencies are fully addressed, there is an increased risk of inadequate security controls in financial systems; unauthorized access to, modification of, or disclosure of sensitive financial data and programs; and unauthorized changes to financial systems.

2. Federal Debt Information Systems

Although Fiscal Service made progress in addressing prior year control deficiencies, Fiscal Service had unresolved and newly identified control deficiencies related to its federal debt information systems. Fiscal Service's corrective action plan for addressing the prior year deficiencies did not include sufficient detail to facilitate a common understanding of the deficiencies or the steps and resources needed to fully resolve them and the corrective actions taken often only addressed the previously identified conditions and did not adequately resolve their underlying causes. As a result, Fiscal Service either had not adequately enhanced its policies and procedures or had not developed and implemented processes to reasonably assure compliance with such policies and procedures. Fiscal Service had instances in which known information system vulnerabilities were not being remediated on a timely basis and instances in which implemented configuration settings were not effectively monitored against baseline security requirements. Additionally, Fiscal Service had instances in which mainframe security controls were not employed in accordance with the concept of least privilege—some of which represent potentially significant security exposures. Furthermore, Fiscal Service did not properly configure a tool, which identifies changes to key mainframe data sets, to send alerts to the organizational unit responsible for monitoring such changes.

Recommendation

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

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

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

1. Unpaid Tax Assessments

   IRS's continued use of a manual estimation process to determine amounts of unpaid assessments, necessitated by ongoing financial system limitations and errors in taxpayer accounts, did not provide IRS with readily available, reliable unpaid assessment information throughout the year to support informed management decision making. In addition, IRS was not able to fully rely on its subsidiary ledger for systematically recording and tracking reliable and complete taxpayer data as management originally intended. Further, IRS did not clearly document several key management decisions regarding the design and use of the estimation process, such as its revised sampling procedures for estimating taxes receivable. As a result, there is an increased risk that IRS may perform sampling procedures inconsistent with management intent or plans, potentially rendering its estimates statistically invalid.

2. Financial Reporting Systems

IRS has taken actions to address certain previously reported deficiencies in information systems controls, however, IRS had continuing and new deficiencies in information systems controls pertaining to access controls, configuration management, and security management. Specifically, IRS did not correct previously reported control deficiencies concerning (1) unnecessary access rights granted to accounts, (2) inconsistent encryption of data in financial reporting systems, (3) inconsistent monitoring of systems and accounts, (4) change controls over tax and financial management processing on the mainframe, and (5) developing and implementing effective policies and procedures as part of IRS's security management program. In addition, during this year's audit, the other auditors found that IRS did not (1) require multifactor authentication, (2) restrict unnecessary access to financial databases, (3) reasonably assure that hardware and software was supported by the vendor and consistently updated, (4) segregate incompatible duties, or (5) enforce the authenticity of digitally signed documents.

Recommendation

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's consolidated financial statements are free from material misstatement, we, and the other auditors, performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-01, and is described below.

C. Violation of the Anti-Deficiency Act at Treasury Departmental Offices

Section 1341 of Title 31 of the United States Code (*Anti-Deficiency Act*) prohibits expenditures or obligations exceeding an amount available in an appropriation or a fund. In FY 2018, the Department reported two violations of the *Anti-Deficiency Act* that occurred in FY 2015 where the Treasury Departmental Offices (DO) expended approximately $9.9 million in one instance and $26.1 million in a second instance that was in excess of the available fund balance. The Department reported that the violations occurred due to delays in collecting payments from other Federal entities under reimbursable agreements. The Department reported that it has developed and implemented automated processes and workflows, automated generation of agreements and supporting documents, and dedicated resources to monitor collections for reimbursable agreements and the fund balance.

Recommendation

We recommend that the ASM and DCFO ensure that DO continues to follow its standardized processes and workflows, properly prepare reimbursable agreements and supporting documents, and dedicate resources to regularly monitor collections for reimbursable agreements and the fund balance.

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

D. Noncompliance with Federal Financial Management Improvement Act of 1996

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

Recommendation

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

Department's Response to Findings

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

Purpose of the Other Reporting Required by Government Auditing Standards

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

KPMG LLP

Washington, DC
November 15, 2018

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

November 15, 2018

KPMG LLP
1801 K Street, NW
Washington, DC 20006

Ladies and Gentlemen:

On behalf of Secretary Mnuchin, we are responding to your audit report on the Department of the Treasury's fiscal year 2018 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 19th consecutive year.

The high level of professionalism, technical expertise, and integrity demonstrated by KPMG in conducting this year's audit contributed greatly to Treasury's successful fiscal year 2018 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 (GAO), and the firms that audited several of our bureaus.

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

The Anti-Deficiency Act violation was isolated to two months of fiscal year 2015 and, as a result of corrective actions implemented since that year, such violation has not reoccurred.

Overall, we have made strong progress in enhancing our internal control environment. We are very proud of our progress, especially with our successful downgrade of the IRS material weakness, related to unpaid tax assessments, to a significant deficiency. We remain committed to ensuring high standards of integrity and transparency in reporting our financial performance.

David F. Eisner	Carole Y. Banks
Assistant Secretary for Management	Deputy Chief Financial Officer

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SECTION II –

Department of the Treasury
Fiscal Year 2018
Agency Financial Report

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DEPARTMENT OF THE TREASURY

AGENCY FINANCIAL REPORT

FISCAL YEAR 2018

WEBSITE INFORMATION

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

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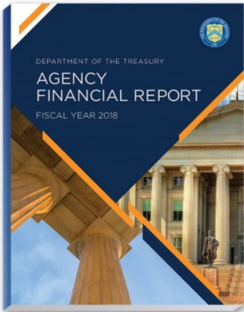
DEPARTMENT OF THE TREASURY

AGENCY FINANCIAL REPORT

FISCAL YEAR 2018

About This Report



Our *Agency Financial Report* (AFR) for Fiscal Year (FY) 2018 presents the Department of the Treasury's (Treasury, Department, or our) financial information relative to our vital mission and stewardship of the resources entrusted to us. The AFR also highlights our priorities, accomplishments, and challenges implementing programs that promote conditions for sustaining economic growth and stability at home and abroad, protecting the integrity of our nation's financial system, and effectively managing the United States (U.S.) government's finances and resources. In accordance with Office of Management and Budget's (OMB) Circular A-136, *Financial Reporting Requirements,* we produce the following reports: *(i)* an *AFR* issued on November 15, 2018 and *(ii)* an *Annual Performance Report* (APR) submitted with Treasury's congressional budget justification, to be issued by February 1, 2019. 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, 2017, and ending on September 30, 2018, with comparative prior year data, where appropriate. The AFR demonstrates our commitment to our mission and accountability to Congress and the American people. This report presents Treasury's operations, accomplishments and challenges. The AFR begins with a message from the Secretary of the Treasury, Steven T. Mnuchin. This introduction is followed by three main sections.

Part 1: Management's Discussion and Analysis

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

Part 2: Financial Section

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

Part 3: Other Information

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

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MESSAGE FROM THE SECRETARY OF THE TREASURY

MISSION STATEMENT

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

Treasury's annual Agency Financial Report provides an opportunity to reflect on our accomplishments of the past year. Our Department has taken a leading role in fulfilling the Trump Administration's promise of prosperity and security for all Americans, and I am proud of what we have achieved together. As we prepare to enter 2019, the Treasury remains focused on the successful implementation of the *Tax Cuts and Jobs Act* (TCJA), the reduction of regulatory burdens, and countering illicit financial activity at home and abroad.

TAX REFORM

Treasury has worked tirelessly to implement the TCJA to realize its benefits for the American people. Since the law's passage, hundreds of companies have credited tax reform while announcing special bonuses, higher wages, enhanced benefits, and new jobs for their workers. American companies have also dramatically increased their capital expenditures, pouring hundreds of billions of dollars back into our economy.

While the TCJA has already delivered results for hardworking Americans, there is still more work to be done. Treasury's Office of Tax Policy and the Internal Revenue Service (IRS) are issuing important tax guidance and updating over 140 systems to reflect changes in the law. The IRS has already issued more than 50 guidance documents, and providing further clarity will continue to be a top priority for Treasury.

REGULATORY REFORM

Treasury is also focused on fostering stronger economic growth by reducing regulatory burdens on businesses. In response to Executive Orders by the President, the Department continued releasing reports with recommendations for improving the financial regulatory environment.

This year Treasury published recommendations on the *Orderly Liquidation Authority and Bankruptcy Reform*, and *Community Reinvestment Act Modernization*. It also released a comprehensive report regarding *Nonbank Financials, Fintech, and Innovation*.

The Department also worked closely with Congress on the successful passage of *The Economic Growth, Regulatory Relief and Consumer Protection Act*. This law provides relief for America's small, mid-size, community, and regional banks. It enhances the flow of credit to small businesses and supports job creation and wage growth.

ILLICIT FINANCE

Treasury's Office of Terrorism and Financial Intelligence plays a critical role in using our unique economic and financial tools to advance the priorities of the Administration's National Security Strategy and protect the U.S. and international financial system from abuse by illicit actors.

Highlighting just a few initiatives in the past year, Treasury has spearheaded the Administration's re-imposition of sanctions against Iran, the world's largest state sponsor of terrorism. Treasury took action to hold Russia accountable for a host of malign activities targeting the U.S. and our allies. We also engaged in a successful pressure campaign to cut off illicit money flowing to North Korea. We have utilized authorities related to the Global Magnitsky program and others to target human rights abuse and corruption around the world, including sanctioning warlords in Africa, kleptocrats in Venezuela, and those responsible for chemical weapons attacks in Syria. On terrorism, we have designated more Hizballah-related financiers than in any single previous year, disrupted Islamic State in Iraq and Syria's global fundraising networks, and opened a new Terrorist Financing Targeting Center to promote better coordination on countering terrorist financing across the Middle East.

CFIUS

Treasury worked closely with members of Congress on the passage of the *Foreign Investment Risk Review Modernization Act* (FIRRMA). As Chair of the Committee on Foreign Investment in the United States (CFIUS), Treasury's Office of International Affairs played a lead role in modernizing the CFIUS review process to protect America's critical technology and infrastructure, while also keeping America open to investment. Congress passed FIRRMA with strong bipartisan support, and the Department continues to work with interagency Committee members to implement the law's various provisions by or before the statutory deadline of February 2020.

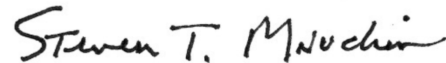
TRADE

Treasury is also working with our interagency partners across the Administration to improve trade agreements for the benefit of American workers and businesses. President Trump has delivered on a key promise by replacing the North American Free Trade Agreement with an agreement promoting free, fair and reciprocal trade. The announcement of the United States-Mexico-Canada Agreement represents an important step in the modernization and rebalancing of our trading relationships.

Of course, one of Treasury's core functions is to be effective stewards of taxpayer resources and to be transparent with the American people. I am pleased to report that Treasury received an unmodified audit opinion on its consolidated financial statements and validated its financial and performance data as complete and reliable. Treasury continued to strengthen its management controls and successfully downgraded a long-standing material weakness at the IRS, thereby making significant progress toward achieving all U.S. financial systems and control objectives. We provide this report as a comprehensive review of the Department's important work and finances.

Over the last year, Americans have seen the highest GDP growth in over a decade, and business and consumer optimism have soared. Wages are rising, and unemployment is historically low.

We could not have accomplished so much without the hard work of the professionals here at the Treasury Department. I know that all who serve here care greatly about the national security and economic prosperity of the American people. I look forward to another successful year for our Department and our nation.



Steven T. Mnuchin
Secretary of the Treasury
November 15, 2018

PART 1:

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)

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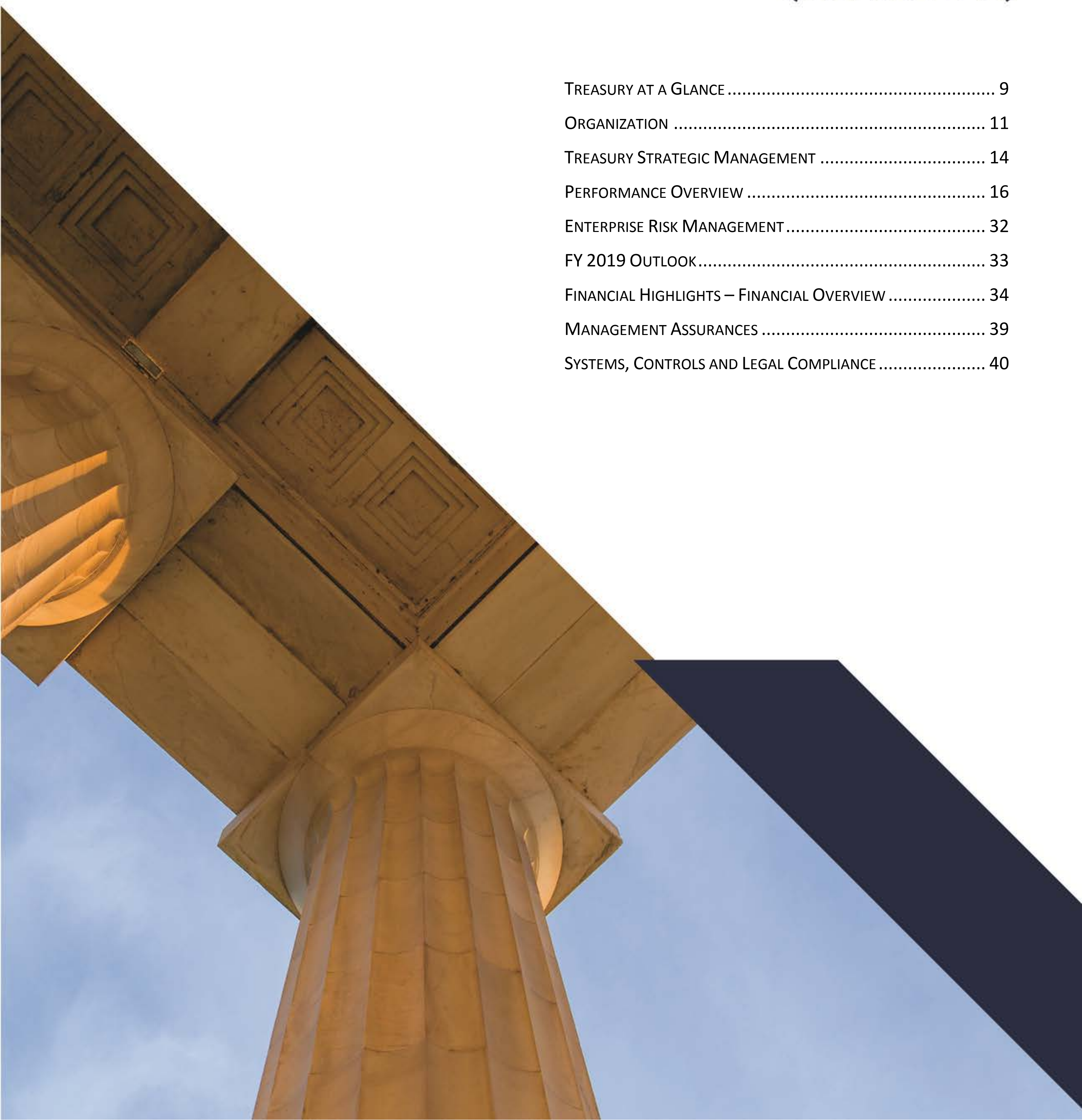


TREASURY AT A GLANCE

FOUNDATION

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

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

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

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

TODAY'S TREASURY AND HOW WE SERVE THE NATION

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

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

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

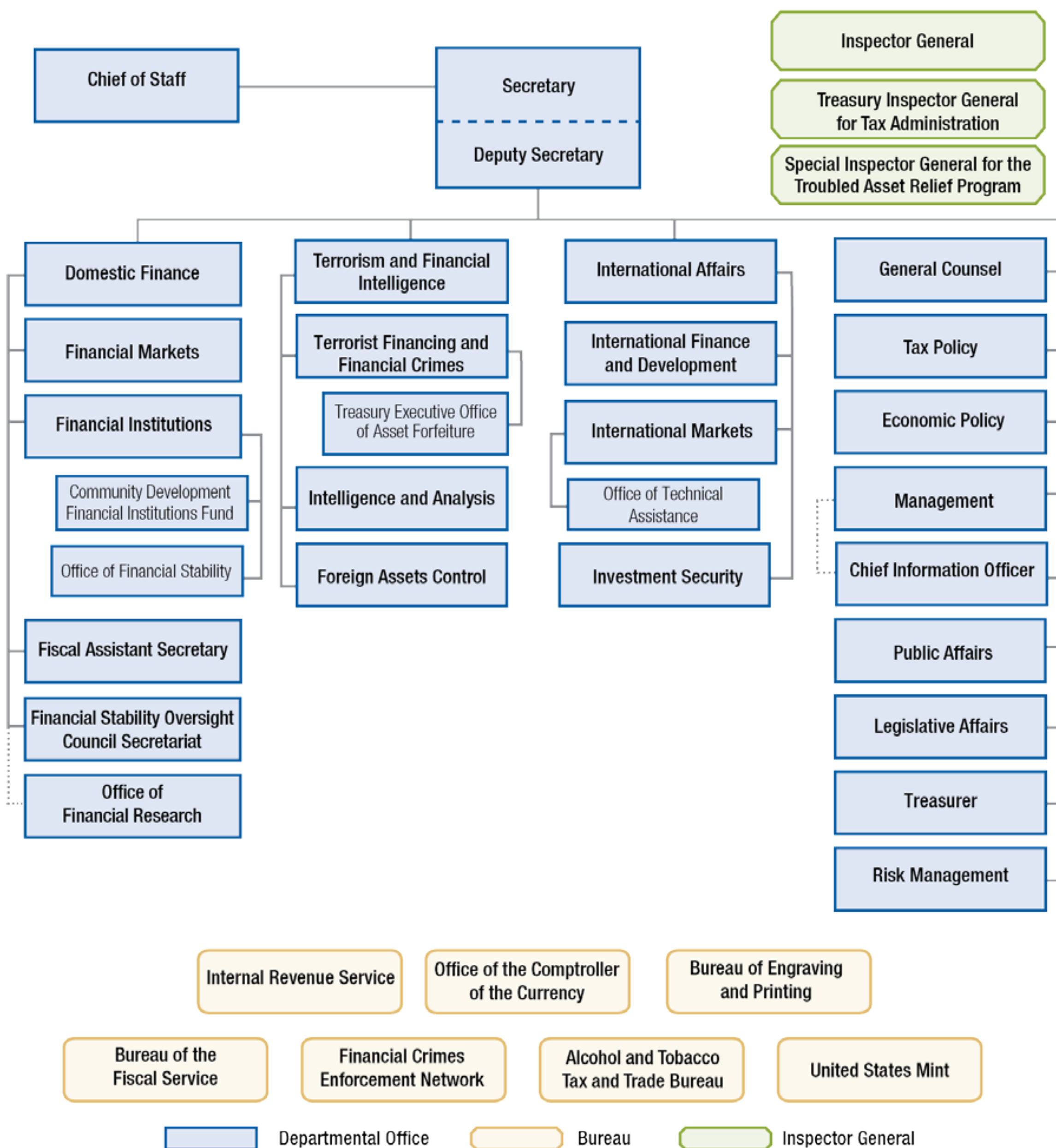
We work to increase opportunities for small businesses, which are the backbone of our economy; create jobs to improve the well-being of U.S. citizens; and safeguard and grow our national economy. We have been a continuously influential part of the government's service to the American people, adapting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

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

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

ORGANIZATION

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



Departmental Offices

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

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

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

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

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

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

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

The Office of Risk Management oversees the development and implementation of an integrated risk management framework for the Department, advising Treasury leaders on managing credit, market, liquidity, fraud, operational, strategic, and reputational risks.

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

INSPECTORS GENERAL

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

BUREAUS

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

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

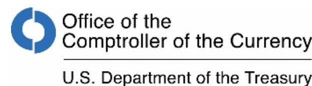
The Financial Crimes Enforcement Network (FinCEN) safeguards the financial system from illicit use and combats money laundering. It also promotes national security through the collection, analysis, and dissemination of financial intelligence and strategic use of financial authorities.

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

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

UNITED STATES MINT

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



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

TREASURY STRATEGIC MANAGEMENT

FRAMEWORK

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

ORGANIZATIONAL PERFORMANCE REVIEW CYCLE

Our organizational performance reviews provide a regular forum for open dialogue and coordination between bureau and departmental policy office management and leadership. We bring together different perspectives to set and align priorities, identify and solve problems, review agency performance, and drive results. The cycle integrates statutory requirements to conduct quarterly performance reviews of agency goals and a Strategic Objective Annual Review (SOAR), which analyzes cross-cutting performance and identifies a set of strategic objectives as priority focus areas.

At designated points throughout the fiscal year, we set annual priorities, evaluate progress, problem-solve around risks and challenges, and assess funding options in the context of performance outcomes. Treasury's process and framework for managing to our strategic objectives and performance outcomes is described in Table 1 below.

TABLE 1: STRATEGIC FRAMEWORK

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

FY 2018 – 2022 STRATEGIC FRAMEWORK

The strategic framework comprises the Department's FY 2018–2022 strategic goals and objectives and FY 2018–2019 Agency Priority Goals (APGs), which align to specific objectives. All bureaus and offices align their programs and performance within this framework. FY 2018 marks the first year of implementing our new strategic plan, which emphasizes achieving important outcomes through a series of focused objectives and underlying strategies.

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

PERFORMANCE OVERVIEW

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

Goal 1: Boost U.S. Economic Growth

The Administration has set forth a bold agenda to bolster economic growth, where Treasury plays a central role to foster prosperity for the American people. The Department has four strategic objectives for achieving economic growth. Our first objective is to administer the tax law to better enable its implementation, while protecting the integrity of the tax system. Secondly, we aim to spur faster economic growth by right-sizing regulations and advancing domestic economic policies that boost investment, employment, and innovation. Third, we strive to deliver trusted currency and services that enable citizens and businesses to participate in the economy. Lastly, our fourth objective is to advance a free and fair-trade environment for U.S. businesses through the successful negotiation of trade agreements and investment policies.

TAX LAW IMPLEMENTATION

As part of the FY 2018 SOAR, Treasury along with OMB identified tax law implementation as achieving noteworthy progress, remaining a focus area for improvement through FY 2019. After taking significant steps to shape tax reform, implementing the new law will require extensive further coordination and potential trade-offs for key programs.

The *Tax Cuts and Jobs Act* (TCJA), P.L. 115-097, signed into law on December 22, 2017, represents the most sweeping change to U.S. tax law since the *Tax Reform Act of 1986*. The TCJA includes 119 tax provisions that affect individual and business taxpayers, as well as key areas of the IRS. While we have implemented many tax law changes over the past decades, implementing the TCJA involves creating or changing more than 500 tax products and 140 systems, retraining the IRS workforce, and educating the taxpaying public about the changes. The IRS revised all necessary forms and publications as a result of TCJA provisions to support taxpayers through the 2018 filing season.

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FY 2018 Filing Season

The IRS received about 137 million individual returns and issued more than 95 million refunds totaling $265 billion. The average refund was $2,780. Taxpayers filed 91 percent of individual returns electronically, and 9 out of 10 taxpayers received their refunds within 21 days. Taxpayers visited the IRS.gov website 387 million times, with 265 million taxpayers checking the status of their refund using the *"Where's My Refund?"* tool.

In FY 2018, Treasury issued proposed regulations regarding TCJA provisions related to the new Section 199A deduction (which provides a 20 percent deduction for business income from a trade or business operated through a pass-through entity) and Section 170 (that preserves the revenue in TCJA related to the imposition of a cap on state and local income tax deductions). Treasury also worked to implement TCJA provisions

related to the one-time repatriation tax affecting U.S. shareholders with ownership in certain foreign corporations under Section 965 of the Internal Revenue Code, and published proposed regulations under Section 951A dealing with global intangible low-taxed income, including income by U.S. shareholders of any foreign controlled corporation. In addition, the IRS established an extensive web page on IRS.gov related to the TCJA to provide tax reform information to the public as it becomes available.

Furthermore, Treasury provided analysis in support of tax reform implementation, including updated tax withholding tables and inflation-adjusted tax parameters and regulatory impact analyses. Our tax policy office has also estimated the effects of proposed and final tax reform provisions on tax revenue to inform policymakers and to include in the Administration's FY 2019 Budget.

TCJA implementation activities continue to focus on helping taxpayers file their 2018 returns timely and accurately in 2019. Specifically, the IRS is working to complete the necessary information technology programming to enable accurate processing of all revised and new forms in the 2019 filing season.

In addition to challenges associated with implementing TCJA changes during the year, the IRS was also charged with implementing other new tax law changes while processing tax returns. Three significant pieces of legislation affected IRS operations for the 2018 filing season:

- The *Disaster Tax Relief and Airport and Airway Extension Act of 2017*, enacted into law September 29, 2017, provides relief for victims of Hurricanes Harvey, Irma, and Maria. It allows for casualty loss claims using a modified computation.
- In implementing the TCJA, discussed above, the IRS leveraged its long-standing relationships and forums with stakeholders to support implementation planning for the TCJA.
- The *Bipartisan Budget Act of 2018* (P.L. 115-123), enacted into law on February 9, 2018, retroactively renewed dozens of tax provisions that had expired at the end of 2016 (referred to as "extenders"), and affected more than 100 completed tax products. The IRS quickly revised affected forms, developed a communications strategy to alert partners and taxpayers of anticipated delivery dates and potential effects, and took quick action to program processing systems.

Moreover, the IRS continued efforts to assist taxpayers prepare for the upcoming filing season by providing information on various changes related to the *Protecting Americans from Tax Hikes Act of 2015* (PATH Act), including changes related to the following:

- Mid-February issuance of refunds on tax returns claiming the Earned Income Tax Credit (EITC) and/or the Additional Child Tax Credit (ACTC);
- Expiration of Individual Taxpayer Identification Numbers not used for three consecutive years;
- Refunds of the overpayment of tax in a prior year on wrongful incarceration awards and the need to file a Form 1040X, Amended U.S. Individual Income Tax Return, to claim them; and
- The provision requiring employers to file Form W-2, Wage and Tax Statement, Form W-3, Transmittal of Wage and Tax Statements, and Form 1099-MISC, Miscellaneous Income, with the Social Security Administration (SSA) by January 31.

Treasury also enhanced our defenses against identity theft and refund fraud through the IRS making available earlier tax form data from the Form W-2 and Form 1099-MISC. We further conducted systemic verification of information reported on taxpayers' returns against third-party information using the Form 1099-MISC for non-employee compensation data as a variable in the filtering process before issuing refunds. In addition, the PATH Act requires us to hold refunds on all returns claiming EITC and/or ACTC until February 15. We leveraged both our filtering process and the PATH Act refund hold policy to automate and expand the selection of potentially fraudulent returns. For 2018, we identified approximately 340,000 PATH Act returns with possible overstated income or withholding issues.

ECONOMIC GROWTH

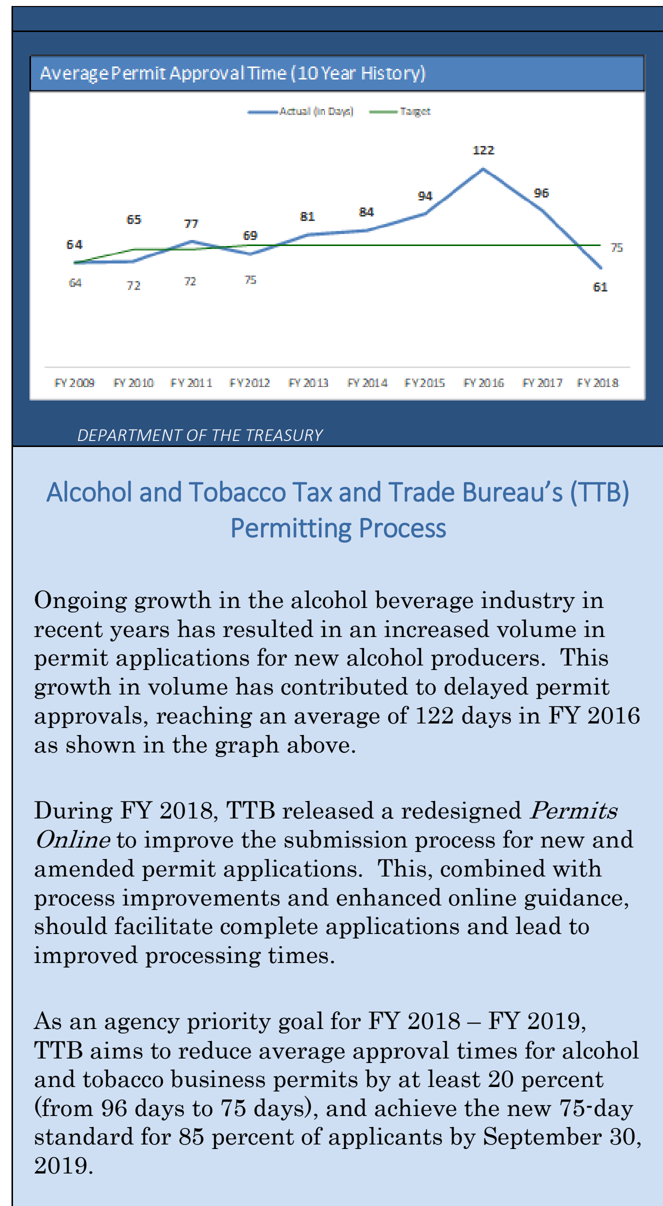
Financial Regulatory Reform

In FY 2018, Treasury continued work to improve the financial regulatory system and economy consistent with the Administration's Core Principles for reforming the financial regulatory system. The Core Principles, issued under Executive Order 13772, include empowering Americans to make independent financial decisions and save for retirement and build wealth, and avoid taxpayer-funded bailouts. The principles also include promoting American competitiveness—both at home and abroad—while making regulation efficient, effective and appropriately tailored.

Given the breadth of the financial system and a complex regulatory environment, we divided our review of the financial system into a series of four planned reports, covering: (1) banks and credit unions; (2) capital markets; (3) asset management and insurance industries; and (4) non-bank financial institutions, fintech, and innovation. Based on the direction of Executive Order 13772, we issued our first report in June 2017, and the second and third reports in October 2017 related to the Core Principles.

We issued our fourth and final report under Executive Order 13772 in July 2018, which covered nonbank financial institutions, financial technology and innovation. In drafting the report, we consulted extensively with a wide range of stakeholders focused on consumer financial data aggregation, lending, payments, credit servicing, fintech, and innovation. Our recommendations are designed to facilitate U.S. firm innovation by streamlining and refining the regulatory environment. These improvements should enable U.S. firms to more rapidly adopt competitive technologies, and operate with greater efficiency.

Treasury will continue to support and evaluate progress on the implementation of these recommendations to operate the financial system under the Core Principles.



Alcohol and Tobacco Tax and Trade Bureau's (TTB) Permitting Process

Ongoing growth in the alcohol beverage industry in recent years has resulted in an increased volume in permit applications for new alcohol producers. This growth in volume has contributed to delayed permit approvals, reaching an average of 122 days in FY 2016 as shown in the graph above.

During FY 2018, TTB released a redesigned *Permits Online* to improve the submission process for new and amended permit applications. This, combined with process improvements and enhanced online guidance, should facilitate complete applications and lead to improved processing times.

As an agency priority goal for FY 2018 – FY 2019, TTB aims to reduce average approval times for alcohol and tobacco business permits by at least 20 percent (from 96 days to 75 days), and achieve the new 75-day standard for 85 percent of applicants by September 30, 2019.

Reducing Regulatory Burden

Through a series of executive orders, President Trump launched an historic effort to reduce existing red tape and limit new regulatory costs. Treasury has undertaken extensive efforts to implement the President's regulatory reform agenda. In April 2018, Treasury released a report detailing the steps that it has taken to implement Executive Order 13777, "Enforcing the Regulatory Reform Agenda" (February 24, 2017) and related initiatives.

Treasury will continue to support policies that support economic growth through regulatory reform.

Reforming Financial Literacy Programs

In FY 2018, under the leadership of the Treasurer, the Office of Consumer Policy led a review of the government's financial literacy and education programs. Based on this review, we made recommendations to OMB for consolidating and streamlining programs, as well as improving program coordination to increase efficiency and reduce fragmentation. We plan on implementing recommendations in FYs 2019 and 2020, and anticipate improvements to the impact and accountability of federal financial education activities, in addition to the expansion and use of best practices from among federal agencies and the private sector.

NEXT GENERATION CURRENCY

Treasury endeavors to manufacture sophisticated and technologically advanced notes that are dependable in commerce and accessible to all members of the general public. Working closely with our partners in the U.S. Currency Program in FY 2018, we are on track in developing new security features for the next family of currency notes. We also continued to work with the government's Advanced Counterfeit Deterrence committee in determining when to release the new notes to ensure that the next generation currency notes are secure.

To deliver on our responsibilities around U.S. currency, BEP requested legislative authority to purchase land for the construction of a new, smaller, more efficient currency production facility in the National Capital Region.

ADVANCING THE U.S. TRADE AGENDA

Treasury is deeply engaged in the trade agenda of the Administration to reduce trade barriers to level the playing field for U.S. workers and companies. Treasury works to open markets for U.S. financial services firms through its engagement with finance officials and regulators globally. In 2018, Treasury led negotiations on financial services in the United States-Mexico-Canada Agreement discussions. Treasury also crafts rules in the context of our trade agreements to prevent the use of currency manipulation by our trading partners to gain a trade advantage.

KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 15	FY 16	FY 17	FY 18	FY 18 Target	Result vs Target
Customer Service Representative Level of Service (IRS)[1]	38.1%	53.4%	77.1%	75.9%	75.0%	Exceeded
Enterprise Self-Assistance Participation Rate (IRS)[2]	88.7%	89.0%	79.0%	82.0%	Indicator	N/A
Timeliness of Critical Individual Filing Season Tax Products (IRS)[3]	89.0%	92.5%	93.1%	59.6%	89.0%	Unmet
Percentage of Permit Applications Processed within Service Standards (TTB)[4]	46.8%	32.4%	48.1%	71.2%	85.0%	Unmet
Currency Notes Delivered Returned Due to Defects – Parts per Million (BEP)[5]	N/A	N/A	<0.008	0.0031	<1.000	Met

Explanation of Results

[1]This measure represents the number of toll free callers that either speak to a Customer Service Representative or receive information messages divided by the total number of attempted calls. FY 2018 Level of Service (LOS) exceeded the target, reaching 75.9 percent. For FY 2019, the IRS will continue to create detailed forecasts of expected telephone and correspondence demand and regularly monitor those projections with actual results. For telephones, the IRS will monitor the demand in real-time and the resources allocated down to the half hour allowing the ability to regularly shift personnel between telephones and paper processing to address demand and achieve the planned goals. IRS-Wage & Investment reports LOS on a regular basis (daily, weekly, monthly, and fiscal year) at all levels of the organization throughout the year.

[2]This indicator represents the percentage of taxpayer assistance requests resolved using self-assisted automated services. Starting in FY 2016, the IRS modified the previous Taxpayer Self-Assistance Rate measure to include additional self-service channels. FY 2018 Enterprise Self-Assistance Participation Rate was 82.0 percent, an increase from the prior year of 4 percent. Total services increased 17 percent while self-assistance services increased by 21 percent from FY 2017. Beginning in FY 2018, the Income Driven Loan Repayment application was added. The Income Driven Loan Repayment application results combined with the Federal Student Aid document and information request results increased by 107 percent compared to last year. The driving factor for the increase in web services was Transcript Delivery System usage, up 211 percent (80.3 million vs. 25.8 million) compared to last year. Other applications contributing to the increase include: Where's My Refund? up 11 percent; Interactive Tax Assistant up 22 percent; Online Payment Agreement up 19 percent and electronic payments up 10.5 percent from the prior year.

[3]This measure represents the percentage of critical individual filing season tax products (tax forms, schedules, instructions, publications, tax packages, and certain notices required by numerous filers to prepare a complete and accurate tax return) available to the public in a timely fashion. FY 2018 results fell short of the 89 percent annual goal by 33 percent. Public Law (PL) 115-97, enacted December 22, 2017, affected 37 (39 percent) of the 94 total CIFS tax products. The legislation brought about extensive tax law changes and provided Media & Publications (M&P) only a 14-day window to incorporate all modifications, issue the affected tax products, and plan a coordinated release with the new withholding rates by the January 8 measure date. An additional 57 tax products were unexpectedly added to the work plan. Because the new tax law introduced new withholding tax rates, M&P was subjected to increased oversight and review which further affected our timeliness. Despite the short timeframe, about 60 percent of CIFS tax products were timely made available to the public.

[4]This measure represents the overall rate at which TTB is meeting its annual service standard (75 days for FYs 2014 – 2018) for all original permit applications. The measure gauges the efficiency and consistency of TTB's permitting process and supports effective communication with industry members as to level of service. TTB made significant progress in achieving its service standard in FY 2018 through targeted process improvements and anticipates additional gains in FY 2019 due to a recent system release. TTB will continue to face challenges in timely service due to resource constraints combined with a high volume of applications, however, and is undertaking broader efforts to modernize its permit requirements and develop a custom application system to sustain these improvements going forward.

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

Goal 2: Promote Financial Stability

U.S. economic growth must be achieved in a stable and sustainable way, which is why Treasury also works to promote financial stability around the world. Of the four strategic objectives for achieving this goal, the first is to support housing finance reform that resolves the conservatorships of Fannie Mae and Freddie Mac (collectively, the government-sponsored enterprises, or GSEs). This first objective also seeks to prevent future taxpayer bailouts of public and private mortgage-finance entities, while promoting consumer choice within the mortgage market. Our second strategic objective is to achieve fair foreign exchange practices through multilateral engagement with international partners. The third strategic objective is to provide technical assistance to enable foreign partner countries to better raise and manage financial resources and protect their financial sectors. Finally, our fourth strategic objective is to enhance security, improve resiliency, and reduce the risk of significant cybersecurity and other incidents to the financial sector's critical infrastructure, both domestically and internationally.

Housing Finance Reform

The GSEs were placed into federal conservatorship by their regulator, the Federal Housing Finance Agency, in 2008. They are now in their eleventh year of that conservatorship while policymakers continue to debate their future. Concurrent with being placed into conservatorship, each GSE agreed to capital support agreements with Treasury through Senior Preferred Stock Purchase Agreements (SPSPAs). Through these capital support agreements, which have now been amended multiple times, Treasury continues to commit critical funding to backstop GSE financial obligations.

With the GSEs in their current state, taxpayers remain at risk. The U.S. must formulate a comprehensive, long-term housing finance reform that addresses the GSEs and supports the vital role housing plays in the financial security of American families and the broader U.S. economy.

Foreign Technical Assistance

In support of U.S. economic and national security priorities, Treasury initiated or expanded more than a dozen technical assistance engagements globally, including in the Western Hemisphere in countries like Argentina and Colombia, Sub-Saharan Africa, and Asia (e.g. Mongolia and Sri Lanka). Treasury continues to face challenges including the ability to recruit and retain expert advisors, particularly in highly specialized disciplines such as financial sector supervision or oversight, and infrastructure finance.

Technical Assistance Footprint

The Office of Technical Assistance (OTA) has more than 100 projects in nearly 50 countries. While the specific number of projects and countries fluctuates from year to year, OTA has focused on providing deeper assistance to a more limited selection of countries. This focused approach recognizes the systemic nature of public financial management and the importance of engaging with a counterpart government in several related disciplines—tax administration, budget execution, debt management/infrastructure finance, financial sector supervision, and anti-corruption—in a coordinated way to achieve a stronger overall system.

FINANCIAL SECTOR CYBERSECURITY

Treasury partners closely with financial sector companies, industry groups, and government partners to: (1) share information about cybersecurity and physical threats and vulnerabilities; (2) encourage the use of baseline protections and best practices; and (3) respond to and recover from significant cyber incidents. In FY 2018, we engaged with industry to better understand their concerns about prior government approaches to cybersecurity regulation. These discussions have given industry the opportunity to provide their perspectives on how regulatory approaches can be further improved, while at the same time reducing unnecessary regulatory burden.

We also play a unique role by partnering closely with industry and regulators to test and refine cyber incident response processes. Our tabletop exercise program is a cornerstone of our outreach to proactively improve overall financial sector preparedness. During FY 2018, we held many successful exercises both with multiple subsectors and other U.S. critical infrastructures. These exercises resulted in significantly improved policies, procedures, coordination, and response capabilities across the sector and government stakeholders.

KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 15	FY 16	FY 17	FY 18	FY 18 Target	Result vs Target
Engagement of Partner Countries in Programs – 5 point scale (International Affairs)[1]	3.8	3.9	4.0	3.8	3.6	Exceeded

Explanation of Results

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

Goal 3: Enhance National Security

Through its national security mission and statutory authority, Treasury's Office of Terrorism and Financial Intelligence (TFI) has broad tools to address activity that threatens national security and to protect the U.S. and international financial system from abuse. There are three strategic objectives for achieving this goal, the first two of which are under TFI's purview. The first strategic objective is to identify, disrupt, and dismantle priority threats to the U.S. and international financial systems. The second is to identify and reduce vulnerabilities in the U.S. and international financial system to prevent abuse by illicit actors. The third strategic objective, led by our Office of International Affairs, advances American prosperity and security through growth, investment, trade, and expansion of the American industrial base while protecting national security.

In FY 2018, as part of our SOAR process with OMB, we assessed noteworthy progress for the first TFI related objective, with challenges remaining to address in FY 2019 as an area for improvement. Though Treasury made significant progress in addressing other administration priorities, we are challenged by complex coordination required for success. We also identified the third objective as a FY 2019 focus area for improvement, because of the increasing volume and complexity of the Committee on Foreign Investment in the U.S. (CFIUS) workload.

Deploying Targeted Financial Measures

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

We have supported the Administration's goal of the final, fully verified denuclearization of North Korea by maintaining pressure on North Korea's finances and economy, thereby stemming the flow of illicit revenue to its weapons program which continues to pose a threat to global security. We are deploying all of our tools and authorities to curb the North Korean threat, including sanctions; measures for anti-money laundering and countering the financing of terrorism (AML/CFT); regulatory actions under Section 311 of the *United and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001* (*USA PATRIOT Act*); foreign engagement; and private sector partnerships; among other actions.

In November 2017, FinCEN issued its final ruling pursuant to Section 311 of the *USA PATRIOT Act* against the China-based Bank of Dandong for serving as a gateway for North Korea to access the international financial system. Along with that action, FinCEN issued an advisory to financial institutions across the globe with specific red flags of illicit North Korean schemes being used to evade U.S. and UN sanctions, launder funds, and finance the regime's weapons of mass destruction and ballistic missile programs. Additionally, in February 2018, the Office of Foreign Assets Control (OFAC) issued an advisory, joined by the U.S. Department of State and the U.S. Coast Guard, to alert persons globally to deceptive shipping practices used by North Korea to evade sanctions.

Overall, we have sanctioned more than 200 individuals, entities, and vessels related to North Korea under this Administration. This economic pressure campaign has created the conditions to bring the U.S. and North Korea to the negotiating table to finally achieve fully verifiable denuclearization with the hope of bringing peace to the Korean peninsula.

Following the President's announcement in May to cease participation in the Joint Comprehensive Plan of Action with Iran, Treasury re-imposed U.S. sanctions on the Iranian regime. These measures, imposed in two phases, are designed to greatly reduce Iran's capacity to continue its support for terrorism, human rights abuses, ballistic missile proliferation, destabilizing activities, and support

of militant groups. In addition, as of the end of FY 2018, we have issued 18 rounds of sanctions on 146 individuals and entities for a range of activities related to terrorism, proliferation, and human rights abuses, and to thwart Iran's exploitation of the global financial system. Sanctions have included designations of the then-Governor of the Central Bank of Iran for conspiring with the Islamic Revolutionary Guard Corps-Qods Force (IRGC-QF) to conceal the movement of millions of dollars to enrich and support Hizballah; individuals and entities supporting Mahan Air, an airline previously designated for its support to terrorism, and a currency exchange network that was funneling millions of dollars to the IRGC-QF.

In addition to sanctions, we continue to deploy other tools to achieve maximum pressure on Iran to hold Iran accountable for its destabilizing activities. For example, FinCEN recently issued an advisory to financial institutions detailing Iran's efforts to deceive legitimate businesses, including through the use of front and shell companies, to fund its malign activities. Likewise, Treasury department officials have traveled the world in recent months, meeting with officials in dozens of countries to warn them of Iran's illicit activities and garner their support for our pressure campaign.

We have undertaken a comprehensive and strategic financial pressure campaign to counter the scale and sophistication of Russia's malign activities. To counter these threats, we have strategically deployed tools to maximize financial pressure on the regime while minimizing unintended consequences within the international financial system. These efforts have included a robust sanctions program, enforcement actions, foreign engagement, and private sector partnerships to deter their illicit activity. Under this Administration, we have sanctioned 215 individuals or entities, including 136 designated under Ukraine/Russia-related sanctions under the *Countering America's Adversaries Through Sanctions Act*. We have also sanctioned powerful Russian oligarchs and many of the companies they own or control including RUSAL, a top aluminum supplier in the world. Additionally, to protect the international banking system, FinCEN named Latvia-based ABLV Bank as a primary money laundering concern under Section 311 of the *USA PATRIOT Act*. This closed a key access point being exploited by illicit Russian actors to access the international banking system.

Our financial tools are also making an impact in the fight to combat terrorism, to include the Islamic State of Iraq and Syria (ISIS), al-Qaida, Hizballah, Hamas, the Taliban and others. The Terrorist Financing Targeting Center (TFTC), introduced in FY 2017, was created to disrupt the financing of terror through the sharing of intelligence and coordinated actions between the U.S. and six Gulf country partners—Saudi Arabia, Bahrain, Qatar, Kuwait, Oman, and the United Arab Emirates—as well as through capacity building. In FY 2018, TFTC conducted two rounds of multilateral designations, to include the senior leadership of Hizballah's Shura Council and leaders, financiers, and facilitators of the ISIS and Syrian in Yemen and al-Qa'ida in the Arabian Peninsula. Additionally, we led discussions with Gulf partners on regional terrorist financing issues, and FinCEN led a training session with the Financial Intelligence Units of TFTC member countries.

Beyond coordinated sanction actions, we continued targeting Hizballah and its supporters, including leadership, operatives, facilitators, financiers, investors, and key global procurement networks. In FY 2018, we conducted 26 Hizballah-related sanction designations, and saw more designations in calendar year 2018 by the Departments of State and Treasury than in any single year. Furthermore, in September 2018, we sanctioned a company with ties to the Assad regime in Syria that facilitated the trading of fuel between Assad's government and ISIS. The designations (or sanctioning) disrupted this specific illicit supply chain and eliminated access to the international financial system.

The U.S. along with other international partners, have applied unprecedented financial pressure on the Maduro regime in Venezuela in light of the recent actions and policies of the Government of Venezuela, including serious abuses of human rights and fundamental freedoms; the deepening humanitarian crisis in Venezuela; establishment of an illegitimate Constituent Assembly; rampant public corruption; and ongoing

repression and persecution of, and violence toward, the political opposition. In FY 2018, we implemented sanctions against several senior government officials and former officials, along with others in Maduro's inner circle, and issued a FinCEN advisory to financial institutions to assist them in blocking suspected Venezuelan public corruption funds moving through the U.S. financial system. We will continue to impose financial constraints on those responsible for Venezuela's severe decline and the illicit financial networks used to mask their wealth.

We have also applied our tools and authorities to combat corruption and human rights abuses through the *Global Magnitsky Human Rights Accountability Act*. Under this program, we have sanctioned more than 80 individuals and entities, including a corrupt financier of mining and oil deals in the Democratic Republic of the Congo, and individual officers and units of the Burmese military for their involvement in ethnic cleansing and extreme violence against the Rohingya Muslim population and other ethnic and religious minorities.

Moreover, FinCEN issued an advisory to U.S. financial institutions to highlight the connection between corrupt senior foreign political figures and their enablement of human rights abuses. In Nicaragua, Treasury again used these tools and authorities to combat an increasingly deteriorating corruption and human rights crisis. OFAC designated four officials pursuant to the Global Magnitsky authority in response to their significant involvement in corruption schemes or human rights abuse. OFAC aslo issued an advisory alerting financial institutions that the growing instability in Nicaragua may lead to the proceeds of crime and corruption from senior political figures entering the United States. We will continue to take action against human rights and corruption related targets around the globe, including implementing sanctions under Global Magnitsky and other authorities.

Protecting the U.S. and International Financial System from Abuse

In July 2018, Treasury assumed the presidency of the Financial Action Task Force (FATF), the AML/CFT standard setting body. TFI has set three priorities during this term:

- Clarifying how the FATF standards on regulation and supervision apply to virtual currency service providers to mitigate the use of virtual currencies by illicit actors;
- Maintaining the FATF's emphasis on combating terrorist financing; and
- Enhancing FATF's work on preventing the financing of the proliferation of weapons of mass destruction.

During FY 2018, Treasury participated in FATF peer review processes of seven countries: Iceland, Bahrain, Saudi Arabia, Myanmar, Indonesia, Latvia and United Kingdom. These comprehensive AML/CFT assessments evaluate countries against the FATF standards for both technical compliance and effective implementation.

We worked with FATF to produce extensive guidance on counter proliferation financing. This guidance aims to help both public and private sector stakeholders understand and implement the obligations of the United Nations Security Council resolutions, as well as how to prevent sanctions from being evaded. It also aims to assist public sector stakeholders in building a more effective national coordination mechanism and supervisory regime to counter proliferation financing.

We co-led the team that looked at the techniques and tools used by professional money launderers, and how to help countries identify and dismantle them. The results were published in the *FATF Professional Money Laundering Report* in July 2018.

During FY 2018, we also worked with the FATF to foster improved information-sharing between governments and between financial institutions to put both governments and financial institutions in a better position to detect, deter, and disrupt illicit finance.

Moreover, in October 2018, the FATF, under U.S. leadership as President, clarified how the FATF standards apply to virtual asset service providers, which include virtual currency exchangers and administrators and how countries under the FATF standards must license or register and regulate them for AML/CFT, and monitor them for compliance with their AML/CFT obligations.

In support of our priorities to protect the financial system from abuse by illicit actors, Treasury launched the FinCEN Exchange to provide financial institutions with additional information about priority issues on a more regular basis. This will allow these financial institutions to focus on specific illicit finance and national security threats. As part of this program, we convene regular briefings with law enforcement and financial institutions to exchange information on priority illicit finance threats, including targeted information and broader typologies. This program enables financial institutions to better identify risks and focus on high priority issues, and allows FinCEN and law enforcement to receive critical information to help them disrupt money laundering and other financial crimes.

In addition, we resolved three civil enforcement actions against financial institutions that violate the *Bank Secrecy Act,* which resulted in the assessment of civil money penalties against two depository institutions and one casino.

Committee on Foreign Investment in the U.S. (CFIUS)

In FY 2018, CFIUS continued to review a high volume of complex cases. All the while, Treasury ensured that CFIUS reviewed all its cases within the timeframes in the statute.

During FY 2018, we led the effort to provide technical assistance to Congress on the *Foreign Investment Risk Review Modernization Act of 2018* (FIRRMA), signed into law by the President on August 13, 2018. FIRRMA strengthens and modernizes CFIUS to better address national security risks. FIRRMA also provides CFIUS new authorities to review additional types of foreign investments, timely and effectively. FIRRMA is likely to increase the volume and complexity of cases reviewed by CFIUS. Lastly, Treasury is leading the interagency effort to implement FIRRMA with the anticipation of better coordination of federal agencies to protect U.S. interests against foreign investment risk.

KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 15	FY 16	FY 17	FY 18	FY 18 Target	Result vs Target
Percentage of CFIUS Cases Reviewed within Statutory Timeframes (International Affairs)[1]	100%	100%	100%	100%	100%	Met
Number of CFIUS Transactions Reviewed (International Affairs)[2]	143	172	237	N/A	Indicator	N/A
Number of CFIUS Transactions Requiring Additional Investigation (International Affairs)[3]	66	79	173	N/A	Indicator	N/A
Number of New or Modified Sanctions Programs Established by Executive Order or Congressional Mandate (TFI)[4]	7	6	5	5	Indicator	N/A
Percentage of Domestic Law Enforcement and Foreign Financial Intelligence Units finding FinCEN's Analytic Products Valuable to the detection and deterrence of illicit activity (FinCEN)[5]	New	95%	92%	95%	90%	Exceeded

Explanation of Results

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

[2]This indicator tracks the number of covered transactions reviewed by the Committee during the calendar year. Because this indicator is reported to Congress for the calendar year (rather than fiscal year), full FY 2018 data will not be available until after this report is published.

[3]This indicator tracks the number of covered transactions requiring additional investigation during the calendar year. Because this indicator is reported to Congress for the calendar year (rather than fiscal year), full FY 2018 data will not be available until after this report is published.

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

[5]This performance measure tracks what the analytics products are intended to do, i.e. be useful to a wide range of customers and have impact, such as identify new leads or provide previously unknown information. The measure is the percent of customers finding FinCEN's analytic products and advanced research positively affected investigations, operations, or understanding of threats to the financial system. FinCEN surpassed the target goal by concentrating on expanding product dissemination, increasing outreach to customers of its intelligence products, and improving processes to obtain feedback about product usefulness.

Goal 4: Transform Government-wide Financial Stewardship

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

Digital Accountability and Transparency Act of 2014 (DATA Act)

The improved and expanded USAspending.gov website was launched on April 2, 2018. The new website allows taxpayers to examine nearly $4 trillion in federal spending and observe how this money flows from Congressional appropriations to local communities and businesses. Treasury compiles and publishes data from approximately 100 federal agencies on USAspending.gov. We continually monitor public feedback and make further enhancements to the site. We also continue to work with federal agencies to improve data quality on the site.

Supporting Federal Financial Performance

American citizens expect that the federal government is an effective steward of its financial resources, the financial information provided by the government is accurate, and citizens' financial interactions with the government are modern, seamless, and secure. As part of a common vision for the future of federal financial management, the Fiscal Service is working to maximize the government-wide efficiency and effectiveness of common financial processes—disbursements, collections, reporting, and administrative operations—through standardization, consolidation, and automation.

Sharing Quality Services

The Fiscal Service offers common services to agencies to provide customer centric solutions, cost sharing opportunities and enable agencies to focus on mission activities. We continue to advance in the following areas:

- Provide vendors a single electronic invoicing portal for submitting federal invoices. As of the end of FY 2018, 17 CFO Act agencies use the Invoice Processing Platform and 96 percent of Treasury invoices were processed electronically.
- Convert agencies to Treasury-disbursed payments to achieve additional economies-of-scale in federal disbursing. Through June 2018, 87.3 percent of federal payments were disbursed by Treasury.
- Increase electronic payments to replace paper checks with all-electronic payments, including new modern real-time payment options. In FY 2018, 95.4 percent of all Treasury payments and 98.4 percent of benefit payments were disbursed electronically.
- Transform accounts receivable processing to expand the use of the Centralized Receivables Service (CRS) for collecting non-tax, non-loan receivables. In FY 2018, CRS processed 186,838 cases and collected more than $43 million.
- Increase electronic revenue collections solutions for a modern, seamless customer experience. In FY 2018, the Fiscal Service electronically settled 98 percent of revenue collection dollars and increased the cumulative volume of digital wallet transactions by 83 percent.
- Expand the role of the Administrative Resource Center (ARC) to help other agencies focus on their mission by automating manual processes, operating efficiently, and working at a large scale appealing to major federal agency customers. In FY 2018, customer migration to Fiscal Service continued to increase, maximizing the opportunity for federal cost-sharing.

Payment Integrity

During FY 2018, Fiscal Service fulfilled 1.2 billion payments totaling $3.5 trillion to individuals, businesses, and others around the world on behalf of more than 250 federal entities. A variety of controls support integrity throughout the payment disbursement process including integration with the Fiscal Service DoNotPay (DNP) program.

The mission of DNP is to protect the integrity of the Federal Government's payment processes by assisting agencies' in mitigating and eliminating improper payments in a cost-effective manner while safeguarding the privacy of individuals.

In FY 2018, the DNP Business Center expanded services to offer agencies data analytics to assist them in their effort to more effectively identify and prevent improper payments. Through August 2018, there were 13,086 stopped payments worth more than $24.0 million.

In addition, Fiscal Service ensures payment integrity by managing payment transactions that are misdirected or otherwise require intervention. In FY 2018, these transactions represent approximately $15.2 billion, and might have been erroneously spent if the transactions had not been recovered and/or corrected through robust post-payment controls. Further, using analytics and partnering with various stakeholders, Fiscal Service supported the investigation and prosecution of more than 460 cases of misdirected payments caused by forgery, altered checks, multiple mobile deposits, deceased payee fraud, potential mail fraud and more.

KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 15	FY 16	FY 17	FY 18	FY 18 Target	Result vs Target
Dollar Amount of Improper Payments Identified and Prevented with DNP program (Fiscal Service)[1]	N/A	58.98	36.58	32.86	32	Exceeded
Amount of Delinquent Debt Collected through All Tools (Fiscal Service)[2]	7.28	7.41	7.61	7.44	7.56	Unmet
Percentage of Treasury Payments Made Electronically (Fiscal Service)[3]	94.8%	94.9%	95.1%	95.4%	95.2%	Exceeded
Percentage of Total Federal Government Receipts Settled Electronically (Fiscal Service)[4]	98%	98.2%	98.3%	98%	98%	Met

Explanation of Results

[1]This measure provides the dollar amount, in millions, of payments identified as improper plus the payments that were prevented through the DNP program. Prior to FY 2016, data was not captured in a way to allow for result reporting. DNP will not have the final FY 2018 results until November 2018 when agencies report back. The FY 2018 value is through August 2018.

[2]This measure provides the total amount of delinquent debt collected, in billions, through debt collection tools operated by Fiscal Service. FY 2018 delinquent debt collections did not meet the projected target by approximately $130 million (1.6 percent). This is in large part due to the Treasury Offset Program experiencing a decline in excess of $100 million across three programs (i.e. tax refunds of state tax debts, tax refunds of child support debts, and tax refunds of unemployment compensation insurance).

[3]This measure provides the portion of the total volume of payments that is made electronically. Through continued outreach efforts to promote automated clearing house and alternatives such as Direct Express and US Debit Card, the results exceeded the set target.

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

Goal 5: Achieve Operational Excellence

The federal government strives to emulate successful businesses that provide exceptional value by improving internal operations wherever and whenever possible. There are three strategic objectives for achieving this goal of operational excellence. The first strategic objective is to foster a culture of innovation to hire, engage, develop, and optimize a diverse workforce with the competencies necessary to accomplish our mission. With the second strategic objective, we target enabling mission delivery by improving the reliability, security, and resiliency of Treasury's infrastructure. Lastly, we aim to improve customer value by increasing product and service quality, while lowering costs in the third strategic objective.

Workforce Management through Integrated Talent Management

During the FY 2018 SOAR, in consultation with OMB, Treasury identified the workforce management objective as a FY 2019 focus area for improvement. While we have set a foundation for progress, much work is needed in the coming year to build the appropriate infrastructure and processes for effectively managing the workforce across the enterprise.

In FY 2018, Treasury led an effort to configure the Learning Management and Performance Management modules of a new Integrated Talent Management (ITM) system. The ITM learning module replaces the legacy Treasury Learning Management System for 10 of 11 Treasury bureaus. We believe ITM will be a transformational tool in modernizing our technological infrastructure and managing our workforce. By launching two ITM modules, and with two more modules that handle Succession Planning and Workforce Planning slated for implementation in FY 2019, we can enhance the interconnectivity of Treasury's workforce data to enable new workforce insights.

Employee engagement, for which the 2018 Federal Employee Viewpoint Survey (FEVS) is a key indicator, remained stable despite operational and resource challenges. Our focus for FY 2019 will be on improving FEVS Leadership and Fairness scores, as well as implementing Treasury's *Maximizing Employee Performance* policy to further recognize meaningful differences in performance.

Infrastructure Modernization

Treasury-Owned Buildings

Treasury maintains a long-term capital plan for the Main Treasury buildings that is regularly updated to identify and prioritize building requirements. Current building needs that have been submitted for funding include the exterior repair and renovation for both the Main Treasury and Freedman's Bank buildings, replacement or modernization of major systems, security enhancements, and life-safety projects. Both buildings are registered historic structures; because of their historic status, more customized approaches to repair and renovation projects are often required.

We strive to identify new and replacement systems that offer significant cost reductions, and that can also be completed with a lower environmental impact and less disruptions to the occupants.

Technology Infrastructure

Information technology underpins most of the services and capabilities Treasury provides. Protecting and modernizing that infrastructure is essential to ensuring that we safely provide those services while keeping pace with the expectations of the markets we serve. In FY 2018, we advanced our adoption of cloud-based infrastructure while also continuing to consolidate internal data centers. We are strengthening our cyber defenses through the implementation of continuous diagnostics mitigation and data loss prevention. We are also moving forward with our Treasury Enterprise Infrastructure Solutions acquisition which will provide a modernized enterprise-wide network, telecommunications, and infrastructure contract for improved efficiency, reliability, scalability, and elasticity, when awarded.

EFFICIENCY THROUGH PROCESS IMPROVEMENT

We aim to create a culture of performance improvement within the Department. Our FEVS scores regarding employees' feeling of empowerment with respect to work process has increased from 39.2 to 43.9 percent between FY 2015 and 2018. We believe this improvement is partially a result of our strategy to expand continuous process improvement training to all Treasury employees.

Through this program, we trained 400 people in FY 2018 (compared to 151 in FY 2015) – 380 at a fundamentals or awareness level and 20 at a more intense practitioner level. This increased access to process improvement tools has helped employees improve processes and grown our culture of performance improvement.

KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 15	FY 16	FY 17	FY 18	FY 18 Target	Result vs Target
Percentage of Aged Hardware (IRS)[1]	56.5%	52.2%	52.3%	45.5%	53.1%	Exceeded
Seigniorage per Dollar Issued (U.S. Mint)[2]	0.49	0.52	0.45	0.37	0.43	Unmet
Manufacturing Costs – Dollar Costs per Thousand Notes Produced (BEP)[3]	$42.35	$44.25	$43.58	$47.41	$48.00	Exceeded
Treasury-wide EVS Satisfaction Index (Management)[4]	60%	61%	65%	63%	65%	Unmet
Percent of Planned Mitigations of End-of-Life Hardware & Software Assets (Management)[5]	N/A	N/A	N/A	75.5%	100%	Unmet

Explanation of Results

[1]This measure shows the quantity of IT hardware in operation past its useful life as a percentage of total hardware in use. The nearly 7 percentage point reduction (52.3% vs. 45.5%) in FY 2018 from FY 2017 was attributable to: increased focus, discipline and leadership engagement to improve delivery of aged hardware refresh activities; replacing the nearly 21,000 assets aging during FY 2018 to prevent growth in IRS aged hardware inventory; and, removing certain asset categories (fax machines, low-end printers and scanners) that are no longer being actively refreshed from the aged calculation to more accurately define the inventory that's reflective of risk to the Information Technology (IT) environment. IRS-IT leadership will continually monitor progress against FY 2019 aged hardware replacement targets monthly.

[2]Seigniorage per dollar issued is the seigniorage generated from each dollar of circulating coinage face-value shipped to the Federal Reserve Banks. FY 2018 results fell below the targeted and prior year performance as a result of a 2.8 percent decrease in circulating shipment volumes combined with a 24.5 percent increase in the cost of metal.

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

[4]The Federal Employee Viewpoint Survey (FEVS) is the primary tool that agencies use to measure employee sentiment. Each year, we track and report on the FEVS Overall Satisfaction Index which comprises three FEVS satisfaction questions. Slight reductions in the percentage of positive employee responses for each of these questions led to a decline in Treasury's FY 2018 Overall Satisfaction Index score. Treasury highly values its employees and efforts are underway to understand and address these results.

[5]This measure is the percentage of planned mitigations (for hardware and software assets that have reached end-of-life) to have been completed. Of 151 planned mitigations, Treasury has completed 114. Of the remaining 37, 95 percent are in progress, with many slated for completion by year-end 2018. Delays can be affected by a number of factors including resource prioritization, procurement, and hardware manufacturing schedules. Where necessary, appropriate risk mitigations are in place while the effected software/hardware is being replaced. No data exists for years prior to FY 2018.

ENTERPRISE RISK MANAGEMENT

FRAMEWORK

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

The CRO monitors regular Risk Management Committee meetings that unite the Departmental Offices to discuss top risks to Departmental goals and objectives, response strategies and lessons learned. The Office of Risk Management (ORM) has also established an Enterprise Risk Management (ERM) Council, chaired by the CRO, which brings together risk managers from each of our bureaus on a regular basis to establish a Department-wide framework and taxonomy for ERM, and share best practices. ORM works with the offices and bureaus 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 30 agencies. This group grew from ORM's efforts to support federal agencies in their implementation of ERM, including the July 2016 publication of the *Playbook: Enterprise Risk Management (ERM) for the U.S. Federal Government.* This government-wide working group meets on a bimonthly basis to discuss common risks and various methods of implementing the guidelines of the Circular.

ENTERPRISE RISKS AND CHALLENGES

Through the FY 2018 SOAR and enterprise risk management process, we identified the following cross-cutting operational risks.

Workforce Management: Difficulties hiring and managing the Treasury workforce may create knowledge gaps and a lack of expertise in several areas important to our mission. The increased pressures on existing staff can cause high attrition and low engagement. The current human capital system impedes our ability to shape our workforce and realign it to mission needs.

Reshaping Priorities: We have many extremely important ongoing missions and are also at the forefront of several new initiatives to improve and keep our economy on a stable footing. Due to uncertain funding amounts and timing, new or changing legislative requirements, and reduced capacity, there is a risk that we will not be as agile as we should be in balancing new innovations or initiatives with existing requirements or projects.

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

Limited Analytic Capabilities: Aging infrastructure can impede analytics capabilities, program innovation, and improved delivery of products and services.

Critical System Failures: Reliance on aging technologies could lead to system outages or failures that disrupt core mission work.

FY 2019 OUTLOOK

Our FY 2018 SOAR outlined several focus areas for the coming year: (1) implement the tax law; (2) identify and disrupt priority threats to our financial system and national security; and (3) transform how we manage our workforce.

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

- Make the necessary changes to effectively implement the tax law, including modernizing taxpayer customer service options;
- Implement financial literacy reform;
- Continue to design the next generation of currency notes;
- Promote free and fair reciprocal trade, including trade with China;
- Engage with stakeholders to develop recommendations on housing finance reform;
- Implement the Terrorist Financing Targeting Center;
- Take the necessary steps to implement new legislation modernizing the Committee on Foreign Investment in the United States.
- Complete and assess pilots to identify the next innovations in government-wide financial management; and
- Roll out the integrated talent management system and related change management efforts across Treasury.

FINANCIAL HIGHLIGHTS – FINANCIAL OVERVIEW

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

The chart below presents changes in key financial statement line items as of and for the fiscal year ended September 30, 2018 compared to September 30, 2017.

Summary Financial Information (*dollars in billions*)

	2018	2017	$ Change	% Change
Total Assets	$ **24,273.8**	$ 22,686.2	$ 1,587.6	7.0 %
Total Liabilities	$ **23,777.9**	$ 22,188.8	$ 1,589.1	7.2 %
Total Net Position	$ **495.9**	$ 497.4	$ (1.5)	(0.3)%
Total Net Cost of Treasury Operations	$ **21.4**	$ 20.1	$ 1.3	6.5 %
Net Federal Debt Interest Costs	$ **485.0**	$ 413.3	$ 71.7	17.3 %
GSEs Non-Entity Revenue, Net	$ **(30.4)**	$ (9.4)	$ (21.0)	223.3 %
Total Net Cost of Treasury Operations and Non-Entity Costs	$ **488.2**	$ 438.6	$ 49.6	11.3 %
Total Budgetary Resources	$ **882.3**	$ 818.5	$ 63.8	7.8 %
Agency Outlays, Net	$ **498.3**	$ 420.5	$ 77.8	18.5 %
Net Revenue Received (Custodial)	$ **3,098.1**	$ 3,087.3	$ 10.8	0.3 %

Financial Overview. Our financial performance as of and for the fiscal year ended September 30, 2018, reflects several major trends. Most significantly, the outstanding federal debt, including interest, rose by $1.3 trillion to $21.7 trillion to finance the U.S. government's operations.

Additionally, our "Total Net Cost of Treasury Operations and Non-Entity Costs" for FY 2018 increased by $49.6 billion, primarily stemming from $71.7 billion of higher net federal debt interest costs, offset by $21.0 billion of higher revenue from our GSE investments – Fannie Mae and Freddie Mac – pursuant to our Senior Preferred Stock Purchase Agreements (SPSPAs), as amended (refer to the *GSEs Non-Entity Revenue, Net* discussion below).

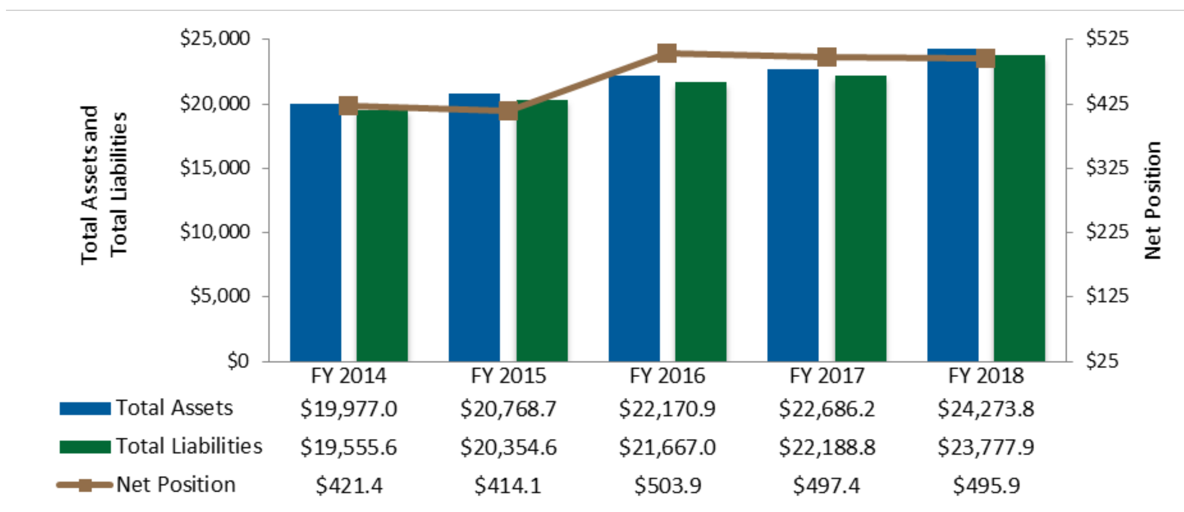


Figure 1: Total Assets, Total Liabilities, and Net Position (*in billions*)

Total Assets of $24.3 trillion at September 30, 2018 consist of a receivable due from the General Fund of the U.S. government (General Fund) of $21.7 trillion, intra-governmental loans and interest receivable of $1.5 trillion, and fund balance and various other assets which totaled $1.1 trillion (Figure 2).

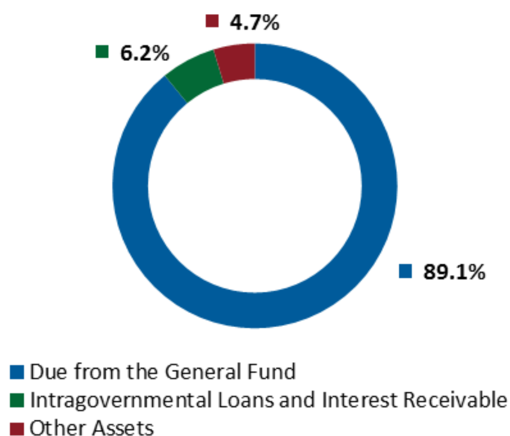


Figure 2: FY 2018 Total Assets (Composition)

The $1.6 trillion (or 7.0 percent) increase in total assets at the end of FY 2018 over the prior year is primarily due to a $1.3 trillion increase in our receivable "*Due from the General Fund of the U.S. Government,*" corresponding to the increase in federal debt and interest payable. The "*Due from the General Fund of the U.S. Government*" asset account represents future funds required from the General Fund to pay borrowings from the public and other federal agencies.

Intra-governmental loans and interest receivable represent loans issued primarily by the Fiscal Service to other federal agencies for their own use or for the agencies to loan to private sector borrowers whose loans are guaranteed by the federal agencies. This receivable grew by $69.1 billion (or 4.7 percent) to $1.5 trillion at the end of FY 2018 due to increased borrowings by various federal agencies—such as the Departments of Education and Transportation, as well as the Small Business Administration—to fund their existing programs.

Among other things, other assets include operating cash balances (held on behalf of the U.S. government), foreign currency investments and Special Drawing Rights, as well as investments in, and credit program receivables due from, certain financial institutions for which we provide financial assistance in an effort to stabilize financial markets. Other assets increased by $245.7 billion, largely reflecting an increase in the U.S. government's operating cash balances as a result of increased borrowings from the public.

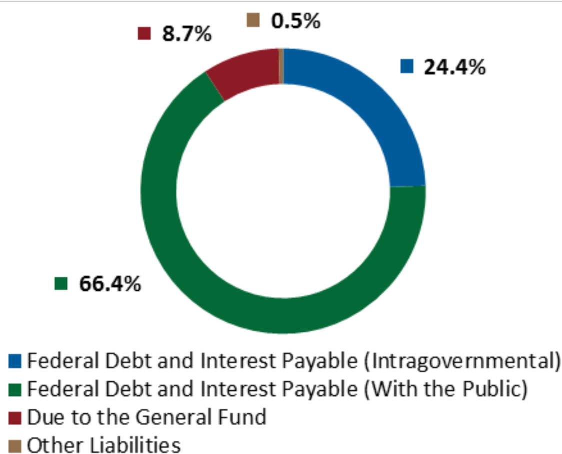
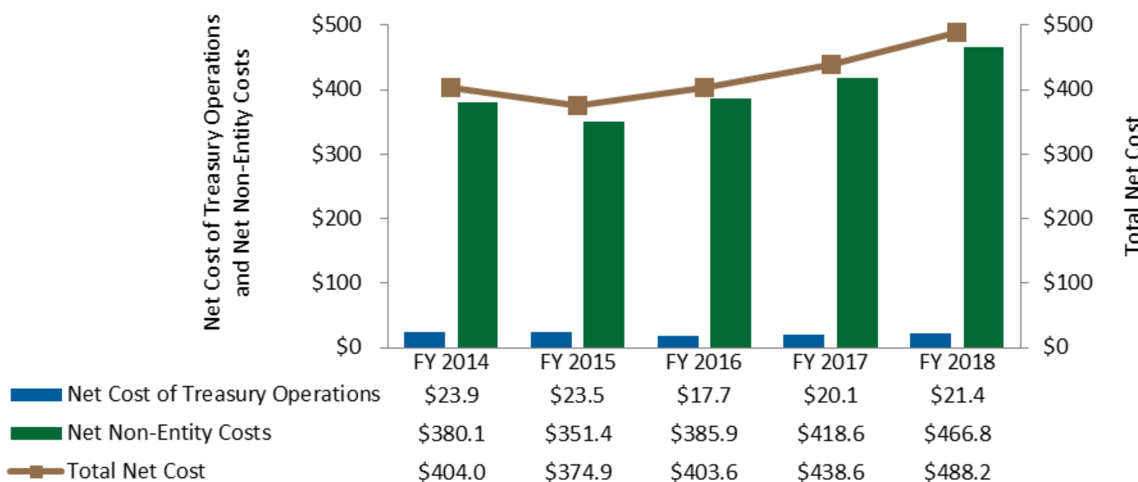


Figure 3: FY 2018 Total Liabilities (Composition)

Total Liabilities of $23.8 trillion at September 30, 2018 principally consist of the federal debt held by the public, including interest, of $15.8 trillion (Figure 3), which was mainly issued as Treasury Notes and Bills. Liabilities also include intra-governmental liabilities totaling $7.9 trillion (of which $5.8 trillion represent principal and interest of federal debt in the form of Treasury securities held by other federal agencies), and various other liabilities totaling $82.4 billion. The $1.6 trillion (or 7.2 percent) increase in total liabilities over the prior year is attributable to a $1.3 trillion increase in federal debt, including interest, held by the public and other federal agencies that was needed to finance the U.S. government's budget deficit.

The increase in total liabilities is also attributable to a $317.9 billion increase in our payable "*Due to the General Fund,*" which corresponds primarily to the increase in the U.S. government's operating cash balances as a result of increased borrowings from the public. Through the Fiscal Service, we account for and report on the U.S. government's operating cash balances.

Total Net Position of $495.9 billion at September 30, 2018 represents the combined total of our cumulative results of operations and unexpended appropriations at the end of the fiscal year. The $1.5 billion (0.3 percent) decrease in the net position at the end of FY 2018 was principally attributable to normal business operations.



	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Net Cost of Treasury Operations	$23.9	$23.5	$17.7	$20.1	$21.4
Net Non-Entity Costs	$380.1	$351.4	$385.9	$418.6	$466.8
Total Net Cost	$404.0	$374.9	$403.6	$438.6	$488.2

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

Total Net Cost of Treasury Operations and Non-Entity Costs, is presented on our Consolidated Statements of Net Cost (Figure 4). "*Net Cost of Treasury Operations*" represents the gross costs, net of earned revenues, we incurred related to our own entity activities comprising both operating bureaus and Departmental Offices that are consolidated with the Department. "*Net Non-Entity Costs*" represent the gross costs, net of earned revenues, we incurred on behalf of the U.S. government (or General Fund), and primarily include federal debt interest costs, net of interest revenue from loans, and GSE non-entity revenues. "*Total Net Cost of Treasury Operations and Non-Entity Costs"* totaled $488.2 billion and $438.6 billion for FY 2018 and 2017, respectively, an increase of

$49.6 billion (or 11.3 percent) over the prior year. Net costs associated with our non-entity ("*Net Non-Entity Costs*") and entity ("*Net Cost of Treasury Operations*") operations contributed $48.3 and $1.3 billion, respectively, to the year-over-year increase in this line item.

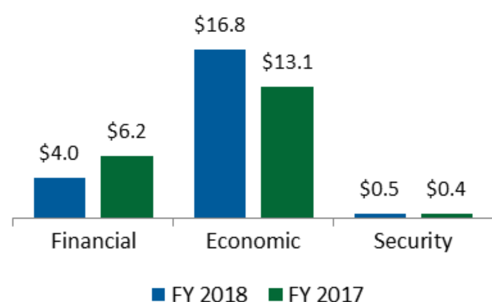


Figure 5 : Net Cost of Treasury Operations by Strategic Program (in billions)

Net Cost of Treasury Operations is presented on our Consolidated Statements of Net Cost by strategic program. There are three main categories of strategic programs presented—financial, economic, and security—as well as a management strategic program which is combined with the financial program due to the immateriality of the management program (Figure 5). Our Net Cost of Treasury Operations totaled $21.4 billion for FY 2018 compared to $20.1 billion for FY 2017, an increase of $1.3 billion (or 6.5 percent). This increase primarily reflects $4.0 billion in liquidity payments to the GSEs under the terms of SPSPAs, to cover their net worth deficit that was driven by a reduction in the U.S. corporate income tax rate in connection with the TCJA. This increase was partially offset by a $1.9 billion reduction in Housing disbursements under the Troubled Asset Relief Program.

Net Federal Debt Interest Costs (*a non-entity cost*) primarily reflect interest expense on the federal debt, net of interest income on loans, which increased $71.7 billion (or 17.3 percent) in FY 2018. The higher cost was primarily attributable to an increase in outstanding debt held by the public, as well as increased inflation adjustments associated with Treasury Inflation-Protected Securities which are driven by increases in the Consumer Price Index.

GSEs Non-Entity Revenue, Net totaled $30.4 billion for FY 2018 compared to $9.4 billion for FY 2017. GSE non-entity revenue is driven by fair value changes to our GSE investments, changes to the liquidation preference of our GSE senior preferred stock, and cash dividends received from the GSEs pursuant to the SPSPAs. The increase in year-over-year net revenue was driven by a $26.4 billion increase to the estimated value of our GSE investments at the end of FY 2018. Our GSE investments are comprised of the estimated value of our senior preferred stock and our warrants to purchase GSE common stock. Our senior preferred stock fair value increased year-over-year as a result of the reduction in the U.S. corporate income tax rate as a result of the TCJA, a lower discount rate driven by lower market volatility, and a reduction in the market value of the GSEs' other equity securities that comprise their total equity value (See Note 10 *Investments in Government Sponsored Enterprises*). This increase in the value of our senior preferred stock was partially offset by a decrease in the fair value of our warrants due to a decline in the market value of GSE common stock. GSE non-entity revenue also includes $10.0 billion from the increased value of our liquidation preference in FY 2018, which was attributable to $4.0 billion in combined GSE draws against Treasury's funding commitment, as well as the reinstatement of a $3.0 billion capital reserve for each GSE, resulting in an aggregate increase in our liquidation preference of $6.0 billion. Increases to GSE revenue was partially offset by a $15.4 billion reduction in senior preferred stock dividends received from the two GSEs in FY 2018 compared to FY 2017, primarily as a result of draws that occurred during FY 2018.

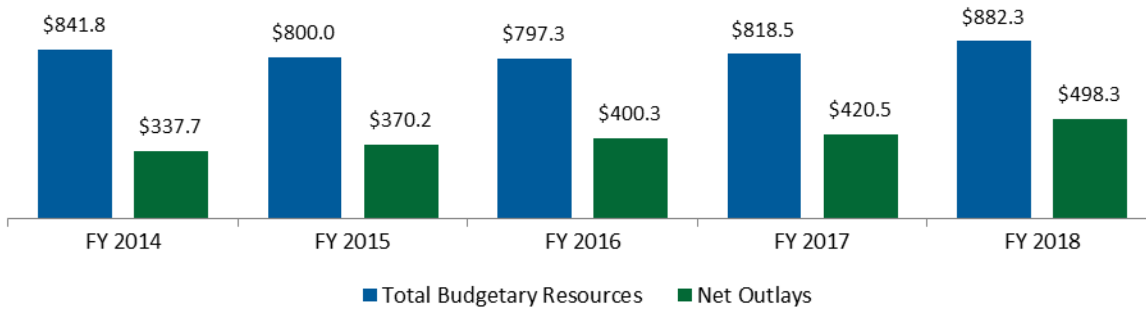


Figure 6 : Total Budgetary Resources and Agency Outlays, Net (*in billions*)

Total Budgetary Resources of $882.3 billion in FY 2018 (Figure 6) increased by $63.8 billion (or 7.8 percent) primarily due to a $64.5 billion increase in appropriations received to pay interest on the public debt.

Agency Outlays, Net of $498.3 billion were higher in FY 2018 (Figure 6) by $77.8 billion (or 18.5 percent) primarily due to a $63.1 billion increase in interest payments on public debt.

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

Net Revenue Received (Custodial), representing the net revenue we collected on behalf of the U.S. government, includes various taxes, primarily income taxes, as well as user fees, fines and penalties, and other revenue (Figure 7). Over 90 percent of these revenues are related to income and social security taxes. Net revenue received was $3.1 trillion for FY 2018, an increase of $10.8 billion (or 0.3 percent) over the prior fiscal year. This increase is attributable mainly to an overall growth in individual income tax collections, partially offset by reduced corporate income tax collections and deposit of earnings from the Federal Reserve System.

MANAGEMENT ASSURANCES

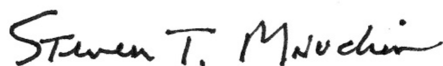
THE SECRETARY'S ASSURANCE STATEMENT

The Department of the Treasury's management is responsible for managing risks and maintaining effective internal control and financial management systems that meet the objectives of the *Federal Managers' Financial Integrity Act* (FMFIA). We have evaluated our management controls, internal controls over financial reporting, and compliance with federal financial systems standards. As part of the evaluation process, we considered results of extensive testing and assessment across the Department and independent audits.

We can provide reasonable assurance that the objectives of Section 2 of the FMFIA for financial reporting and operations have been achieved. Additionally, we are in substantial conformance with Section 4 of the FMFIA for Financial Management System Requirements. In accordance with Appendix A to the OMB Circular A-123, *Management of Reporting and Data Integrity Risk*, we can provide reasonable assurance that internal control over financial reporting was operating effectively as of June 30, 2018. We are not in substantial compliance with the *Federal Financial Management Improvement Act* (FFMIA) due to significant deficiencies at IRS and Fiscal Service related to federal financial management system requirements.

In Fiscal Year 2018, we downgraded the longstanding IRS material weakness, related to its unpaid tax assessments, to a significant deficiency. This weakness was classified under FMFIA Section 2, *Effectiveness of Internal Control over Financial Reporting*. We also reassessed the Fiscal Service material weakness over its processes used to prepare the U.S. Financial Report (FR). We, along with OMB and GAO, determined that this material weakness should be reported only in the FR, rather than in this AFR, as it relates to the audit of the government-wide financial statements and has no impact to our agency operations or financial statements. As of September 30, 2018, Treasury had no material weaknesses.

We continue to make progress on our lack of compliance with FFMIA, and will remain committed to focusing management attention and resources on appropriate corrective actions. Overall, we continue our efforts to maintain high standards, minimize internal control weaknesses, and meet federal financial management requirements. Additional information on the lack of compliance can be found in Part 3, Section D, of this report.



Steven T. Mnuchin
Secretary of the Treasury
November 15, 2018

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

FMFIA

Background

The FMFIA requires Executive branch agencies to establish and maintain internal control to ensure that federal programs operate efficiently, effectively, and in compliance with applicable laws. The management control objectives under FMFIA are to reasonably ensure that:

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

FMFIA requires agencies to evaluate and report on the effectiveness of the organization's internal controls to achieve the objectives of effective and efficient operations, reliable financial reporting, and 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).

Internal Control over Reporting

In accordance with Appendix A to OMB Circular A-123, *Management of Reporting and Data Integrity Risk*, and GAO's *Standards for Internal Control in the Federal Government,* we use an annual testing and assessment methodology that identifies and documents internal controls over financial reporting and incorporates operational effectiveness. For FY 2018, our components completed their testing and assessment of internal controls for material transactions as of June 30, 2018. Based on the results of this assessment we downgraded our prior year material weakness and provide an unmodified statement of assurance regarding the effectiveness of our internal control over financial reporting as of June 30, 2018. Additional information on the material weaknesses can be found in Part 3, Section D of this report.

In conjunction with our OMB Circular A-123, Appendix A, FY 2018 Guidance and Implementation Plan, our components documented their compliance with applicable laws and regulations. Based on our assessment of this documentation, we are in compliance with applicable laws and regulations for FY 2018 with the exception of the FFMIA as addressed below and in Part 3, Section D, of this report.

FFMIA and Financial Management Systems

FFMIA

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

The FFMIA Section 803(c)(1) requires us to make an annual determination of the agency's substantial compliance with Section 803(a) of the Act based on review of relevant factors. We assess our financial management systems annually for conformance with the requirements of Appendix D to OMB Circular A-123, *Compliance with the FFMIA*, and other federal financial system requirements. Our assessment process includes the use of the FFMIA Compliance Determination Framework, which incorporates a risk model of risk levels against common goals and compliance indicators. OMB Circular A-123, Appendix D contains an outcome-based approach to assessing FFMIA compliance through a series of financial management goals that are common to all agencies.

In addition, we assess available information from audit reports and other relevant and appropriate sources, such as *Federal Information Security Management 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 Treasury's financial management systems are substantially compliant with the FFMIA requirements, with the exception of the IRS and Fiscal Service.

The IRS did not substantially comply with federal financial management systems requirements. The IRS worked diligently during FY 2018 to continue to enhance its Information Technology (IT) security, currently identified as a significant deficiency. The IRS implemented a strategy and assessment process to verify the effectiveness of internal controls for the financial systems that affect the financial statements. This process supports the IRS's overall internal control framework and provides assurance that the likelihood of a material weakness reoccurring in the IT environment is low.

Fiscal Service's significant deficiency in FY 2018 related to its cash management information systems and debt management systems. We are committed to developing appropriate corrective action plans and focusing our efforts to meet federal financial management systems requirements.

Financial Management Systems

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

The FARS includes the following financial applications:

- Treasury Information Executive Repository (TIER) — a financial data repository used to consolidate and validate bureau financial data, and supporting external financial reporting requirements
- TIER Financial Statements (TFS) — a reporting application used to produce monthly and annual financial statements, notes, and other supporting reports

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

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

In FY 2018, ARC continued to refine financial management and procurement system services to its first cabinet-level customer agency, the Department of Housing and Urban Development. ARC took steps to invest in an application to automate the servicing of customer financial statements and made progress on improving its service-oriented architecture.

Goals and Supporting Strategies

Our financial system goals and supporting strategies focus on improving, streamlining, and integrating the current bureau financial management systems, as well as the current FARS applications, in order to support new financial management requirements and to support data-driven financial decision making by management. In FY 2018, we continued refining TIER and TFS to meet evolving reporting requirements, including enhancing the validations supporting the reporting of financial and award data in accordance with the *Digital Accountability and Transparency Act* (P.L. 113–101) (DATA Act). In addition, we are developing a plan to further the accuracy and integrity of information presented on USAspending.gov, per the new OMB A-123, Appendix A, requirement for agencies to maintain DATA Act data quality plans. We will continue to refine our reporting in anticipation of our next DATA Act audit, expected to begin in FY 2019 by the Treasury Inspector General.

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

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

IMPROPER PAYMENTS

Background

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

Appendix C to OMB Circular A-123, *Requirements for Requirements for Payment Integrity Improvement,* defines "significant improper payments" as gross annual improper payments in a program exceeding both the

threshold of 1.5 percent of program outlays and $10 million of all program or activity payments or $100 million regardless of the improper payment percentage. Appendix C also requires agencies with programs susceptible to significant improper payments to implement corrective action plans that include improper payment root cause identification, reduction targets, and identification of accountable officials.

Risk Assessments and Results

In FY 2018, we completed a full program inventory and performed risk assessments to identify programs that have a significant risk of improper payments. We performed our assessment of each program, excluding the Earned Income Tax Credit (EITC), using the seven qualitative risk factors identified in Appendix C. We also performed quantitative risk assessments and assessed risks related to the amounts of payments processed relative to the OMB specified threshold amounts which define payment programs susceptible to improper payments. As a result of the risk assessments, we determined that the agency's programs and activities, except for EITC, were deemed not susceptible to improper payments.

EITC Program

The EITC is deemed a high priority program by OMB, because it is susceptible to significant improper payments. The EITC is a refundable tax credit that offsets income tax owed by low-income taxpayers. If the credit exceeds the amount of taxes due, the IRS provides a refund payment to those who qualify. The IRS estimates that for FY 2018, 25% ($18.4 billion) of the total EITC program payments of $73.6 billion were improper. The IRS has a robust enforcement program for the EITC which consists of examinations and audits, math error notices, and document matching. Additional information on the IRS's EITC program can be found in Part 3, Section E, of this report.

Payment Recapture Audits

The *Improper Payments Elimination and Recovery Act of 2010* (IPERA) requires agencies to conduct payment recapture audits (also known as recovery audits) for each program and activity that expends $1 million or more annually, if conducting such audits would be cost-effective. We performed the payment recapture activities in accordance with OMB Circular A-123, Appendix C. Details on our improper payments and payment recapture program activities and results can be found in Part 3, Section E, of this report.

Do Not Pay Initiative

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

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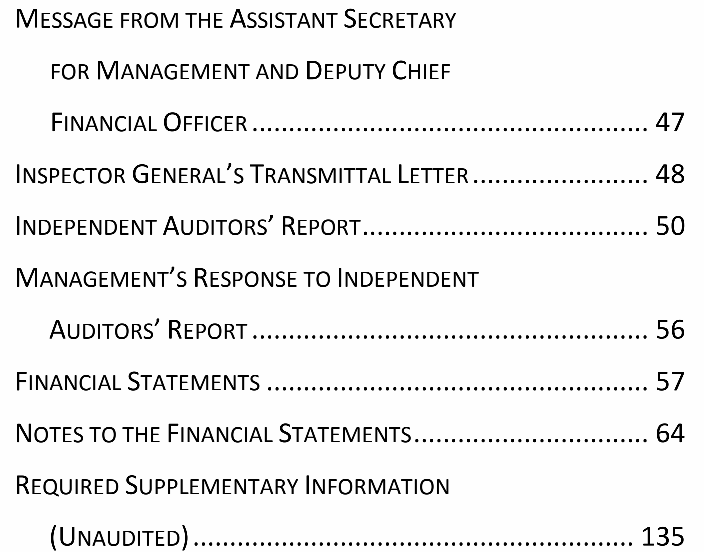
PART 2:
FINANCIAL SECTION



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

David F. Eisner
Assistant Secretary for Management

Carole Y. Banks
Deputy Chief Financial Officer

In Fiscal Year 2018, Treasury pursued an aggressive set of initiatives to manage the Department more efficiently and responsibly. Treasury vigorously embraced the President's Management Agenda, taking a leadership role in tackling some of the government's most persistent challenges – eliminating improper payments, modernizing information technology, improving workforce performance, leveraging data as a strategic asset, and delivering excellent financial management services.

In Fiscal Year 2018, Treasury also demonstrated effective fiscal and management leadership by:

- Refining Treasury's cutting-edge strategic planning and performance measurement processes and tools to consistently focus on our highest priorities, including the President's Management Agenda;
- Continuing to strengthen our internal cybersecurity through critical reviews of our High Value Assets, and expansion of our education and awareness programs;
- Centralizing procurement activities to streamline processes and, at the same time, reducing unneeded and conflicting procurement policy across the Department by 55 percent (955 pages);
- Launching (in beta) an Integrated Talent Management system that consolidates numerous Treasury human resources systems into a single platform; and
- Receiving an "A" on our small business procurement report card for the eighth consecutive year (4 percent of all acquisitions from small business suppliers).

The Department received an unmodified audit opinion on its consolidated financial statements for the 19th consecutive year. Treasury was also successful this year in downgrading its material weakness, related to the Internal Revenue Service's unpaid tax assessments, to a significant deficiency. Despite the complexity of Treasury's financial systems, we will continue to make steady progress toward fully resolving this and other deficiencies associated with our systems.

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

David F. Eisner	Carole Y. Banks
Assistant Secretary for Management	Deputy Chief Financial Officer
November 15, 2018	November 15, 2018

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Consolidated Balance Sheets
As of September 30, 2018 and 2017

(in millions)	2018	2017
ASSETS		
Intra-governmental Assets		
Fund Balance (Note 2)	$ **424,868**	$ 426,396
Loans and Interest Receivable (Note 3)	**1,524,696**	1,455,625
Advances to Trust Funds (Note 4)	**5,027**	9,021
Due From the General Fund (Note 4)	**21,646,633**	20,373,777
Other Intra-governmental Assets	**770**	818
Total Intra-governmental Assets	**23,601,994**	22,265,637
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	**444,571**	218,830
Gold and Silver Reserves (Note 6)	**11,062**	11,062
Reserve Position in the International Monetary Fund (Note 7)	**15,364**	11,509
Taxes, Interest, and Other Receivables, Net (Note 8)	**59,637**	53,496
Credit Program Receivables, Net (Note 9)	**5,017**	5,293
Loans and Interest Receivable, Net (Note 7)	**4,509**	7,380
Investments in Government Sponsored Enterprises (GSEs) (Note 10)	**113,150**	92,640
Investments in Multilateral Development Banks (Note 11)	**7,741**	7,708
Other Investments and Related Interest (Note 12)	**7,062**	8,559
Property, Plant, and Equipment, Net (Note 13)	**2,947**	3,060
Other Assets	**701**	986
Total Assets (Note 14)	$ **24,273,755**	$ 22,686,160
Heritage Assets (Note 13)		

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

Consolidated Balance Sheets
As of September 30, 2018 and 2017

(in millions)	2018	2017
LIABILITIES		
Intra-governmental Liabilities		
Federal Debt and Interest Payable (Notes 4 and 15)	$ **5,821,642**	$ 5,637,950
Liability for Restoration of Federal Debt Principal and Interest (Notes 4 and 15)	**-**	660
Other Debt and Interest Payable (Note 16)	**10,414**	11,543
Due To the General Fund (Note 4)	**2,072,917**	1,755,057
Other Intra-governmental Liabilities (Note 18)	**631**	613
Total Intra-governmental Liabilities	**7,905,604**	7,405,823
Federal Debt and Interest Payable (Notes 4 and 15)	**15,789,917**	14,699,687
Certificates Issued to the Federal Reserve (Note 5)	**5,200**	5,200
Allocation of Special Drawing Rights (Note 5)	**49,274**	49,912
Gold Certificates Issued to the Federal Reserve Banks (Note 6)	**11,037**	11,037
Refunds Payable (Notes 4 and 22)	**2,994**	3,074
D.C. Federal Pension and Judicial Retirement Actuarial Liability (Note 17)	**8,372**	8,682
Other Liabilities (Note 18)	**5,544**	5,420
Total Liabilities (Note 18)	**23,777,942**	22,188,835
Commitments and Contingencies (Note 26)		
NET POSITION		
Unexpended Appropriations:		
Funds from Dedicated Collections (Note 23)	**200**	200
Other Funds	**425,792**	427,129
Subtotal	**425,992**	427,329
Cumulative Results of Operations:		
Funds from Dedicated Collections (Note 23)	**46,163**	46,851
Other Funds	**23,658**	23,145
Subtotal	**69,821**	69,996
Total Net Position - Funds from Dedicated Collections (Combined Totals) (Note 23)	**46,363**	47,051
Total Net Position - Other Funds (Combined Totals)	**449,450**	450,274
Total Net Position (Note 19)	**495,813**	497,325
Total Liabilities and Net Position	$ **24,273,755**	$ 22,686,160

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

Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2018 and 2017

(in millions)	2018	2017
Cost of Treasury Operations:		
Financial Program		
Gross Cost	$ **6,984**	$ 9,216
Less Earned Revenue	**(2,954)**	(2,969)
Net Program Cost	**4,030**	6,247
Economic Program		
Gross Cost	**28,402**	25,344
Less Earned Revenue	**(11,598)**	(12,196)
Net Program Cost	**16,804**	13,148
Security Program		
Gross Cost	**466**	436
Less Earned Revenue	**(7)**	(5)
Net Program Cost	**459**	431
Total Program Gross Costs	**35,852**	34,996
Total Program Gross Earned Revenues	**(14,559)**	(15,170)
Total Net Program Cost before Changes in Actuarial Assumptions	**21,293**	19,826
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	**113**	264
Total Net Cost of Treasury Operations (Note 20)	**21,406**	20,090
Non-Entity Costs:		
Federal Debt Interest	**527,144**	454,197
Restoration of Foregone Federal Debt Interest (Note 15)	**804**	1,587
Less Interest Revenue from Loans	**(42,948)**	(42,483)
Net Federal Debt Interest Costs	**485,000**	413,301
Accrued Restoration of Foregone Federal Debt Interest (Note 15)	**-**	660
Other Federal Costs, Net (Note 20)	**12,940**	14,725
GSEs Non-Entity Revenue, Net (Note 10)	**(30,391)**	(9,439)
Other, Net	**(706)**	(689)
Total Net Non-Entity Costs	**466,843**	418,558
Total Net Cost of Treasury Operations and Non-Entity Costs	$ **488,249**	$ 438,648

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

Consolidated Statements of Changes in Net Position
For the Fiscal Years Ended September 30, 2018 and 2017

(in millions)	2018	2017
UNEXPENDED APPROPRIATIONS (Notes 19 and 23)		
Beginning Balance	$ **427,329**	$ 434,646
Budgetary Financing Sources		
Appropriations Received (Note 19)	**547,756**	488,588
Appropriations Transferred In/Out	**10**	-
Other Adjustments (Note 19)	**(5,839)**	(14,185)
Appropriations Used	**(543,264)**	(481,720)
Total Budgetary Financing Sources	**(1,337)**	(7,317)
Total Unexpended Appropriations	**425,992**	427,329
CUMULATIVE RESULTS OF OPERATIONS (Notes 19 and 23)		
Beginning Balance	**69,996**	69,268
Budgetary Financing Sources		
Appropriations Used	**543,264**	481,720
Non-Exchange Revenue	**179**	444
Donations and Forfeitures of Cash/Equivalent	**413**	117
Transfers In/Out Without Reimbursement	**(86)**	(272)
Other	**102**	8
Other Financing Sources (Non-Exchange)		
Donation/Forfeiture of Property	**156**	106
Accrued Interest and Discount on Debt	**21,395**	11,266
Accrued Interest on Restoration of Federal Debt Principal (Note 15)	**(660)**	660
Imputed Financing Sources (Note 20)	**779**	552
Transfers to the General Fund and Other (Note 19)	**(77,468)**	(55,225)
Total Financing Sources	**488,074**	439,376
Net Cost of Treasury Operations and Non-Entity Costs	**(488,249)**	(438,648)
Net Change	**(175)**	728
Cumulative Results of Operations	**69,821**	69,996
Net Position	$ **495,813**	$ 497,325

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

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

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

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

Combined Statement of Budgetary Resources
For the Fiscal Year Ended September 30, 2017

(in millions)	Budgetary	Non-Budgetary Financing	2017 Total
BUDGETARY RESOURCES			
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 316,597	$ (305)	$ 316,292
Appropriations (discretionary and mandatory) (Note 19)	493,425	1	493,426
Borrowing authority (discretionary and mandatory) (Note 21)	-	268	268
Spending authority from offsetting collections (discretionary and mandatory)	7,569	962	8,531
Total Budgetary Resources	$ 817,591	$ 926	$ 818,517
STATUS OF BUDGETARY RESOURCES			
New obligations and upward adjustments (Note 21)	$ 501,405	$ 664	$ 502,069
Unobligated balance, end of year:			
Apportioned, unexpired accounts	274,033	49	274,082
Exempt from apportionment, unexpired accounts	1,616	-	1,616
Unapportioned, unexpired accounts	40,003	213	40,216
Unexpired unobligated balance, end of year	315,652	262	315,914
Expired unobligated balance, end of year	534	-	534
Unobligated balance, end of year	316,186	262	316,448
Total Status of Budgetary Resources	$ 817,591	$ 926	$ 818,517
OUTLAYS, NET			
Outlays, net (discretionary and mandatory)	$ 497,297	$ (1,689)	$ 495,608
Distributed offsetting receipts	(75,089)	-	(75,089)
Agency Outlays, Net (Discretionary and Mandatory)	$ 422,208	$ (1,689)	$ 420,519

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

Statements of Custodial Activity
For the Fiscal Years Ended September 30, 2018 and 2017

(in millions)	2018	2017
Sources of Custodial Revenue (Note 22)		
Individual Income and FICA Taxes	$ **3,089,758**	$ 2,976,444
Corporate Income Taxes	**262,742**	338,529
Estate and Gift Taxes	**23,866**	23,780
Excise Taxes	**94,267**	85,333
Railroad Retirement Taxes	**6,324**	5,957
Unemployment Taxes	**8,807**	8,284
Deposit of Earnings, Federal Reserve System	**70,750**	81,287
Fines, Penalties, Interest and Other Revenue	**5,712**	5,040
Total Revenue Received	**3,562,226**	3,524,654
Less Refunds and Other Payments	**(464,167)**	(437,323)
Net Revenue Received	**3,098,059**	3,087,331
Non-Cash Accrual Adjustment	**6,213**	3,061
Total Custodial Revenue	**3,104,272**	3,090,392
Disposition of Custodial Revenue (Note 22)		
Amounts Provided to Fund Non-Federal Entities	**455**	370
Amounts Provided to Fund the Federal Government	**3,097,604**	3,086,961
Non-Cash Accrual Adjustment	**6,213**	3,061
Total Disposition of Custodial Revenue	**3,104,272**	3,090,392
Net Custodial Revenue	$ **-**	$ -

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

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1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

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

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

Effective October 1, 2017, we adopted Statement of Federal Financial Accounting Standards (SFFAS) No. 47, *Reporting Entity*. SFFAS No. 47 requires that our consolidated financial statements include all consolidation entities and disclosure entities meeting the principles for inclusion in the government-wide general purpose federal financial report, for which we are accountable. SFFAS No. 47 also provides criteria for disclosure of related party relationships of such significance that it would be misleading to exclude information about them. Our operating bureaus and DO represent Treasury's consolidation entities whose accounts are consolidated as part of the Department's consolidated financial statements. 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.

Following U.S. Generally Accepted Accounting Principles (GAAP) for federal entities, we do not consolidate into our financial statements the assets, liabilities, or results of operations of any financial organization or commercial entity in which we hold either a direct or indirect majority equity investment, unless they meet the principles of inclusion for "consolidation entities" as described in SFFAS No. 47. Certain of our significant equity investments do not meet the inclusion principles for "consolidation entities". Prior to FY 2018, these entities met the criteria of "bailed out" entities under paragraph 50 of Statement of Federal Financial Accounting Concepts (SFFAC) No. 2, *Entity and Display*, which directed that such "bailout" investments not be consolidated into our reporting entity, either in part or as a whole. The FY 2018 implementation of SFFAS No. 47 did not have a significant impact on the consolidation of these entities within our financial statements, as compared to how these entities were consolidated under SFFAC No. 2 prior to FY 2018.

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.

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) 2018 and 2017 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 Statement of Budgetary Resources on a combined basis; therefore, intra-departmental transactions and balances have not been eliminated from these statements.

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

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

The financial statements should be read with the realization 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 2017 activity and balances presented on the financial statements to conform to the presentation in the current year. In FY 2018, we realigned certain of our program gross costs and earned revenues as reported on the Consolidated Statements of Net Cost to conform to changes in our strategic goals. Corresponding program gross costs and earned revenues reported for the prior fiscal year were reclassified to conform to the current year's presentation (refer to Note 20). Furthermore, in FY 2018, changes to OMB Circular No. A-136 resulted in changes to the presentation of the Combined Statements of Budgetary Resources. All FY 2017 activity and balances reported on the Combined Statement of Budgetary Resources are presented to conform to the presentation in the current year.

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

C. Fund Balance

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

D. Loans and Interest Receivable

Intra-Governmental

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

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

Public

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

E. ADVANCES TO TRUST FUNDS

Advances to the Unemployment Trust Fund

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

Advances to the Federal Supplementary Medical Insurance Trust Fund

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

F. CASH, FOREIGN CURRENCY, AND OTHER MONETARY ASSETS

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

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

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

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

G. Taxes, Interest, and Other Receivables, Net

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

Taxes receivable consist of unpaid assessments (taxes and associated penalties and interest) due from taxpayers. The existence of a receivable is supported by a taxpayer agreement, such as filing of a tax return without sufficient payment, or a court ruling in favor of the IRS. We record an allowance for doubtful accounts to reflect an estimate of the portion of total taxes receivable deemed to be uncollectible.

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

H. Credit Program Receivables, Net

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

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

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

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

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

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

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

I. INVESTMENTS

Investments in GSEs

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

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

also result in an increase to the non-entity investment in the GSEs' senior preferred stock, with a corresponding increase to "*Due To the General Fund*", as we hold the investment on behalf of the General Fund.

Investments in Multilateral Development Banks

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

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

Other Investments and Related Interest

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

J. PROPERTY, PLANT, AND EQUIPMENT, NET

General

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

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

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

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

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

Heritage Assets

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

K. Federal Debt and Interest Payable

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

L. Commitments and Contingencies

Through FFB, we make loan commitments with federal agencies, or private sector borrowers with loans guaranteed by federal agencies, to extend credit for their own use (refer to the accounting policy above entitled "*Loans and Interest Receivable, Intra-Governmental*"). We establish loan commitments when FFB and other parties fully execute promissory notes or bonds in which we become obligated to issue such loans immediately or at some future date. We reduce loan commitments when we issue the loans or when the commitments expire. Most of our obligations give a borrower the contractual right to a loan or loans immediately or at some point in the future within an agreed upon timeframe.

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

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

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

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

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

M. Special Drawing Rights

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

Allocations and Holdings

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

SDR holdings increase primarily as a result of IMF SDR allocations. We record SDR transactions as incurred, and include acquisitions and sales of SDRs, interest received on SDR holdings, interest charges on SDRs allocations, and valuation adjustments. The U.S. government also receives remuneration in SDRs from the IMF based on claims on the IMF as represented by the U.S. Reserve Position in the IMF and loans receivable from supplemental borrowing arrangements. We credit remuneration to the ESF, which transfers to the TGA account an equivalent amount of dollars plus nominal interest.

The allocations and holdings are revalued monthly based on the SDR valuation rate as calculated by the IMF, resulting in the recognition of unrealized gains or losses on revaluation that are reported on the Consolidated Statements of Net Cost.

Certificates Issued to the Federal Reserve

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

N. Refunds Payable

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

O. Federal Employee Benefits Payable – FECA Actuarial Liability

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

P. Annual, Sick, and Other Leave

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

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

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

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

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

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

District of Columbia Federal Pension and Judicial Retirement Plans

Pursuant to Title XI of the *Balanced Budget Act of 1997*, as amended, we became responsible for benefit payments to certain District of Columbia (D.C.) police officers, firefighters, teachers and judges under D.C. retirement plans (refer to Note 17). The actuarial cost method used to determine costs and actuarial liability for the retirement plans is the Individual Entry Age Normal Funding Method, which approximates the methodology specified by the Aggregate Entry Age Normal Actuarial Cost Method. The methodology bases actuarial liability on long-term economic assumptions. The pension benefit costs incurred by the plans are included on the Consolidated Statements of Net Cost.

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

R. Revenue and Financing Sources

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

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

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

S. Custodial Revenues

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

T. Appropriations and Other Budgetary Activity

Combined Statement of Budgetary Resources Activity

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

Permanent and Indefinite Appropriations

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

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

We also have permanent and indefinite appropriations to fund increases in the projected subsidy costs of credit programs as determined by the re-estimation process required by the FCRA, and to also cover our renewable energy project.

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

U. INCOME TAXES

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

V. USE OF ESTIMATES

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

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

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

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

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

Estimation of such complex and long-duration receivables, investments, and contingencies is subject to uncertainty. It is possible that new developments will adversely impact the value of receivables, investments, and contingencies, as well as ultimate amounts we are required to fund. Except as expressly noted herein, we have not revalued or included in our estimates as of September 30, 2018 the effects of any new developments that may have occurred subsequent to September 30, 2018. Refer to the accounting policy entitled "*Pension Costs, Other Retirement Benefits, and Other Post-Employment Benefits"* above and Note 8 for additional discussion related to the estimation of actuarial liabilities and tax receivables, respectively.

W. Other-Than-Temporary Impairments

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

X. Credit, Market and Foreign Currency Risk

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

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

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

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

Y. Funds from Dedicated Collections

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

purposes; (*iii*) a requirement to account for and report on the receipt, use, and retention of the revenues and/or other financing sources that distinguishes the fund from the U.S. government's general revenues; and (*iv*) for funds comprised of both federal and non-federal sources, such funding is predominantly non-federal, or the non-federal funding is material to our financial statements.

Z. Allocation Transfers

We are a party to allocation transfers with other federal agencies as both a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent. Parent federal agencies report both the proprietary and budgetary activity and the child agency does not report any financial activity related to budget authority allocated from the parent federal agency to the child federal agency. However, OMB guidance requires the child to report the activity when we receive allocation transfers, as the child, from the Executive Office of the President (See Circular No. A-136, II.3.2, question 5 for two exceptions).

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

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 are reported in Note 25.

AB. Disclosure Entities and Related Parties

SFFAS No. 47, *Reporting Entity*, requires that our consolidated financial statements reflect the balances and activities of the bureaus and other reporting entities meeting the following "principles for inclusion" as a whole: (1) the entity is included in the Budget of the United States (also known as the President's Budget); (2) the U.S. government holds "majority ownership interest"; (3) the U.S. government has "control with risk of loss or expectation of benefit"; or (4) if it would be misleading to exclude such entity. SFFAS No. 47 also provides guidance for assessing whether an organization meeting the inclusion principles is reported as a consolidation entity, 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 "consolidation entities". Also, under SFFAS No. 47 criteria, the Federal Reserve System is considered to be a disclosure entity. Additionally, entities owned and/or controlled by the U.S. government as a result of regulatory actions—such as organizations in receivership or conservatorship—or other U.S. government intervention actions are generally classified as disclosure entities if the relationship with such entities is not expected to be permanent.

A related party exists when one party to an established relationship has the ability to exercise significant influence over another party in making policy decisions. Related parties do not meet the SFFAS No.47 inclusion principles; however, the relationship 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, 2018.

Disclosure Entities

Federal Reserve System

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

While we consult with the FR System on matters affecting the economy and certain financial stabilization activities it is considered an independent central bank, and the executive branch of the U.S. government does not ratify its decisions. In accordance with SFFAS No. 47 criteria, the FR Systems' assets, liabilities, and operations are not consolidated into our consolidated financial statements; however, we account for and disclose our financial activities with the FR System within our consolidated financial statements. This treatment is consistent with how we reported these entities prior to FY 2018.

Federal Reserve System Structure

Board of Governors of the Federal Reserve System

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

Federal Reserve Banks

The 12 FRBs are chartered under the Federal Reserve Act, which requires each member bank to own the capital stock of its FRB. Each FRB has a board of directors that exercises supervision and control of each FRB, with three members appointed by the Board of Governors, and six board members elected by their member banks. The FRBs participate in formulating and conducting monetary policy, distributing currency and coin, and serving as our fiscal agent, as well as the fiscal agent for other federal agencies and fiscal principals. Additionally, the FRBs provide short-term loans to depository institutions and loans to participants in programs or facilities with broad-based eligibility in unusual and crucial circumstances when approved by the Board of Governors and Secretary of the Treasury.

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

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

Federal Open Market Committee

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

Federal Reserve System Assets and Liabilities

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

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

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

FRB Residual Earnings Transferred to the Department

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

FRBs' residual earnings may vary due to, among other things, changes in the SOMA balance levels that may occur in conducting monetary policy. Under P.L. 114-94, if an FRB's earnings for the year are not sufficient to provide for the cost of operations, payment of dividends, or allocated portion of the $7.5 billion aggregate surplus funds limitation, an FRB will suspend its payments to us until such earnings become sufficient. The FRB residual earnings of $70.8 billion and $81.3 billion for fiscal years ended September 30, 2018 and 2017, respectively, are reported as custodial revenues on our Statements of Custodial Activity. They constituted 2.0 percent and 2.3 percent of our total custodial revenues collected in FY 2018 and 2017, respectively. "*Taxes, Interest and Other Receivables, Net*" includes a receivable for FRB's residual earnings which represents the earnings due to us as of September 30, but not collected by us until after the end of the month (refer to Note 8).

Government Sponsored Enterprises – Fannie Mae and Freddie Mac

During the FY 2008 financial crisis, the U.S. government placed Fannie Mae and Freddie Mac under conservatorship to help ensure their financial stability. These entities meet the SFFAS No. 47 criteria for disclosure entities as organizations owned or controlled by the U.S. government as the result of regulatory actions ("such as conservatorship"). Additionally, the U.S. government's intervention actions with regards to these GSEs are not expected to be permanent. Accordingly, these entities are not consolidated as part of our consolidated financial statements; however, the value of our investments in these entities is presented as equity investments on our Consolidated Balance Sheets. This treatment is consistent with how we reported these entities prior to FY 2018 under Statement of Federal Financial Accounting Concepts No. 2, *Entity and Display* (refer to Note 10).

Related Parties

In accordance with SFFAS No. 47 determination principles, we currently maintain related party relationships with the IMF and the MDBs. The IMF is an international organization of 189 member countries that works to foster global monetary cooperation, secure financial stability, sustain economic growth, and reduce poverty around the world. The U.S. government holds the largest quota subscription of any member. The U.S. quota subscription serves as the key determinant for our 16.5 percent share of voting rights in various IMF decisions for which the U.S. government has a substantial voice. The Secretary serves as the U.S. Governor to the IMF. The U.S. Governor appoints 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. holdings in the IMF are in the form of highly liquid and interest-bearing instruments. Historically, the U.S. has not experienced a loss of its contributions in the IMF (refer to accounting policies above entitled "*Loans and Interest Receivable*," "*Commitments and Contingencies*," "*Special Drawing Rights*," and Notes 5, 7 and 26 for a further description of our relationship, financial risk, and activities with the IMF).

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

2. FUND BALANCE

STATUS OF FUND BALANCE

As of September 30, 2018 and 2017, the status of the fund balance consisted of the following:

(in millions)	2018	2017
Unobligated Balance - Available	$ **273,020**	$ 275,698
Unobligated Balance - Not Available	**40,641**	40,750
Obligated Balance Not Yet Disbursed	**64,694**	71,570
Subtotal	**378,355**	388,018
Adjustment for ESF	**(94,050)**	(94,659)
Adjustment for Intra-Treasury Investments	**(8,618)**	(9,354)
Adjustment for Borrowing Authority	**(6,523)**	(6,600)
Adjustment for IMF	**138,131**	134,785
Adjustment for Authority Unavailable for Obligations	**16,119**	12,099
Other Adjustments	**1,454**	2,107
Total Status of Fund Balance	$ **424,868**	$ 426,396

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

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

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

As of September 30, 2018 and 2017, we had no budgetary authority in the Fund Balance that was specifically withheld from apportionment by the OMB. We hold balances in non-entity funds, such as certain deposit funds (e.g., seized cash), for the public or for another federal entity, such as the General Fund. Such funds have an offsetting liability equal to the Fund Balance. Refer to Note 7 regarding restrictions related to the letter of credit held for a portion of the U.S. quota in the IMF.

3. LOANS AND INTEREST RECEIVABLE – INTRA-GOVERNMENTAL

ENTITY INTRA-GOVERNMENTAL

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

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

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

As of September 30, 2018 and 2017, entity intra-governmental loans (issued by FFB) and interest receivable consisted of the following:

(in millions)	Loans Receivable	Interest Receivable	2018 Total	Loans Receivable	Interest Receivable	2017 Total
Department of Agriculture	**$ 46,288**	**$ 359**	**$ 46,647**	$ 45,080	$ 353	$ 45,433
Department of Energy	**13,593**	**68**	**13,661**	14,448	70	14,518
United States Postal Service[(1)]	**13,200**	**41**	**13,241**	15,000	53	15,053
Department of Housing & Urban Development	**1,665**	**6**	**1,671**	1,193	3	1,196
Department of Education	**1,452**	**13**	**1,465**	1,563	13	1,576
Other Agencies	**4**	**-**	**4**	4	-	4
Total Entity Intra-governmental	**$ 76,202**	**$ 487**	**$ 76,689**	$ 77,288	$ 492	$ 77,780

(1) The United States Postal Service (USPS) experienced an operating deficit in both FY 2018 and FY 2017. We, along with Congress and other stakeholders are aware of the current and long-term financial issues of the USPS. Congress is considering legislative solutions for returning the USPS to financial stability.

NON-ENTITY INTRA-GOVERNMENTAL

Through the Fiscal Service, we account for and report on the principal borrowings from and repayments to the General Fund for various funds managed by other federal agencies, as well as the related interest due to the General Fund. These federal agencies are statutorily authorized to borrow from the General Fund, through the Fiscal Service, to make loans for a broad range of purposes, such as education, housing, farming, and small business support.

As of September 30, 2018 and 2017, 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	2018 Total	Loans Receivable	Interest Receivable	2017 Total
Department of Education	**$ 1,258,499**	**$ -**	**$ 1,258,499**	$ 1,178,495	$ -	$ 1,178,495
Department of Agriculture	**70,164**	**1**	**70,165**	69,987	-	69,987
Department of Housing and Urban Development	**24,843**	**-**	**24,843**	28,082	-	28,082
Department of Homeland Security	**20,541**	**-**	**20,541**	30,440	-	30,440
Export Import Bank of the U.S.	**20,213**	**-**	**20,213**	24,645	-	24,645
Department of Transportation	**16,710**	**-**	**16,710**	14,298	-	14,298
Small Business Administration	**11,213**	**-**	**11,213**	7,693	-	7,693
Department of Energy	**6,142**	**32**	**6,174**	5,538	30	5,568
Department of Labor	**5,991**	**-**	**5,991**	5,744	-	5,744
Railroad Retirement Board	**3,725**	**45**	**3,770**	3,712	41	3,753
Overseas Private Investment Corporation	**3,475**	**-**	**3,475**	3,015	-	3,015
Executive Office of the President/ Defense Security Cooperation Agency	**3,112**	**-**	**3,112**	2,505	-	2,505
Department of Defense	**1,686**	**-**	**1,686**	1,631	-	1,631
Other Agencies	**1,615**	**-**	**1,615**	1,989	-	1,989
Total Non-Entity Intra-governmental	**$ 1,447,929**	**$ 78**	**$ 1,448,007**	$ 1,377,774	$ 71	$ 1,377,845
Total Intra-governmental Loans and Interest Receivable (Entity and Non-Entity)	**$ 1,524,131**	**$ 565**	**$ 1,524,696**	$ 1,455,062	$ 563	$ 1,455,625

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, 2018 and 2017, the General Fund liabilities we owed exceeded the assets held on behalf of the General Fund by $19.6 trillion and $18.6 trillion, respectively. This represents the amount needed by the U.S. government, through a combination of future tax collections and/or continued borrowing from the public and federal agencies to meet its obligations.

As of September 30, 2018 and 2017, Due From the General Fund included the following non-entity liabilities:

Liabilities Requiring Funding from the General Fund (in millions)	2018	2017
Federal Debt and Interest Payable - Held by the Public (Note 15)	**$ 15,789,917**	$ 14,699,687
Federal Debt and Interest Payable - Intra-governmental (Note 15)	**5,821,642**	5,637,950
Liability for Restoration of Federal Debt Principal and Interest - Intra-governmental (Note 15)	**-**	660
Refunds Payable (Note 22)	**2,994**	3,074
Adjustment for Eliminated Liabilities	**32,080**	32,406
Total Due From the General Fund	**$ 21,646,633**	$ 20,373,777

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

As of September 30, 2018 and 2017, Due To the General Fund included the following non-entity assets:

Assets to be Distributed to the General Fund (in millions)	2018	2017
Fund Balance	**$ 1,097**	$ 793
Loans and Interest Receivable - Intra-governmental (Note 3)	**1,448,007**	1,377,845
Advances to Trust Funds	**5,027**	9,021
Cash Due To the General Fund (Held by the Department) (Note 5)	**378,617**	153,475
Accounts Receivable - Intra-governmental	**728**	790
Foreign Currency	**100**	152
Custodial Gold without Certificates and Silver Held by the Mint	**25**	25
Taxes and Other Non-Entity Receivables Due To the General Fund	**59,475**	53,341
Credit Reform Downward Subsidy Re-estimates	**45**	120
Loans and Interest Receivable	**8**	8
Investments in Government Sponsored Enterprises (Note 10)	**113,150**	92,640
Adjustment for Eliminated Assets	**66,638**	66,847
Total Due To the General Fund	**$ 2,072,917**	$ 1,755,057

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

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

The Advances to Trust Funds consists of Advances to the Unemployment Trust Fund and Advances to the Federal Supplementary Medical Insurance Trust Fund. The General Fund issues advances to the DOL's Unemployment Trust Fund to disburse to states for unemployment benefits. We transfer DOL's repayment of these advances to the General Fund. The *Bipartisan Budget Act of 2015* (P.L. 114-74) authorized a transfer from the General Fund to HHS' Federal Supplementary Medical Insurance Trust Fund to temporarily replace the reduction in Medicare Part B participants' premiums. We transfer HHS's repayment of these advances to the General Fund.

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

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

5. CASH, FOREIGN CURRENCY, AND OTHER MONETARY ASSETS

Cash, Foreign Currency, and Other Monetary Assets held as of September 30, 2018 and 2017 were as follows:

(in millions)	2018	2017
Entity:		
Cash	$ **52**	$ 27
Foreign Currency and Foreign Currency Denominated Assets	**13,834**	12,651
Other Monetary Assets:		
Special Drawing Right Holdings	**51,000**	51,491
U.S. Dollars Held in Cash by the IMF	**305**	308
Total Entity	**65,191**	64,477
Non-Entity:		
Operating Cash of the U.S. government	**378,468**	153,323
Foreign Currency	**100**	152
Miscellaneous Cash Held by All Treasury Reporting Entities	**812**	878
Total Non-Entity	**379,380**	154,353
Total Cash, Foreign Currency, and Other Monetary Assets	$ **444,571**	$ 218,830

We hold non-entity operating and other miscellaneous cash due to the General Fund which consisted of the following as of September 30, 2018 and 2017:

(in millions)	2018	2017
Operating Cash - FRB Account	$ **384,712**	$ 159,322
Outstanding Checks	**(6,244)**	(5,999)
Total Operating Cash of the U.S. government	**378,468**	153,323
Miscellaneous Cash	**152**	154
Subtotal	**378,620**	153,477
Amounts Due to the Public	**(3)**	(2)
Total Cash Due to the General Fund (Note 4)	$ **378,617**	$ 153,475

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, 2018 and 2017 using current exchange rates plus accrued interest.

Foreign Currency and Foreign Currency Denominated Assets

Foreign currency and FCDAs represent foreign deposit accounts and securities with original maturities of three months or less which were valued at $13.8 billion and $12.7 billion as of September 30, 2018 and 2017, respectively.

Special Drawing Rights

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

Consolidated Balance Sheets as of September 30, 2018 and 2017. The certificates were issued to finance the ESF's acquisition of SDRs from other countries or to provide U.S. dollar resources for financing other ESF operations.

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

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

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

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

As of September 30, 2018 and 2017, the total amount of SDR holdings of the U.S. (including interest receivable) was the equivalent of $51.0 billion and $51.5 billion, respectively. As of September 30, 2018 and 2017, the total value of SDR allocations to the U.S. was the equivalent of $49.3 billion and $49.9 billion, respectively.

Non-Entity

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

6. GOLD AND SILVER RESERVES, AND GOLD CERTIFICATES ISSUED TO THE FEDERAL RESERVE BANKS

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

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

The gold and silver bullion reserve (deep storage and working stock) are reported on the consolidated financial statements at the values stated in 31 USC 5116 – 5117 (statutory rates) which are $ 42.2222 per FTO of gold and no less than $1.292929292 per FTO of silver. Accordingly, the silver is valued at $1.292929292 per FTO. The market values of the gold and silver reserves disclosed below are based on the London Gold Fixing. As of September 30, 2018 and 2017, the values of gold and silver reserves consisted of the following:

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

	FTOs	Statutory rate	2018 Statutory Carrying Value (in millions)	Market Rate Per FTO	2018 Market Value (in millions)
Gold	248,046,116	$ 42.2222	$ 10,473	$ 1,283.10	$ 318,268
Gold Held by Federal Reserve Banks	13,452,811	$ 42.2222	568	$ 1,283.10	17,261
Total Gold	261,498,927		11,041		335,529
Silver	16,000,000	$ 1.2929	21	$ 16.86	270
Total Gold and Silver Reserves			$ 11,062		$ 335,799

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 certain borrowing arrangements that supplement 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 New Arrangements to Borrow (NAB) adjustments—are not reported as budgetary resources and uses on our Combined Statement of Budgetary Resources.

Reserve Position in the International Monetary Fund

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

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

The U.S. quota is denominated in SDRs. As of September 30, 2018 and 2017, 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)	2018	2017
Letter of Credit [1]	**$ 100,275**	$ 105,627
Reserve Position [2]	**15,364**	11,509
Total U.S. Quota in the IMF	**$ 115,639**	$ 117,136

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

(2) The Reserve Position amounts are reported as "Reserve Position in the IMF" on the Consolidated Balance Sheets.

Fluctuations in the value of the U.S. dollar with respect to the SDR result in valuation changes in dollar terms for the U.S. quota. We periodically adjust this balance to maintain the SDR value of the U.S. quota as required by the IMF Articles of Agreement. As of September 30, 2018 and 2017, the U.S. quota reflects a net downward adjustment in value of $1.5 billion and a net upward adjustment of $1.5 billion, respectively, due to the appreciation and depreciation of the U.S. dollar against the SDR, respectively.

Loans and Interest Receivable

In addition to quota subscriptions, the IMF maintains borrowing arrangements to supplement its resources in order to forestall or cope with an impairment of the international monetary system when IMF liquidity is low. The U.S. has the

authority to participate in two such arrangements – the NAB and the General Arrangements to Borrow (GAB). When the U.S. transfers funds to the IMF under these supplemental borrowing arrangements, the U.S. receives in exchange a liquid and interest-bearing claim on the IMF. As of September 30, 2018 and 2017, the IMF had not utilized the GAB.

In accordance with P.L. 114-113, the NAB participation as of September 30, 2018 and 2017 was SDR 28.2 billion, which was equivalent to $39.3 billion and $39.9 billion respectively. As of September 30, 2018 and 2017, under the U.S. NAB arrangement with the IMF, there was $4.5 billion and $7.4 billion, respectively, of U.S. loans outstanding which were reported as "*Loans and Interest Receivable*" on the Consolidated Balance Sheets.

8. TAXES, INTEREST, AND OTHER RECEIVABLES, NET

As of September 30, 2018 and 2017, Taxes, Interest, and Other Receivables, Net consisted of the following:

(in millions)	2018	2017
Non-Entity		
Federal Taxes Receivable, Gross	**$ 218,205**	$ 197,188
Less Allowance on Taxes Receivable	**(160,192)**	(145,176)
Interest Receivable on FRB Deposits of Earnings	**414**	347
Other Receivables	**1,182**	1,117
Less Allowance on Other Receivables	**(121)**	(121)
Total Non-Entity (Note 14)	**59,488**	53,355
Entity		
Miscellaneous Entity Receivables and Related Interest	**149**	141
Total Taxes, Interest, and Other Receivables, Net	**$ 59,637**	$ 53,496

Federal taxes receivable constitutes the largest portion of these receivables, with IRS-related taxes receivable representing the majority of the balance. IRS federal taxes receivable consists of tax assessments, penalties, and interest which were not paid or abated, and which were agreed to by either the taxpayer and IRS, or the courts. Federal taxes receivable is reduced by an allowance for doubtful accounts which we established to represent an estimate for uncollectible amounts. The portion of taxes receivable estimated to be collectible and the allowance for doubtful accounts are based on projections of collectability from a statistical sample of taxes receivable (refer to the section entitled *Required Supplementary Information (unaudited)* for additional discussion on IRS Federal Taxes Receivable, Net).

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

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

9. CREDIT PROGRAM RECEIVABLES, NET

We administer a number of programs designed to stabilize the nation's financial system and restore the flow of credit to consumers, businesses, and homeowners. As of September 30, 2018 and 2017, Credit Program Receivables, Net consisted of the following:

(in millions)		2018		2017
State and Local Housing Finance Agency Program (GSE sponsored)	**$**	**3,994**	$	4,363
Other [1]		**1,023**		930
Total	**$**	**5,017**	$	5,293

(1) Includes CDFI, SBLF, and TARP credit program receivables valued at $783 million, $186 million and $54 million, respectively, as of September 30, 2018, and $568 million, $269 million, and $93 million, respectively, as of September 30, 2017.

STATE AND LOCAL HOUSING FINANCE AGENCY PROGRAM (GSE SPONSORED)

Under the *Housing and Economic Recovery Act of 2008* (HERA), (P.L. 110-289), we, together with the FHFA, Fannie Mae, and Freddie Mac, created a program in October 2009 to provide support to HFAs. The HFA Program is comprised of the New Issue Bond Program (NIBP) that is designed to support low mortgage rates and expand resources for low- and middle-income borrowers to purchase or rent homes, making them more affordable over the long term. Under the terms of the NIBP, we purchased securities of Fannie Mae and Freddie Mac backed by new mortgage revenue bonds issued by HFAs. As of September 30, 2018 and 2017, the HFA net credit program receivable of $4.0 billion and $4.4 billion, respectively, included a positive subsidy allowance of $630 million and $669 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, 2018 and 2017. These re-estimates resulted in a downward re-estimate, or a decrease in the cost of the program, of $7 million and $98 million as of September 30, 2018 and 2017, respectively. The downward re-estimates in FY 2018 and 2017 were primarily driven by higher than estimated principal collections, and a higher prepayment curve used in the projection of future years' cash flows as a result of improved economic conditions.

SUMMARY TABLES

The following tables provide the net composition, subsidy cost, re-estimates, a reconciliation of subsidy cost allowances, and the components of the subsidy for each of our credit programs for the fiscal years ended September 30, 2018 and 2017. The tables also include budget subsidy rates pertaining only to the cohorts for the fiscal year presented. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in 2018 and 2017 could result from disbursements of loans from both current year cohorts and prior year(s) cohorts, and also includes re-estimates. Amounts reported in the line item "*Net Credit Program Receivables*" are not necessarily the same as the proceeds that we would expect to receive from selling these assets.

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

(in millions)	HFA	Other [3]	2017c TOTAL
Credit Program Receivables, Net:			
Credit Program Receivables, Gross	$ 5,032	$ 973	$ 6,005
Subsidy Cost Allowance	(669)	(43)	(712)
Net Credit Program Receivables	$ 4,363	$ 930	$ 5,293
New Credit Program Loans Disbursed	$ -	$ 176	$ 176
Obligations for Loans Not Yet Disbursed	$ -	$ 866	$ 866
Reconciliation of Subsidy Cost Allowance:			
Balance, Beginning	$ 791	$ 103	$ 894
Subsidy Cost for Disbursements	-	(3)	(3)
Fees, Interest, and Dividend Revenue Received	160	38	198
Net Proceeds from Sales and Repurchases of Assets Less than Cost	-	(82)	(82)
Loans Written Off	-	(13)	(13)
Subsidy Allowance Amortized [1]	(184)	(34)	(218)
Balance, Ending, Before Re-estimates	767	9	776
Subsidy Re-estimates	(98)	34	(64)
Balance, Ending	$ 669	$ 43	$ 712
Re-estimates			
Interest on Re-estimate	$ (25)	$ 1	$ (24)
Technical/Default Re-estimate	(73)	33	(40)
Total Re-estimates – Increase (Decrease) in Subsidy Cost	$ (98)	$ 34	$ (64)
Reconciliation of Subsidy Costs:			
Subsidy Cost for Disbursements	$ -	$ (3)	$ (3)
Subsidy Re-estimates	(98)	34	(64)
Total Credit Program Receivables Subsidy Costs	$ (98)	$ 31	$ (67)
Administrative Expense	$ 1	$ 8	$ 9

(1) Amount includes net interest income (expense) on borrowings from the Fiscal Service and financing account balance.
(2) CDFI Financial Assistance Direct Loan Program budget subsidy rates for Interest Differential and for Defaults were 1.29% and 9.43%, respectively.
(3) CDFI Financial Assistance Direct Loan Program budget subsidy rates for Interest Differential and for Defaults were 1.56%, and 9.97%, respectively.

10. INVESTMENTS IN GOVERNMENT SPONSORED ENTERPRISES

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

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

Under the SPSPAs, we initially received from each GSE: *(i)* 1,000,000 shares of non-voting variable liquidation preference senior preferred stock with a liquidation preference value of $1,000 per share, and *(ii)* a non-transferable warrant for the purchase, at a nominal cost, of 79.9 percent of common stock on a fully-diluted basis. The warrants expire on September 7, 2028. Under the amended SPSPAs, the quarterly dividend payment changed from a 10.0 percent per annum fixed rate dividend on the total liquidation preference (as discussed below) to an amount equivalent to the GSEs' positive net worth above a capital reserve amount. The capital reserve amount, which was initially set at $3.0 billion for calendar year 2013, declined by $600 million at the beginning of each calendar year thereafter, and was scheduled to reach zero by calendar year 2018. On December 21, 2017, the Department and the FHFA agreed to modify the SPSPAs between Treasury and the GSEs to increase the capital reserve amount for each GSE back to $3 billion, effective with the December 2017 dividend payment. In exchange for the increase in the capital reserve, Treasury's liquidation preference in each GSE increased by $3 billion on December 31, 2017. The GSEs will not pay a quarterly dividend if their positive net worth is below their required capital reserve threshold. We received cash dividends of $9.9 billion and $25.3 billion during fiscal years ended September 30, 2018 and 2017, respectively.

The SPSPAs, which have no expiration date, require us to disburse funds to the GSEs if, at the end of any quarter, the FHFA determines that the liabilities of either GSE exceed its assets. Draws from the Department under the SPSPAs are designed to ensure that the GSEs maintain positive net worth, with a fixed maximum amount available to each GSE under this agreement, established as of December 31, 2012 (refer to the "*Contingent Liability to GSEs*" section below). Draws against the funding commitment of the SPSPAs do not result in the issuance of additional shares of senior preferred stock; instead, they increase the liquidation preference of the initial 1,000,000 shares by the amount of the draw. The combined cumulative liquidation preference totaled $199 billion and $189 billion as of September 30, 2018 and 2017, respectively. Actual payments of $4.0 billion were made to the GSEs for the fiscal year ended September 30, 2018. There were no payments to the GSEs for the fiscal year ended September 30, 2017.

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, 2018 and 2017, our investments in the GSEs consisted of the following:

GSEs Investments (in millions)	Gross Investments As of 9/30/18	Cumulative Valuation Gain/(Loss)	9/30/2018 Fair Value
Fannie Mae Senior Preferred Stock	$ **123,676**	$ **(64,476)**	$ **59,200**
Freddie Mac Senior Preferred Stock	**75,472**	**(31,272)**	**44,200**
Fannie Mae Warrants Common Stock	**3,104**	**3,186**	**6,290**
Freddie Mac Warrants Common Stock	**2,264**	**1,196**	**3,460**
Total GSEs Investments	$ **204,516**	$ **(91,366)**	$ **113,150**

GSEs Investments (in millions)	Gross Investments As of 9/30/17	Cumulative Valuation Gain/(Loss)	9/30/2017 Fair Value
Fannie Mae Senior Preferred Stock	$ 116,989	$ (74,489)	$ 42,500
Freddie Mac Senior Preferred Stock	72,160	(41,060)	31,100
Fannie Mae Warrants Common Stock	3,104	9,256	12,360
Freddie Mac Warrants Common Stock	2,264	4,416	6,680
Total GSEs Investments	$ 194,517	$ (101,877)	$ 92,640

Senior Preferred Stock and Warrants for Common Stock

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

The fair value of the senior preferred stock considers the amount of forecasted dividend payments. The fair valuations assume that a hypothetical buyer would acquire the discounted dividend stream as of the transaction date. The fair value of the senior preferred stock increased as of September 30, 2018 when compared to September 30, 2017, reflecting higher forecasted GSE net income, mainly driven by the reduction in the U.S. corporate income tax rate resulting from the December 22, 2017 enactment of the *Tax Cuts and Jobs Act* (P.L. 115-97), a lower discount rate driven by lower volatility among comparable companies, as well as a reduction in the market value of the GSEs' other equity securities that comprise their total equity value (refer to Note 1V).

Factors impacting the fair value of the warrants include the nominal exercise price and the large number of potential exercise shares, the market trading of the common stock that underlies the warrants as of September 30, the principal market, and the market participants. Other factors impacting the fair value include, among other things, the holding period risk related directly to the assumption of the amount of time that it will take to sell the exercised shares without depressing the market. The fair value of the warrants decreased at the end of FY 2018, when compared to 2017, primarily due to decreases in the market price of the underlying common stock of each GSE.

CONTINGENT LIABILITY TO GSES

As part of the annual process undertaken by the Department, we prepare a series of long-term financial forecasts to assess, as of September 30, the likelihood and magnitude of future draws to be required by the GSEs under the SPSPAs within the forecast time horizon. We used 25-year financial forecasts prepared through years 2043 and 2042 in assessing if a contingent liability was required as of September 30, 2018 and 2017, 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, 2018 and 2017, and thereby accrued no contingent liability. However, as of September 30, 2018, it is reasonably possible that market volatility or non-recurring events—for instance, changes to accounting policies that impact credit loss provisions—could potentially cause the GSEs to generate quarterly losses and, therefore, result in future funding draws against our funding commitment. Due to challenges quantifying future market volatility or the timing, magnitude, and likelihood of non-recurring events, we could not estimate the total amount of this reasonably possible future funding liability as of September 30, 2018. P.L. 115-97 caused each GSE to reduce the value of their deferred tax assets in the quarter in which the legislation was enacted. The reduction of the GSEs deferred tax assets resulted in us making $4.0 billion in actual payments to the GSEs to ensure they maintained positive net worth. At September 30, 2018 and 2017, the maximum remaining contractual commitment to the GSEs for the remaining life of the SPSPAs was $254.1 billion and $258.1 billion, respectively.

In assessing the need for an estimated contingent liability, we rely on the GSEs' public filings and press releases concerning their financial statements, monthly summaries, and quarterly credit supplements, as well as non-public, long-term financial forecasts, the FHFA House Price Index, discussions with each of the GSEs and FHFA, and other information pertinent to the liability estimates. The forecasts prepared in assessing the need for an estimated contingent liability as of September 30, 2018 include three potential wind-down scenarios, with varying assumptions regarding the timing as to when the GSEs would cease new business activities, including purchasing mortgage loans and issuing new guaranteed mortgage-backed securities. The forecasts also assume a continued gradual wind-down of the retained portfolios (and corresponding net interest income) through 2018, as directed under the amended SPSPAs for each GSE to reduce the maximum balance of its retained mortgage portfolio by 15.0 percent per annum beginning December 31, 2013. The maximum balance of the GSEs' retained mortgage portfolio was initially set at $650 billion as of December 31, 2012, and the amended SPSPAs requires that we reduce this maximum balance to $250 billion by December 31, 2018.

ESTIMATION FACTORS

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

FINANCIAL PERFORMANCE OF THE GSES

The summarized unaudited aggregated financial condition of the GSEs as of September 30, 2018 and 2017, along with their summarized unaudited aggregated financial operating results for the nine months ended September 30, 2018 and 2017 were as follows:

(in millions)	2018	2017
Combined Assets		
Investment Securities	**$ 123,368**	$ 129,997
Mortgage Loans	**5,135,562**	4,997,651
Other	**205,632**	233,767
Total Combined Assets	**5,464,562**	5,361,415
Combined Liabilities		
Long-Term Debt	**5,319,340**	5,214,940
Other	**132,688**	137,577
Total Combined Liabilities	**5,452,028**	5,352,517
Combined Net Equity	**$ 12,534**	$ 8,898
For the Nine Months Ended September 30		
Combined Net Interest Income	**$ 25,256**	$ 26,285
Combined Benefit for Loan Losses	**2,606**	1,303
Combined Net Interest Income After Benefit for Loan Losses	**$ 27,862**	$ 27,588
Combined Net Income	**$ 20,864**	$ 17,542

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

GSEs Non-Entity Revenue

For the fiscal years ended September 30, 2018 and 2017, GSEs Non-Entity Revenue, Net consisted of the following:

Summary of GSEs Non-Entity Revenue (in millions)		2018	2017
General Fund Revenue from Increase in Liquidation Preference of GSEs Preferred Stock	$	**(9,999)**	$ -
Fair Value Loss/(Gain) on GSEs Warrants/Preferred Stock		**(10,511)**	15,910
GSEs Preferred Stock Dividends		**(9,881)**	(25,349)
Total GSEs Non-Entity Revenue, Net	$	**(30,391)**	$ (9,439)

Regulatory Environment

To date, Congress has not approved a plan to address the future of the GSEs, thus the GSEs continue to operate under the direction of their conservator, the FHFA, whose stated strategic goals for the GSEs are to: *(i)* maintain, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive, and resilient national housing finance markets; *(ii)* reduce taxpayer risk through increasing the role of private capital in the mortgage market; and *(iii)* build a new single-family securitization infrastructure for use by the GSEs and adaptable for the use by other participants in the secondary market in the future.

The *Temporary Payroll Tax Cut Continuation Act of 2011* (P.L. 112-78) was funded by an increase of ten basis points in the GSEs' guarantee fees (referred to as "the incremental fees") which began in April 2012, and is effective through October 1, 2021. The incremental fees are remitted to us and not retained by the GSEs and, thus, do not affect the profitability of the GSEs. For FY 2018 and 2017, the GSEs remitted to us the incremental fees totaling $3.6 billion and $3.2 billion, respectively, which are reported within the line item entitled "*Fines, Penalties, Interest and Other Revenue*" on our Statements of Custodial Activity.

11. Investments in Multilateral Development Banks

As of September 30, 2018 and 2017, Investments in Multilateral Development Banks consisted of the following:

(in millions)		2018		2017
International Bank for Reconstruction and Development	$	**2,850**	$	2,850
Inter-American Development Bank [1]		**2,023**		2,023
Asian Development Bank		**991**		991
European Bank for Reconstruction and Development		**636**		636
International Finance Corporation		**569**		569
African Development Bank		**402**		369
North American Development Bank		**225**		225
Multilateral Investment Guarantee Agency		**45**		45
Total	$	**7,741**	$	7,708

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

12. Other Investments and Related Interest

Other investments and related interest include foreign currency holdings that we typically invest in interest-bearing securities issued or held through foreign governments or monetary authorities (refer to Note 5). The ESF holds most of our foreign currency investments. Of the total $7.0 billion fair value of foreign investments (excluding interest receivable) held at September 30, 2018, $1.0 billion will mature within one year, $3.9 billion will mature after one year but before five years, and $2.1 billion will mature after five years but before ten years.

As of September 30, 2018 and 2017, Other Investments and Related Interest consisted of the following:

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

Type of Investment (in millions)		Cost/ Acquisition Value		Unamortized (Premium)/ Discount		Interest Receivable		9/30/17 Net Investment		Unrealized Gain/(Loss)		9/30/17 Fair Value
Foreign Investments:												
Euro Bonds & Notes	$	5,879	$	481	$	69	$	6,429	$	299	$	6,728
Japanese Government Bonds		1,754		2		1		1,757		56		1,813
Other Investments		29		(1)		-		28		(10)		18
Total Non-Federal	$	7,662	$	482	$	70	$	8,214	$	345	$	8,559

13. PROPERTY, PLANT, AND EQUIPMENT, NET

As of September 30, 2018 and 2017, Property, Plant, and Equipment, Net consisted of the following:

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

(in millions)	Depreciation Method	Service Life	Cost	Accumulated Depreciation	2017 Net Book Value
Buildings, Structures and Facilities	S/L	3 - 50 years	$ 766	$ (459)	$ 307
Furniture, Fixtures and Equipment	S/L	2 - 20 years	2,831	(2,051)	780
Construction-in-Progress	N/A	N/A	103	-	103
Land and Land Improvements	N/A	N/A	18	(2)	16
Internal-Use Software in Use	S/L	2 - 15 years	3,574	(2,076)	1,498
Internal-Use Software in Development	N/A	N/A	181	-	181
Assets Under Capital Lease	S/L	2 - 25 years	21	(12)	9
Leasehold Improvements	S/L	2 - 25 years	415	(249)	166
Total			$ 7,909	$ (4,849)	$ 3,060

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

HERITAGE ASSETS

We have 15 heritage assets, of which five are considered multi-use, for FY 2018 and 2017. The Treasury Complex (Main Treasury Building and Annex), declared a national historical landmark in 1972, is treated as a multi-use heritage asset and is expected to be preserved indefinitely. The buildings that house the Mint in Denver, San Francisco, Fort Knox, and West Point are also multi-use heritage assets and included on the National Register of Historic Places. Additionally, the Mint maintains heritage assets consisting of four coin collections and six collections of historical artifacts.

14. Non-Entity vs. Entity Assets

Non-entity assets are those that we hold and manage on behalf of the General Fund but are not available for our use. The table below shows our total assets, segregated between non-entity and entity, as of September 30, 2018 and 2017:

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

(a) *$1,097 million of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*
(b) *$378.7 billion of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*
(c) *$25 million of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*
(d) *Other Assets (Entity) include loans and interest receivable, other investments and related interest, reserve position in the IMF, and other various assets on the Consolidated Balance Sheets not separately presented in this table.*

		2017	
(in millions)	**Non-Entity**	**Entity**	**Total**
Intra-governmental Assets:			
Fund Balance [(e)]	$ 1,668	$ 424,728	$ 426,396
Loans and Interest Receivable (Note 3)	1,377,845	77,780	1,455,625
Advances to Trust Funds (Note 4)	9,021	-	9,021
Due From the General Fund (Note 4)	20,373,777	-	20,373,777
Other Intra-governmental Assets	789	29	818
Total Intra-governmental Assets	21,763,100	502,537	22,265,637
Cash, Foreign Currency, and Other Monetary Assets (Note 5) [(f)]	154,353	64,477	218,830
Gold and Silver Reserves (Note 6) [(g)]	11,062	-	11,062
Taxes, Interest, and Other Receivables, Net (Note 8)	53,355	141	53,496
Investments in GSEs (Note 10)	92,640	-	92,640
Other Assets [(h)]	8	44,487	44,495
Total Assets	$ 22,074,518	$ 611,642	$ 22,686,160

(e) *$793 million of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*
(f) *$153.6 billion of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*
(g) *$25 million of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*
(h) *Other Assets (Entity) include loans and interest receivable, other investments and related interest, reserve position in the IMF, and other various assets on the Consolidated Balance Sheets not separately presented in this table.*

15. Federal Debt and Interest Payable and Related Liabilities

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

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

Federal Debt and Interest Payable as of September 30, 2018 and 2017 was as follows:

Held by Other Federal Agencies (Intra-governmental) (in millions)	2018	2017
Beginning Balance	$ **5,527,721**	$ 5,354,167
New Borrowings/(Repayments) - Net	**184,816**	173,554
Subtotal at Par Value	**5,712,537**	5,527,721
Premium/(Discount)	**69,843**	72,073
Debt Principal Not Covered by Budgetary Resources (Note 18)	**5,782,380**	5,599,794
Interest Payable Covered by Budgetary Resources	**39,262**	38,156
Total	$ **5,821,642**	$ 5,637,950

Held by the Public (in millions)	2018	2017
Beginning Balance	$ **14,673,429**	$ 14,173,424
New Borrowings - Net of Repayments	**1,087,726**	500,005
Subtotal at Par Value	**15,761,155**	14,673,429
Premium/(Discount)	**(44,766)**	(39,204)
Debt Principal Not Covered by Budgetary Resources (Note 18)	**15,716,389**	14,634,225
Interest Payable Covered by Budgetary Resources	**73,528**	65,462
Total	$ **15,789,917**	$ 14,699,687

Federal Debt Held by Other Federal Agencies

Certain federal agencies are allowed to invest excess funds in debt securities we issue on behalf of the U.S. government. The terms and the conditions of debt securities issued allow the U.S. government to meet its cash needs. The vast majority of debt securities are non-marketable securities issued at par value, but others are issued at market prices and interest rates that reflect market terms. The average intra-governmental interest rate for debt held by the federal entities, excluding Treasury Inflation-Protected Securities (TIPS) and Floating Rate Notes (FRNs), for both FY 2018 and 2017 was 2.8 percent. The average intra-governmental interest rate on TIPS for both FY 2018 and 2017 was 1.3 percent. The average interest rate represents the original issue weighted effective yield on securities outstanding at the end of the fiscal year.

The federal debt also includes intra-governmental marketable debt securities that certain agencies are permitted to buy and sell on the open market. The debt held by federal agencies at par value (not including premium/discount or interest payable) as of September 30, 2018 and 2017 was as follows:

(in millions)		2018		2017
Social Security Administration	**$**	**2,894,654**	$	2,889,869
Office of Personnel Management		**1,033,785**		1,014,837
Department of Defense Agencies		**995,540**		898,480
Department of Health and Human Services		**304,789**		273,197
All Other Federal Entities — Consolidated		**483,769**		451,338
Total Federal Debt Held by Other Federal Agencies	**$**	**5,712,537**	$	5,527,721

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, 2018 and 2017 consisted of the following:

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

(at par value in millions)	Term	Average Interest Rates		2017
Marketable:				
Treasury Bills	1 Year or Less	1.1%	$	1,799,570
Treasury Notes	Over 1 Year - 10 Years	1.8%		8,798,940
Treasury Bonds	Over 10 Years	4.2%		1,948,414
Treasury Inflation-Protected Securities (TIPS)	5 Years or More	0.8%		1,286,123
Treasury Floating Rate Notes (FRN)	2 Years	1.2%		342,630
Total Marketable				14,175,677
Non-Marketable	On Demand to Over 40 Years	2.3%		497,752
Total Federal Debt Held by the Public			$	14,673,429

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

We issue marketable notes and bonds as long-term securities that pay semi-annual interest based on the securities' stated interest rates. We issue these securities at either par value or at an amount that reflects a discount or premium. The average interest rate on marketable notes and bonds represents the stated interest rate adjusted by any discount or premium on securities outstanding at year-end. We also issue TIPS that have interest and redemption payments tied to the CPI for all Urban Consumers, a widely used measurement of inflation. We adjust the principal for TIPS daily over the life of the security based on the CPI for all Urban Consumers. At maturity, TIPS are redeemed at the inflation-adjusted principal amount, or the original par value, whichever is greater. TIPS pay a semi-annual fixed rate of interest applied to the inflation-adjusted principal. The average interest rate on TIPS represents the stated interest rate on principal plus inflation, adjusted by any discount or premium on securities outstanding as of the end of the fiscal year. The inflation-adjusted TIPS principal balance of federal debt held by the public included inflation of $134.1 billion and $103.7 billion as of September 30, 2018 and 2017, 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, 2018, the FRBs had total holdings of $1.8 trillion which: *(i)* excluded $531.8 billion in Treasury securities used in overnight reverse repurchase transactions, and *(ii)* included a net of $1.0 billion in Treasury securities held by the FRB as collateral for securities lending activities. As of September 30, 2017, the FRBs had total holdings of $2.0 trillion which: *(i)* excluded $502.0 billion in Treasury securities used in overnight reverse repurchase transactions, and *(ii)* included a net of $1.3 billion in Treasury securities held by the FRB as collateral for securities lending activities. For the years ended September 30, 2018 and 2017, we incurred interest expense of $64.1 billion and $63.8 billion, respectively, related to Treasury securities held by the FRBs.

STATUTORY DEBT LIMIT

Congress has provided us with statutory authority to take certain extraordinary measures in the event that the public debt nears the statutory debt limit and a delay in raising the statutory debt limit occurs. These measures authorize us to deviate from our normal debt management operations – which include the investment (or non-investment) of trust fund balances in Treasury securities – to avoid exceeding the statutory debt limit.

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

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

A delay in raising the statutory debt limit occurred from March 16, 2017 until September 7, 2017. On September 8, 2017, Congress enacted the *Continuing Appropriations Act, 2018 and Supplemental Appropriations for Disaster Relief Requirements Act, 2017* (P.L. 115-56) which temporarily suspended the debt limit through December 8, 2017. Another delay in raising the statutory debt limit occurred from December 9, 2017 until February 9, 2018. On February 9, 2018, Congress enacted the *Bipartisan Budget Act of 2018* (P.L. 115-123) which temporarily suspended the debt limit through March 1, 2019.

During the period March 16, 2017 through September 7, 2017, we departed from our normal debt management operations and undertook extraordinary measures to avoid exceeding the statutory debt limit. On September 8, 2017, when Congress temporarily suspended the debt limit, we discontinued the use of extraordinary measures and resumed normal debt management operations. On this date, we restored unissued securities totaling $294.9 billion, of which $192.6 billion was restored to the G Fund and $102.3 billion was restored to the two OPM funds. We also restored foregone interest of $1.6 billion to the G Fund on the interest payment date of September 11, 2017. In addition, we restored foregone interest totaling $732 million (of which $660 million was accrued through September 30, 2017) to the two OPM funds on the semi-annual interest payable date of December 29, 2017.

The liability for the interest related to the restored securities for the OPM funds as of September 30, 2017 totaling $660 million was reported on our Consolidated Balance Sheets in the line item "*Liability for Restoration of Federal Debt Principal and Interest.*" A corresponding amount was reported in the "*Due From the General Fund*" on the Consolidated Balance Sheets (refer to Note 4). Additionally, the accrued foregone interest expense totaling $660 million was reported in FY 2017 as a non-entity expense within the line item, "*Accrued Restoration of Foregone Federal Debt Interest*," on Consolidated Statements of Net Cost, with an offsetting amount reported within the line item, "*Accrued Interest on Restoration of Federal Debt Principal*," as part of other financing sources on the Consolidated Statements of Changes in Net Position.

During the period from December 11, 2017 through February 8, 2018, we again departed from our normal debt management operations and undertook extraordinary measures to avoid exceeding the statutory debt limit. On February 9, 2018, when Congress temporarily suspended the debt limit, we discontinued the use of extraordinary measures and resumed normal debt management operations. On this date, we restored unissued securities totaling $175.6 billion, of which $156.7 billion was restored to the G Fund and $18.9 billion was restored to the two OPM Funds. We also restored foregone interest of $485 million to the G Fund on the interest payment date of February 12, 2018. We restored foregone interest related to the unissued securities for the two OPM funds during the period of December 11, 2017 through February 8, 2018, which totaled $247 million, on the semi-annual interest payable date of June 29, 2018.

Of the $1.5 billion of foregone interest paid in FY 2018, $804 million was reported in FY 2018 as a current year, non-entity expense within the line item, *"Restoration of Foregone Federal Debt Interest."* In FY 2018, we reversed the $660 million of the FY 2017 accrued foregone interest as part of other financing sources on the Consolidated Statement of Changes in Net Position in connection with the actual payment of interest.

16. OTHER DEBT AND INTEREST PAYABLE

Through FFB, we have outstanding borrowings and related accrued interest owed to the Civil Service Fund. At September 30, 2018 and 2017, FFB had outstanding borrowings of $10.4 billion and $11.5 billion, inclusive of $75 million and $86 million of accrued interest payable, respectively. During FY 2018 and 2017, FFB paid $1.1 billion and $1.6 billion in principal, respectively. The outstanding borrowings at September 30, 2018 had stated interest rates that ranged from 2.25 percent to 4.63 percent per annum, and an effective interest rate of 2.86 percent. The outstanding borrowings at September 30, 2017 had stated interest rates that ranged from 2.25 percent to 4.63 percent per annum, and an effective interest rate of 2.97 percent. Maturity dates ranged from June 30, 2019 to June 30, 2029 for outstanding borrowings at September 30, 2018, and from June 30, 2018 to June 30, 2029 for outstanding borrowings at September 30, 2017.

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

Title XI of the *Balanced Budget Act of 1997*, as amended intended to relieve the D.C. government of the burden of unfunded pension liabilities transferred to the District by the U.S. government in 1979. To fulfill our responsibility, we manage two funds – the D.C. 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, 2018 and 2017 is as follows:

(in millions)	2018	2017
Beginning Liability Balance	**$ 8,682**	$ 8,836
Pension Expense:		
Normal Cost	**6**	6
Interest on Pension Liability During the Year	**66**	102
Actuarial (Gains) Losses During the Year:		
From Experience	**55**	26
From Discount Rate Assumption Change	**377**	428
From Other Assumption Changes	**(177)**	(54)
From Non-Economic Changes	**(84)**	(110)
Total Pension Expense	**243**	398
Less Amounts Paid	**(553)**	(552)
Ending Liability Balance	**$ 8,372**	$ 8,682

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

Additional Information ($ in millions):	D.C. Federal Pension Fund	Judicial Retirement Fund	2017 Total
Amount Received from the General Fund	$ 452	$ 16	$ 468
Annual Rate of Investment Return Assumption	0.71% - 4.03%	0.71% - 4.03%	
Future Annual Rate of Inflation and Cost-Of-Living Adjustment:			
Police Officers	1.82%	N/A	
Firefighters	1.82%	N/A	
Teachers	1.86%	N/A	
Judicial	N/A	1.69%	
Future Annual Rate of Salary Increases:			
Police Officers	1.80%	N/A	
Firefighters	2.20%	N/A	
Teachers	3.00%	N/A	
Judicial	N/A	1.08%	

18. LIABILITIES

LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30, 2018 and 2017, liabilities not covered by budgetary resources consisted of the following:

(in millions)	2018	2017
Intra-governmental Liabilities Not Covered by Budgetary Resources		
Federal Debt Principal, Premium/Discount (Note 15)	**$ 5,782,380**	$ 5,599,794
Liability for Restoration of Federal Debt Principal and Interest (Note 15)	**-**	660
Other Intra-governmental Liabilities	**125**	130
Total Intra-governmental Liabilities Not Covered by Budgetary Resources	**5,782,505**	5,600,584
Federal Debt Principal, Premium/Discount (Note 15)	**15,716,389**	14,634,225
Other Liabilities	**1,025**	1,041
Total Liabilities Not Covered by Budgetary Resources	**21,499,919**	20,235,850
Total Liabilities Covered by or Not Requiring Budgetary Resources	**2,278,023**	1,952,985
Total Liabilities	**$ 23,777,942**	$ 22,188,835

OTHER LIABILITIES

Total "*Other Liabilities*" displayed on the Consolidated Balance Sheets consists of liabilities that are covered by, not covered by, and not requiring budgetary resources. "*Other Liabilities*" at September 30, 2018 and 2017, consisted of the following:

(in millions)	Current	Non-Current	2018 Total	Current	Non-Current	2017 Total
Intra-governmental						
Accounts Payable	**$ 86**	**-**	**86**	77	-	77
Unfunded Federal Workers Compensation Program Liability (FECA)	**41**	**51**	**92**	43	52	95
Other Accrued Liabilities	**452**	**1**	**453**	440	1	441
Total Intra-governmental	**$ 579**	**52**	**631**	560	53	613
With the Public						
Liability for Deposit Funds (Held by the U.S. government for Others) and Suspense Accounts	**$ 1,398**	**-**	**1,398**	1,156	-	1,156
Actuarial Federal Workers Compensation Program Liability (FECA)	**-**	**584**	**584**	-	592	592
Accrued Funded Payroll and Benefits	**428**	**-**	**428**	420	-	420
Accounts Payable and Other Accrued Liabilities	**3,047**	**87**	**3,134**	3,170	82	3,252
Total With the Public	**$ 4,873**	**671**	**5,544**	4,746	674	5,420

19. NET POSITION

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

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

APPROPRIATIONS RECEIVED

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

TRANSFERS TO THE GENERAL FUND AND OTHER

The amount reported as "*Transfers to the General Fund and Other*" on the Consolidated Statements of Changes in Net Position under "*Other Financing Sources*" includes the following for the years ended September 30, 2018 and 2017:

(in millions)	2018	2017
Categories of Transfers to the General Fund and Other		
Interest Revenue	**$ 44,835**	$ 44,304
Increase in Liquidation Preference of GSEs Preferred Stock, GSEs Preferred Stock Dividends and Valuation Changes (Note 10)	**30,391**	9,439
Other	**2,242**	1,482
Total	**$ 77,468**	$ 55,225

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

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

20. Consolidated Statements of Net Cost and Net Costs of Treasury Sub-Organizations

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

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

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

Intra-Departmental Costs/Revenues

We report intra-departmental costs/revenues resulting from the provision of goods and/or services on a reimbursable basis among our sub-organizations as costs by providing sub-organizations and as revenues by receiving sub-organizations. We recognized intra-departmental imputed costs on the Consolidated Statements of Net Cost of $931 million and $695 million during FY 2018 and 2017, 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. 30, *Inter-Entity Cost Implementation Amending SFFAS No. 4, Managerial Cost Accounting Standards and Concepts*, we recognize identified costs paid on our behalf by other agencies. The imputed inter-departmental financing sources we currently recognize include the actual cost of future benefits for the federal pension plans that other federal entities pay, the Federal Employees Health Benefits Program, and any un-reimbursed contract dispute payments made from the Treasury Judgment Fund on our behalf. We reflect the funding for these costs as costs on the Consolidated Statements of Net Cost,

and as imputed financing sources on the Consolidated Statements of Changes in Net Position. Costs paid by other agencies on our behalf were $779 million and $552 million for the fiscal years ended September 30, 2018 and 2017, respectively.

CONSOLIDATED STATEMENTS OF NET COST PRESENTATION

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

For comparative purposes, we reclassified the FY 2017 gross costs and earned revenues for certain bureaus and reporting entities to conform to the current year's presentation of such costs and revenues which are aligned in accordance with our new FY 2018 – 2022 Strategic Plan goals. Reclassifications made to the FY 2017 Consolidated Statement of Net Cost primarily included $12.2 billion of IRS program net costs (gross costs net of revenues, before eliminations) which were reclassified from the Financial to the Economic program category. We also reclassified $4.1 billion and $1.7 billion of OFS and IAP program net costs (included in DO) from the Economic to the Financial program, as well as other reclassifications totaling $0.7 billion. On an aggregated basis, for FY 2017, total consolidated net costs of the Financial program decreased by $5.7 billion, and total consolidated net costs of the Economic program increased by $5.7 billion as a result of this reclassification.

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

Non-entity other federal costs shown on the Consolidated Statements of Net Cost for the fiscal years ended September 30, 2018 and 2017 consisted of the following:

(in millions)	2018	2017
Credit Reform Interest on Uninvested Funds (Intra-governmental)	$ **7,879**	$ 8,322
Resolution Funding Corporation	**2,628**	2,628
Judgment Claims and Contract Disputes	**1,418**	2,705
Corporation for Public Broadcasting	**465**	495
All Other Payments	**550**	575
Total	$ **12,940**	$ 14,725

20. CONSOLIDATED STATEMENT OF NET COST AND NET COSTS OF TREASURY SUB-ORGANIZATIONS (IN MILLIONS)

For Fiscal Year Ended September 30, 2018

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	$ -	$ 2,216	$ 6,909	$ -	$ -	$ -
Less Earned Revenue	-	(363)	(3,290)	-	-	-
Net Program Cost	-	1,853	3,619	-	-	-
ECONOMIC PROGRAM						
Gross Cost	774	-	12,693	-	13,214	1,711
Less Earned Revenue	(772)	-	(7,860)	-	(566)	(1,652)
Net Program Cost	2	-	4,833	-	12,648	59
SECURITY PROGRAM						
Gross Cost	-	-	408	124	-	-
Less Earned Revenue	-	-	(32)	(3)	-	-
Net Program Cost	-	-	376	121	-	-
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	2	1,853	8,828	121	12,648	59
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	-	-	116	-	-	-
Total Net Cost of (Revenue From) Treasury Operations	$ 2	$ 1,853	$ 8,944	$ 121	$ 12,648	$ 59

(a) Of the total $4.8 billion of net cost reported by DO for the Economic Program, GSEs contributed $4.0 billion. Other net costs were spread throughout other DO programs or offices.

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

For Fiscal Year Ended September 30, 2018

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

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

For Fiscal Year Ended September 30, 2017

Program Costs	Bureau of Engraving & Printing	Bureau of the Fiscal Service	Depart-mental Office[(a)]	Financial Crimes Enforcement Network	Internal Revenue Service	U.S. Mint
FINANCIAL PROGRAM						
Gross Cost	$ -	$ 2,178	$ 9,066	$ -	$ -	$ -
Less Earned Revenue	-	(361)	(3,283)	-	-	-
Net Program Cost	-	1,817	5,783	-	-	-
ECONOMIC PROGRAM						
Gross Cost	705	-	9,591	-	12,719	2,262
Less Earned Revenue	(707)	-	(7,787)	-	(567)	(2,236)
Net Program Cost	(2)	-	1,804	-	12,152	26
SECURITY PROGRAM						
Gross Cost	-	-	386	118	-	-
Less Earned Revenue	-	-	(28)	(2)	-	-
Net Program Cost	-	-	358	116	-	-
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	(2)	1,817	7,945	116	12,152	26
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	-	-	264	-	-	-
Total Net Cost of (Revenue From) Treasury Operations	$ (2)	$ 1,817	$ 8,209	$ 116	$ 12,152	$ 26

(a) Of the total $5.8 billion of net cost reported by DO for the Financial Program, IAP and OFS contributed $1.7 billion and $4.1 billion, respectively.

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

For Fiscal Year Ended September 30, 2017

Program Costs	Office of the Comptroller of the Currency	Alcohol and Tobacco Tax and Trade Bureau	Combined Total	Eliminations	2017 Consolidated
FINANCIAL PROGRAM					
Gross Cost	$ -	$ -	$ 11,244	$ 2,028	$ 9,216
Less Earned Revenue	-	-	(3,644)	(675)	(2,969)
Net Program Cost	-	-	7,600	1,353	6,247
ECONOMIC PROGRAM					
Gross Cost	1,136	117	26,530	1,186	25,344
Less Earned Revenue	(1,205)	(6)	(12,508)	(312)	(12,196)
Net Program Cost	(69)	111	14,022	874	13,148
SECURITY PROGRAM					
Gross Cost	-	-	504	68	436
Less Earned Revenue	-	-	(30)	(25)	(5)
Net Program Cost	-	-	474	43	431
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	(69)	111	22,096	2,270	19,826
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	-	-	264	-	264
Total Net Cost of (Revenue From) Treasury Operations	$ (69)	$ 111	$ 22,360	$ 2,270	$ 20,090

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

Undelivered Orders

Undelivered orders represent goods and services ordered and obligated which have not been received. This includes any orders for which we have paid in advance, but for which delivery or performance has not yet occurred. Undelivered orders as of September 30, 2018 and 2017 consisted of the following:

	2018			2017
(in millions)	Federal	Non-Federal	Total	
Paid	**$ 4**	**$ 10**	**$ 14**	$ 11
Unpaid	**436**	**8,443**	**8,879**	14,334
Undelivered Orders at the End of the Year	**$ 440**	**$ 8,453**	**$ 8,893**	$ 14,345

Contributed Capital

Contributed capital represents the current year authority and prior year balances of amounts actually transferred through non-expenditure transfers to miscellaneous receipt accounts of the General Fund to repay a portion of a capital investment or transfer seigniorage and numismatic profits (refer to Note 19). Contributed capital for the fiscal years ended September 30, 2018 and 2017 was $48 million and $117 million, respectively.

Apportionment Categories of New Obligations and Upward Adjustments

Apportionment categories are determined in accordance with the guidance provided in OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget*. Apportionment Category A represents resources apportioned for calendar quarters. Apportionment Category B represents resources apportioned for other time periods for activities, projects or objectives, or for any combination thereof. New obligations and upward adjustments for direct and reimbursable obligations by apportionment category for the fiscal years ended September 30, 2018 and 2017 consisted of the following:

(in millions)	2018	2017
Direct - Category A	**$ 3,999**	$ 35
Direct - Category B	**26,661**	27,925
Direct - Exempt from Apportionment	**530,793**	467,038
Total Direct	**561,453**	494,998
Reimbursable - Category B	**5,694**	5,728
Reimbursable - Exempt from Apportionment	**1,504**	1,343
Total Reimbursable	**7,198**	7,071
Total Direct and Reimbursable	**$ 568,651**	$ 502,069

Terms of Borrowing Authority Used

Several of our programs have authority to borrow under the FCRA, as amended. The FCRA provides indefinite borrowing authority to financing accounts to fund the unsubsidized portion of direct loans and to satisfy obligations in the event the financing account's resources are insufficient. OMB Circular No. A-11 defines repayment requirements. Interest expense due is calculated based on the beginning balance of borrowings outstanding and the borrowings/repayments activity that occurred during the fiscal year. Undisbursed Departmental borrowings earn interest at the same rate as the financing

account pays on its debt owed to the Fiscal Service. In the event that principal and interest collections exceed the interest expense due, we receive the excess payment. If principal and interest do not exceed interest expense due, we will borrow the difference. We make periodic principal repayments based on the analysis of cash balances and future disbursement needs. All interest on borrowings is due on September 30. Interest rates on FCRA borrowings range from 1.92 percent to 6.36 percent.

AVAILABLE BORROWING

The available borrowing authority and related changes in available borrowing authority as of and for the fiscal years ended September 30, 2018 and 2017 are shown below:

(in millions)	2018	2017
Beginning Balance	**$ 6,600**	$ 6,520
Current Authority	**265**	268
Borrowing Authority Converted to Cash	**(342)**	(188)
Ending Balance	**$ 6,523**	$ 6,600

RECONCILIATION OF THE PRESIDENT'S BUDGET

The Budget of the United States (also known as the President's Budget), with actual numbers for FY 2018, was not published at the time that these financial statements were issued. The FY 2020 President's Budget is expected to be published in February 2019, will be located on the OMB website, and will be available from the U.S. Government Publishing Office. The following chart displays the differences between the Combined Statement of Budgetary Resources (SBR) in the FY 2017 AFR and the actual FY 2017 balances included in the FY 2019 President's Budget.

Reconciliation of FY 2017 Combined Statement of Budgetary Resources to the FY 2019 President's Budget

(in millions)	Budgetary Resources	Obligations and Upward Adjustments	Outlays (net of offsetting collections)	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources (SBR) Amounts	$ 818,517	$ 502,069	$ 495,608	$ (75,089)	$ 420,519
IRS non-entity tax credit payments and other outlays not in SBR [1]	134,515	134,515	128,030	-	128,030
Tax and Trade Bureau (TTB) non-entity collections for Puerto Rico not in SBR	365	365	365	-	365
Expired funds in SBR	(626)	-	-	-	-
Non-Treasury offsetting receipts	-	-	-	(800)	(800)
Other	(74)	(76)	(2)	34	32
President's Budget Amounts	**$ 952,697**	**$ 636,873**	**$ 624,001**	**$ (75,855)**	**$ 548,146**

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

Legal Arrangements Affecting Use of Unobligated Balances

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

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

22. Sources and Disposition of Custodial Revenue

We collect the majority of federal revenue from income and excise taxes. The table below shows collection activity, by revenue type and tax year, for the fiscal years ended September 30, 2018 and 2017:

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

(in millions)	Tax Year 2017	2016	2015	Pre-2015	2017 Collections
Individual Income and FICA Taxes	$ 1,929,988	$ 988,750	$ 32,331	$ 25,375	$ 2,976,444
Corporate Income Taxes	218,569	108,883	1,773	9,304	338,529
Estate and Gift Taxes	162	20,873	1,050	1,695	23,780
Excise Taxes	62,684	22,455	40	154	85,333
Railroad Retirement Taxes	4,592	1,363	-	2	5,957
Unemployment Taxes	4,433	3,706	32	113	8,284
Fines, Penalties, Interest & Other Revenue - Tax Related	218	1	-	1	220
Tax Related Revenue Received	2,220,646	1,146,031	35,226	36,644	3,438,547
Deposit of Earnings, Federal Reserve System	61,837	19,450	-	-	81,287
Fines, Penalties, Interest & Other Revenue - Non-Tax Related	3,952	868	-	-	4,820
Non-Tax Related Revenue Received	65,789	20,318	-	-	86,107
Total Revenue Received	$ 2,286,435	$ 1,166,349	$ 35,226	$ 36,644	$ 3,524,654
Less Amounts Collected for Non-Federal Entities					370
Total					$ 3,524,284

AMOUNTS PROVIDED TO FUND THE U.S. GOVERNMENT

For the fiscal years ended September 30, 2018 and 2017, collections of custodial revenue transferred to other federal entities were as follows:

(in millions)		2018		2017
Department of the Interior	$	**625**	$	760
General Fund		**3,096,979**		3,086,201
Total	$	**3,097,604**	$	3,086,961

FEDERAL TAX REFUNDS AND OTHER PAYMENTS

Federal tax refunds and other payments include amounts paid to taxpayers who have paid more than the actual taxes they owe, as well as payments for various refundable tax credits. Refunds and other payments, by revenue type and tax year, were as follows for the years ended September 30, 2018 and 2017:

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

	Tax Year				
(in millions)	2017	2016	2015	Pre-2015	2017 Refunds Payments
Individual Income and FICA Taxes	$ 46,278	$ 306,351	$ 27,804	$ 8,734	$ 389,167
Corporate Income Taxes	5,167	14,447	7,758	17,523	44,895
Estate and Gift Taxes	-	188	381	478	1,047
Excise Taxes	411	956	224	462	2,053
Railroad Retirement Taxes	-	3	-	(1)	2
Unemployment Taxes	1	114	15	29	159
Total	$ 51,857	$ 322,059	$ 36,182	$ 27,225	$ 437,323

FEDERAL TAX REFUNDS AND OTHER AMOUNTS PAYABLE

As of September 30, 2018 and 2017, refunds and other amounts payable consisted of the following:

(in millions)		2018		2017
Internal Revenue Service	$	**2,975**	$	3,062
Alcohol and Tobacco Tax and Trade Bureau		**19**		12
Total	$	**2,994**	$	3,074

23. FUNDS FROM DEDICATED COLLECTIONS

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

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

Bureau	Fund Code	Fund Title/Description
Exchange Stabilization Fund (ESF)		
ESF	020X4444	Exchange Stabilization Fund
Public Enterprise/Revolving Funds		
BEP	020X4502	Bureau of Engraving and Printing Fund
Mint	020X4159	Public Enterprise Fund
OCC	020X8413	Assessment Funds
IRS	020X4413	Federal Tax Lien Revolving Fund
Other FDC Funds		
Fiscal Service	020X5080	Gifts to Reduce Public Debt
Fiscal Service	020X5081	Presidential Election Campaign
Fiscal Service	020X8625	Gulf Coast Restoration Trust Fund
Fiscal Service	020X8902	Esther Cattell Schmitt Gift Fund
Fiscal Service	5805585	Travel Promotion Fund, Corp for Travel Promotion
Fiscal Service	580X5585	Travel Promotion Fund, Corp for Travel Promotion
Fiscal Service	020X5581	HOPE Reserve Fund
Fiscal Service	0205445002	Debt Collection Special Fund
Fiscal Service	0205445003	Debt Collection Special Fund
Fiscal Service	0202/35445	Debt Collection Special Fund
Fiscal Service	0203/45445	Debt Collection Special Fund
Fiscal Service	0204/55445	Debt Collection Special Fund
Fiscal Service	0205/65445	Debt Collection Special Fund
Fiscal Service	0206/75445	Debt Collection Special Fund
Fiscal Service	0207/85445	Debt Collection Special Fund
Fiscal Service	0208/95445	Debt Collection Special Fund
DO	020X8790	Gifts and Bequests Trust Fund
IRS	020X5510	Private Collection Agency Program
IRS	020X5433	Informant Reimbursement
IRS	020X5622	Special Compliance Personnel Program Account
OFR	020X5590	Financial Research Fund
TFF	020X5697	Treasury Forfeiture Fund
CDFI	020X8524	Capital Magnet Fund

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

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

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

Intra-governmental Investments in Treasury Securities

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

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

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

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

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

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

Summary Information for Funds from Dedicated Collections as of and for the Fiscal Year Ended September 30, 2017

(in millions)	Exchange Stabilization Fund	Public Enterprise/ Revolving Funds	Other FDC Funds	Combined FDC Funds
ASSETS				
Fund Balance	$ -	$ 1,048	$ 1,060	$ 2,108
Investments and Related Interest - Intra-governmental	22,091	1,793	3,606	27,490
Cash, Foreign Currency and Other Monetary Assets	64,142	-	12	64,154
Investments and Related Interest	8,541	-	-	8,541
Other Assets	-	1,591	228	1,819
Total Assets	$ 94,774	$ 4,432	$ 4,906	$ 104,112
LIABILITIES				
Intra-governmental Liabilities	$ -	$ 29	$ 1,075	$ 1,104
Certificates Issued to the Federal Reserve	5,200	-	-	5,200
Allocation of Special Drawing Rights	49,912	-	-	49,912
Other Liabilities	46	686	113	845
Total Liabilities	55,158	715	1,188	57,061
Net Position				
Unexpended Appropriations	200	-	-	200
Cumulative Results of Operations	39,416	3,717	3,718	46,851
Total Liabilities and Net Position	$ 94,774	$ 4,432	$ 4,906	$ 104,112
Statement of Net Cost				
Gross Cost	$ 7,655	$ 4,103	$ 698	$ 12,456
Less: Earned Revenue	(7,434)	(4,148)	(322)	(11,904)
Total Net Cost of (Revenue From) Operations	$ 221	$ (45)	$ 376	$ 552
Statement of Changes in Net Position				
Cumulative Results of Operations:				
Beginning Balance	$ 39,637	$ 3,492	$ 3,981	$ 47,110
Budgetary Financing Sources	-	(19)	(168)	(187)
Other Financing Sources	-	199	281	480
Total Financing Sources	-	180	113	293
Revenue From (Net Cost of) Operations	(221)	45	(376)	(552)
Change in Net Position	(221)	225	(263)	(259)
Ending Balance	$ 39,416	$ 3,717	$ 3,718	$ 46,851

24. RECONCILIATION OF NET COST OF TREASURY OPERATIONS AND NON-ENTITY COSTS TO BUDGET

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of Treasury operations and non-entity costs. For the fiscal years ended September 30, 2018 and 2017, the Reconciliation of Net Cost of Operations to Budget consisted of the following:

(in millions)	2018	2017
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
New Obligations and Upward Adjustments (Note 21)	**$ 568,651**	$ 502,069
Less: Actual Offsetting Collections and Recoveries of Prior Year Unpaid Obligations, Net of Change in Uncollected Payments	**(15,760)**	(10,508)
New Obligations and Upward Adjustments Net of Offsetting Collections and Recoveries	**552,891**	491,561
Less: Distributed Offsetting Receipts	**(61,467)**	(75,089)
Net Obligations	**491,424**	416,472
Other Resources:		
Donations and Forfeiture of Property	**156**	106
Financing Sources for Accrued Interest and Discount on Debt	**21,395**	11,266
Financing Sources for Accrued Interest on Restoration of Federal Debt Principal (Note 15)	**(660)**	660
Imputed Financing Sources from Cost Absorbed by Others	**779**	552
Transfers to the General Fund and Other (Note 19)	**(77,468)**	(55,225)
Net Other Resources Used to Finance Activities	**(55,798)**	(42,641)
Total Resources Used to Finance Activities	**435,626**	373,831
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF TREASURY OPERATIONS AND NON-ENTITY COSTS		
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not yet Provided	**(6,812)**	(3,934)
Resources that Fund Expenses Recognized in Prior Periods	**697**	(77)
Budgetary Offsetting Collections & Receipts that do not affect Net Cost of Treasury Operations and Non-Entity Costs	**(59,334)**	(73,724)
Adjustment to Accrued Interest and Discount on Debt	**15,303**	13,839
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	**490**	(551)
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Treasury Operations and Non-Entity Costs	**(1,767)**	436
Total Resources Used to Finance Items Not Part of the Net Cost of Treasury Operations and Non-Entity Costs	**(51,423)**	(64,011)
Total Resources Used to Finance the Net Cost of Treasury Operations and Non-Entity Costs	**487,049**	437,842
Total Components of Net Cost of Treasury Operations and Non-Entity Costs That Will Require or Generate Resources in Future Periods	**(411)**	(26)
Total Components of Net Cost of Treasury Operations and Non-Entity Costs That Will Not Require or Generate Resources[a]	**1,611**	832
Total Components of Net Cost of Treasury Operations and Non-Entity Costs That Will Not Require or Generate Resources in the Current Period	**1,200**	806
Net Cost of Treasury Operations and Non-Entity Costs	**$ 488,249**	$ 438,648

[a] *The Components not requiring or generating resources primarily include depreciation and amortization and revaluation of assets or liabilities.*

25. SCHEDULE OF FIDUCIARY ACTIVITY

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

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

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

Schedule of Fiduciary Activity

	2018			2017		
(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	**$ 696**	**$ 98**	**$ 794**	$ 647	$ 132	$ 779
Increases:						
Contributions to Fiduciary Net Assets	**54**	**448**	**502**	51	382	433
Investment earnings	**-**	**1**	**1**	-	-	-
Total Increases	**54**	**449**	**503**	51	382	433
Decreases:						
Disbursements to and on behalf of beneficiaries	**(1)**	**(492)**	**(493)**	**(2)**	(416)	(418)
Total Decreases	**(1)**	**(492)**	**(493)**	(2)	(416)	(418)
Net Increase (Decrease) in Fiduciary Assets	**53**	**(43)**	**10**	49	(34)	15
Fiduciary Net Assets, End of Year	**$ 749**	**$ 55**	**$ 804**	$ 696	$ 98	$ 794

Schedule of Fiduciary Net Assets

	2018			2017		
(in millions)	Payment of Unclaimed Monies Fund	All Other Fiduciary Funds	Total Fiduciary Funds	Payment of Unclaimed Monies Fund	All Other Fiduciary Funds	Total Fiduciary Funds
Fiduciary Net Assets						
Cash and Cash Equivalents	**$ 749**	**$ 46**	**$ 795**	$ 696	$ 42	$ 738
Investments	**-**	**14**	**14**	-	61	61
Total Fiduciary Assets	**749**	**60**	**809**	696	103	799
Less: Fiduciary Liabilities	**-**	**(5)**	**(5)**	-	(5)	(5)
Total Fiduciary Net Assets	**$ 749**	**$ 55**	**$ 804**	$ 696	$ 98	$ 794

26. COMMITMENTS AND CONTINGENCIES

LEGAL CONTINGENCIES

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

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

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

Pending Legal Actions

- *Tribal Trust Fund Cases:* Native American tribes have filed numerous cases in the U.S. District Courts seeking a declaration that the U.S. has not provided the tribes with a full and complete accounting of their trust funds, and also seeking an order requiring the U.S. government to provide such an accounting. In addition, there are a number of other related cases seeking damages in the U.S. Court of Federal Claims, which do not name us as a defendant. The U.S. government is currently in discussion with counsel representing most of the remaining plaintiff tribes with tribal trust fund cases pending against the U. S. about the feasibility of an out-of-court settlement. Plaintiff tribes in several of the pending cases have chosen to pursue active litigation, rather than settlement discussion, and the U.S. government is litigating those cases vigorously. We are unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.
- *GSE Related Cases:* A number of cases were filed in the U.S. Court of Federal Claims and U.S. District Courts in which the plaintiffs allege, among other things, that the U.S. government took their property, breached contractual rights of preferred and common stockholders, and breached fiduciary duties when the third amendments to the SPSPAs between

us and each GSE were executed in August 2012 (refer to Note 10). One case also alleges that the U.S. government took plaintiffs' property and contractual rights when the GSEs were placed into conservatorship and entered into the SPSPAs with us in September 2008. In the U.S. Court of Federal Claims, the plaintiffs seek just compensation and other damages from the U.S. government. In the U.S. District Courts, the plaintiffs seek to set aside the third amendments to the SPSPAs as well as damages, and in some cases a declaration that the FHFA's structure violates the separation of powers. Cases in the U.S. District Court for the Northern District of Illinois and the U.S. District Court for the Eastern District of Kentucky have been dismissed by the District Courts and the Sixth and Seventh Circuit Courts of Appeals affirmed dismissal. A case in the U.S. District Court for the Southern District of Texas has been dismissed by the District Court and the Fifth Circuit Court of Appeals affirmed dismissal of all claims against the Department; rehearing petitions are pending. Cases in the U.S. District Court for the Northern District of Iowa, the U.S. District Court for the District of Delaware, and the U.S. District Court for the District of Minnesota have been dismissed by the District Court and appeals are pending. A case in the Western District of Michigan remains in litigation and motions to dismiss are pending. We are unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss in these cases at this time.

- *Unredeemed Savings Bonds Related Cases:* A number of plaintiffs filed claims in the U.S. Court of Federal Claims requesting that we redeem matured savings bonds not possessed by the applicable states, but which have registered owners with last known addresses in those states. We informed the applicable states we would not redeem these savings bonds since those states were not the registered owners of the bonds. On August 20, 2015, the U.S. Court of Federal Claims partially dismissed one claim and denied the U.S. government's motion to dismiss with respect to other claims. On August 8, 2017, the court ruled in favor of two states, and the U.S. government has appealed. We are unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.
- *Adam Steele, Brittany Montrois, and Joseph Henchman v. United States:* The plaintiffs filed a class claim in the U.S. District Court for the District of Columbia seeking refunds of all user fees paid, plus interest, to obtain a preparer tax identification number (PTIN). Additionally, the plaintiffs seek to force us to cease charging a user fee to obtain a PTIN and asking for more information than is necessary to issue a PTIN. On June 1, 2017, the U.S. District Court for the District of Columbia found for the plaintiffs in the previously mentioned matters and the U.S. government has appealed. We are unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.
- *Anonymous Whistleblower Cases:* A number of whistleblower cases were filed in the U.S. Tax Court under seal, appealing the denial of an award by the IRS Whistleblower Office. The anonymous claimants allegedly provided confidential information about tax fraud committed by multiple taxpayers to the IRS. The U.S. Tax Court is currently holding these cases in abeyance until it determines the scope and standard of review it will follow. We are unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.
- *American Recovery and Reinvestment Tax Act of 2009 (ARRA) Related Cases:* A number of cases were filed in the U.S. Court of Federal Claims alleging that the U.S. government violated statutory and regulatory mandates to make proper payments to plaintiffs under ARRA, Section 1603, for having placed certain energy properties into service. We have determined there is a reasonably possible likelihood of an unfavorable outcome in some of the cases. On October 28, 2016, the U.S. Court of Federal Claims entered judgment against the U. S. in the amount of $207 million in one of the cases. The U.S. government appealed the judgment, and on July 27, 2018, the Federal Circuit reversed the trial court's decision, vacated judgment, and remanded the case to the U.S. Court of Federal Claims for reassignment to a new judge. The case remains in litigation. Additional related cases with alleged damages of approximately $49 million have been filed. The U.S. Court of Federal Claims dismissed an unrelated case with alleged damages of $47 million. The plaintiff has appealed the dismissal and the case remains in litigation. Additional unrelated cases with alleged damages of $59 million and $127 million remain in litigation.

- *Other Legal Actions:* We are also involved in employment related legal actions (e.g., matters alleging discrimination and other claims before federal courts, the Equal Employment Opportunity Commission, and the Merit Systems Protection Board) for which an unfavorable outcome is reasonably possible, but for which an estimate of potential loss cannot be determined at this time. We do not expect that these cases will have a material adverse effect on our consolidated financial position or results.

OTHER COMMITMENTS AND CONTINGENCIES

Loan Commitments

Through the FFB, we make loan commitments with federal agencies, or private sector borrowers with loans guaranteed by federal agencies, to extend them credit for their own use (refer to Notes 1L and 3). As of September 30, 2018 and 2017, we had loan commitments totaling $14.4 billion and $11.9 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, 2018 and 2017, U.S. callable capital in MDBs was as follows:

(in millions)	2018	2017
Inter-American Development Bank	**$ 49,181**	$ 49,181
International Bank for Reconstruction and Development	**43,521**	43,521
Asian Development Bank	**18,702**	18,702
African Development Bank	**5,100**	4,592
European Bank for Reconstruction and Development	**3,055**	3,055
North American Development Bank	**1,275**	1,275
Multilateral Investment Guarantee Agency[1]	**315**	315
Total	**$ 121,149**	$ 120,641

(1) Both FY 2018 and 2017 include commitments of $22 million for the undisbursed portion of the subscription to paid-in capital investments.

Terrorism Risk Insurance Program

Congress originally enacted the *Terrorism Risk Insurance Act* in November 2002, to address market disruptions resulting from terrorist attacks on September 11, 2001. Most recently, the *Terrorism Risk Insurance Program Reauthorization Act of 2015* (P.L. 114-1) extended the Terrorism Risk Insurance Program (TRIP) until December 31, 2020. The TRIP helps to ensure available and affordable commercial property and casualty insurance for terrorism risk, and simultaneously allows private markets to stabilize. The authority to pay claims under the TRIP is activated when the Secretary (in consultation with the Secretary of the Department of Homeland Security and the Attorney General of the United States) certifies an "act of terrorism." In the event of certification of an "act of terrorism," insurers may be eligible to receive reimbursement from the U.S. government for associated insured losses – assuming an aggregate insured loss threshold ("program trigger") has been reached – once a particular insurer has satisfied its designated deductible amount. For calendar years 2018 and 2017, the program trigger amount was $160 million and $140 million, respectively. This amount will increase by $20 million annually through calendar year 2020. Insured losses above insurer deductibles will be shared between insurance companies and the U.S. government. The TRIP includes both mandatory and discretionary authority for Treasury to recoup federal payments made under the TRIP through policyholder surcharges under certain circumstances, and contains provisions

designed to manage litigation arising from or relating to a certified act of terrorism. There were no claims under the TRIP as of September 30, 2018 or 2017.

Exchange Stabilization Agreement

The North American Framework Agreement (NAFA), which we signed in 1994, 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. The swap line has been in an amount of up to $3.0 billion, as of September 30 2018 and 2017. On October 17, 2018, Treasury and Mexico announced that they had decided to amend the ESA to increase the potential size of the swap line from the $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, 2018 and 2017.

IMF Commitments

The U.S. participates in the IMF through a quota subscription and the NAB which is a borrowing arrangement that supplements IMF resources. As of September 30, 2018 and 2017, the U. S. financial commitment under the U.S. quota was SDR 83.0 billion, which was equivalent to $115.6 billion and $117.1 billion, respectively. Its financial commitment under the NAB arrangement was SDR 28.2 billion as of September 30, 2018 and 2017, which was equivalent to $39.3 billion and $39.9 billion, respectively. Refer to Note 7 for further information.

Housing Programs Under TARP

We design housing programs under TARP to provide stability for both the housing market and homeowners. These programs assist homeowners who are experiencing financial hardships to remain in their homes until their financial position improves or they relocate to a more sustainable living situation, and to obtain other assistance designed to prevent foreclosures. As of September 30, 2018 and 2017, we had committed up to $33.4 billion and $37.4 billion, respectively, for these programs. Outstanding commitments totaled $4.7 billion and $10.8 billion as of September 30, 2018 and 2017, respectively. For FY 2018 and 2017, payments made on behalf of the housing programs under TARP totaled $2.2 billion and $4.1 billion, respectively, reported within the Financial Program on our Consolidated Statements of Net Cost.

Commitment to GSEs

The SPSPAs between us and each GSE, which have no expiration date, provide for us to disburse funds to the GSEs if, at the end of any quarter, the FHFA determines that the liabilities exceed the GSE's assets. At September 30, 2018 and 2017, our maximum remaining potential commitment to the GSEs was $254.1 billion and $258.1 billion, respectively. Refer to Note 10 for further information.

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 $12.9 billion and $10.4 billion as of September 30, 2018 and 2017, 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 2018, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts and appeals courts is $11.1 billion and $1.8 billion, respectively. In FY 2017, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts and appeals courts was $8.2 billion and $2.2 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 6201 authorizes and requires us to make inquiries, determinations, and assessments of all taxes which taxpayers have not duly paid (including interest, additions to the tax, and assessable penalties) under the law. Unpaid assessments result from taxpayers filing returns without sufficient payment, as well as from tax compliance programs such as examination, under-reporter, substitute for return, and combined annual wage reporting. We also have authority to abate the paid or unpaid portion of an assessed tax, interest, and penalty. Abatements occur for a number of reasons and are a normal part of the tax administration process. Abatements may result in claims for refunds or a reduction of the unpaid assessed amount.

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

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

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

The components of the total unpaid assessments at September 30, 2018 and 2017, were as follows:

(in millions)		2018	2017
Total Unpaid Assessments	$	**398,000** $	382,000
Less Compliance Assessments		**(65,000)**	(74,000)
Write Offs		**(115,000)**	(111,000)
Gross Federal Taxes Receivable		**218,000**	197,000
Less Allowance for Doubtful Accounts		**(160,000)**	(145,000)
Federal Taxes Receivables, Net	$	**58,000** $	52,000

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 billion as of September 30, 2018 and 2017, 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 2018 and 2017, TTB collected approximately $20.6 billion and $21.8 billion in taxes, interest, and other revenues, respectively. TTB also collects Federal excise taxes on certain articles produced in Puerto Rico and the Virgin Islands, and imported into the U.S. In accordance with 26 USC 7652, such taxes collected on rum imported into the U.S. are "covered over" or paid into the treasuries of Puerto Rico and the Virgin Islands.

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

DEFERRED MAINTENANCE AND REPAIRS

In FY 2018 and 2017, we had no material amounts of deferred maintenance and repair costs to report on vehicles, buildings, and structures we owned.

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

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

STATEMENT OF BUDGETARY RESOURCES DISAGGREGATED BY TREASURY REPORTING ENTITY

The following tables provide the Statement of Budgetary Resources for the fiscal years ended September 30, 2018 and 2017 disaggregated by Treasury reporting entity rather than by Treasury major budget account, since we manage our budget at the reporting entity level.

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

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

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

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

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

Fiscal Year 2017 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)	$ 146	$ 1,409	$ 311,842	$ 52	$ 1,005
Appropriations (discretionary and mandatory)	-	476,362	5,207	115	11,631
Borrowing authority (discretionary and mandatory)	-	-	268	-	-
Spending authority from offsetting collections (discretionary and mandatory)	706	243	3,804	3	165
Total Budgetary Resources	$ 852	$ 478,014	$ 321,121	$ 170	$ 12,801
STATUS OF BUDGETARY RESOURCES					
New obligations and upward adjustments	$ 779	$ 476,598	$ 9,399	$ 120	$ 11,745
Unobligated balance, end of year:					
Apportioned, unexpired accounts	74	1,291	271,524	44	528
Exempt from apportionment, unexpired accounts	-	9	90	-	7
Unapportioned, unexpired accounts	-	88	39,892	-	236
Unexpired unobligated balance, end of year	74	1,388	311,506	44	771
Expired unobligated balance, end of year	(1)	28	216	6	285
Unobligated balance, end of year	73	1,416	311,722	50	1,056
Total Status of Budgetary Resources	$ 852	$ 478,014	$ 321,121	$ 170	$ 12,801
OUTLAYS, NET					
Outlays, net (discretionary and mandatory)	$ (18)	$ 476,456	$ 7,675	$ 115	$ 11,507
Distributed offsetting receipts	-	(45,128)	(29,550)	-	(411)
Agency Outlays, Net (Discretionary and Mandatory)	$ (18)	$ 431,328	$ (21,875)	$ 115	$ 11,096

(a) Of the $321 billion of Total Budgetary Resources for DO, GSE, ESF, and OAS had $259 billion, $40 billion, and $14 billion, respectively. The remainder is spread throughout other offices.

Fiscal Year 2017 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)	$ 433	$ 1,403	$ 2	$ 316,597	$ (305)
Appropriations (discretionary and mandatory)	-	-	111	493,425	1
Borrowing authority (discretionary and mandatory)	-	-	-	-	268
Spending authority from offsetting collections (discretionary and mandatory)	2,387	1,217	6	7,569	962
Total Budgetary Resources	$ 2,820	$ 2,620	$ 119	$ 817,591	$ 926
Memorandum (non-add entries):					
New obligations and upward adjustments	$ 2,205	$ 1,110	$ 113	$ 501,405	$ 664
Unobligated balance, end of year:					
Apportioned, unexpired accounts	616	-	5	274,033	49
Exempt from apportionment, unexpired accounts	-	1,510	-	1,616	-
Unapportioned, unexpired accounts	-	-	-	40,003	213
Unexpired unobligated balance, end of year	616	1,510	5	315,652	262
Expired unobligated balance, end of year	(1)	-	1	534	-
Unobligated balance, end of year	615	1,510	6	316,186	262
Total Status of Budgetary Resources	$ 2,820	$ 2,620	$ 119	$ 817,591	$ 926
OUTLAYS, NET					
Outlays, net (discretionary and mandatory)	$ (110)	$ (126)	$ 109	$ 497,297	$ (1,689)
Distributed offsetting receipts	-	-	-	(75,089)	-
Agency Outlays, Net (Discretionary and Mandatory)	$ (110)	$ (126)	$ 109	$ 422,208	$ (1,689)

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PART 3:
OTHER INFORMATION
(UNAUDITED)

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SECTION A: TAX GAP AND TAX BURDEN

TAX GAP

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

Individual refundable income tax credits feature eligibility rules that are often complex because they must address complicated family relationships and residency arrangements. Compliance with these rules is difficult for the IRS to verify due to the lack of available third-party data. The relatively high overclaim rates for these credits are, in part, a result of this complexity.

Measuring and reporting on taxpayer compliance related to various tax provisions is inherently complex and challenging. To measure overall compliance with the current tax system, the IRS develops estimates of the tax gap. The IRS also undertakes analyses of compliance behavior with respect to specific tax provisions, such as refundable and non-refundable tax credits. The IRS enforcement strategies and legislative proposals are influenced by its National Research Program (NRP) that 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. Misreporting can be in favor of the taxpayer or the government, although estimates indicate that taxpayers overall underreport tax. This can manifest as either underpayments of the liability due at the time the return is filed, claiming and receiving an excessive refund, or a combination of the scenarios.

Tax Gap Estimates

The gross tax gap is the amount of tax liability that is not paid voluntarily and on time. The estimated annual average gross tax gap for the Tax Year (TY) 2008 – 2010 timeframe is $458 billion. The net tax gap is the gross tax gap less tax that will be subsequently collected, through voluntary payments or as the result of IRS administrative and enforcement activities. It is the portion of the gross tax gap that will not be paid. It is estimated that $52 billion of the gross tax gap will eventually be collected, resulting in a net tax gap of $406 billion.

The IRS estimates the tax gap on a periodic basis. The most recent estimates covering the TY 2008 – 2010 timeframe were released in Fiscal Year (FY) 2016. A summary of those estimates was included in the FY 2016 Agency Financial Report (AFR). The IRS expects to release tax gap estimates covering the TY 2011 – 2013 timeframe in FY 2019.

More details on the tax gap can be found on the IRS website at www.IRS.gov:

- Description of the Tax Gap (https://www.irs.gov/uac/the-tax-gap); and
- Federal Tax Compliance Research: Tax Gap Estimates for Tax Years 2008 – 2010 (https://www.irs.gov/pub/irs-soi/p1415.pdf).

The tax gap structure separates noncompliance into components by the type of tax and source of noncompliance. The three primary sources of noncompliance that result in payment of less than the tax owed are: (1) the non-filing tax gap (the tax not paid on time by those who do not file required returns on time); (2) the underreporting tax gap (the net understatement of tax on timely filed returns); and (3) the underpayment tax gap (the amount of tax reported on timely filed returns that is not paid on time). The estimated gross tax gap for each of these components are $32 billion, $387 billion, and $39 billion, respectively. The gross tax gap estimates can also be grouped by type of tax. The estimated gross tax gap for individual income tax is $319 billion, for corporation income tax is $44 billion, for employment tax is $91 billion, and for estate and excise tax combined is $4 billion.

Total tax credits account for 15 percent of the individual income tax underreporting tax gap. Earned Income Tax Credit (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). With limited resources, the IRS must make prudent resource-allocation decisions to address noncompliance.

INDIVIDUAL INCOME TAX UNDERREPORTING TAX GAP ESTIMATES FOR CREDITS: TY 2008 – 2010 ($ IN BILLIONS) [1]

Tax Return Line Items	Tax Gap	Share of Individual Income Tax Underreporting Tax Gap	Share of Gross Tax Gap
Gross Tax Gap	$ 458	N/A	100%
Individual Income Tax Underreporting Tax Gap	$ 264	100%	58%
Total Credits	$ 40	15%	9%
Child Tax Credit and Additional Child Tax Credit	$ 7	3%	2%
EITC	$ 27	10%	6%
Education Credits	$ 4	2%	1%
All Other Credits	$ 2	1%	[2]

[1] The estimates are the annual averages for the TY 2008 – 2010 timeframe.

[2] Less than 0.5 percent.

Note: Components might not sum to totals because of rounding.

Tax Gap Estimation Methodology

Estimating the tax gap is inherently challenging and requires assessing alternative methods, assumptions, and data sources. There is no single approach for estimating all the components of the tax gap. Each approach to estimating the tax gap is subject to non-sampling error. The 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.

Unlike prior tax gap estimates that pertain to a single tax year, these estimates reflect an estimated average compliance rate and associated average annual tax gap for the TY 2008 – 2010 timeframe. The tax gap is estimated using pooled individual income tax compliance data from several tax years because the aggregated data provides more information upon which to base estimates of individual income tax underreporting, categorized by sources of noncompliance. The individual income tax NRP reporting compliance studies are the foundation for the individual income tax underreporting tax gap estimates. The methodology incorporates additional data and analytical techniques designed to account for income that is not detected by the NRP audits.

COMPLIANCE WITH INDIVIDUAL INCOME TAX CREDITS

Compliance Estimates

The IRS is responsible for administering 21 refundable and non-refundable individual income tax credits. These credits generally have many different eligibility rules, often relating to personal family and living arrangements, which determine eligibility. Complexity in the form of many differing rules is a contributor to tax credit errors. Additionally, these credits are difficult for the IRS to verify due to the lack of available relevant third-party data.

The IRS conducted an in-depth analysis of compliance with the American Opportunity Tax Credit (AOTC) and other education credits during FY 2018, highlights of which are summarized below. The IRS completed similar analyses of compliance with the EITC in FY 2014 and the CTC in FY 2017.

Compliance Estimates for Education Tax Credits

The IRS recently completed an analysis of taxpayer compliance behavior regarding education tax credits. The analysis included the AOTC, the Lifetime Learning Credit (LLC), and the precursor to the AOTC, the Hope Scholarship Credit. The AOTC is a partially refundable credit. The other credits are non-refundable.

The analysis is based on data from the NRP individual income tax reporting study for TYs 2006 – 2012. The combined seven-year sample includes 6,489 returns on which an education credit is claimed or established during the NRP exam. Many estimates are combined over three-year periods to improve statistical precision. Estimates for TY 2012 are presented separately in order to demonstrate the potential effects that revisions to Form 8863 in TY 2012 had on compliance. Revisions to Form 8863 in TY 2012 include a new format, which requires a separate Part III of Form 8863 to be completed for each individual claiming either AOTC or LLC.

The aggregate dollar amount of education credit claims (refundable plus non-refundable) was about $7 billion in TY 2006 and $19 billion in TY 2012. The increase in claims occurred primarily in TY 2009 and TY 2010, coinciding with the enactment of the AOTC.

COMPLIANCE ESTIMATES FOR EDUCATION TAX CREDITS TY 2006 – TY 2012

		TY 2006 - TY 2008 Average	TY 2009 - TY 2011 Average	TY 2012 Average
Hope Scholarship Credit and American Opportunity Tax Credit	Total Claims	$3.4 Billion	$19.8 Billion	$17.0 Billion
	Total Overclaims	$1.1 Billion	$6.7 Billion	$4.5 Billion
	Percent Overclaims	31%	34%	26%
Lifetime Learning Credit	Total Claims	$4.0 Billion	$2.4 Billion	$2.2 Billion
	Total Overclaims	$0.8 Billion	$0.4 Billion	$0.4 Billion
	Percent Overclaims	19%	18%	18%

Errors associated with reporting of qualifying tuition and expenses or credit eligibility account for the largest share of overclaims, as opposed to other errors such as income misreporting or claiming an incorrect filing status. Limitations of NRP data prevent a comprehensive analysis of errors made with respect to qualifying tuition and expenses and student eligibility because data on each eligibility criterion were not collected. Nonetheless, certain observable characteristics are suggestive of overclaim errors related to qualifying tuition and expenses and student eligibility. Of returns with an AOTC overclaim in TY 2012:

- 39 percent have no Form 1098T;
- 15 percent appear to have a discrepancy between the tuition/expenses amount on Form 1098T and the reported amount on Form 8863;
- Seven percent appear to have claimed the AOTC in at least four prior years; and
- Three percent appear not to be enrolled at least half-time.

However, given the limited data collected about errors, the likely source of error made by the taxpayer was not observable in the data for 41 percent of returns with an overclaim.

As this analysis covers TYs 2006-2012, the findings do not reflect legislative efforts made in subsequent years to strengthen compliance with the education credits. The *Trade Preferences Extension Act of 2015* and the *Protecting Americans from Tax Hikes Act of 2015* (PATH Act) included provisions aimed at reducing taxpayer errors in claiming the education credits.

Compliance Estimates for the Child Tax Credit

The IRS completed an analysis of taxpayer compliance behavior regarding the refundable and non-refundable components of the CTC in FY 2017. The refundable portion of the credit is referred to as the Additional Child Tax Credit (ACTC). The non-refundable portion of the credit is often referred to as the CTC. For purposes of this analysis, CTC refers to the combined amount of the refundable and non-refundable parts of the credit.

The analysis is based on data from the NRP individual income tax reporting study. The total number of tax returns claiming the CTC was 31 million in TY 2006 and 35 million in TY 2011. The aggregate dollar amount of CTC claims was $46 billion in TY 2006 and $55 billion in TY 2011. The increase in claims for the CTC occurred primarily in TY 2008 and TY 2009, due to the expansion of eligibility for the ACTC associated with lowering the earned income threshold in those two years. Total dollars of overclaims averaged $6.2 billion annually in TY 2006 – 2008 and $10.5 billion annually in TY 2009 – 2011. The dollar overclaim percentage for the CTC averaged 13 percent in TY 2006 – 2008 and 20 percent in TY 2009 – 2011. Qualifying child errors were the most frequent type of known error leading to a CTC overclaim. The percent of children claimed for the CTC who were disallowed for the credit was 13 percent in TY 2006 – 2008 and 19 percent in TY 2009 – 2011. During both time periods, qualifying child errors accounted for approximately 80 percent of overclaimed dollars, where the reason for the error was known.

Relationship of Tax Compliance Estimation to Improper Payments

The *Improper Payments Elimination and Recovery Act of 2010* (IPERA) requires certain reporting for payment programs determined to be susceptible to significant improper payments. The focus of IPERA, and its subsequent amendments, and guidance documents, is on implementing internal controls to prevent and detect improper payments. IPERA does not take into consideration all aspects of administering tax provisions in a system that relies heavily on voluntary reporting. In keeping with IPERA requirements, the IRS has historically reported risk assessments for refundable credits, as well as improper payment estimates for the EITC in Part 3, Section E of this report.

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

The same features of the tax system and taxpayer behaviors that create the compliance problems with refundable credits also create the risk of noncompliance with other tax provisions. Treasury and IRS analyses, as well as audits by the Government Accountability Office (GAO) and Treasury Inspector General for Tax Administration (TIGTA), have consistently found that payment errors for EITC and other tax credit programs are largely attributable to the statutory design and complexity of the credits within the tax system, and not rooted in internal control weaknesses, financial management or financial reporting deficiencies. Several credits passed into law by Congress to assist certain individuals and businesses to promote social and economic objectives have eligibility rules that are often complex and lead to high overclaim rates.

Tax refunds, which constitute a transfer of cash from the federal government to a taxpayer, are an integral part of the tax system as a whole. The IRS tax gap estimation measures compliance with the current tax system and always includes noncompliance with refundable and non-refundable 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.

Refundable Credits and the Challenges of Compliance

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. Additionally, the lack of third-party data to verify eligibility requirements for these refundable credits also complicates the ability of the IRS to administer these credits. Such data may not exist, may be unreliable or inaccurate, or may be reported to the IRS too late to be useful during tax return processing. The IRS also has limited authority to correct mismatches at filing and must use more burdensome audits to correct errors. The IRS continually looks for complete and accurate data sources to verify eligibility for claimed refundable credits without placing an undue burden on taxpayers.

The PATH Act accelerated the due date for employers to submit Forms W-2 and Forms 1099 for non-employee compensation. The PATH Act also included a provision that required the IRS to hold refunds for filers claiming the EITC and the refundable portion of the CTC until February 15. The IRS integrated the Form W-2 information into its databases, leveraged pre-refund filtering processes for identity theft prevention, and employed refund fraud systems to screen all returns. This provided the IRS additional time to perform income verification for the EITC and ACTC returns.

Faced with the complexities of claiming certain refundable credits, many potential credit recipients seek help filing their tax returns from paid preparers. Over 50 percent of taxpayers claiming refundable credits use paid preparers. Although these preparers provide a service that relieves taxpayers of costs associated with their own time, resources, and anxiety about the accuracy of their returns, these services carry their own burden for taxpayers. For example, taxpayers must absorb the cost of preparer fees and must still face the risk of errors on their returns. Unenrolled paid preparers, who prepare most EITC returns, are not subject to the IRS's regulation and have higher error rates for EITC returns than taxpayers who prepare their own returns or who hire enrolled paid preparers.

The nature of refundable credits also attracts identity theft fraud. The fraudsters create a burden to taxpayers who must navigate identity theft procedures to successfully file their own returns. This includes use of an identity theft personal identification number and filing of affidavits with the IRS to prove identity theft.

The IRS has a responsibility to detect and address errors and misreporting on tax returns, including those claiming the refundable credits. Filters and other detection tools are constantly being enhanced to improve accuracy 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 send in their paper return, resulting in refund delays and possible audits with the associated costs. Despite the compliance burden and costs 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; they do not need to meet with caseworkers, nor submit upfront documentation as is required with some direct service anti-poverty programs, such as Supplemental Security Income or Temporary Assistance for Needy Families.

The IRS may initiate a correspondence audit if it identifies, through its scoring and selection process, potential noncompliance with eligibility requirements. Most refundable credit audits are conducted pre-refund, meaning the IRS holds the credit refund until the taxpayer proves 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 2018, the IRS conducted 330,461 EITC exams, the majority through correspondence audits.

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

TAX BURDEN

The IRC creates the basis for a progressive tax system that applies higher rates of taxation to progressively higher levels of income. For TY 2018, individual income tax rates ranged from 10.0 percent for the lowest income filers to 37.0 percent for the highest income brackets. The amount of taxable income can be adjusted through the application of exemptions and deductions, which will influence the amount of taxes owed. In addition, many taxpayers qualify for one or more refundable tax credits, which collectively have a significant impact on tax administration and federal tax revenues and refund payments.

The IRS measures tax liability by income level for individuals and by revenue and assets for corporations. Using these data, it is possible to illustrate how tax liability rises with increases in Adjusted Gross Income (AGI) for individuals (Figures 1.1 and 1.2 and Table 1). Similar data for corporations shows the tax burden based on the percentage of taxable income (Figure 2 and Table 2). This information is the most recent data available for individuals (TY 2016) and corporations (TY 2015).

INDIVIDUAL INCOME TAX LIABILITY

FIGURE 1.1: AVERAGE AGI REPORTED AND AVERAGE INDIVIDUAL INCOME TAX LIABILITY FOR TY 2016

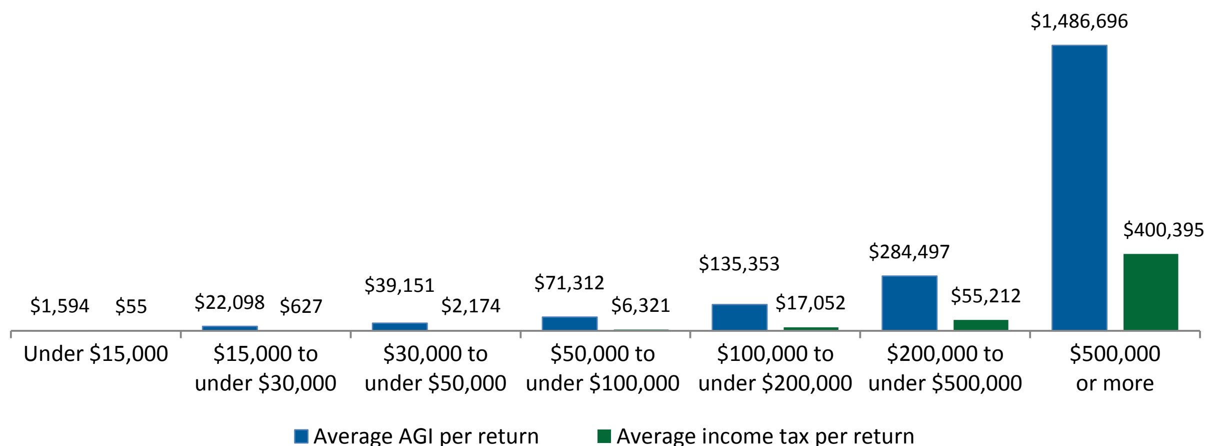

FIGURE 1.2: INDIVIDUAL INCOME TAX LIABILITY AS A PERCENTAGE OF AGI FOR TY 2016

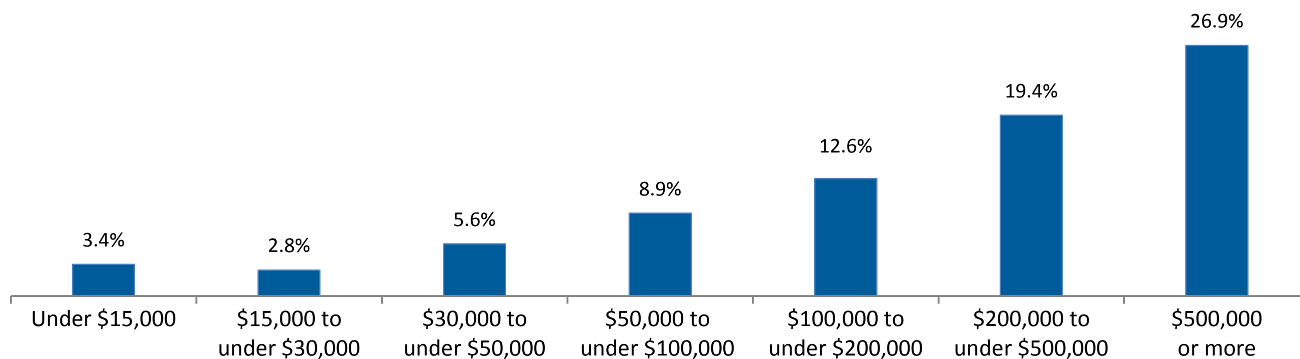

TABLE 1: INDIVIDUAL INCOME TAX DATA BY AGI FOR TY 2016

Adjusted Gross Income (AGI)	Number of taxable returns (in thousands)	AGI (in millions)	Total income tax (in millions)	Average AGI per return (in whole dollars)	Average Income tax per return (in whole) dollars)	Income tax as a percentage of AGI
Under $15,000	34,916 $	55,654 $	1,903 $	1,594 $	55	3.4%
$15,000 under $30,000	29,646	655,110	18,587	22,098	627	2.8%
$30,000 under $50,000	26,753	1,047,405	58,168	39,151	2,174	5.6%
$50,000 under $100,000	33,199	2,367,475	209,856	71,312	6,321	8.9%
$100,000 under $200,000	18,858	2,552,481	321,564	135,353	17,052	12.6%
$200,000 under $500,000	5,583	1,588,349	308,249	284,497	55,212	19.4%
$500,000 or more	1,318	1,959,465	527,721	1,486,696	400,395	26.9%
Total	**150,273 $**	**10,225,939 $**	**1,446,048**			

CORPORATION TAX LIABILITY

FIGURE 2: CORPORATION TAX LIABILITY AS A PERCENTAGE OF TAXABLE INCOME FOR TY 2015

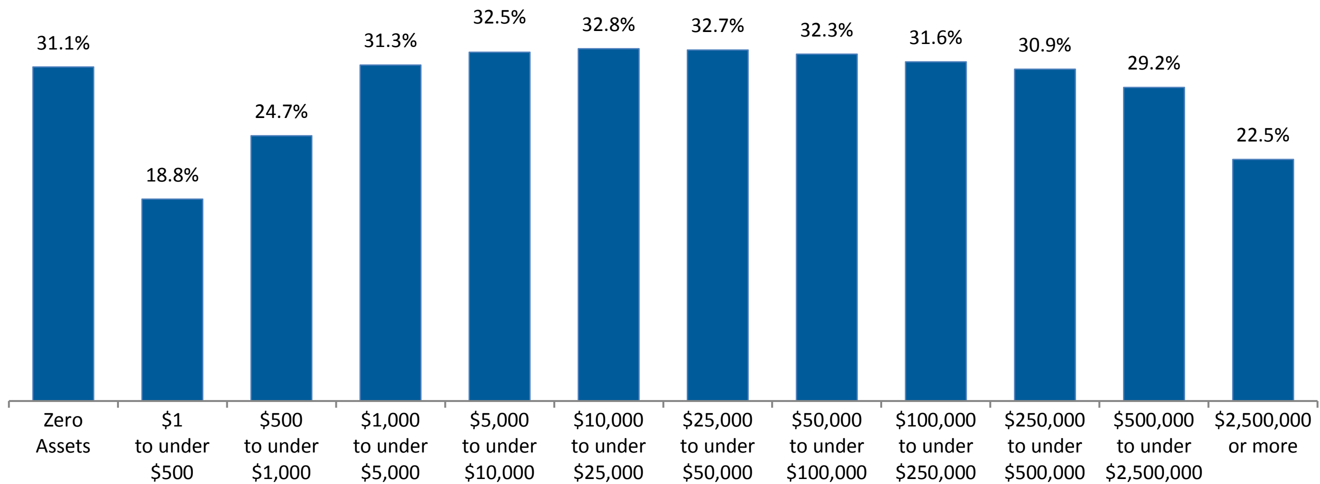

TABLE 2: CORPORATION TAX DATA BY TOTAL ASSETS FOR TY 2015

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	$ 21,291	$ 6,627	31.1%
$1 under $500	8,606	1,619	18.8%
$500 under $1,000	3,942	974	24.7%
$1,000 under $5,000	13,667	4,273	31.3%
$5,000 under $10,000	8,581	2,793	32.5%
$10,000 under $25,000	13,120	4,306	32.8%
$25,000 under $50,000	12,890	4,210	32.7%
$50,000 under $100,000	15,296	4,948	32.3%
$100,000 under $250,000	25,377	8,017	31.6%
$250,000 under $500,000	27,404	8,477	30.9%
$500,000 under $2,500,000	110,454	32,281	29.2%
$2,500,000 or more	1,114,453	251,097	22.5%
Total	**$ 1,375,081**	**$ 329,622**	

SECTION B: REDUCE THE FOOTPRINT

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

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

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

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

Our total square footage and related operation and maintenance costs associated with real property assets subject to the *Reduce the Footprint Policy* (from the latest available reporting year of FY 2017 compared to the FY 2015 Reduce the Footprint baseline, as assigned by GSA) are shown in the table below. We did not have excess domestic office or warehouse assets, as reflected in the below table:

(in millions)	2015 (Baseline)	2017	Change
Square Footage	26.9	25.7	(1.2)
Operation and Maintenance Costs	$ 93.0	$ 99.1	$ 6.1

SECTION C: MANAGEMENT CHALLENGES AND TREASURY RESPONSE

In accordance with the *Reports Consolidation Act* of 2000, the Inspectors General are required to identify specific management and performance challenges facing the Department. At the end of each fiscal year, the Treasury Office of Inspector General (OIG) and Treasury Inspector General for Tax Administration 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) did not identify any management or performance challenges for the Office of Financial Stability (OFS). This section contains the OIG and TIGTA identified management and performance challenges and management's response.

TREASURY INSPECTOR GENERAL MANAGEMENT CHALLENGES

OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 15, 2018

INFORMATION MEMORANDUM FOR SECRETARY MNUCHIN

FROM: Eric M. Thorson /s/
Inspector General

SUBJECT: Management and Performance Challenges Facing the Department of the Treasury (OIG-CA-19-004)

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

- Operating in an Uncertain Environment
- Cyber Threats
- Anti-Money Laundering/ Terrorist Financing and Bank Secrecy Act Enforcement
- Efforts to Promote Spending Transparency and to Prevent and Detect Improper Payments

While we continue to report these challenges, we acknowledge the Department's accomplishments and efforts over the past year to address these most critical matters as noted within each challenge discussed. In addition to the above challenges, we are reporting our elevated concerns about two matters: (1) currency and coin production at the United States Mint (Mint) and the Bureau of Engraving and Printing (BEP) and (2) excise tax reform's impact on the Alcohol and Tobacco Tax and Trade Bureau (TTB).

2019 Management and Performance Challenges

Challenge 1: Operating in an Uncertain Environment

As reported in prior year's memorandum, we are mindful of external factors and future uncertainties that affect the Department's programs and operations. Among the most notable were the proposed budget cuts and new requirements imposed by Executive Order (E. O.) 13781, *Comprehensive Plan for Reorganizing the Executive Branch* (March 13, 2017). In its implementation of E. O. 13781, the Office of Management and Budget (OMB) required agencies to submit Agency Reform Plans, which included long-term workforce plans that are in alignment with their strategic plans. [1] These plans were to include proposals in four categories: eliminate activities; restructure or merge; improve organizational efficiency and effectiveness; and workforce management. Treasury submitted its plan to OMB in September 2017, which included cross-

[1] OMB, M-17-22, *Comprehensive Plan for Reforming the Federal Government and Reducing the Federal Civilian Workforce* (April 12, 2017).

agency initiatives and Treasury-specific reforms. In June 2018, after consideration of all Agency Reform Plans, OMB developed its comprehensive "Government–wide Reform Plan and Reorganization Recommendations" (Government–wide Reform Plan) to reorganize the Executive Branch. [2]

After considering Agency Reform Plans, OMB made agency-specific recommendations in its Government–wide Reform Plan that would merge functions with similar missions across agencies. As proposed by Treasury in its Agency Reform Plan, the Government-wide Reform Plan includes a recommendation to transfer alcohol and tobacco responsibilities from the Bureau of Alcohol, Tobacco, Firearms and Explosives within the Department of Justice to TTB in order to leverage the expertise and resources of TTB. The plan also considers Treasury as the agency for carrying out the Office of Personnel Management's responsibilities for retirement processing and servicing. Other potential impacts on Treasury include OMB recommendations to increase coordination and avoid duplication of agency's roles in the areas of small business programs, the housing finance market, and financial literacy and education. Furthermore, the plan also includes a proposal to privatize the United States Postal Service, which is estimated to be insolvent, yet continues to hold a $15 billion unfunded liability to the Treasury's Federal Financing Bank.

Until OMB and agencies begin discussions with Congress to prioritize and refine the proposals in the Government–wide Reform Plan, there is looming uncertainty as to the plan's impact. Nonetheless, the Department must plan for the potential long-term restructuring of certain functions or offices/bureaus and expected budget cuts.

Although not specified in OMB's Government–wide Reform Plan, Treasury proposed to merge specific functions performed by both BEP and the Mint as part of its Agency Reform Plan and fiscal year 2019 Congressional Budget Justification. The merger would simplify particular tasks by migrating BEP's online numismatic sales and marketing presence to the Mint's recently modernized E-commerce infrastructure and services platform, and centrally coordinating non-IT procurements to create economies of scale and reduce expenses. As both bureaus are manufacturing organizations, Treasury expects to gain efficiencies through leveraging acquisition commonalities and procurement expertise, consolidating procurement authority, and generating annual cost savings. Although OMB has approved the merger plan, funding the consolidation is contingent on Congressional approval. In anticipation of this, the Office of Procurement Executive is working with managements of BEP the Mint to develop an implementation plan to complete the consolidation of functions by December 2019. Challenges exist with this consolidation because of known systemic issues with BEP's contract administration practices. In addition, other challenges can be expected when consolidating these functions such as, personnel relocation, facility plans, future information systems operations, combined funding arrangements, acquisition regulation requirements, and continued legal support. Outstanding procurement issues at BEP should be considered in planning for the consolidation.

Tackling these and other critical matters at hand could be more challenging as Presidentially-appointed, Senate-confirmed leadership positions and other key senior level positions within the Department remain vacant. There were noted improvements over the past year in filling certain vacancies within the Office of Terrorism and Financial Intelligence (TFI). Specifically, TFI filled several long standing vacancies including the Assistant Secretary for the Office of Intelligence and Analysis and the Director of the Financial Crimes Enforcement Network (FinCEN). That said, human capital management overall has become higher-risk as the lengthy security clearance process causes significant delays onboarding highly-skilled individuals to fill critical positions across Treasury.

[2] OMB, *Delivering Government Solutions in the 21st Century, Reform Plan and Reorganization Recommendations* (June 2018)

The backlog of background investigations in the clearance process has been a growing concern government-wide. In its March 2018 testimony, the Government Accountability Office (GAO) reported its January 2018 designation of the security clearance process as a high-risk area because it is the highest management risk in government.[3] This has been contributing to difficulty in recruiting cybersecurity personnel as our previous audits of select Treasury bureaus found that causes for many of our findings related to information systems' security measures involved a lack of resources and/or management oversight, which echoed GAO's and OMB's observations of agencies' impairments. Although progress has been made filling some positions, it is essential that the vacancies Treasury-wide be filled as quickly as possible to avoid potential skill gaps, which could lead to further challenges in meeting key program missions and performing succession planning. The lengthy hiring and backfill timelines are negatively impacting existing personnel's ability to carry out bureau programs.

Along with the uncertainty of OMB's Government–wide Reform Plan, Treasury continues to be challenged with new responsibilities. Most recently, Treasury was tasked to administer a new program authorized by the Social Impact Partnerships to Pay for Results Act[4] (SIPPRA). This program was created to direct Federal funds to State and local government partnership programs that is intended to result in measurable social benefits. Treasury, in consultation with the newly created Federal Interagency Council on Social Impact Partnerships, is responsible for administering the program including, but not limited to, publishing the first requests for SIPPRA proposals by February 2019.

The impact of these challenges and the uncertainties of OMB's Government–wide Reform Plan may require the Department to take immediate actions to achieve near-term cost savings while focusing its limited resources on programs that are in the highest need to citizens and/or where there is a unique Federal role. It is essential that new programs and reforms be managed and communicated effectively such that performance and accountability can be improved and missions can still be met throughout the Department.

Treasury must operate in the repeated cycle of budget and debt ceiling stopgaps. As I have reported in my last memorandum to you, Congress has yet to resolve unfinished business when it comes to the Nation's debt, and the long-term sustainability of the large programs. Although legislation was passed to suspend the statutory debt limit through March 1, 2019, no long-term solution has been found.

Challenge 2: Cyber Threats

Over the past year, Treasury has maintained steady progress in addressing the continual and on-going challenges that the Federal Government and private sector face, including the threat of ransomware and difficulty obtaining cybersecurity personnel. While a good patch management program assists with defending against attacks such as ransomware, Treasury must continue to ensure its layered defenses (such as network segmentation) are in place and functioning properly to reduce the spread and potential damage malware can do when there is no patch available, or for when that first line of defense fails. Additionally, in our prior audits of select Treasury bureaus, we found that causes for many of our findings related to information systems' security measures involved a lack of resources and/or management oversight, which echoed GAO's and OMB's observations of agencies' impairments as noted in challenge 1. In response to our prior year challenges memorandum, Treasury reported progress in reducing the cybersecurity vacancy rate from fiscal year 2016 to fiscal year 2017, which is a positive step in addressing the lack of resources

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[3] GAO, *Personnel Security Clearances, Additional Actions Needed to Implement Key Reforms and Improve Timely Processing of Investigations* (GAO-18-431T: March 2018)
[4] Public Law 115-123, Bipartisan Budget Act of 2018, Title VIII (February 9, 2018)

although the government-wide challenges for retaining this workforce still remain as reported in 2016 by GAO[5] and by OMB in the Cybersecurity Sprint. [6]

Cybersecurity continues to be a long-standing and serious challenge facing the Nation. A reliable critical infrastructure, including information systems and networks, is vital to our national security and economic stability. Cyber threats are a persistent concern as Treasury's information systems are critical to the core functions of government and the Nation's financial infrastructure. As cyber threats continue to evolve and become more sophisticated and subtle, they pose ongoing challenges for Treasury to fortify and safeguard its internal systems and operations along with the financial sector it oversees. Effective public-private coordination continues to be required to address the cyber threat against the Nation's critical infrastructure. In this regard, Treasury is looked upon to provide effective leadership to financial institutions in particular, and the financial sector in general, to strengthen awareness and preparedness against cyber threats.

Attackers frequently exploit vulnerable networks in a string of trusted connections to gain access to government systems. Attempted cyber-attacks against Federal agencies, including Treasury, and financial institutions continue to increase in frequency and severity, in addition to continuously evolving. As the tools used to perpetrate these attacks become easier to use and more widespread, the less technological knowledge and fewer resources are needed to launch successful attacks of increasing sophistication. Such attacks include distributed denial of service attacks, phishing or whaling attacks, fraudulent wire payments, malicious spam (malspam), and ransomware. 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; and disrupt, degrade, or deny access to information systems.

In addition to Treasury's own networks and systems, management must be cognizant of, and mitigate, the risks posed by attacks made against other agencies and Treasury contractors and subcontractors. Treasury frequently enters into interconnection agreements with other Federal, State, and local agencies, and service providers, to conduct its business. Treasury management must exercise due care when authorizing such internetwork connections and verify that third parties comply with Federal policies and standards. Management is also challenged with ensuring that critical data and information maintained by third-party cloud service providers are properly protected. Issues related to management of cloud systems have been reported in last three consecutive Federal Information Security Modernization Act of 2014[7] audits (fiscal years 2015, 2016, and 2017). Issues included a cloud system with a system security plan that did not address all required security controls, nor did the contract with the third-party cloud service provider address all Federal Risk and Authorization Management Program (FedRAMP) [8] requirements. For another cloud system, required periodic user access reviews were not performed. In another case, risk acceptance for performing security scans less frequently than the standard required was not documented.

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[5] GAO, *Actions Needed to Address Challenges* (GAO-16-885T; issued September 19, 2016)

[6] OMB, M-16-15, *Federal Cybersecurity Workforce Strategy* (July 12, 2016). The goal of the Cybersecurity Sprint was to rapidly improve cybersecurity across the workforce, and also included a review of cybersecurity polices, plans, and procedures.

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

[8] FedRamp is a government-wide program that standardizes the approach used for security assessments, authorizations, and continuous monitoring for cloud services.

As of this writing, Treasury is in the process of implementing the Federal government-wide Continuous Diagnostics and Mitigation program spearheaded by the Department of Homeland Security (DHS). This program is aimed at providing agencies with the capabilities and tools needed to identify cybersecurity risks on an ongoing basis, prioritize these risks based on potential impacts, and enable cybersecurity personnel to mitigate the most significant problems first. The program is organized into four phases that build upon each other, and has required a great deal of coordination within Treasury and also between Treasury and DHS in order to obtain and install the software and tools necessary to support the program. On the horizon, Treasury will be challenged in supporting OMB's plans to implement the activities set forth in the *IT Modernization Report to the President*,[9] such as consolidation and standardization of email services within and across Federal agencies. In order to address these upcoming requirements, Treasury will need to continue to balance cybersecurity demands, the need to modernize and maintain its information technology (IT) systems, and the need to maintain compliance with existing and additional requirements during a time of uncertain budgetary funding. In the case of the Bureau of the Fiscal Service (Fiscal Service), management noted that the modernization of its IT systems is still a work in progress and Fiscal Service management is working with the Assistant Secretary for Management and the Chief Information Officer to ensure modernization of its IT systems align with Treasury's key initiatives.

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

Over the past year, TFI has remained dedicated to countering the ability of the financial networks that support terrorists, organized transnational crime, weapons of mass destruction proliferators, and other threats to international security through intelligence analysis, sanctions, and international private-sector cooperation. Members of the TFI staff chair the U.S. delegation to the Financial Action Task Force (FATF), which is an international policy-making and standard-setting body dedicated to combating money laundering and terrorist financing. FATF found the U.S. Anti-Money Laundering and Combating the Financing of Terrorism framework, which Treasury is responsible for administering, to be well developed and robust. [10]

In 2017, TFI components, along with U.S. foreign partners also established the Terrorist Financing Targeting Center. This center, co-chaired by the United States and Saudi Arabia, is a new initiative that brings together every country under the Gulf Cooperation Council, deepening their existing multilateral cooperation by coordinating disruptive action, enhancing information sharing, and institutionalizing capacity-building to target terrorist financing networks that pose national security threats to the United States and the Gulf nations.

As previously reported, identifying, disrupting, and dismantling the financial networks that support rogue regimes, terrorist organizations, transnational criminal organizations, and other threats to the national security of the United States and our allies continues to be challenging as TFI's role to counter these financial networks and threats has grown because its economic authorities are key tools to carry out U.S. policy. Additionally, criminals and other bad actors evolve and continue to develop more sophisticated money laundering methods. To address this growing demand, TFI requested approximately 100 new positions for fiscal year 2019.

[9] American Technology Council, *IT Modernization Report to the President*, issued December 13, 2017.
[10] FATF, *Anti-money laundering and counter-terrorist financing measures United States Mutual Evaluation Report*, (December 2016)

TFI's authorities are key tools in implementing U.S. policy to pressure foreign countries and regimes, such as North Korea, Russia, and Iran, and terrorist groups, such as the Islamic State of Iraq and Syria (ISIS) through the use of designations and economic sanctions. The recent passage of the Countering America's Adversaries Through Sanctions Act[11] provides TFI with another avenue to pursue sanctions against these regimes. TFI has significantly increased sanctions against North Korea for missiles testing and it serves a critical role in the United State's maximum economic pressure campaign. TFI also increased sanctions against Russia given recent allegations of interference with the 2016 U.S. election, malign activities in Ukraine, and support of the Government of Syria. As a result of the U.S. decision to withdraw from the Joint Comprehensive Plan of Action (JCPOA),[12] TFI re-imposed nuclear related primary and secondary sanctions, subject to certain 90 and 180 day wind-down periods for activities involving Iran. TFI continues to designate Iranian individuals and entities related to its ballistic missile program, terrorist activities, human rights violations, and Syria-related targets.

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, TFI is moving towards a more collaborative approach to achieve its mission. However, we noted in the past that TFI can make improvements in the area of coordination.

Effective coordination and collaboration and TFI's ability to effectively gather and analyze intelligence information requires a stable cadre of experienced staff. In an effort to improve coordination and stabilize its workforce, TFI filled long standing vacancies such as the Assistant Secretary of Intelligence and Analysis, which is a key leadership position that had been vacant for approximately 2 years. As noted above, TFI requested approximately 100 new positions for fiscal year 2019, which will be difficult to fill if approved because of the expertise essential to these positions and length of time to process required security clearances. The security clearance process has significantly impacted Treasury's human capital management as noted in our first challenge and is a systemic issue government-wide.

Stability, experienced leadership, and coordination within TFI is imperative to enhance information gathering and intelligence analysis and increase efficiency. Given the criticality of Treasury's mission, its role to carry out U.S. policy, and resource constraints, we continue to consider anti-money laundering and combating terrorist financing programs and operations as inherently high-risk.

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[11] Public Law 115-44 (August 2, 2017)

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

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

Spending Transparency

Given the broad implications and critical roles assigned to Treasury by the Digital Accountability and Transparency Act of 2014 (DATA Act), we consider this an ongoing high risk implementation project and management challenge. The DATA Act, in part, requires the Federal Government to provide consistent, reliable, and useful online data about how it spends taxpayer dollars. To fulfill its purposes, the DATA Act imposed several mandates on the Director of OMB, the Secretary of the Treasury, [13] and the Comptroller General of the United States, as well as Federal agencies and their respective Inspectors General. Several of these mandates have been successfully met to include, most notably, the standardization of 57 Government-wide financial data elements for Federal funds made available to or expended by Federal agencies and entities receiving Federal funds. While there have been successes to date, there is still much to do.

On April 28, 2017, Treasury's Deputy Chief Financial Officer successfully submitted and certified the Department's fiscal year 2017, second quarter financial and award data in the DATA Act broker (broker) for publication on USAspending.gov. However, in our November 2017 audit report, we identified issues with the submission. Specifically, we identified incorrect reporting of Fiscal Service's Administrative Resource Center's[14] customer agency information.[15] Treasury's DATA Act program management office (PMO) and OMB have been working to address this issue and have proposed a solution to ensure that Federal Shared Service Providers' customer agencies' data submissions are properly categorized in the submission and ultimately on USAspending.gov for the first quarter of fiscal year 2019. Further, we identified inaccuracies in the Department's data submission that were a result of how the broker extracts data from external award reporting systems Government-wide. While these inaccuracies are attributable to root causes beyond the Department's control, removal of these Government-wide issues did not significantly change the overall accuracy rate for the financial and award data the Department submitted to the broker for publication on USASpending.gov. We note that Treasury's PMO reported that these known Government-wide issues have been resolved. We plan to follow up on these matters in future audit work.

On May 9, 2017, Treasury's PMO, in consultation with OMB, met its second Government-wide mandate to ensure that financial data was posted, in accordance with the financial data standards established by Treasury and OMB, and displayed on USAspending.gov within three years after enactment of the DATA Act.

[13] Treasury's Government-wide implementation efforts under the DATA Act are led by its Data Transparency Office at the Bureau of the Fiscal Service, also referred to as the program management office (PMO) and OMB's Office of Federal Financial Management. This Government-wide effort is separate and distinct from the Department's DATA Act reporting requirements.

[14] ARC is a Federal Shared Service Provider operating under agreements with other departments, agencies, and bureaus known as customer agencies to provide information technology, human resources, financial, or other services.

[15] OIG, *Treasury Continues to Make Progress in Meeting DATA Act Reporting Requirements, But Data Quality Concerns Remain* (OIG-18-010R November 8, 2017)

Since last year's memorandum, the Department continued to align its systems and execute a comprehensive governance framework to meet the submission and certification requirements of the DATA Act. Additionally, Treasury's PMO continued to refine its processes to address Government-wide implementation challenges through corrective actions to improve data quality for Federal spending transparency. It should be noted that we have initiated a series of audits of Treasury's efforts to meet its responsibilities under the DATA Act. As of this writing, we are performing two DATA Act audits focusing on implementation efforts both Government-wide and Department-wide.

Detect Improper Payments

In light of the continuing government-wide problem with improper payments (estimated at $141 billion, or 4.5 percent of all program outlays, for fiscal year 2017), the Federal Government intensified efforts to reduce improper payments in major Federal programs. The Do Not Pay (DNP) Initiative and the Fiscal Service's DNP Business Center are chief components of efforts designed to prevent and detect improper payments to individuals and entities.

The DNP Business Center provides two services to agencies: the DNP Portal and the DNP Data Analytics Service. The DNP Portal is intended to provide users with a single entry point to search data sources such as the Social Security Administration's (SSA) publicly available Death Master File, the Department of Health and Human Service Office of Inspector General's List of Excluded Individuals/Entities, the General Services Administration's System for Award Management, and Treasury's Debt Check Database. However, as we reported in November 2014, the effectiveness of the DNP Business Center as a tool to prevent and detect improper payments is hindered because the center does not have access to, among other things, SSA's full death data.[16] In May 2016, we reported that challenges still existed in obtaining better death information.[17] In October 2016, GAO reported that restrictions on the center's access to SSA's full death data remained in place.[18]

In response to the Federal Improper Payments Coordination Act of 2015,[19] the Fiscal Service entered in to agreements with the Department of Defense and the Department of State to incorporate death data collected by these agencies into the DNP Business Center Working System, which began receiving this data in September 2017. Additionally, legislative proposals were submitted in January 2017 and February 2017 to obtain authorization to use both the SSA's full death file as well as the National Directory of New Hires.[20] In November 2017, OMB designated six additional databases for inclusion in the to the DNP Business Center Working System to help agencies address a broader range of improper payments beyond what can be detected through DNP Business Center's current data sources.[21]

[16] OIG, *Fiscal Service Successfully Established the Do Not Pay Business Center But Challenges Remain* (OIG-15-006; November 6, 2014)
[17] OIG, *Fiscal Service Faces Challenges in Obtaining Better Death Information for the Do Not Pay Business Center, but Alternatives Exist* (OIG-16-042; May 18, 2016)
[18] GAO, *Improper Payments, Strategy and Additional Actions Needed to Help Ensure Agencies Use the Do Not Pay Working System as Intended* (GAO-17-15; issued October 14, 2016)
[19] Public Law 114-109 (December 18, 2015)
[20] The National Directory of New Hires (NDNH) is a national database of wage and employment information operated by the Federal Office of Child Support Enforcement (OCSE). OCSE uses the NDNH primarily to assist states administering programs that improve States' abilities to locate parents, establish paternity, and collect child support. The information in this database is only available to authorized persons or entities for authorized purposes.
[21] The following databases were added: (1) Treasury's Office of Foreign Assets Control's Specially Designated Nationals List (OFAC List), (2) the General Services Administration's System for Award Management (SAM), (3) the Internal Revenue Service's (IRS) Automatic Revocation of Exemption List, (4) the IRS's Exempt Organizations Select Check, (5) the IRS's e-Postcard database, and (6) the commercial database American InfoSource (AIS) Deceased Data.

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

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

Other Matters of Concern

Although we are not reporting these as management and performance challenges, we are highlighting two areas of concern: (1) currency and coin production and (2) excise tax reform.

Currency and Coin

Challenges continue for BEP with an outdated facility for which it needs legislative authority to purchase land for a new facility in the Washington D.C. area. The current facility has limited capabilities when producing $100 notes and this capacity is necessary to ensure continuity of operations at the bureau. In the case of the Mint, the costs of producing penny and nickel coins were double their face value because of rising metal prices resulting in higher production costs. The Mint's latest biennial report issued in 2016 stated that certain metals are being evaluated to change the composition of the nickel to reduce costs. The Mint continues to study this. The Mint must also ensure strong internal controls are in place to safeguard the integrity and protect U.S. coinage. On January 19, 2018, the Mint recommenced its mutilated coin redemption program, which was suspended in 2016, with procedures to enhance the validation of the sources of these coins and to monitor for proper physical security at all Mint facilities. We are currently performing an audit to determine if these procedures are effective.

We found in our recent audit of BEP that it had increased its capabilities in project management which improved governance processes and oversight over note development and note production quality. However, BEP is still challenged with producing the next family of redesigned notes that will incorporate new security and technical features to thwart counterfeiters and identify and implement counterfeit deterrence features in a timely manner to safeguard U.S. currency. According to BEP, this will require expansion of its Western Currency Facility in Fort Worth, Texas. The same is true for BEP's outdated Washington, D.C. facility.

Excise Tax Reform

The Craft Beverage Modernization and Tax Reform of 2017[22] reduced the excise tax rates and increased tax credits on beer, wine, and distilled spirits for a two year period beginning January 1, 2018 through December 31, 2019. Among other things, these changes allow all TTB-regulated breweries, wineries, and distilled spirits plants to benefit from a lower effective tax rate for limited quantities of beer, wine, and distilled spirits produced and removed.[23] Eligibility for the reduced rates and tax credits is capped for controlled groups of entities as well as for entities that are treated as a single taxpayer. TTB has been tasked to develop and implement policies and procedures to enforce the quantity limitations for independent entities, controlled groups, and single taxpayers. TTB needs to ensure that it has implemented internal control with the new policies and procedures to ensure that industry members are appropriately claiming the new tax rates and tax credits offered under the new legislation.

We would be pleased to discuss our views on the management and performance challenges and the other matters expressed in this memorandum in more detail.

cc: David Eisner
Assistant Secretary for Management

[22] Public Law 115-97, Section 13801 (December 22, 2017)
[23] Under prior law, a reduced excise tax rate on beer and tax credits for wine were only available to certain small domestic brewers and small domestic wine producers, and there were no reduced excise tax rates for distilled spirits.

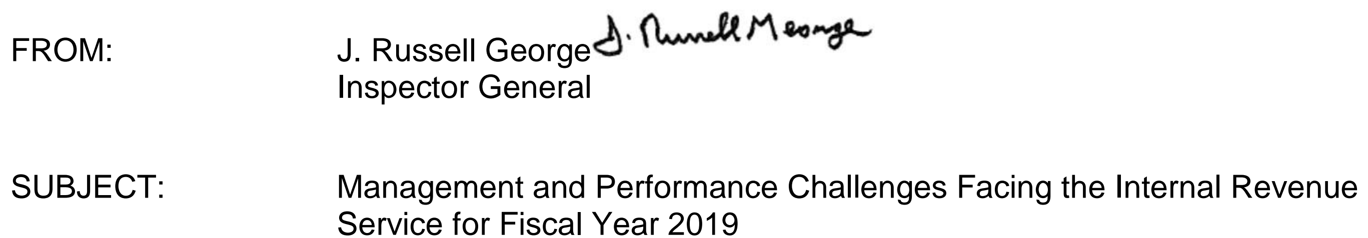
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION MANAGEMENT CHALLENGES

INSPECTOR GENERAL
FOR TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20005

October 15, 2018

MEMORANDUM FOR SECRETARY MNUCHIN



FROM: J. Russell George
Inspector General

SUBJECT: Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2019

The Reports Consolidation Act of 2000[1] requires that the Treasury Inspector General for Tax Administration (TIGTA) summarize, for inclusion in the annual *Department of the Treasury Agency Financial Report*, its perspective on the most serious management and performance challenges confronting the Internal Revenue Service (IRS).

Each year, TIGTA evaluates IRS programs, operations, and management functions to identify the areas of highest vulnerability to the Nation's tax system. For Fiscal Year (FY) 2019, the IRS's top management and performance challenges, in order of priority, are:

1. Security Over Taxpayer Data and Protection of IRS Resources;
2. Implementing the Tax Cuts and Jobs Act and Other Tax Law Changes;
3. Identity Theft and Impersonation Fraud;
4. Providing Quality Taxpayer Service;
5. Upgrading Tax Systems and Expanding Online Services;
6. Improving Tax Reporting and Payment Compliance;
7. Reducing Fraudulent Claims and Improper Payments;
8. Impact of Global Economy on Tax Administration;
9. Protecting Taxpayer Rights; and
10. Achieving Program Efficiencies and Cost Savings.

[1] 31 U.S.C. § 3516(d) (2006).

TIGTA's assessment of the major IRS management challenges for FY 2019 has changed from the prior fiscal year. We reprioritized several challenges to reflect the impact of the Tax Cuts and Jobs Act[2] on the IRS. This legislation is the largest tax overhaul in more than 30 years with extensive changes affecting both business and individual taxpayers. As such, it will be a significant challenge for the IRS to implement the extensive provisions of this legislation while continuing to deliver its other priority program areas, including customer service and enforcement activities.

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

SECURITY OVER TAXPAYER DATA AND PROTECTION OF IRS RESOURCES

Taxpayers have the right to expect that information they provide to the IRS will not be disclosed unless authorized by them or the law. The risk of unauthorized access to tax accounts and unauthorized disclosure of taxpayer data will increase as the IRS expands the availability of online services and self-help tools as part of its Strategic Plan.[3] Therefore, it is critical that the methods used by the IRS to authenticate individuals' identities provide a high level of assurance that tax information and services are provided only to individuals who are entitled to receive them.

In June 2016, the IRS deployed a more rigorous electronic authentication process that provides two-factor authentication for the highest risk online applications via a security code sent to text-enabled mobile phones. The IRS also recently completed or updated electronic authentication risk assessments for 28 of its online applications to determine appropriate levels of authentication assurance, and enhanced its network monitoring and audit log analysis capabilities. While the IRS has made progress in improving its electronic authentication controls, TIGTA reported[4] that network monitoring tools the IRS purchased to improve the prevention and detection of automated attacks were not fully implemented due to issues related to resources, incompatibility, and higher priorities. In addition, controls to prevent a fraudulent user from improperly creating profiles were not fully implemented. Further, the IRS was not fulfilling requirements for monitoring audit logs for suspicious activity.

[2] Pub. L. No. 115-97, which is officially known as "An act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for Fiscal Year 2018."
[3] *Internal Revenue Service Strategic Plan FY 2018 – 2022*, IRS Pub. 3744 (Rev. Apr. 2018).
[4] TIGTA, Ref. No. 2018-20-007, *Electronic Authentication Process Controls Have Been Improved, but Have Not Yet Been Fully Implemented* (Feb. 2018).

In addition to protecting taxpayer data against outside attacks, the IRS must ensure that contractors or other third parties adequately protect taxpayer data to prevent its unauthorized disclosure. Because taxpayer accounts shared with the Private Collection Agencies (PCA)[5] contain tax return information and Personally Identifiable Information[6] it is critical that these data remain secure when they leave the IRS and are being processed by the PCAs. TIGTA reported[7] that although the IRS assessed the network and physical security of the PCAs and performed follow-up reviews, additional attention is needed to address system vulnerability scans, the physical security of misdirected taxpayer payments,[8] and the electronic transfer of taxpayer data. Specifically, the IRS was unaware that one PCA could not provide monthly vulnerability scans of systems containing taxpayer data, and three of the four PCAs were not timely remediating critical and high-risk vulnerabilities within the required 30 calendar days. The IRS also did not enforce the requirements in its own Publication 4812, *Contractor Security and Privacy Controls*, for cell phone use policy specific to IRS data nor ensure that data files were encrypted before transferring them to the PCAs. Finally, three of the four PCA mailrooms where taxpayer correspondence and payments are received were not included in the IRS's annual security assessments. One of the PCAs lacked a secure mail processing area for payments and did not secure misdirected payments prior to sending them to the IRS.

In another review, TIGTA reported that the IRS controls for verifying and validating users requesting tax transcripts through the Transcript Delivery System did not comply with Federal Government information security standards and did not sufficiently protect taxpayers against unauthorized release of their tax information.[9] The system allows external third-party customers to view and obtain tax information of both individuals and businesses. TIGTA's review of the Transcript Delivery System audit logs of tax transcript requests made between January 1, 2014, and December 31, 2016, identified anomalies that could be an indication of either misuse of the system or potentially suspicious activity. TIGTA recommended that the IRS implement multifactor authentication for e-Services, which includes the Transcript Delivery System application, to comply with Federal Government information security standards and implement procedures to ensure that legitimate taxpayers authorized the release of their tax transcripts.

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[5] The 2015 Fixing America's Surface Transportation Act, Pub. L. No. 114-94, required the IRS to begin using PCAs to collect inactive tax receivables. The PCAs may contact taxpayers to collect delinquent taxes.
[6] Information which can be used to distinguish or trace an individual's identity, such as their name, Social Security Number, or biometric records, alone or when combined with other personal or identifying information which is linked or linkable to a specific individual, such as date and place of birth, or mother's maiden name.
[7] TIGTA, Ref. No. 2018-20-039, *Private Collection Agency Security Over Taxpayer Data Needs Improvement* (July 2018).
[8] Tax payments that should not have been mailed to the PCA.
[9] TIGTA, Ref. No. 2018-40-014, *Transcript Delivery System Authentication and Authorization Processes Do Not Adequately Protect Against Unauthorized Release of Tax Information* (Mar. 2018).

In addition to external threats, the IRS must ensure that its systems and data are protected against internal threats. These threats may appear in the form of malicious insiders or disgruntled employees who seek to misuse their access to taxpayer data or sensitive IRS business practices for personal gain. In July 2017, TIGTA reported[10] that the IRS has not effectively updated or implemented hiring policies to fully consider past IRS conduct and performance issues prior to making a tentative decision to hire former employees, including those who were terminated or separated during an investigation of a substantiated conduct or performance issue. TIGTA found that more than 200 (approximately 10 percent) of the more than 2,000 former employees who were rehired between January 2015 and March 2016 were previously terminated from the IRS or separated while under investigation for a substantiated conduct or performance issue. This included positions with access to sensitive taxpayer information and individuals who separated while under investigation for unauthorized accesses to taxpayer information or who had been terminated or resigned for willful failure to properly file their Federal tax returns. Hiring employees of high integrity is essential to maintaining public trust in tax administration and safeguarding taxpayer information. In August 2018, a former IRS employee pled guilty to aggravated identity theft for her role in a stolen identity refund fraud scheme. It was alleged that while employed by the IRS, the defendant accessed taxpayer information and used the information to prepare and electronically file fraudulent income tax returns.[11]

The IRS must also protect its employees located in approximately 550 offices. In the last several years, threats directed at the IRS have remained the second largest component of TIGTA's Office of Investigations' work. Recent incidents involving taxpayers who threatened or assaulted IRS employees underscore the dangers that these employees face each day.

In May 2018, TIGTA special agents arrested a tax service provider for assaulting an IRS revenue officer with a deadly weapon. The revenue officer went to the service provider's place of business to collect a Federal tax payment and the provider threatened him with a shotgun and inflicted bodily injury upon the revenue officer.[12]

IMPLEMENTING THE TAX CUTS AND JOBS ACT AND OTHER TAX LAW CHANGES

On December 22, 2017, the President signed into law the Tax Cuts and Jobs Act of 2017, which made significant changes to the tax code that affects individuals, businesses, and tax-exempt organizations. The IRS estimates that implementation of the legislation will require creating or revising about 450 forms, publications, and instructions; modifying about 140 information technology systems for tax return processing and compliance activities; and responding to 4 million additional telephone calls and taxpayer correspondence.

[10] TIGTA, Ref. No. 2017-10-035, *The Internal Revenue Service Continues to Rehire Former Employees With Conduct and Performance Issues* (July 2017).
[11] N.D. Ga. Indict. filed Apr. 25, 2017; N.D. Ga. Plea Agr. filed Aug. 9, 2018.
[12] S.D. Fla. Crim. Compl. filed May 23, 2018; S.D. Fla. Min. Order filed May 24, 2018; S.D. Fla. Indict. filed June 5, 2018; S.D. Fla. Docket as of June 7, 2018.

The Tax Cuts and Jobs Act contains 119 provisions that are administered by the IRS and affects both domestic and international taxes. The Act made significant changes to income tax rates, income tax deductions and credits, and Federal income tax withholding. These provisions are effective for Tax Year 2018 and required the IRS to revise income tax withholding tables for wages paid after January 1, 2018.

Due to the magnitude of the changes, TIGTA quickly assessed the IRS's efforts to implement this new legislation. TIGTA reported[13] that once enacted, the IRS used several well-established processes and immediately began the difficult and large-scale task of implementing the various provisions. The IRS worked with various consumer and business groups, including the payroll community, to share information about the tax law. In addition, the IRS took steps to develop the new tax withholding tables and updated the online withholding calculator on the IRS website to reflect the changes.

Despite these initial efforts, TIGTA reported that the high volume of changes needed to implement the new legislation increases the risk that the 2019 Filing Season may be delayed.[14] As of July 5, 2018, the IRS's Information Technology organization had not received all final work request notifications and business requirements from the business units to update information technology systems necessary to implement some provisions of the Tax Cut and Jobs Act. Delays in receiving this information will result in less time for modifying and testing systems and increases the risk that the 2019 Filing Season may be delayed. TIGTA also reported that there are concerns surrounding the IRS's ability to quickly fill critical information technology positions. Hiring employees and contractors is a lengthy process resulting in a risk to the timeliness of the information technology updates. Besides updating its computer systems, the IRS must ensure that taxpayers are educated about the changes and comply with the legislation.

[13] TIGTA, Ref. No. 2018-44-027, *Tax Cuts and Jobs Act: Assessment of Implementation Planning Efforts* (Apr. 2018).

[14] TIGTA, Ref. No. 2018-24-064, *A Shortened Delivery Cycle, High Volume of Changes, and Missed Deadlines Increase the Risk of a Delayed Start of the 2019 Filing Season* (Sept. 2018).

In addition to the Tax Cuts and Jobs Act, the IRS must administer other tax law provisions such as those in the Protecting Americans from Tax Hikes Act of 2015 (PATH Act).[15] The PATH Act includes provisions intended to reduce fraudulent refundable tax credit claims and requires the IRS to make a number of modifications to its Individual Taxpayer Identification Number (ITIN) program.[16] During a recent audit,[17] TIGTA found that the IRS had not made a programming change needed to identify potentially fraudulent ITIN applications. As a result, the IRS is unable to identify applications that are questionable based on potentially false or fraudulent supporting documentation via its systemic validation and verification processes. Because of limitations in system consistency and validity checks, the IRS may have issued 151,384 potentially erroneous or fraudulent ITINs. TIGTA also estimates that the IRS erroneously issued 8,116 ITINs because tax examiners did not always ensure that required supporting documentation was provided with applications. Additionally, processes do not ensure that revoked ITINs are prevented from being used on a tax return. TIGTA found that 8,110 ITINs which had been revoked were still valid for use in filing a tax return. In addition, another 687 ITINs were assigned to deceased individuals, but the deceased individual's account was not locked to prevent the individual's identity from being used to file a tax return.

The PATH Act contains provisions requiring the IRS to deactivate unused ITINs and those issued before a specified date. TIGTA reported that computer programming errors and inaccurate use identification resulted in the IRS not deactivating 89,105 ITINs that individuals used to file 1,298 tax returns as of April 20, 2017.[18] These individuals received $637,181 in refundable tax credits and did not pay an estimated $359,127 in tax as a result of erroneous personal tax exemptions. TIGTA also identified 133,054 ITINs that were erroneously deactivated by the IRS and reported that IRS processes did not prevent 11,350 deactivated ITINs from being used by individuals on 9,818 tax returns as of May 4, 2017. These individuals erroneously received more than $2.6 million in refundable tax credits and did not pay more than $2.4 million in tax as a result of erroneous personal tax exemptions.

[15] Consolidated Appropriations Act, 2016, Pub. L. No. 114-113, 129 Stat. 2242 (2015).
[16] An ITIN is issued by the IRS to individuals who are required to have a Taxpayer Identification Number for tax purposes but do not have and are not eligible to obtain a Social Security Number.
[17] TIGTA, Ref. No. 2018-40-010, *Processes Need to Be Improved to Identify Incomplete and Fraudulent Applications for Individual Taxpayer Identification Numbers* (Jan. 2018).
[18] TIGTA, Ref. No. 2018-40-011, *Some Legal Requirements to Deactivate Individual Taxpayer Identification Numbers Have Not Been Met* (Jan. 2018).

The PATH Act also contains a number of integrity provisions intended to reduce improper Earned Income Tax Credit (EITC), Child Tax Credit, Additional Child Tax Credit (ACTC), and American Opportunity Tax Credit (AOTC) claims. TIGTA identified 1.4 million tax returns with a discrepancy in wages reported on the tax return and wages reported on third-party Forms W-2, *Wage and Tax Statement*, that were not reviewed by the IRS prior to refunds being released on February 15, 2017.[19] These taxpayers received approximately $8.2 billion in refunds that included $4.3 billion in the EITC and $1.7 billion in the ACTC. For 660,141 of these returns, the IRS received no third-party Forms W-2 prior to the release of the refunds. These returns had refunds totaling almost $3.7 billion. In addition, the IRS did not disallow almost $9.8 million in refundable credits associated with 4,509 tax returns with a retroactive refundable credit claim. The credits were incorrectly allowed because the Taxpayer Identification Number (TIN) assignment date was not available when some of these tax returns were processed and due to tax examiner error when reviewing retroactive claims.

IDENTITY THEFT AND IMPERSONATION FRAUD

TIGTA has issued a number of reports over the years assessing the IRS's efforts to detect and prevent the filing of fraudulent individual and business tax returns by identity thieves. Identity theft tax fraud occurs when an individual uses another person's or business' name and TIN to file a fraudulent tax return for the purpose of obtaining a tax refund. This type of fraudulent activity is constantly evolving and continues to have a significant impact on tax administration. As such, the IRS must continually adapt its detection and prevention processes to reject fraudulent electronically filed tax returns and prevent fraudulent paper tax returns from posting. For instance, during the 2018 Filing Season,[20] the IRS used 200 identity theft filters to identify potentially fraudulent individual tax returns at the time tax returns were processed and prior to the issuance of fraudulent tax refunds. As of February 28, 2018, the IRS reported that it had identified 1.4 million tax returns with refunds totaling more than $6.9 billion for additional review as a result of the identity theft filters and prevented the issuance of $5.6 million in fraudulent tax refunds.

[19] TIGTA, Ref. No. 2018-40-015, *Employer Noncompliance With Wage Reporting Requirements Significantly Reduces the Ability to Verify Refundable Tax Credit Claims Before Refunds Are Paid (Feb. 2018).*

[20] TIGTA, Ref. No. 2018-40-028, *Interim Results of the 2018 Filing Season* (Apr. 2018).

Since TIGTA's first business identity theft report in September 2015, the IRS has created business identity theft filters and selection lists to identify potential business identity theft returns. For Processing Year 2017, these filters identified 20,764 business returns with characteristics of identity theft and associated refunds totaling $2.2 billion. However, TIGTA found[21] that certain types of business tax returns are not being evaluated for potential identity theft. In Processing Year 2017, TIGTA identified 15,127 business tax returns with refunds totaling more than $200 million that would have been identified as potentially fraudulent if current business identity theft filters included an evaluation of these types of tax returns. TIGTA also found that actions need to be taken to protect refunds associated with confirmed business identity theft from being erroneously released. TIGTA identified 872 business tax returns identified by the IRS as identity theft returns in Processing Year 2016 for which refunds totaling more than $61 million appear to have been released in error.

In addition to identity theft, telephone calls from criminals impersonating IRS agents also land near the top of the IRS's "Dirty Dozen"[22] tax scams and remain an ongoing threat to taxpayers as con artists threaten taxpayers with arrest, deportation, and license revocation if the victim does not pay a bogus tax bill. The number of complaints TIGTA has received about this scam has cemented its status as the largest, most pervasive impersonation scam in the history of the agency.

Since the fall of 2013, a significant amount of our Office of Investigations' workload has consisted of investigating a telephone impersonation scam in which more than 2.4 million intended victims have received unsolicited telephone calls from individuals falsely claiming to be IRS or Department of the Treasury employees. The callers demand money under the pretense that they owe unpaid taxes. To date, more than 14,500 victims reported that they have paid approximately $72 million to these criminals.

[21] TIGTA, Ref. No. 2018-40-061, *Additional Actions Can Be Taken to Further Reduce Refund Losses Associated With Business Identity Theft* (Aug. 2018).

[22] Compiled annually, the "Dirty Dozen" lists a variety of common scams that taxpayers may encounter.

TIGTA is committed to bring to justice scammers who defraud taxpayers by impersonating employees of the IRS. As a result of TIGTA's commitment to protecting taxpayers, to date, a total of 130 individuals and 10 call centers have been charged in Federal court for their involvement in IRS impersonation scams. This includes the most recent indictment of 15 individuals and five call centers on September 4, 2018.[23] Of the 130 individuals charged Federally, 59 have been sentenced and have received a cumulative total of more than 302 years' imprisonment. In July 2018, 21 members of a massive India-based fraud and money laundering conspiracy that defrauded thousands of U.S. residents of hundreds of millions of dollars were sentenced to terms of imprisonment up to 20 years and more than $8.9 million in restitution. Additionally, the court entered individual preliminary orders of forfeiture against the 21 defendants for assets that were seized in the case and money judgments totaling more than $72 million.[24] Although the investigations and prosecutions have reduced the number of scam calls being placed by more than 90 percent, we are still receiving reports that between 4,000 and 10,000 individuals are receiving calls each week.

PROVIDING QUALITY TAXPAYER SERVICE

The *President's Management Agenda* outlines a goal of improving customer experience with Federal services. Improving the experience citizens and businesses have with Federal services whether online, in-person, or via telephone will increase trust in the Federal Government. Providing taxpayers with quality customer service is a key component in the IRS's mission. Resolving questions before tax returns are filed helps taxpayers avoid unintentional errors and noncompliance, and also reduces the burden on both taxpayers and the IRS that results from the issuance of notices and correspondence. Successfully addressing and resolving taxpayer inquiries through a quality customer service process allows the IRS to direct its limited resources more efficiently.

Taxpayers have multiple options to choose from when they need assistance from the IRS. These include toll-free telephone lines, face-to-face assistance at Taxpayer Assistance Centers or Volunteer Program sites, and self-assistance using IRS.gov and other social media channels (*e.g.*, Twitter, Facebook, YouTube). To address declining budgets, the IRS continues to increase its dependence on technology-based services and external partners in an effort to direct taxpayers to the most cost-effective method to provide the needed service. The IRS notes that this approach allows it to focus limited telephone and walk-in resources on customer issues that can be best resolved with person-to-person interaction.

The IRS's Strategic Plan will play a significant part in the IRS's effort to modernize the taxpayer experience and allow its limited staff to better serve taxpayers who require one-on-one assistance. The IRS's goal is to eventually provide taxpayers with dynamic online tax account access that will allow them to view recent payments, make minor changes and adjustments to their tax accounts, and correspond digitally with the IRS.

[23] N.D. Ga. Indict. Filed Sep. 4, 2018.
[24] S.D. Tex. 4:16-cr-00385.

Taxpayers and tax practitioners frequently look to the IRS for assistance following major disasters and emergencies. In Calendar Year 2017, more than 49 million individuals and 19 million businesses were eligible for disaster tax relief[25] to enable them to meet their tax obligations for filing returns or paying taxes. These types of events require the IRS to identify affected individual and business accounts to timely place disaster relief codes on the accounts and postpone examination and collection activities. In a recent review, TIGTA found that the IRS took the appropriate actions and provided quality customer service to taxpayers affected by major disasters.[26] The IRS timely and correctly placed disaster relief codes on approximately 68 million (99 percent) of the eligible taxpayers' accounts. These codes allow the IRS to provide special processing related to any filing payment or interest relief granted for a geographic area. TIGTA also identified that the IRS postponed examination activities on more than 99 percent of impacted individuals and businesses under examination and postponed collection activities for almost all of the impacted individuals and businesses that were in collection status as of the disaster dates.

The IRS must also provide quality service to taxpayers affected by identity theft. Individuals can learn that they are victims of employment-related identity theft when they receive a notification from the IRS of an income discrepancy between the amounts reported on their tax returns and the amounts employers reported to the IRS. This can occur when someone else uses an innocent taxpayer's stolen identity to gain employment. Employment-related identity theft can cause a significant burden to the taxpayer due to the incorrect computation of taxes and Social Security benefits based on income that does not belong to the taxpayer.

In February 2018, TIGTA reported[27] that most identified victims remain unaware that their identities are being used by other individuals for employment. A computer programming error limited the IRS notifications to only those victims who were not identified as a victim in previous years. As a result, the IRS did not notify 458,658 repeat victims of employment identity theft that it identified in both Processing Year 2017 and on a tax return processed prior to Processing Year 2017. TIGTA also identified that 15,168 (13.5 percent) of the 112,445 employment identity theft notices were erroneously sent to taxpayers who were not employment identity theft victims. In most instances, these taxpayers were the spouses of taxpayers who filed legitimate tax returns reporting the spouses' wages and Social Security Numbers. The IRS erroneously placed an employment identity theft marker on the spouses' tax accounts, which then generated the notices. After being made aware of these issues, the IRS agreed to send a notice to the 458,658 repeat victims of employment identity theft informing them that their Social Security Number was used by another person to obtain employment. It also agreed to reverse the employment identity theft marker placed on the 15,168 taxpayers' accounts and notify them that the prior notice was sent erroneously.

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[25] Tax relief includes postponing the date to file tax returns and make tax payments that have an original or extended due date that falls within the postponement period. Further, penalties and interest will not accrue on tax returns or payments with an original or extended due date that falls within the postponement period.
[26] TIGTA Ref. No. 2018-40-049, *Actions Were Taken to Timely Provide Disaster Relief Tax Assistance to Victims of Hurricanes Harvey, Irma, and Maria* (July 2018).
[27] TIGTA, Ref. No. 2018-40-016, *Most Employment Identity Theft Victims Have Not Been Notified That Their Identities Are Being Used by Others for Employment* (Feb. 2018).

UPGRADING TAX SYSTEMS AND EXPANDING ONLINE SERVICES

Successful modernization of systems and the development and implementation of new information technology applications are critical to meeting the IRS's evolving business needs and enhancing services provided to taxpayers. The IRS's reliance on legacy (*i.e.,* older) systems, aged hardware and software, and its use of outdated programming languages pose significant risks to the IRS's ability to deliver its mission. Modernizing the IRS's computer systems has been a persistent challenge for many years and will likely remain a challenge for the foreseeable future.

The IRS established the Enterprise Case Management (ECM) program in January 2015 in an effort to either partially or fully replace the functionality of identified legacy case management systems. The ECM program goal was to streamline case management processes across the business units and consolidate the case management systems into one common solution. At the time, IRS tax administration was supported by more than 90 different case management systems that varied widely in complexity, size, and customization and were implemented over many years to support the individual needs of multiple business units. In July 2018, TIGTA reported[28] that the IRS spent $85.4 million on approximately two and a half years of work on the ECM program that was unsuccessful. After establishing the ECM program, the IRS did not search for a software product that would enable the ECM program to meet its enterprise-wide requirements. Instead, the IRS used a software product that had not proven it could be scalable to the IRS's needs and did not have continuous integration capabilities. After deciding that the software product was not viable for developing the ECM solution, the IRS suspended development activities in April 2017. While these issues delayed implementation, the IRS is scheduled to select a commercial off-the-shelf product in February 2019 that will be used for the ECM solution. Once a commercial off-the-shelf product is selected, the IRS will need to focus on migrating systems and processes to the new ECM solution.

TIGTA also previously reported that the IRS has a large and increasing amount of aged hardware, some of which is three to four times older than industry standards.[29] At the end of FY 2017, more than 59 percent of IRS hardware was past its useful life and 26 percent of software was two or more releases behind the most current commercially available version. In its FY 2019 Budget Request, the IRS noted that it must continue efforts to replace obsolete hardware and software and provide a stable foundation for delivering technology services required for day-to-day operations, transforming the tax experience, and modernizing operations. Aged information technology hardware and software, when combined with the fact that components of the infrastructure and systems are interrelated and interdependent, increase the likelihood of outages and failures and may also introduce security risks to critical taxpayer data that IRS systems must protect.

[28] TIGTA, Ref. No. 2018-20-043, *Initial Efforts to Develop an Enterprise Case Management Solution Were Unsuccessful; Other Options Are Now Being Evaluated* (July 2018).

[29] TIGTA, Ref. No. 2017-20-051, *Sixty-Four Percent of the Internal Revenue Service's Information Technology Hardware Infrastructure Is Beyond Its Useful Life* (Sept. 2017).

The IRS continues to demonstrate its commitment to broaden access to secure digital services by providing one-stop, web-based services for the general public, Federal agencies, and tax professionals. The IRS offers external web services for the public and employees through the Integrated Enterprise Portal. The Integrated Enterprise Portal was designed to be an innovative and cost-effective system that would provide a fully scalable, managed private cloud capability to the IRS, enabling one-stop, web-based services. TIGTA's analyses of two different types of vulnerability and configuration scan reports found that critical and high-risk vulnerabilities were generally remediated on hardware, virtual machines, and software in the Integrated Enterprise Portal-Registered User Portal environment.[30] However, we identified two areas of improvement needed to ensure that the system is protected against the exploitation of unpatched vulnerabilities and misconfigurations that could expose taxpayer data to unauthorized access and disclosure.

IMPROVING TAX REPORTING AND PAYMENT COMPLIANCE

One of the IRS's key responsibilities is to ensure that taxpayers comply with the tax law. As such, the IRS should ensure that taxpayers understand their filing requirements so that the rate of voluntary compliance does not decline. This is critical, because the IRS notes a 1 percent drop in the voluntary compliance rate is estimated to cost the Government tax revenue of $30 billion each year.[31]

To enhance its enforcement actions, the IRS implemented the Private Debt Collection (PDC) program, as required by the Fixing America's Surface Transportation Act, to collect inactive tax receivables that the IRS previously could not collect. In two prior attempts, programs did not generate sufficient revenue to cover costs and the IRS terminated the programs early with net losses to the Government. The Joint Committee on Taxation estimated that the current PDC program would yield approximately $2.4 billion in additional revenue through FY 2025. TIGTA reported[32] as of May 31, 2018, that the PDC program generated $56.6 million in revenue compared to $55.3 million in costs for an approximate net profit of $1.3 million. The PCAs collected just 1 percent of the $4.1 billion assigned. Possible causes of the nominal collection yield could be the average age of the cases assigned (4 years), assignment of low-income taxpayers (54 percent of PDC inventory), lack of consequences for subsequent noncompliance, or taxpayers who willfully failed to pay. Other PDC program concerns include the lack of a referral unit, the reliance on PCAs to self-report complaints, authentication procedures that expose taxpayers to risk, and PDC communication strategies that differ from IRS communications regarding tax scams.

[30] TIGTA, Ref. No. 2018-20-036, *The Remediation of Configuration Weaknesses and Vulnerabilities in the Registered User Portal Should Be Improved* (July 2018).
[31] IRS Congressional Budget Justification and Annual Performance Report and Plan - FY 2019.
[32] TIGTA, Ref. No. 2018-30-052, *Private Debt Collection Was Implemented Despite Resource Challenges; However, Internal Support and Taxpayer Protections Are Limited* (Sept. 2018).

During another review, TIGTA found[33] that the IRS can more effectively address filing noncompliance and underreporting by better using the State Audit Report Program. TIGTA analyzed FYs 2013 through 2016 State Audit Report Program nonfiler inventories and found that the IRS had dropped 39,142 records for taxpayers who were either repeat nonfilers, high-income nonfilers, or both, with estimated tax liabilities not collected totaling approximately $285 million. Only 12 States participate in the State Audit Report Program as we found that there is a lack of coordination and knowledge regarding the agreements with State agencies.

Issuing levies is another effective enforcement tool that the IRS can use to collect overdue taxes. In many cases, a levy causes the taxpayer to make contact with the IRS, which provides the IRS an opportunity to help bring the taxpayer into compliance. TIGTA found[34] that IRS management has been deliberately reducing notices of levy in recent years because it believed there were insufficient resources to handle the resulting taxpayer telephone calls. The total number of Automated Collection System (ACS) levies issued (paper and systemic) decreased by nearly 90 percent during the 18-month period after management's decision. Levy proceeds decreased by 70 percent, or almost $966 million. Further, the analysis showed that in addition to these quantifiable decreases, the decision to suspend ACS systemic levies also negatively affected other collection actions, such as an increase in the number of accounts written off as uncollectible due to the expiration of the statute of limitations.

As previously mentioned, ensuring that taxpayers understand and meet their tax responsibilities is crucial for the IRS in its effort to encourage voluntary compliance with the tax laws. Paid tax return preparers play an important role in the U.S. tax system as they prepare approximately 60 percent of all tax returns filed, and their actions have an enormous impact on the IRS's ability to administer tax laws effectively. Because of the critical role tax preparers have in helping taxpayers comply with the tax laws, identifying incompetent and unscrupulous preparers is an essential component of the IRS's oversight responsibilities. While the IRS's effort to regulate preparers was invalidated as a result of litigation,[35] the IRS has tools, including civil penalties, civil injunctions, and criminal investigations to identify and discourage preparer misconduct.

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[33] TIGTA, Ref. No. 2018-30-060, *The Internal Revenue Service Can More Effectively Address Noncompliance by Better Using and Controlling the Fed/State Program* (Aug. 2018).
[34] TIGTA, Ref. No. 2018-30-068, *Fiscal Year 2018 Statutory Review of Compliance With Legal Guidelines When Issuing Levies* (Sept. 2018).
[35] *Loving v. IRS,* 917 F. Supp. 2d 67 (D.D.C. 2013), aff'd, 742 F 3d 1013 (D.C. Cir. 2014).

TIGTA found no evidence of a coordinated strategy in the IRS to address preparer misconduct.[36] Only a relatively small number of civil examinations are pursued against preparers each year relative to complaints about tax preparers. During FY 2016, the IRS investigated just 140 (15 percent) of 951 misconduct referrals and, of the cases that resulted in preparer penalties, the IRS collected only 15 percent of assessed penalties. Further, the IRS checks tax compliance for tax professionals but not for most unregulated preparers. TIGTA reported that more than 26,000 tax professionals who were Preparer Tax Identification Number recipients acknowledged being tax noncompliant. In addition, while preparing tax returns without a Preparer Tax Identification Number is subject to a penalty, the penalties are assessed on a limited *ad hoc* basis. In Processing Year 2016, the IRS failed to assess $121,175,195 in Preparer Tax Identification Number penalties.

To establish certainty regarding a taxpayer's tax obligations for U.S. Corporation Income Tax Returns, the IRS created Schedule UTP, *Uncertain Tax Position Statement*, beginning in Tax Year 2010. The IRS expected the schedule would maintain consistent treatment of taxpayers, increase IRS resource efficiency by focusing on issues and taxpayers that posed the greatest risk of noncompliance, and strategically leverage resources during inventory identification and delivery. Despite IRS efforts to collect meaningful data to assist the examination process, TIGTA reported that the Schedule UTP does not gather sufficient information to achieve its intended goals.[37] The weaknesses in the form provide for limited use by examiners and group managers in the field and by Large Business and International Division management and executives to strategically use the form during inventory identification and delivery. The IRS plans to coordinate with the Department of the Treasury, Office of Tax Policy, to consider the feasibility of modifying the schedule to include information needed to be more useful for its intended purpose.

REDUCING FRAUDULENT CLAIMS AND IMPROPER PAYMENTS

The Office of Management and Budget describes an improper payment as any payment that should not have been made, was made in an incorrect amount, or was made to an ineligible recipient. Improper payment legislation[38] required Federal agencies, including the IRS, to estimate the amount of their improper payments and report to Congress annually on the causes of and the steps taken to reduce such improper payments. The EITC has been identified as a high-risk program, and, as such, the IRS must include the rate and amount of improper payments in the Department of the Treasury's annual Agency Financial Report. The IRS estimates that $16.2 billion (23.9 percent) in EITC payments were issued improperly in FY 2017.

[36] TIGTA, Ref. No. 2018-30-042, *The Internal Revenue Service Lacks a Coordinated Strategy to Address Unregulated Return Preparer Misconduct* (July 2018).
[37] TIGTA, Ref. No. 2018-30-023, *The Uncertain Tax Position Statement Does Not Contain Sufficient Information to Be Useful in Compliance Efforts* (Mar. 2018).
[38] Improper Payment Information Act of 2002 (Pub. L. No. 107-300, 116 Stat. 2350), Improper Payment Elimination and Recovery Act of 2010 (Pub. L. No. 111-204, 124 Stat. 2224), and Improper Payments Elimination and Recovery Improvement Act of 2012 (Pub. L. No. 112-248, 126 Stat. 2390).

While refundable credits such as the EITC, ACTC, and AOTC provide benefits to individuals, the unintended consequence of these credits is that they can be the targets of unscrupulous individuals who file erroneous claims. Refundable credits can result in tax refunds when no income tax is paid or withheld because these credits are allowed even if they exceed the amount of the individual's tax liability. Consequently, they pose a significant risk as an avenue for those seeking to defraud the Government. Congress passed the PATH Act with a number of integrity provisions intended to reduce improper refundable credit claims. These provisions are projected to save approximately $7 billion over 10 years by reducing fraud, abuse, and improper payments in refundable tax credit programs.

TIGTA believes that the IRS is significantly understating its estimate of improper payments associated with refundable tax credits in its reports to the Office of Management and Budget and Congress. TIGTA reported[39] that the IRS continues to incorrectly rate the improper payment risk associated with the ACTC and AOTC as medium risk when, in fact, the risk is high. The medium risk rating is contrary to the IRS's own National Research Program and compliance data which, when analyzed, show a high risk of improper payments. The incorrect rating allows the IRS to continue to circumvent the reporting of required information for these programs to the Department of the Treasury for inclusion in the Agency Financial Report. We estimated that $7.4 billion (23.2 percent) of ACTC payments and $1.3 billion (28.3 percent) of AOTC payments made during FY 2017 were improper.

IMPACT OF GLOBAL ECONOMY ON TAX ADMINISTRATION

The IRS continues to focus significant efforts on global tax cooperation and tax administration practices that can prevent and resolve disputes among countries to increase certainty for taxpayers. Complexity and change in the international tax environment require that the IRS collaborate with tax administrations of foreign countries to enforce compliance. As of February 2018, the IRS has 43 active or pending reporting agreements with other countries to cooperate through a reciprocal approach to sharing information and enforcing international tax law.[40]

Significant efforts to improve U.S. taxpayer compliance with reporting foreign assets and offshore accounts resulted in the enactment of the Foreign Account Tax Compliance Act (FATCA).[41] Beginning in Tax Year 2011, the FATCA requires taxpayers with specified foreign financial assets that meet certain dollar thresholds to report the information to the IRS. The FATCA also requires foreign financial institutions to register and agree to report to the IRS information about financial accounts held by U.S. taxpayers or foreign entities in which U.S. taxpayers hold substantial ownership interest.

[39] TIGTA, Ref No. 2018-40-032, *The Internal Revenue Service Is Not in Compliance With Improper Payment Requirements* (Apr. 2018).
[40] *Internal Revenue Service Strategic Plan – FY 2018 – 2022*, IRS Pub. 3744 (Rev. Apr. 2018).
[41] Pub. L. No. 111-147, Subtitle A, 124 Stat 97 (2010) (codified in scattered sections of 26 U.S.C.).

TIGTA reported[42] that despite spending nearly $380 million, the IRS took limited or no action on a majority of planned activities in the FATCA Compliance Roadmap.[43] Foreign financial institution reports did not include (or included invalid) TINs, which affected the IRS's ability to identify and enforce individual taxpayer FATCA requirements. After TIGTA provided feedback, the IRS initiated action to enforce withholding agent compliance. TIGTA observed that a significant percentage of the Forms 1042-S, *Foreign Person's U.S. Source Income Subject to Withholding*, the IRS receives that pertain to the FATCA do not have valid TINs. However, most Form 1099 series information returns pertaining to the FATCA do have valid TINs and can be used by the IRS in its FATCA compliance strategies. There were 62,398 Tax Year 2015 Forms 1042-S with invalid TINs reporting more than $717 million, of which just over $47 million was withheld.

Additionally, improvements are needed in the IRS Large Business and International Division to address treaty-based income exemptions for some nonresident aliens. Nonresident aliens who are temporarily present in the United States to study, obtain training, teach, conduct research, and/or perform services as an employee are generally subject to income tax. Under certain tax treaties, some nonresident aliens who perform services as an employee may be eligible to exempt some or all of their income from tax. According to IRS records from Processing Years 2016 and 2017, 119,544 nonresident aliens claimed $2 billion in treaty-based exempt income.

TIGTA found[44] that IRS forms, instructions, and publications are inadequate and assume that nonresident aliens have both a Form 1042-S, reflecting income exempt by treaty, and a Form W-2, reflecting taxable wages. Nonresident aliens will have both forms only if they file a Form 8233, *Exemption From Withholding on Compensation for Independent (and Certain Dependent) Personal Services of a Nonresident Alien Individual*, with their withholding agent (generally their employer) in order to receive a full or partial exemption from withholding. The IRS needs to consider updating the appropriate forms, instructions, and publications to clarify how nonresident aliens who do not receive treaty-based exemption forms are still able to claim exemptions. Outreach and education is also needed to inform withholding agents (generally employers) of reporting rules which will improve accuracy of information reporting and reduce the number of erroneous tax returns.

PROTECTING TAXPAYER RIGHTS

The IRS must balance tax compliance activities against the rights of taxpayers to receive fair and equitable treatment. The IRS continues to dedicate significant resources and attention to complying with the taxpayer rights provisions of the IRS Restructuring and Reform Act of 1998.[45] The IRS provides taxpayers with the Taxpayer Bill of Rights[46] in many notices and in-person interviews to inform taxpayers about their rights with respect to examinations, appeals, collections, and refunds.

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[42] TIGTA, Ref. No. 2018-30-040, *Despite Spending Nearly $380 Million, the Internal Revenue Service Is Still Not Prepared to Enforce Compliance With the Foreign Account Tax Compliance Act* (July 2018).

[43] The purpose of the Roadmap is to document compliance planning involving FATCA data and to provide a baseline for future compliance planning and implementation activities across the IRS.

[44] TIGTA, Ref. No. 2018-30-074, *Forms, Instructions, Publications, and Procedures Need to Be Improved for Some Nonresident Aliens Eligible for Treaty-Based Income Exemptions* (Sept. 2018).

[45] Pub. L. No. 105-206, 112 Stat. 685.

[46] IRS Publication 1, *Your Rights as a Taxpayer* (Rev. 9-2017).

Over the years, TIGTA has audited certain taxpayer rights provisions and reported that, in general, the IRS has improved its compliance with these statutory provisions and is documenting its protection of taxpayer rights. However, during the review of the IRS's compliance with Notice of Federal Tax Lien due process procedures, TIGTA found[47] that the IRS did not always send lien notices to the taxpayer's last known address. In addition, the IRS did not always send copies of the lien notices to all taxpayers' authorized representatives.

TIGTA also evaluated the IRS's compliance with legal seizure provisions.[48] TIGTA reviewed a judgmental sample of 51 of the 359 seizures conducted from July 1, 2016, through June 30, 2017, to determine whether the IRS complied with legal and internal guidelines related to each seizure. TIGTA identified three seizures in which IRS Collection employees did not exhibit due diligence to ensure that the seizure was appropriate. TIGTA also found that the pilot program the IRS was using for the sale of seized property through the Internet resulted in higher sale-related expenses. Sale-related expenses are paid from sale proceeds and reduce the amount that is applied to the taxpayer's outstanding tax liability.

TIGTA also assessed whether the IRS complied with requirements to notify taxpayers prior to issuing levies.[49] Our tests of taxpayers with ACS paper levies identified five cases in which ACS employees levied the taxpayer before waiting 30 days after providing the notice of Collection Due Process rights to the taxpayer. Further, analysis of taxpayers with ACS paper levies in which additional tax was assessed prior to the levies identified 783 (1 percent) taxpayers who did not receive a new notice of intent to levy after an additional assessment was made on a tax period listed on the levy.

ACHIEVING PROGRAM EFFICIENCIES AND COST SAVINGS

Continuing to identify and achieve greater program efficiencies and cost savings is imperative for the IRS as it strives to successfully accomplish its mission with declining resources. Implementing cost saving strategies is particularly critical as the IRS is tasked with additional legislative responsibilities, often with limited budgetary funding. Recent audits concerning rent costs and IRS employee awards have identified opportunities for cost savings and improving the integrity of the system of tax administration.

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[47] TIGTA, Ref. No. 2018-30-080, *Fiscal Year 2018 Statutory Review of Compliance With Notice of Federal Tax Lien Filing Due Process Procedures* (Sept. 2018).
[48] TIGTA, Ref. No. 2018-30-067, *Fiscal Year 2018 Review of Compliance With Legal Guidelines When Conducting Seizures of Taxpayers' Property* (Sept. 2018).
[49] TIGTA, Ref. No. 2018-30-068, *Fiscal Year 2018 Statutory Review of Compliance With Legal Guidelines When Issuing Levies* (Sept. 2018).

After payroll, rent is the IRS's largest operating expense, with the IRS expecting to spend more than $600 million on real estate costs in FY 2018. Since March 2012, the IRS has taken steps to reduce its total office space by nearly 8 percent by either closing or consolidating office spaces. Although progress has been made, the rate of employee attrition has outpaced office space reduction efforts. The IRS's workstation utilization rate was only 66 percent as of December 2017. TIGTA reported[50] that changing the method by which the IRS develops and implements its space reduction projects, to incorporate more effective workstation and office sharing, could reduce the need for as many as 10,473 workspaces. By releasing these underutilized workspaces and the square footage of leased space associated with them, the IRS could achieve more than $80 million in rental cost savings over the next five years.

TIGTA found that the IRS had not capitalized on underutilized workspace reduction cost savings that could be achieved from better utilization of employee "hoteling" (managers and employees sharing workspaces), such as reduced rental, workspace buildout, furnishing, and equipment costs. The IRS could not provide any documentation demonstrating measurable progress in releasing underutilized workspaces as a result of highly mobile employees and employees who participate in frequent or recurring telework.

Besides ensuring proper stewardship of Government funds, the IRS must maintain the integrity of the agency. TIGTA reported[51] that the IRS did not ensure that all employees with conduct and tax compliance issues were screened prior to receiving a performance award, as required by Department of the Treasury policy and Federal law. Increased screening procedures for awards resulted in the IRS denying almost 80 percent of awards to screened employees with identified conduct and tax issues. However, TIGTA found that in FY 2016 and FY 2017, the IRS still issued more than $1.7 million in awards to 1,962 employees who had a disciplinary or adverse action during the 12 months prior to receiving their award. Some of these employees had serious misconduct such as unauthorized access to tax return information, substance abuse, and sexual misconduct. In addition, TIGTA found that IRS screening processes do not look for or identify employees with tax compliance issues unless those issues have resulted in disciplinary action.

CONCLUSION

This memorandum is provided as our annual summary of the most serious major management and performance challenges confronting the IRS in FY 2019. TIGTA's *Fiscal Year 2019 Annual Audit Plan* contains our proposed reviews, which are organized in accordance with these challenges. If you have any questions or wish to discuss our views on the challenges in greater detail, please contact me at (202) 622-6500.

cc: Assistant Secretary for Management
Deputy Chief Financial Officer
Commissioner of Internal Revenue

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[50] TIGTA, Ref. No. 2018-10-020, *More Effective Workstation and Office Utilization Could Result in Rental Cost Savings* (Apr. 2018).
[51] TIGTA, Ref. No. 2018-10-005, *The Internal Revenue Service Has Implemented Some Screening Procedures, but Employees With Recent Tax and Conduct Issues Continue to Receive Awards* (Feb. 2018).

RESPONSES TO INSPECTORS GENERAL IDENTIFIED CHALLENGES

Treasury Management Response to OIG Identified Challenges

OIG Challenge 1: Operating in an Uncertain Environment

OMB's government-wide Reform Plan may significantly affect the administration of the Department's programs and operations. Additional uncertainties facing the Department are the recurring cycle of budget and debt ceiling stopgaps.

We agree with the OIG that there is risk to Treasury's programs and operations associated with future reform of the Executive Branch of the federal government, and with the recurring cycle of budget and debt ceiling stopgaps. Treasury strongly supports OMB's government-wide Reform Plan. We remain committed to our priority initiatives for fulfilling our mission and achieving our reform goals as set forth by OMB.

OIG Challenge 2: Cyber Threats

As cyber threats continue to evolve and become more sophisticated and subtle, they pose ongoing challenges for Treasury to fortify and safeguard its internal systems and operations along with the financial sector it oversees. Additionally, ensuring the government has a sufficient number of cybersecurity professionals is also an ongoing challenge.

Treasury employs a risk-based approach to cybersecurity, which includes: (a) assessing the likelihood of exploitation; (b) examining the number of dependencies required to exploit a given vulnerability; and (c) calculating the impact to the public if a system or data is compromised. In FY 2018, in accordance with Federal-wide guidance, the Department focused efforts on impact calculation, identifying High Value Assets that would be of likely interest to an adversary seeking to maximize impact to the public, and examining dependencies by completing Security Architecture Reviews and Risk and Vulnerability Assessments with the Department of Homeland Security (DHS).

Six of Treasury's Highest Value Assets (HVAs) reside in the Bureau of the Fiscal Service, resulting in an inherently concentrated risk of cyber-attacks for Treasury. Over the last two years, Treasury (and particularly the Fiscal Service) has more than doubled cybersecurity assessments on the HVAs, and is further evaluating and prioritizing remediation activities associated with findings and risks identified through the assessment process within funding constraints.

Additionally, Treasury finalized the initiation of Phase 1 of the Continuous Diagnostics and Mitigation Program in FY 2018 to enable automated monitoring of information technology vulnerabilities and leveraged new investments in Cybersecurity Enhancement capabilities to improve outward-facing protections of Treasury data. We deployed Data Loss Prevention (DLP) hardware and initiated testing. DLP tools reduce the likelihood of data breaches by detecting and blocking attempts (by agency users or malicious actors) to send sensitive data outside of the organization's boundary. We also made targeted investments at the Government Security Operations Center to enhance monitoring of web traffic and inspection of web and email content.

In coordination with DHS, the Department made additional investments to improve security for information technology (IT) users. The Department has begun to implement the default use of Hyper Text Transfer Protocol (HTTP) Secure with HTTP Strict Transport Security to improve security of websites and web services. We enabled Domain-based Message Authentication, Reporting & Conformance (DMARC) on 80 percent of our external network domains to provide the strongest protection against spoofed email, and are working to address the remaining domains early in FY 2019. Lastly, Treasury enables only the use of National Institute of Science and Technology (NIST)-approved encryption solutions on Internet-facing email servers to best protect sensitive data. By implementing these email and web security standards, Treasury increased the integrity and confidentiality of Internet-delivered data, reduced the volume of spam, and better protected IT users who might otherwise fall victim to phishing emails that appeared to originate from Federal Government systems.

OIG Challenge 3: Anti-Money Laundering/Terrorist Financing and Bank Secrecy Act Enforcement

Identifying, disrupting, and dismantling the financial networks that support terrorists, organized transnational crime, weapons of mass destruction proliferators, and other threats to international security, continue to be challenging.

The Office of Terrorism and Financial Intelligence (TFI) remains dedicated to countering the ability of these networks, organizations, and countries to fund such activities through intelligence analysis, the strategic application of our various economic tools and authorities, and international private-sector cooperation. The global dominance of the U.S. dollar, along with the unique inclusiveness and reach of U.S. financial institutions, creates inherent exposure to risk of money laundering and attempts at exploitation for terrorist finance. We therefore agree with the OIG's assessment that combatting money laundering and countering the financing of terrorism is challenging, especially as illicit actors continue evolving their methods in an attempt to avoid detection. Despite these risks and the increasingly complicated environment in which TFI operates, the Financial Action Task Force 2016 Mutual Evaluation of the U.S. found the U.S. Anti-Money Laundering and Combating the Financing of Terrorism framework to be robust and effective. As a result of the work of TFI and its myriad of law enforcement, national security, and private sector partners, the U.S. continues to be one of the world's most secure financial systems, able to effectively root out illicit activity and protect U.S. national security interests.

Treasury appreciates the OIG's acknowledgement of TFI's work across a number of programs as well as the increased demand for the use of TFI's economic tools and authorities in responding to national security threats. The OIG stated that this increased workload resulting in TFI requesting approximately 100 new positions for FY 2019. As clarification, 63 of these positions were funded in the Department's 2018 budget as part of the supplemental to the FY 2018 President's Budget. Hiring actions have already been initiated for all of these positions, with a vast majority having already been onboarded or selected pending final security clearances. We have also worked closely with partners the Office of Personnel Management to achieve a much reduced processing time for clearances given the critical nature of these positions. Given the progress made to date, TFI is confident in the ability to continue recruiting and hiring exceptionally talented staff to fill the additional newly funded positions in the FY 2019 President's Budget. TFI concurs that the 2 year vacancy for the Assistant Secretary of Intelligence and Analysis, a critical intelligence position, was unacceptable and hopes that Congress will proceed with greater speed and efficiency in reviewing nominees as new vacancies arise.

Treasury concurs with the OIG's statement that disrupting terrorist financing, as well as other mission objectives, depends upon a whole-of-government approach, requiring coordination and collaboration within Treasury and with other Federal agencies. Over the last year, TFI implemented several key initiatives to emphasize and better enable coordination and collaboration at a number of levels. For instance, TFI now has six Strategic Impact Units working on a number of highly complex, priority programs to further enhance collaboration in applying our economic tools and authorities in a strategic, calibrated way to ensure maximum impact from our actions. An example of this collaboration can be seen in the increased coordination of the Financial Crimes Enforcement Network (FinCEN) advisories with other designations or targeted outreach so as amplify the actions and cause a maximum disruption of funding to malign actors. Within the interagency community, TFI has also made efforts to enhance coordination, to include working with the Intelligence Community to create the National Intelligence Manager for Economic Security and Threat Finance to drive greater intelligence coordination and integration on threat finance and economic security priorities. TFI will continue to further foster and enhance this type of coordination across our programs.

OIG Challenge 4: Efforts to Promote Spending Transparency and to Prevent and Detect Improper Payments

The Digital Accountability and Transparency Act (DATA Act), in part, requires the Federal Government to provide consistent, reliable, and useful online data about how it spends taxpayer dollars. In the OIG's November 2017 audit report on the Treasury agency DATA Act compliance, it identified issues with the agency submission. Additionally, the Department must continue improvements to its Do Not Pay (DNP) analytical tools for helping to prevent and reduce improper payments across the federal government.

While the OIG concluded that Treasury's FY 2017 second quarter submission resulted in inaccuracies, management expressed concern with the audit methodology employed to assess the accuracy of Treasury's spending data. Based on the audit methodology employed, if any one of the audited data elements or components of an element (there were a total of 57 government-wide data elements, along with components within an element) included in a transaction could not be verified or agreed to source records, the entire transaction was counted as inaccurate. This assumed all elements were weighted equally, regardless of their significance. Based on the audit methodology employed, auditors assessed a less than five percent accuracy on a transaction basis versus an over 70 percent accuracy rate based on the quality of individual data elements.

Within the same audit, OIG recognized that our award financial data elements were complete and accurate. Therefore, our remediation efforts have primarily focused on improving the integrity of our non-financial award data. These remediation efforts to date have focused on training and other related activities, including the development of a more comprehensive remediation plan, a Data Quality Plan for both financial and non-financial data, which will be completed in the first quarter of FY 2019.

Related to improper payments, Fiscal Service's DNP Business Center estimates that almost 98 percent of adjudicated payment errors represent recurring payments which, when corrected, may then be removed from future disbursements. DNP continues to mature its analytical capabilities, embark on new studies, and other activities to further address concerns around this challenge.

IRS Management Response to TIGTA Identified Challenges

TIGTA Challenge 1: Security Over Taxpayer Data and Protection of IRS Resources

Protecting the confidentiality of taxpayer information from internal and external threats continues to be a top concern for IRS.

TIGTA reported that the IRS must ensure that contractors or other third parties are adequately protecting taxpayer data in addition to protecting its own employees against threats in their 550 locations. The IRS continued to address inefficiencies in protocols, oversight of security agreements and updates in internal policies. The IRS also implemented an incident reporting training course to provide employees with basic guidance for reporting physical security incidents. Furthermore, the IRS implemented an employee verification program to enhance taxpayer confidence when dealing with IRS professionals outside of IRS facilities.

TIGTA Challenge 2: Implementing the Tax Cuts and Jobs Act and Other Tax Law Changes

New tax law provisions administered by the IRS will need to be implemented due to the Tax Cuts and Jobs Act of 2017 (TCJA) *which increases the risk that the 2019 Filing Season will be delayed.*

Although TIGTA discusses numerous challenges, risks, and discrepancies with the IRS administering new legislation and tax law provisions (e.g. TCJA and PATH Act), our management initiated work on multiple efforts including: 1) requesting programming changes on eligibility indicators and requirements for multiple tax credits 2) offering pre-refund audits on returns; 3) thoroughly reviewing Individual Taxpayer Identification Numbers (ITINs) systemically deactivated under the PATH Act due to non-use; and 4) implementing additional requirements to increase the accuracy of ITIN deactivation.

The IRS developed processes to identify all AOTC claims for both missing Tuition Statement Form, and claims that did not provide the institution's employer identification number. Furthermore, beginning with TY 2016 the IRS initiated pre-refund audits on returns for which a student claimed the AOTC in the previous year without a corresponding Tuition Statement Form filed for the prior year.

TIGTA Challenge 3: Identity Theft and Impersonation Fraud

Because new identity theft patterns are constantly evolving, the IRS needs to continuously adapt its detection and prevention processes to reject fraudulent electronically filed tax returns and prevent fraudulent paper tax returns from posting.

Tax scams remain an ongoing threat to taxpayers and a top priority for TIGTA and the IRS to address. In FY 2018, the IRS added several new business return identity theft filters to expand business identity theft protections, allowing protection for more business taxpayers through the expansion of upfront filtering and modeling. Additionally, the IRS implemented programming to detect paper returns that report wages filed under an ITIN.

TIGTA Challenge 4: Providing Quality Taxpayer Service

The President's Management Agenda outlines a goal of improving customer experience with Federal Services. Providing taxpayers with quality customer service is a key component in the IRS's mission will allow the IRS to direct its limited resources more efficiently.

In FY 2018, the IRS provided requirements to modify the Identity Protection Personal Identification Number and programming to implement additional identity theft prevention processes. The IRS also finalized case resolution guidance, “The Taxpayer Treatment Guide,” to ensure consistency in taxpayer customer interactions by all IRS functions interfacing with the public.

TIGTA Challenge 5: Upgrading Tax Systems and Expanding Online Services

The IRS’s reliance on legacy systems and its use of outdated programming languages poses significant risks to the IRS’s ability to deliver its mission and ensuring that systems and data remain reliable.

TIGTA cites the IRS’s challenges with aged information technology hardware, software, and infrastructure. The IRS’s commitment and efforts to modernize, standardize and upgrade tax systems and customer online services include: 1) creating an aged infrastructure cross-functional team, which redefined the measurement criteria for aged hardware to improve tracking precision, accuracy, and consistency; 2) finalizing FY 2018 aged hardware replacement targets that will prevent growth in the aged asset inventory; 3) initiating work on a long-term plan that will deliver a proactive and sustainable operating model to enable top-down, multi-year planning driven by operational risk assessment; 4) undertaking a full review and update to the Security Change Management Standard Operating Procedures; and 5) formulating, socializing and publishing the enterprise-wide cloud strategy, which identifies and formalizes the necessary personnel, process, technology, and methodology changes that will allow the IRS to strategically manage cloud services.

TIGTA Challenge 6: Improving Tax Reporting and Payment Compliance

Ensuring that taxpayers understand their filing requirements is a key responsibility for the IRS in its effort to encourage voluntary compliance with tax laws.

In responding to tax reporting and payment compliance challenges, the IRS developed a FY 2019 Communication Strategy which includes the use of Social Media to provide explanatory information about the Private Debt Collection program, including information about the Taxpayer Bill of Rights.

The IRS also contacted states indicating interest in participating in the State Audit Report Program (SARP) and new states on testing SARP data to ensure proper format for delivery. In addition, the IRS incorporated formal procedures for the Lead Development Center database in June 2018.

IRS also sent letters to some tax return preparers to indicate to them when they have not been compliant with tax laws, and included details about previously provided alleged noncompliance.

TIGTA Challenge 7: Reducing Fraudulent Claims and Improper Payments

Refundable credits can result in the issuance of tax refunds even if no income tax is withheld or paid and can be the targets of unscrupulous individuals who file erroneous claims.

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 partially a result of this complexity. Additionally, the lack of third-party data to verify eligibility requirements for these refundable credits also complicates the ability of the IRS to administer these credits.

Furthermore, the IRS strategy with respect to improper payments is to intervene early to ensure compliance with the law. In FY 2018, the IRS addressed improper payments through its compliance programs, as well as through expansive outreach and education efforts to taxpayers and preparers.

TIGTA Challenge 8: Impact of Global Economy on Tax Administration

The globalization of financial markets and the increased importance of multinational corporations are making it increasingly difficult for the IRS to administer and enforce tax compliance.

TIGTA reported that the IRS took limited or no action on a majority of planned activities in the *Foreign Account Tax Compliance Act* (FATCA) Compliance Roadmap. However, the IRS improved its exchange of information capabilities by utilizing its Automatic Exchange of Information (AEOI) program, which receives monthly reports detailing incoming FATCA filings by authority and tax year. The AEOI program also provides exam groups with FATCA information pertaining to taxpayers in the audit inventory.

TIGTA Challenge 9: Protecting Taxpayer Rights

The IRS must balance its tax compliance activities against the rights of taxpayers to receive fair and equitable treatment.

Although TIGTA addresses issues with IRS's process for sending lien notices and compliance with legal seizure provisions, the IRS has updated its internal procedures on Notice of Federal Tax Lien requests. The IRS also mailed notices to about 1,800 property owners with forfeited assets pursuant to structuring violations for the years 2009 through 2016, advising them that they may have an ownership interest in their previously seized and forfeited property. In addition, the IRS updated its *Bank Secrecy Act* standard operating procedures for all Financial Crimes Task Forces to ensure management oversight in the task forces' respective investigations.

TIGTA Challenge 10: Achieving Program Efficiencies and Cost Savings

Continuing to identify and achieve greater program efficiencies and cost savings is imperative for the IRS as it strives to successfully accomplish its mission with declining resources.

Recent audits by TIGTA revealed rental lease payments are the IRS's largest operating expense. Although TIGTA cites that the IRS did not take advantage of underutilized workspace reduction cost savings, the IRS made cost savings efforts in other areas that are either operational or programmatic. Some of those efforts include: 1) correcting employee salary overpayments or underpayments; 2) updating hiring policies and practices; 3) deploying a new enterprise email solution; 4) conducting a Test and Learn strategy for better selecting high-dollar tax delinquency cases; and 5) improving software license management.

Treasury remains committed to addressing the challenges identified by the inspectors general as we continue our work in meeting the agency's mission and achieving the agency's strategic objectives.

SECTION D: SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following tables present information pertaining to Treasury's reported material weaknesses, as well as information related to our conformance with *Federal Managers' Financial Integrity Act of 1982* (FMFIA) and compliance with *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
Material Weakness in Internal Control Over Financial Reporting at the IRS	1	0	1	0	0
Total Material Weaknesses	1	0	1	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
IRS - Unpaid Tax Assessments [1]	1	0	1	0	0	0
Total Material Weaknesses	1	0	1	0	0	0

[1] GAO, *Financial Audit: IRS's Fiscal Years 2018 and 2017 Financial Statements*, GAO-19-150.

EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA SECTION 2)

Statement of Assurance: Unmodified

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Fiscal Service - Control Deficiencies in the Processes used to Prepare the Consolidated Government-wide Financial Statements [1]	1	0	0	0	1	0
Total Material Weaknesses	1	0	0	0	1	0

[1] Treasury, in conjunction with OMB and GAO, reassessed the Fiscal Service material weakness and determined that the material weakness relates to the audit of the government-wide financial statement and has no operational or financial impact on Treasury operations or financial statements, therefore should be reported only in the Consolidated Financial Statements.

CONFORMANCE WITH FMFIA SECTION 4

Statement of Assurance: Federal systems conform to financial management system requirements

Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total non-conformances	0	0	0	0	0	0

COMPLIANCE WITH FFMIA SECTION 803(a)

	Agency	Auditor
1. Federal Financial Management System Requirements	Lack of compliance noted	
2. Applicable Federal Accounting Standards	No lack of compliance noted	
3. U.S. Standard General Ledger (USSGL) at Transaction Level	No lack of compliance noted	

FMFIA AND FFMIA REQUIREMENTS

The FMFIA requires agencies to establish and maintain internal control to ensure that federal programs operate efficiently, effectively, and in compliance with laws and regulations. The Secretary must evaluate and report annually on (a) whether there is reasonable assurance that the Agency's controls are achieving their intended objectives, and (b) material weaknesses in the Agency's controls (FMFIA Section 2). Additionally, the Secretary must evaluate and report separately on whether the Agency's financial management systems comply with government-wide requirements (FMFIA Section 4). The FFMIA requires agencies to implement and maintain management systems that substantially comply with federal financial management systems requirements. The requirements of the FMFIA serve as an umbrella under which other reviews, evaluations, and audits should be coordinated and considered to support management's assertion about the effectiveness of internal control over operations, financial reporting, and compliance with laws and regulations.

As of September 30, 2018, we had no material weaknesses under Section 2 or Section 4 of the FMFIA. We downgraded the long-standing IRS material weakness related to FMFIA Section 2 to a significant deficiency, and reassessed the Fiscal Service material weakness over the processes used to prepare the Consolidated Financial Statements (CFS). We, along with OMB and GAO, determined that the Fiscal Service material weakness should be reported only in the CFS as it relates to the audit of the government-wide financial statements and has no operational or financial impact on our Treasury agency operations or financial statements. The material weaknesses are summarized as follows:

Summary of FMFIA Material Weakness	Section 2	Section 4	Total
Balance at the Beginning of FY 2018	2	0	**2**
Closures/Downgrades during FY 2018	(1)	0	**(1)**
Reassessed during FY 2018	(1)	0	**(1)**
New Material Weakness Declared during FY 2018	0	0	**0**
Balance at the End of FY 2018	0	0	**0**

SECTION E: PAYMENT INTEGRITY

Our FY 2018 Payment Integrity reporting includes information required by the *Improper Payments Information Act of 2002* (IPIA), as amended by the *Improper Payments Elimination and Recovery Act* of 2010 and *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA), Executive Order 13520, *Reducing Improper Payments and Eliminating Waste in the Federal Government*, Appendix C to OMB Circular A-123, *Requirements for Payment Integrity Improvement* and OMB Circular A-136. Additional information on current and prior year reported improper payments can be found at https://paymentaccuracy.gov/.

I. RISK ASSESSMENTS

Each year, bureaus and offices (hereafter referred to as "components") are required to conduct risk assessments on all material programs (i.e., programs with total non-federal disbursement amounts equal to or greater than $10 million) to identify the risk of susceptibility to improper payments. OMB defines susceptibility to improper payments as gross annual improper payments exceeding both 1.5 percent and $10 million in total program outlays, or $100 million at any rate. Components may perform a quantitative or qualitative risk assessment. The quantitative risk assessment consists of a review of a sample of disbursements to formulate the overall estimated improper payment rate for the program. The qualitative risk assessment is a questionnaire used to assess a program's internal control risks, which could lead to susceptibility of significant improper payments.

Components must perform risk assessments at the payment type level (e.g., payroll, contracts, vendors, travel, etc.). Our risk assessment process follows the seven risk factors outlined in OMB Circular A-123, Appendix C. The factors considered in the determination of risk levels include:

- Whether the program or activity reviewed is new to the agency;
- The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts;
- The volume of payments made annually;
- Whether payments or payment eligibility decisions are made outside of the agency, for example, by the state or local government, or a regional federal office;
- Recent major changes in program funding, authorities, practices, or procedures;
- The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate; and
- Significant deficiencies in the audit reports of the agency including, but not limited to, the agency Inspector General or the GAO audit report findings, or other relevant management findings that might hinder accurate payment certification.

In FY 2018, risk assessments were performed on 65 programs. Two programs had quantitative risk assessments, and 63 programs had qualitative risk assessments. Programs identified as susceptible are required to perform: (1) statistical sampling to determine an improper payment rate, and (2) develop and submit a corrective action plan to OMB for reducing the improper payment rate below the statutory threshold. Treasury mandated actions for low and medium risk programs include annual monitoring through risk assessments, and review of payment controls for improvement opportunities, respectively.

Since TY 2006, the IRS NRP has conducted annual studies of individual income tax reporting compliance. Each study includes a stratified random sample of individual income tax returns for a given year that undergo a tax return audit. Since these returns are selected through a stratified random sample, the results of the tax return audits can be extrapolated to the population to produce unbiased estimates of reporting compliance, including the extent of noncompliance associated with particular tax credits. The IRS has used the results of each NRP study (often combining studies from multiple years to improve precision) to analyze compliance with the EITC, CTC, and education credits (see Part 3, Section A, of this report titled "*Tax Gap and Tax Burden*"). Based on the analysis of NRP data, there is sufficient evidence to suggest that the non-EITC refundable tax credits – including the ACTC and the refundable portion of the American Opportunity Tax Credit – likely exceed the thresholds for improper payments reporting established by law and in OMB guidance, and may be considered susceptible to significant improper payments. In FY 2019, the IRS will be developing and deploying a methodology appropriate for quantitatively analyzing and reporting on improper payments for these programs, with the intention of having results available to report, as necessary, in the FY 2019 Treasury AFR.

In addition, preliminary data for Net PTC from the TY 2014 NRP study, the first year of the PTC, has recently become available for analysis. Examinations of returns that claimed Net PTC are not complete. However, preliminary results indicate that the Net PTC may also be susceptible to significant improper payments. Because the number of returns claiming Net PTC in the 2014 sample is small, examinations are incomplete, and 2014 was the first year that the credit was available, the preliminary results should be interpreted with caution until the IRS collects more compliance data from future NRP studies. The TY 2017 NRP study sample was designed so that estimates would likely meet improper payment reporting precision requirements of a 95 percent confidence interval of +/- 3.0 percentage points required by OMB Circular A-123, Appendix C.

A risk assessment was not conducted for the EITC program, which has been deemed by OMB as a high risk and high priority program. Similar to programs identified as susceptible to significant improper payments, as a high risk and high priority program, EITC is required to perform a statistical sample to determine an improper payment rate, and develop and submit a corrective action plan to OMB.

II. SAMPLING AND ESTIMATION

EITC Program

The EITC, a refundable federal tax credit for working families with low to moderate income, is a social benefits program that is administered through the IRC. It differs from other social benefits programs because claimants are not required to prove eligibility before receiving benefits. To qualify to claim the EITC, individuals generally must have earned income, a valid SSN for themselves and any children they are claiming, meet certain limits on filing status and income, have no more than a certain amount in investment income, and be a U.S. citizen or resident alien for the entire year claimed.

As described below, the IRS engages in a number of activities to encourage voluntary compliance and prevent improper payments. The IRS performs certain automatic checks of all claims and audits some claims before tax refunds are paid. In addition, as with all tax provisions, the IRS performs some examinations after refunds are paid, and subsequently recovers some improper payments. The improper payment amounts reported below include improper overclaims plus the absolute value of underpayments. The error rate is the net total improper payment amount divided by the total amount of EITC claimed.

In accordance with the requirements of IPERIA, we update the improper payment estimates annually. The EITC improper payment rate is estimated using a statistically valid sample of about 2,700 returns audited through the IRS's NRP. The EITC claimants sampled are large enough to estimate the improper payment percentage with plus or minus three percentage point precision and 95 percent confidence.

III. Payment Reporting

Improper Payment Estimate

The total estimated amount of FY 2018 EITC claims is $73.6 billion. Applying the current estimated improper payment rate of 25.06 percent to the total estimated FY 2018 EITC claims amount yields an estimated amount of improper payments of $18.4 billion (or between $16.9 and $20.0 billion). This improper payment amount is not comparable to prior years. In prior years, the overclaims that were paid and later recovered through the IRS post-refund enforcement activities were netted against total overclaims. To conform to current OMB guidance, the IRS updated its estimation methodology to add back overclaims recovered through the IRS post-refund activities to the total overclaims amount in deriving the improper payment rate for FY 2018.

The table below provides the EITC improper payment amounts for FY 2018 and the estimated improper payment rate for both FY 2018 and FY 2019. It should be noted that the estimated improper payment amounts reported in the table below include the *American Recovery and Reinvestment Act of 2009* EITC provisions, which expanded EITC for families with three children, and increased the beginning of the phase-out range for married couples filing a joint return. The PATH Act made the EITC expansion permanent. The PATH Act also included program integrity provisions that will continue to be evaluated for their long-term effect on EITC.

IMPROPER PAYMENT REDUCTION OUTLOOK ($ IN MILLIONS)

Program	FY 2018 Outlays [1]	FY 2018 Proper Payment Amount	FY 2018 Proper Payment Rate	FY 2018 Improper Payment Amount [2] [3]	FY 2018 Improper Payment Rate [4]	FY 2018 Overpayments	FY 2018 Underpayments	FY 2019 Estimated Improper Payment Rate [5]
EITC	$73,589.06	$55,145.58	74.94%	$18,443.48	25.06%	$18,443.48	[6]	25.06%
Total	**$73,589.06**	**$55,145.58**	**74.94%**	**$18,443.48**	**25.06%**	**$18,443.48**	**[6]**	**25.06%**

[1] FY 2018 EITC Outlays: Consistent with prior improper payment estimates, this table reports estimated EITC claims instead of outlays. FY 2018 estimated total claims for the EITC are based on EITC tax expenditures plus outlays reported in the FY 2019 President's Budget, adjusted to account for the difference between taxpayer claims and amounts received by taxpayers due to return processing and enforcement.

[2] FY 2018 Improper Payment Amount: The estimated amount of net improper payments equal the estimated improper payment rate multiplied by the estimated outlays.

[3] The total FY 2018 Improper Payment Amount reported was made directly by the government.

[4] FY 2018 Improper Payment Rate: The FY 2018 estimated improper payment rate was estimated using a statistically valid random sample of TY 2014 individual income tax returns that claimed the EITC. Unlike all prior improper payment rate estimates, the FY 2018 estimated improper payment estimate does not subtract projected recovered improper payments prior to calculating the rate. Therefore, the FY 2018 improper payment rate is not comparable to prior improper payment estimates. Had projected recovered improper payments been subtracted prior to calculating the improper payment rate, the FY 2018 improper payment rate would have been 23.41%; lower than the comparable FY 2017 reported improper payment rate estimate of 23.87%.

[5] The FY 2019 Estimated Improper Payment Rate is the same as the FY 2018 Improper Payment Rate. EITC is integrated into the tax system, and the program itself experiences a high turnover rate from year to year due to factors such as the overall health of the economy and changing individual taxpayer circumstances. Consequently the population of EITC claimants varies considerably on an annual basis and remains uncertain until individual tax returns are filed with the IRS. The qualifying criteria for claiming EITC are self-reported by taxpayers, and the IRS lacks the statutory authority, resources, and independently verifiable information needed to adjudicate every EITC claim before refunds are paid to taxpayers. The uncertainty created by these variables does not allow for accurate future reduction target rate projections, hence the need to flat line the reduction target.

[6] None identified in the statistically valid random sample used to estimate the improper payment rate.

While high priority programs are generally required to report reduction targets, setting improper payment reduction targets for the EITC program does not create meaningful goals for the IRS. This is due to the complexity of the tax law around EITC, lack of independent data regarding EITC eligibility, and the significant annual turnover within the participating population. In FY 2014, the IRS and OMB collaborated on the development of a series of supplemental measures intended to provide a more refined assessment of the EITC program and of our efforts to limit improper payments than would be provided by standard reduction targets.

The supplemental measures include:

- The Annual Error Rate, which identifies the percentage of total EITC payments that are improper;
- The amount of Revenue Protected, which shows the total value of erroneous payments prevented, or recovered through compliance activities;
- The amount of Revenue Protected from Paid Preparer Treatments, which shows dollars erroneously or fraudulently claimed by paid tax preparers, but not paid out by Treasury; and
- The number of Preparer Due Diligence Penalties Proposed, reflecting the effectiveness of Treasury's efforts to ensure paid tax preparers are submitting accurate, non-fraudulent EITC claims on behalf of taxpayers.

  These measures are tracked and updated annually based on Tax Filing Season results.

The table below shows estimated values for these supplemental measures.

FY 2018 EITC IMPROPER PAYMENT SUPPLEMENTAL MEASURES

	Measure	FY 2018 Value	FY 2017 Value	FY 2016 Value
Annual Error Rate	Total Claims	$73.6 Billion	$68.0 Billion	$69.8 Billion
	Improper Payments	$18.4 Billion [1]	$16.2 Billion	$16.8 Billion
Revenue Protected	Dollars	$4.9 Billion	$4.5 Billion	$5.7 Billion
	Returns	1.4 Million	1.5 Million	1.9 Million [2]
Revenue Protected from Paid Preparer Treatments	Dollars	$307 Million	$415 Million	$384 Million
	Preparers	23,696	25,473	26,253
Preparer Due Diligence Penalties Proposed	Dollars	$16.1 Million	$22.0 Million	$32.8 Million
	Preparers	974	1,038	1,137

[1] The FY 2018 improper payment estimate does not subtract projected recovered improper payments, as was done in the prior years. As such, the FY 2018 improper payment estimate is not comparable to prior year data.

[2] Value updated. Amount reported in Treasury's FY 2016 Agency Financial Report of 1.8 Million was based on preliminary data.

In FY 2018, OMB updated its improper payments reporting guidance and phased out supplemental measures. Therefore, they will not be reported after this fiscal year. The IRS and OMB will re-engage on an appropriate mechanism for assessing progress in addressing reductions to EITC improper payments for FY 2019 and beyond.

Improper Payment Classification

Improper payments do not always result in a monetary loss to the government. For example, underpayments, payments made to the wrong recipient, or payments with insufficient documentation are considered as improper payments, but may not cause an actual monetary loss to the government. The following table identifies the actual monetary loss and the estimated total monetary loss to the government.

IMPROPER PAYMENT CLASSIFICATION ($ IN MILLIONS)

Program	Actual Monetary Loss to the Government Identified in Sample (1)	Estimated Total Monetary Loss to the Government (2)
EITC	$3.01	$18,443.48
Total	**$3.01**	**$18,443.48**

(1) The actual monetary loss to the government identified in the sample is from a statistically valid random sample of TY 2014 individual income tax returns that claimed the EITC. Those returns were selected as part of the TY 2014 IRS NRP Study and underwent a tax audit to ascertain the accuracy of the return, including any EITC claims. The amount reported here reflects the unweighted results of the audits that had closed at the time of the development of the improper payments estimate. The weighted results from the TY 2014 study were used to estimate the FY 2018 improper payment rate.

(2) The FY 2018 total monetary loss estimate is $18,443.48 million. Of that amount, an estimated $1,218.34 million will be recovered through the IRS enforcement activities.

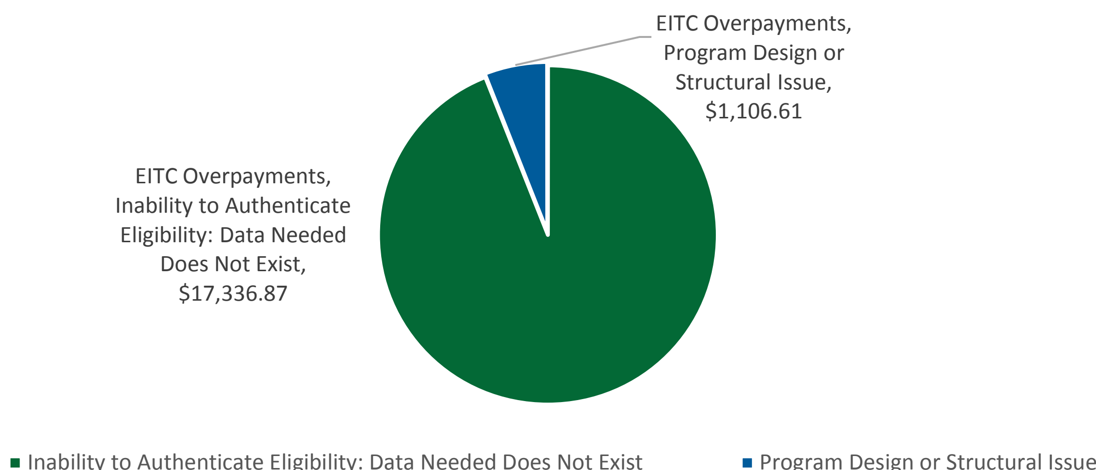
Improper Payment Root Cause(s)

Agencies are required to categorize improper payments using one or more of the following root causes: program design or structural issue, inability to authenticate eligibility, failure to verify, administrative or process errors, medical necessity, insufficient documentation to determine, and other. This year, OMB bifurcated the inability to authenticate eligibility root cause into two sub-categories: (1) inability to access data, and (2) data needed does not exist. Based on the OMB updated improper payment root cause categories, the IRS identified the two primary root causes for EITC improper payments as: (1) inability to authenticate eligibility – data needed does not exist and (2) program design or structural issues.

The root causes explained below are based on the most recent detailed 3-year compliance study from TY 2006 through TY 2008 and the updated FY 2018 estimates of improper payments computed using TY 2014 NRP study data. The updated study indicates that many aspects of EITC compliance are qualitatively unchanged from the 1999 Compliance Study. Qualifying child errors continue to account for the highest dollar amount of overclaims. Income misreporting, and in particular self-employment income misreporting, accounts for the second highest amount of overclaim dollars, with filing status errors being the third largest contributor to overclaims.

The chart below illustrates the distribution of EITC improper payments by root causes.

IMPROPER OVERPAYMENT ROOT CAUSE CATEGORY ($ IN MILLIONS)



Inability to Authenticate Eligibility: Data Needed Does Not Exist

Approximately $17.3 billion, or 94 percent, of EITC improper payments are from the inability to authenticate eligibility because the data needed does not exist. This root cause includes errors associated with the inability to authenticate qualifying child eligibility requirements, due to relationship and residency requirements and the exceptions to the age requirement (full-time student and disability). Authentication is difficult because the IRS relies primarily on the self-claimed information from the taxpayers and there is a lack of internal or external databases available with information that would help the IRS to make a determination of eligibility.

Another major cause of error in this category is taxpayer income misreporting related to self-employment income, where the income is not reported to the IRS by a third party. This category of errors also includes filing status errors, when married couples incorrectly file as single or head of household, and data on marital status and living arrangements are not available. Finally, this category includes a small amount of error related to rules for all taxpayers claiming EITC related to valid SSNs, residency of non-citizens, and when the taxpayer qualifies as a qualifying child of another taxpayer, none of which can be authenticated by the IRS at time of filing.

Improper payments reported under this root cause category are essentially outside of Treasury's control. Without the availability of a third-party database to authenticate eligibility, or statutory changes such as increasing the IRS's oversight of paid tax preparers and, giving IRS greater flexibility to correct tax return errors before processing refunds, the IRS is unable to significantly reduce the improper payments reported under this root cause category. In addition, due to the nature of the root cause, i.e., data needed does not exist, proposed corrective actions would have limited success in reducing the improper payment amounts.

Program Design or Structural Issues

Approximately $1.1 billion, or six percent, of improper payments are from program design limitations. Errors caused by program design occur when information needed to confirm payment accuracy is not available at the time the return is processed. These errors relate to certain income misreporting, tiebreaker errors, and joint return errors of qualifying children. Although Form W-2 payer information is available to the IRS sooner due to the PATH Act integrity provisions, payer information does not exist in all cases and may not be available to the IRS until after the filing season. Thus, the IRS is unable to fully match wages and other income sources against the return at time of filing.

A very small portion of errors are attributable to tiebreaker errors, where more than one taxpayer claims the same qualifying child. The IRS processes returns as they are filed and are unaware of duplicate situations when the first return is filed or who is actually qualified in a tiebreaker situation. In addition, situations where a qualifying child files a joint return also make up a small portion of this category. A child cannot be a qualifying child if he or she files a joint return for a reason other than claiming a refund. Since all returns are not filed at the same time, the IRS cannot identify this situation until both returns are filed.

Corrective Actions

The IRS's strategy with respect to improper payments is to intervene early to ensure compliance with the law. In FY 2018, the IRS addressed improper payments through its compliance programs, as well as through expansive outreach and education efforts to taxpayers and preparers. The table below illustrates the corrective actions implemented by the IRS to address the root causes identified.

As mentioned above, due to the nature of EITC, the corrective actions implemented by the IRS alone would not result in significant reductions to the improper payment amounts.

CORRECTIVE ACTION CATEGORIES

Improper Payment Root Causes	Examination Closures	Math Error Notices	Document Matching	Amended Returns	Two and 10 Year Bans	Identify Theft and Fraud	Criminal Investigations	Soft Notices	Return Preparer Initiatives	Outreach and Education	Software Developer Working Group
Inability to Authenticate Eligibility: Data Needed Does Not Exist	X	X		X	X	X	X	X	X	X	X
Program Design or Structural Issue	X		X	X	X	X	X	X	X	X	

The IRS's EITC enforcement programs protected approximately $2.9 billion in FY 2018. The revenue includes EITC and other credits and taxes recovered or prevented from being paid in error in FY 2018, on returns filed in calendar year 2018 or earlier years. The chart below shows that the IRS conducted 330,461 audited related to EITC, issued 153,882 math error notices, and performed 457,308 document-matching reviews.

COMPLIANCE ACTIVITIES

	FY13	FY14	FY15	FY16	FY17 [1]	FY18 [2]	FY19 [3]	FY13-FY19 Total
Audit Closures	483,070	435,638	445,594	380,260	326,503	330,461	243,500	2,645,026
Math Error Notices	241,975	194,127	166,611	159,906	160,227	153,882	150,804	1,227,532
Document Matching	906,994	1,053,304	1,710,904	852,733	666,334	457,308	457,000	6,104,577
Amended Returns [4]	8,130	17,723	24,282	9,895	10,296	8,448	7,000	85,774

[1] Restated actual.

[2] Preliminary data.

[3] Estimate based on FY 2018 preliminary data and FY 2019 plans.

[4] Amended Returns are a subset of Audit Closures but dollars are counted separately.

These compliance activities have a significant effect, protecting $2.9 billion of revenue in FY 2018. Treasury projects that continued enforcement efforts will protect a total of nearly $24.4 billion in revenue from FY 2013 through FY 2019, as shown below.

PROTECTED REVENUE FROM COMPLIANCE ACTIVITIES ($ IN MILLIONS)

	FY13	FY14	FY15	FY16	FY17 [1]	FY18 [2]	FY19 [3]	FY13-FY19 Total
Audit Closures	$2,113.73	$1,751.32	$1,991.06	$1,826.30	$1,545.39	$1,510.12	$1,374.21	$12,112.13
Math Error Notices	299.03	243.34	226.82	237.24	250.76	255.80	258.36	1,771.35
Document Matching	1,422.60	1,385.06	2,313.96	1,570.54	1,248.26	1,136.20	1,136.00	10,212.62
Amended Returns [4]	26.18	52.42	76.63	34.56	33.38	26.58	27.00	276.75
Total	**$3,861.54**	**$3,432.14**	**$4,608.47**	**$3,668.64**	**$3,077.79**	**$2,928.70**	**$2,795.57**	**$24,372.85**

[1] Restated actual.

[2] Preliminary data.

[3] Estimate based on FY 2018 preliminary data and FY 2019 plans.

[4] Amended Returns are a subset of Audit Closures but dollars are counted separately.

In addition to the compliance activities described above, the following efforts also contributed to the IRS's strategy of identifying and reducing improper EITC refund claims in FY 2018:

- **Base Enforcement Efforts:** Delivered key compliance activities including 330,461 audits, 457,308 misreported income cases, and an estimated 153,882 math error adjustments, protecting revenue of over $2.9 billion.
- **Two and 10 Year Bans:** Imposed 2,059 two-year bans and 192 10-year bans for cases where the IRS determined during an EITC audit that the taxpayer intentionally disregarded the rules and regulations or committed fraud.
- **Identity Theft and Fraud:** Detected and stopped over 512,377 fraudulent EITC returns through our fraud detection filters from being processed, preventing over $2.1 billion in erroneous refunds.
- **Criminal Investigations:** Continued to stop fraudulent EITC refund claims through our Criminal Investigation (CI) division indictments. CI issued 127 new EITC Questionable Refund Program scheme indictments and secured 170 convictions. CI also issued 103 new EITC Return Preparer indictments and secured 85 convictions.
- **Soft Notices:** Sent 75,042 letters to alert taxpayers that a qualifying child for the EITC claimed on their returns had also been claimed by another person.
- **Return Preparer Initiatives:** As a part of the FY 2018 Refundable Credits Return Preparer Strategy, the IRS completed activities associated with a suite of progressive preparer treatments, addressing nearly 23,700 preparers selected through our risk-based scoring model, before and during the filing season. Approximately 20,000 were EITC preparers.
    - The IRS closed 649 pre-filing season Due Diligence Visits (DDVs) with a penalty rate of 84 percent and over $12 million in proposed penalties. Criminal investigation and revenue agents completed 73 EITC educational Knock-and-Talk Visits (KTV) visits. The IRS also mailed nearly 14,800 EITC educational notices and successfully completed 855 of 2,000 calls attempted to preparers before the FY 2018 filing season.
    - The IRS closed 101 filing season DDVs with a penalty rate of 89 percent and nearly $1.8 million in proposed penalties. The IRS proposed penalties of almost $267,800 on 17 of 25 DDVs completed as a follow-up for those preparers who received pre-filing season KTVs but did not improve their due diligence. The IRS also mailed 9,800 educational notices and successfully made 1,426 of 2,423 calls attempted to preparers during the 2018 filing season.
    - The analysis of the FY 2018 Refundable Credits Return Preparer Strategy revealed that, in addition to the penalties protected above, the preparer treatments protected approximately $374 million ($307 million EITC and $68 million Child Tax Credit).
- **Return Preparer Penalties:** The IRS sent over 6,663 warning letters and over 2,150 electronic alerts to warn preparers who did not attach Form 8867, Paid Preparer's Due Diligence Checklist, to TY 2017 taxpayer returns. The IRS subsequently proposed over $4.4 million in penalties to 358 EITC, AOTC and ACTC return preparers for failure to exercise due diligence by attaching the form, as authorized by IRC Section 6695(g) and Treasury Regulation Section 1.6695–2.
- **Return Preparer Outreach and Education:** Focused outreach and education efforts on EITC return preparers to educate them on EITC and due diligence requirements. Over 15,570 preparers received a certificate of completion for the English and Spanish interactive EITC Due Diligence Training module. Delivered webinars to over 7,000 tax professionals on due diligence requirements. Additionally, over 7,314 preparers attended the *Get Ready for the Tax Cuts and Jobs Act New Due Diligence Requirements* seminar at the 2018 National Tax Forums.
- **Software Developer Working Group:** Continued our partnership with members of key tax software associations to reduce EITC errors and assist preparers in meeting their EITC due diligence requirements.

- **Taxpayer Outreach and Education:** The IRS conducted its EITC outreach campaign, including the twelfth annual EITC Awareness Day, which centered on EITC underserved populations and included focused compliance messages. In collaboration with IRS national, state, and local partners as well as Congressional and government officials, the IRS held 226 nationwide events, resulting in media coverage that helped spread the word about the EITC tax credit. The IRS also issued four news releases to over 336,000 and 49,800 subscribers in English and Spanish, respectively, and issued five tax tips to over 679,000 subscribers. Social media outreach continued to expand with Twitter EITC messages reaching over 13.4 million people and Thunderclap reaching over 2 million people. Also for the year, 557,416 taxpayers visited the EITC Assistant on IRS.gov, a tool that allows taxpayers to determine whether they qualify for the credit.
- **PATH Act Integrity Provisions:** The IRS continued applying tools provided by the PATH Act to EITC returns as follows:
    - Held taxpayers' refunds until February 15, 2018 on returns claiming EITC and/or ACTC as directed in Section 201(b), using the time to identify fraudulent returns.
    - Rejected amended and late filed original returns filed by taxpayers retroactively claiming EITC for any prior year in which he/she did not have a valid social security number as directed in Section 204.
- **Legislative Proposals:** Worked on the following legislative proposals included in the FY 2019 budget proposal:
    - Provide greater flexibility to address correctable errors to help the IRS deny certain erroneous EITC claims before refunds are paid.
    - Increase oversight of paid tax return preparers to help promote high quality services and improve voluntary compliance.
- **Enterprise Research:** Assessed the results of the FY 2018 enterprise research strategy and developed the FY 2019 strategy in partnership with internal organizations to better focus EITC compliance and outreach activities using research data.

III. Barriers

A number of factors continue to serve as barriers to reducing overclaims in the EITC program. These include:

- **Complexity of statutory eligibility requirements**: The EITC eligibility requirements are known only by the taxpayer, and a third-party database is not available to independently validate the data. The only method IRS can implement to verify eligibility is to perform an audit of the tax return after filing. IRS currently performs such audits, with EITC claimants audited at twice the national average for individual taxpayers. However, due to resource constraints, only a small number of returns can be audited each year.
- **Lack of correctible error authority:** The IRS has limited ability to make automatic changes (which would require Congressional authorization) and must use lengthy deficiency procedures.
- **High turnover of eligible claimants**: The IRS estimates that approximately one-third of the EITC applicants change each year. This changing population of taxpayers who claim EITC increases the difficulty in improving EITC compliance, as well as creates challenges in the IRS's education, outreach, and enforcement efforts.
- **Unscrupulous and/or incompetent return preparers**: Unregulated tax return preparers contribute to the increase in EITC non-compliance, fraud, and improper payments. IRS, with coordination with the Treasury, proposed legislation to provide IRS and Treasury with the authority to regulate all paid return preparers. In the interim, to remediate this barrier, IRS will continue its voluntary training and certificate of completion program for unenrolled return preparers, as well as provide tools to help taxpayers locate qualified preparers.

- **Fraud**: Fraudulent EITC returns and identity thefts continue to be a major barrier for EITC. To mitigate fraudulent EITC claims, IRS uses the Electronic Fraud Detection System to identify schemes and suspicious patterns. Tax returns identified as questionable are then routed to IRS employees for review before refunds are issued.

None of these factors, on their own, can be considered the primary driver of program error. However, these barriers severely impede the IRS's dual mission of issuing refunds to those who are entitled, while ensuring refunds are paid only to those who truly qualify for the credit. Additionally, statutory requirements further constrain the IRS's ability to ensure that EITC claims are valid before they are processed and paid.

Since the EITC is administered through the IRC, it is claimed by taxpayers during the filing and processing of their tax returns. The IRC requires the IRS to process tax returns and pay any related tax refunds within 45 days of receipt of the tax return or the tax return due date, whichever is later. Beyond this 45-day period, interest begins accruing on the refund amount, which must be paid along with the refund to the taxpayer. This interest period was unaffected by the PATH Act provision that required IRS to hold EITC refunds until February 15 of the filing season.

In FY 2017, the changes enacted under the PATH Act to accelerate the filing of wage and non-employee compensation information, allowed the IRS to use the data to address refund fraud and improper payments. However, delays and extensions given for the forms limited IRS's ability to use the information at the time of filing or within a reasonable period thereafter in which a taxpayer would expect their refund. The IRS continues to face challenges when attempting to validate the EITC claims of filers with non-wage income that may not have a reporting requirement by third parties. The requirements, expectations, and data accessibility relative to the timely payment of refunds constrain the IRS's ability to conduct up-front verification of claims. These conditions distinguish EITC and its administration through the tax system from the extensive validity checks conducted by agencies administering other federal programs that typically establish eligibility prior to the issuance of payments or benefits.

We submitted legislative proposals in the FY 2019 budget proposal to help address EITC improper payments.

IV. Accountability

The Secretary has delegated responsibility for addressing improper payments to the Assistant Secretary for Management (ASM). Improper payments fall under the Department's management and internal control program. A major component of the internal control program is risk assessments, which are an extension of each Treasury component's annual improper payment elimination and recovery review process, as required under OMB Circular A-123, Appendix C. Under Treasury Directive 40-04, *Treasury Internal Control Program*, executives and managers are required to take all necessary steps to create an environment within their respective organizations or programs to ensure operational efficiency and adherence to all applicable statutory and regulatory standards related to internal controls. Managerial responsibility and accountability in all internal control areas are visible and well documented with our oversight mechanisms, such as the Treasury CFO Council and the Management Controls Executive Steering Committee. We have identified executives who are responsible and accountable for reducing the level of EITC overclaims, while other senior and mid-level officials have responsibility for monitoring progress in this area as bureau and program internal control officers.

V. Agency Information Systems and other Infrastructure

Overall, we have the internal controls, human capital, and information systems and other infrastructure needed to reduce improper payments to the targeted levels.

VI. Recapture of Improper Payments Reporting

In accordance with IPERA and OMB Circular A-123, Appendix C, we perform and report annually on our payment recapture program. During FY 2018, we issued approximately $6.1 billion in payments subject to the payment recapture audit. The IPERA, as amended, expanded the payment types reviewed beyond just contracts to include grants, benefits, loans, and miscellaneous payments.

Our annual risk assessment process includes a review of pre-payment controls that minimize the likelihood and occurrence of improper payments. We require each Treasury component to conduct post-award audits and report on payment recapture activities, improper payments made, and recoveries achieved. Our components perform their payment recapture audit and identify candidates for payment recapture action in accordance with the Treasury-wide guidance.

We consider both pre- and post-reviews to identify payment errors a sound management practice that should be included among basic payment controls. All of our components have a process in place to identify improper payments during pre- and post-reviews. When applicable, our components may use the results of the Treasury Inspectors General and GAO reviews to help identify payment anomalies and target areas for improvement. However, we apply extensive payment controls at the time each payment is processed to minimize recapture activity. The table below illustrates the results from our payment recapture audit process.

The improper payments identified through the payment recapture audit are recouped either by payment off-set (i.e., the outstanding improper payment amount is offset by a future payment) or by establishing an accounts receivable. When an accounts receivable is established for the improper payment, the accounts receivable is carried forward until payment is received or a decision is made to write-off the outstanding receivable.

RECAPTURED OVERPAYMENTS WITH AND WITHOUT RECAPTURE AUDIT PROGRAMS ($ IN MILLIONS)

Program	Total Improper Payment Amount Identified for Recapture	Total Amount Recovered via Payment Recapture [1]	% Recovered via Payment Recapture	Total Amount Identified via Outside Source [2]	Total Amount Recovered via Outside Source [2]	% Recovered via Outside Source	Amount Determined to be not Collectable [3]	% Determined to not be Collectable
CDFI	0.0001	0.0001	100%	-	-	0%	-	0%
DO	0.0430	0.0181	42%	0.0011	0.0009	82%	0.0004	1%
FinCEN	0.0011	0.0005	45%	0.0009	0.0008	89%	-	0%
Mint	0.0747	0.0588	79%	0.0005	0.0005	100%	0.0001	0%
ODCP	1.6324	1.3693	84%	-	-	0%	0.1414	9%
OFS	0.1181	0.0503	43%	0.0002	0.0002	100%	0.1613	137%
OIG	0.0044	0.0052	118%	0.0005	0.0005	100%	-	0%
SIGTARP	0.0132	0.0128	97%	0.0001	0.0001	100%	-	0%
TIGTA	0.0030	0.0033	110%	0.0015	0.0009	60%	0.0136	453%
TTB	0.0043	0.0035	81%	0.0059	0.0011	19%	0.0003	7%
Total	**$1.8943**	**$1.5219**	**80%**	**$0.0107**	**$0.0050**	**47%**	**$0.3171**	**17%**

[1] Cumulative total of FY 2018 amount and prior year amount.

[2] All improper payment identified were self-reported by the payee.

[3] Of the total Amount Determined to not be Collectable, approximately $0.19 million is from payments made in FY 2018 (or approximately 10 percent of total improper payments made in FY 2018).

Of our components reporting an Amount Determined to not be Collectable in the table above, we determined all of the write-off amounts to be immaterial, with the exception of the Office of D.C. Pensions (ODCP) and the Office of Financial Stability (OFS). ODCP's amount determined not to be collectable is based on individual debt cases that were either waived as part of due process, or deemed uncollectable. OFS' amount determined not to be collectable is based on loan file overpayments identified by Freddie Mac Making Home Affordable-Compliance that were deemed uncollectable due to the complexity of the loan structures and legal compliance requirements.

In FY 2018, we determined that conducting a Payment Recapture Audit on the following nine low risk components was not cost-effective:

- Departmental Franchise Fund (DFF) Programs;
- Fiscal Service Administration (FSA) Programs;
- Fiscal Service Debt (FSD) Programs;
- Funds Management Branch (FSM) Programs;
- Fiscal Service Umbrella (FSU) Programs;
- IRS's Administrative Fund Programs;
- Office of International Assistance (OAS) Programs;
- Office of the Comptroller of the Currency (OCC); and
- Treasury Executive Office for Asset Forfeiture / Treasury Forfeiture Fund (TEOAF/TFF).

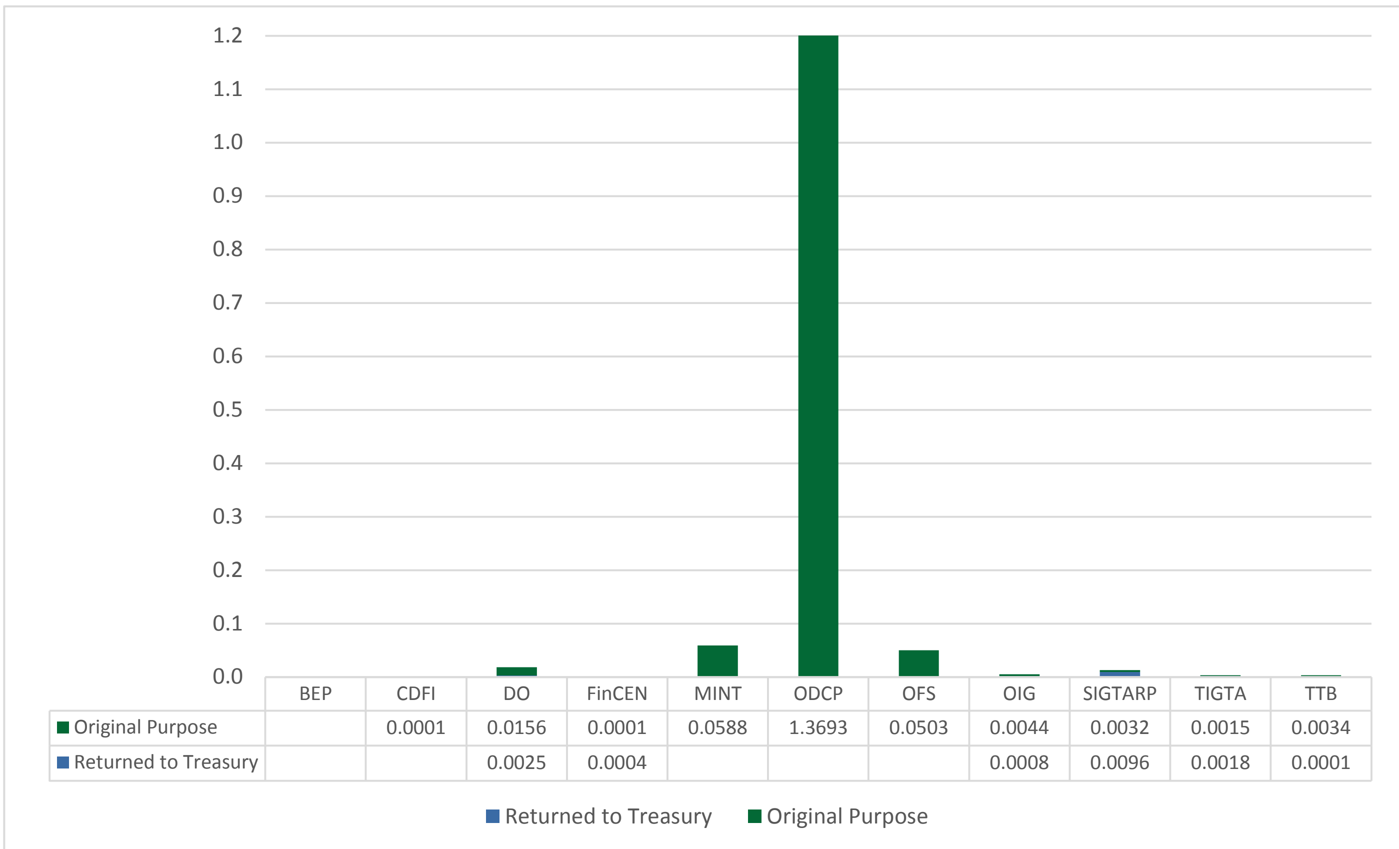
The justification that performing a payment recapture audit would not be cost-effective consists of the following reasons:

- The DFF programs reflect a low level of risk for all payment type categories assessed.
- The Fiscal Service's FSA, FSD, FSM, and FSU programs continued to reflect a low level of risk in nearly every group and payment type category assessed, with no audit findings and material weaknesses identified.
- The IRS's Administrative Fund Programs are low risk level programs, with no GAO or TIGTA identified deficiencies and no prior payment recapture audit identified improper payments.
- The Treasury International Programs disburse non-federal payments to the Multilateral Development Banks. Payments are made via payment vouchers on a letter of credit administered by the Federal Reserve Bank of New York, or direct cash payments through the Secure Payment System. The International Programs also disburse federal payments for Debt Restructuring via Intra-Governmental Payment and Collection or Standard Form 1081. Internal reviews are performed before all payments are issued.
- The OCC programs reflect a low level of risk for all payment type categories assessed, and annual internal reviews are conducted for all payment types. In addition, OCC reported that the cost to perform the most recent payment recapture audit exceeded the amount of improper payments identified.
- The TEOAF/TFF program is a low risk level program, with no identified prior improper payment issues. In addition, program payments are made to state and local law enforcement agencies, reducing the risk of improper payments.

Based on the above justifications, payment recapture audits for these programs were not performed. We sent notifications of these justifications to OMB and the Treasury OIG in October 2018.

Through the payment recapture audit, we recaptured approximately $1.52 million, of which approximately $1.51 million was used for original purposes, and the remaining $0.01 million was returned to Treasury as miscellaneous receipts. The following table represents the disposition of the recaptured improper payments by our components:

DISPOSITION OF FUNDS RECAPTURED THROUGH PAYMENT RECAPTURE AUDIT PROGRAMS ($ IN MILLIONS)



	BEP	CDFI	DO	FinCEN	MINT	ODCP	OFS	OIG	SIGTARP	TIGTA	TTB
Original Purpose		0.0001	0.0156	0.0001	0.0588	1.3693	0.0503	0.0044	0.0032	0.0015	0.0034
Returned to Treasury			0.0025	0.0004				0.0008	0.0096	0.0018	0.0001

As of September 30, 2018, there were approximately $0.8 million identified improper overpayments outstanding, with approximately $0.3 million identified in FY 2018 and $0.5 million identified in prior fiscal years. The table below shows the aging of the improper overpayments outstanding.

AGING OF OUTSTANDING OVERPAYMENTS IDENTIFIED IN THE PAYMENT RECAPTURE AUDITS ($ IN MILLIONS)

		0 to 6 months		6 months to 1 year		Over 1 year	
Program or Activity	Total Amount Outstanding	Amount Outstanding	Percent Outstanding	Amount Outstanding	Percent Outstanding	Amount Outstanding	Percent Outstanding
BEP	$0.0845	N/A	N/A	N/A	N/A	$0.0845	11%
CDFI	N/A	N/A	N/A	N/A	N/A	N/A	N/A
DO	$0.0522	$0.0003	0%	$0.0253	3%	$0.0266	3%
FinCEN	$0.0007	$0.0007	0%	N/A	N/A	N/A	N/A
MINT	$0.0417	$0.0004	0%	$0.0365	5%	$0.0048	1%
ODCP	$0.6183	$0.0946	12%	$0.0974	12%	$0.4263	53%
OFS	N/A	N/A	N/A	N/A	N/A	N/A	N/A
OIG	N/A	N/A	N/A	N/A	N/A	N/A	N/A
SIGTARP	$0.0009	$0.0003	0%	$0.0001	0%	$0.0005	0%
TIGTA	$0.0001	$0.0001	0%	N/A	N/A	N/A	N/A
TTB	$0.0007	N/A	N/A	$0.0007	0%	N/A	N/A
Total	**$0.7991**	**$0.0964**	**12%**	**$0.1600**	**20%**	**$0.5427**	**68%**

VII. Agency Improvement of Payment Accuracy with the Do Not Pay (DNP) Initiative

The IPERIA requires pre-payment and pre-award reviews to determine program or award eligibility and to prevent improper payments before the release of any federal funds. This review must include the relevant databases as prescribed by IPERIA, including:

- The death records maintained by the Commissioner of the Social Security Administration (SSA);
- GSA System for Award Management Exclusion Records;
- Treasury's Offset Program Debt Check Database;
- The Department of Housing and Urban Development's Credit Alert System or Credit Alert Interactive Voice Response System;
- The Department of Health and Human Services Office of the Inspector General's List of Excluded Individuals/Entities; and
- Prisoner data maintained in the Prisoner Update Processing System by SSA.

In November 2017, OMB designated the following six additional databases for inclusion under the DNP Initiative:

- Treasury's Office of Foreign Asset Control's Specially Designated National List;
- Data from the GSA System for Award Management sensitive financial data from entity registration records (including those records formerly in the legacy Excluded Parties List System);
- The IRS's Automatic Revocation of Exemption List;
- The IRS's Exempt Organization Select Check;
- The IRS's e-Postcard database; and
- The commercial database American InfoSource Deceased Data.

All of our components have incorporated pre-payment and pre-award reviews, as mandated by IPERIA, through established internal control processes and procedures that require reviews against the databases consolidated within the DNP Business Center (hereafter referred to as "DNP"), or through their own established databases. In FY 2018, none of the Treasury components reported significant reductions in improper payments attributable to the DNP Initiative. Treasury components continue to utilize the DNP portal to review vendor files prior to disbursement to identify any improper payments.

SECTION F: FRAUD REDUCTION REPORT

BACKGROUND

The *Fraud Reduction and Data Analytics Act* (FRDAA) of 2015, mandates agencies to take steps to improve financial and administrative controls and procedures to assess and mitigate fraud risks, and to improve federal agencies' development and use of data analytics for identifying, preventing, and responding to fraud, including those arising from improper payments. Each agency is required to report its progress in implementing: (1) the financial and administrative controls; (2) the fraud risk principle in the GAO Standards for Internal Control in the Federal Government (Green Book); and (3) management of fraud risk in accordance with OMB Circular A-123.

In response to FRDAA, GAO issued the *Framework for Managing Fraud Risks in Federal Programs* in July 2015, based on leading practices for mitigating fraud risks and enhancing program integrity. The objective of fraud risk management is to proactively facilitate a program's mission by continuously and strategically mitigating the likelihood and impact of fraud. Whether an act is in fact fraud is a determination made through the judicial or other adjudicative system, and is beyond management's professional responsibility for assessing risk.[1]

FRAUD RISK MANAGEMENT

All of our components have a shared responsibility in preventing, detecting, and responding to potential fraud, including improper payments. Our components have ownership and responsibility for managing fraud risk. The Office of Risk Management is responsible for providing expertise and guiding principles to assist our components in the management of fraud risk. The Office of the Deputy Chief Financial Officer, establishes Treasury-wide guidance designed to ensure that financial, programmatic, and administrative internal controls provide an appropriate level of assurance towards operational and fiscal effectiveness and efficiency. The Office of the Procurement Executive (OPE) is responsible for establishing Treasury-wide policies and procedures for the use of the purchase card in program management and oversight. The OIG Office of Investigation (OI) is responsible for receiving and assessing complaints, and investigating potential fraud cases.

First Line of Defense

Our components are the first line of defense to prevent, detect, and respond to potential fraud. They are the risk owners for their programs, and have responsibility for mitigating fraud risk and enhancing program integrity, by designing and implementing processes and controls that effectively prevent and detect potential fraud, both internal and external to Treasury. Components must establish policies, procedures, techniques, and mechanisms to comply with risk management, and internal control requirements to manage and respond to fraud risk. Employees who encounter incidents of fraud, waste and abuse are encouraged to engage their respective OIs.

Mechanism used by individual components to manage fraud risk include:

- Many components ensure key duties and responsibilities are effectively segregated among different people to reduce the risk of error, waste, or fraud, and systems have controls to limit access and ensure no one individual can control all aspects of a transaction.
- The Bureau of the Fiscal Service (Fiscal Service) hired a senior fraud program manager to lead an enterprise fraud program. It also holds quarterly Enterprise Fraud Meetings across the bureau to discuss prevention, detection and response strategies for fraud activities and events.

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

- The IRS has developed programs to reduce issuance of fraudulent refunds and to review fraud trends and patterns to inform fraud prevention techniques as well as using predictive and forensic analytics to detect and prevent fraudulent activity.
- Components provide in-depth training and monthly audits of all purchase and travel card transactions.

While the Treasury DNP focuses on identifying, preventing and detecting improper payments, many of the tools and data analytics implemented through DNP can also serve as a first line of defense against potential fraud (or as a supplement to other component-specific detection activities). The DNP's primary methodology for detecting improper payments (some of which could be due to fraud) is matching payment data to eligibility data. For example, Treasury disbursed payments are automatically matched to death data. If DNP's tools detect a payment to a deceased individual, DNP can help agencies stop future payments or quickly move to reclaim payments. Data matching is used both in the DNP's online portal as well as in its analytics reports, and the data matching can be performed at different phases of the payment life cycle. For instance, DNP can continuously monitor a list of payees against lists of vendors excluded from working with the federal government so that an agency can take appropriate steps if a contractor has been debarred. In FY 2018, no Treasury program disbursements were identified as improper as a result of the DNP data matching.

The DNP analytics team also conducts payment integrity checks for customer agencies to detect anomalies through its Agency Insight Reports, which are an analysis of all of an agency's Treasury-disbursed Payment Automation Manager data. The results of the analysis are provided to the agency for review. The agency must then make a determination regarding whether the high risk payments or trends identified by DNP correspond to actual improper payments. The agency is also responsible for following up on any payments or trends that they believe are due to potential fraud.

Internal Controls

Through our OMB Circular A-123 assessments, controls are monitored and evaluated to provide assurances that our components are effectively preventing, detecting, and responding to potential fraud. We incorporated GAO's Green Book Principle 8, Assess Fraud Risk, into our Treasury Implementation Guide for OMB Circular A-123, Appendix A. Our guidance conforms to the requirements of the GAO Green Book and addresses internal control elements of the FRDAA.

All of our components are required to integrate the GAO definitions for fraud, and consider risks for fraudulent financial reporting, misappropriation of assets, or corruption during their risk assessment process. Additionally, leading practices for mitigating fraud risk are required to be incorporated into our component's internal control system design to prevent, detect, and respond to fraud.

OPE developed Treasury's Charge Card Management Plan for Government-wide Commercial Purchase Cards to incorporate management controls in accordance with OMB Appendix B, *Improving the Management of Government Charge Card Programs*. The purchase card program includes a variety of risk management controls designed to meet program objectives including the reduction of fraud, waste, and abuse.

We also assess fraud risk during our improper payment reporting and recovery activities as part of Appendix C to OMB Circular A-123, *Requirements for Effective Estimation and Remediation of Improper Payment*. Through our improper payment reporting efforts, our components identify the programs deemed most susceptible to improper payments, based on total program disbursements and inherent risks to the integrity of the program. Additional assessments are performed on those susceptible programs to identify improper payments and determine potential fraud cases.

Additional information on Payment Integrity can be found in Part 3, Section E, of this report.

Enterprise Risk Management

Fraud risk is addressed in the course of the Office of Risk Management's (ORM's) general risk advisory work. Our leadership team has the opportunity to discuss potential fraud and other types of risks during regular Risk Committee meetings led by the Chief Risk Officer. The ORM conducts regular Enterprise Risk Management Council meetings with the bureau-level risk management contacts to discuss various risk topics, including fraud risk. Fraud risk is considered when our components develop and update their annual risk profiles, or top risk lists, to share with the ORM.

Investigations

Complaints come to the OIG's OI from Treasury components, the public, and other government agencies by telephone, facsimile, U.S. mail, electronic mail, online complaint forms, referrals from other law enforcement agencies, and referrals from prosecutorial offices (U.S. Attorney's Offices and District or State Attorney's Offices). The following factors are used to determine if a complaint is investigated:

- The impact on Treasury's programs and operations;
- Alleged participation in the fraud, waste, or abuse by Treasury employees or contract employees;
- Financial loss to Treasury or the government; and
- Criminal allegations or activity that would be accepted for prosecution by the U.S. Attorney's Offices or State Attorney's Offices.
    - OI will investigate if there is a loss to Treasury that is prosecutable by subjects that are not employees of Treasury.
    - OI will also investigate all criminal activity alleged against Treasury employees, particularly senior Treasury employees.

SECTION G: CIVIL MONETARY PENALTIES INFLATION ADJUSTMENT

The *Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015* (2015 Act) amended the *Federal Civil Penalties Inflation Adjustment Act of 1990* (Inflation Adjustment Act), to improve the effectiveness of civil monetary penalties (CMPs) and to maintain their deterrent effect. The 2015 Act requires agencies to: 1) use an interim final rulemaking (IFR) to adjust the level of civil monetary penalties in 2016 with an initial "catch-up" adjustment, 2) make subsequent annual adjustments for inflation, beginning in 2017; and 3) report annually in AFRs on these inflation adjustments. 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	2018	$86,976	DO (OFAC)	83 Federal Register 11876 (March 19, 2018) https://www.gpo.gov/fdsys/pkg/FR-2018-03-19/pdf/2018-05550.pdf
50 USC 1705 International Emergency Economic Powers Act (IEEPA), Section 206	Sanctions violation	1977	2018	The greater of $295,141 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	2018	The greater of $77,909 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	2018	$1,466,485	DO (OFAC)	Same as above
19 USC 3901-3913 Clean Diamond Trade Act	Sanctions violation	2003	2018	$13,333	DO (OFAC)	Same as above
15 USC 6701 note Terrorism Risk Insurance Act (TRIA), as amended	Civil Penalty	2002	2018	$1,360,525	DO (Federal Insurance Office)	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 1829b(j) Bank Secrecy Act, as amended	Recordkeeping Violations for Funds Transfers	1988	2018	$20,521	FinCEN	Same as above
12 USC 1955 Bank Secrecy Act, as amended	Willful/Grossly Negligent Recordkeeping Violations	1988	2018	$20,521	FinCEN	Same as above
31 USC 5318(k)(3)(C) Bank Secrecy Act, as amended	Failure to Terminate Correspondent Relationship with Foreign Bank	2001	2018	$13,881	FinCEN	Same as above
31 USC 5321(a)(1) Bank Secrecy Act, as amended	General Civil Penalty Provision for Willful Violations of Bank Secrecy Act Requirements	1986	2018	$55,907 to $223,629	FinCEN	Same as above
31 USC 5321(a)(5)(B)(i) Bank Secrecy Act, as amended	Foreign Financial Agency Transaction - Non-Willful Violation of Transaction	2004	2018	$12,921	FinCEN	Same as above
31 USC 5321(a)(5)(C) Bank Secrecy Act, as amended	Foreign Financial Agency Transaction - Willful Violation of Transaction	2004	2018	$129,210	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	2018	$1,118	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	2018	$86,976	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	2018	$1,388,081	FinCEN	Same as above
31 USC 5330(e) Bank Secrecy Act, as amended	Civil Penalty for Failure to Register as Money Transmitting Business	1994	2018	$8,249	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	2018	$9,819	OCC	83 Federal Register 1657 (January 12, 2018) https://www.gpo.gov/fdsys/pkg/FR-2018-01-12/pdf/2018-00521.pdf
12 USC 93(b) Section 5239(b) of the Revised Statutes	Tier 2 Violation of Various Provisions of the National Bank Act	1978	2018	$49,096	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	2018	$1,963,870	OCC	Same as above
12 USC 164 Section 5213 of the Revised Statutes	Tier 1 Violation of Reporting Requirements	1869[2]	2018	$3,928	OCC	Same as above

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range) (1)	Sub-Agency Bureau/ Entity	Location for Penalty Update Details
12 USC 164 Section 5213 of the Revised Statutes	Tier 2 Violation of Reporting Requirements	1869(2)	2018	$39,278	OCC	Same as above
12 USC 164 Section 5213 of the Revised Statutes	Tier 3 Violation of Reporting Requirements	1869(2)	2018	$1,963,870	OCC	Same as above
12 USC 481 Section 5240 of the Revised Statutes	Refusal of Affiliate to Cooperate in Examination (National Banks)	1864(2)	2018	$9,819	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	2018	$9,819	OCC	Same as above
12 USC 504 Section 29 of the Revised Statutes	Tier 2 Violation of Various Provisions of the Federal Reserve Act	1978	2018	$49,096	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	2018	$1,963,870	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	2018	$9,819	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	2018	$49,096	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	2018	$1,963,870	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	2018	$9,819	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	2018	$49,096	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	2018	$1,963,870	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	2018	$323,027	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	2018	$2,852	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	2018	$2,593	OCC	Same as above

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range) (1)	Sub-Agency Bureau/ Entity	Location for Penalty Update Details
12 USC 1884 Section 5 of the Bank Protection Act of 1968	Violation of the Bank Protection Act	1968	2018	$285	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	2018	$9,819	OCC	Same as above
12 USC 1972(2)(F) Section 106(b)(2)(F) of the Bank Holding Company Act Amendments of 1970	Tier 2 Violation of Anti-Tying Provisions Regarding Correspondent Accounts, Unsafe or Unsound Practices, or Breach of Fiduciary Duty	1978	2018	$49,096	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	2018	$1,963,870	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	2018	$44,881	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	2018	$3,591	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	2018	$35,904	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	2018	$1,795,216	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	2018	$2,443	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	2018	$9,239	OCC	Same as above

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range) [(1)]	Sub-Agency Bureau/ Entity	Location for Penalty Update Details
15 USC 78u-2(b) Section 21B(b) of the Securities Exchange Act of 1934	Tier 1 (other person) Violation of Various Provisions of the Securities Act, the Securities Exchange Act, the Investment Company Act, or the Investment Advisers Act	1990	2018	$92,383	OCC	Same as above
15 USC 78u-2(b) Section 21B(b) of the Securities Exchange Act of 1934	Tier 2 (natural person) Violation of Various Provisions of the Securities Act, the Securities Exchange Act, the Investment Company Act, or the Investment Advisers Act	1990	2018	$92,383	OCC	Same as above
15 USC 78u-2(b) Section 21B(b) of the Securities Exchange Act of 1934	Tier 2 (other person) Violation of Various Provisions of the Securities Act, the Securities Exchange Act, the Investment Company Act, or the Investment Advisers Act	1990	2018	$461,916	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	2018	$184,767	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	2018	$923,831	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	2018	$11,279	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	2018	$22,556	OCC	Same as above
42 USC 4012a(f)(5) Section 102(f)(5) of the Flood Disaster Protection Act of 1973	Flood Insurance	1994	2018	$2,133	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	2018	$3,928	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	2018	$39,278	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	2018	$1,963,870	OCC	Same as above

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range) (1)	Sub-Agency Bureau/ Entity	Location for Penalty Update Details
12 USC 1467(d) Section 9(d) of the Home Owners' Loan Act	Refusal of Affiliate to Cooperate in Examination	1989	2018	$9,819	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	2018	$3,928	OCC	Same as above
12 USC 1467a(r) Section 10(r) of the Home Owners' Loan Act	Tier 2 Late/Inaccurate Reports (Savings and Loans)	1989	2018	$39,278	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	2018	$1,963,870	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	2018	$20,521	TTB	Federal Register 83 (January 12, 2018) 1552 – 1553 https://www.ttb.gov/regulation_guidance/ablapenalty.shtml
31 USC 333 Prohibition of Misuse of Department of the Treasury Names, Symbols, etc.	Misuse of Treasury name or symbol	1994	None(3)	$5,000	Department Wide	None
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	None(3)	$25,000	Department Wide	None
31 USC 3729 False Claims Act	False Claims Act	1986	2018	$11,181 to $22,363 plus 3 times the amount of damages which the Government sustains because of the act	Department Wide	Department of Justice (DOJ) issued regulations at Federal Register 83 (January 29, 2018) 3944 – 3947
31 USC 3802 Program Fraud Civil Remedies Act	Program Fraud Civil Remedies Act	1986	2018	Up to $11,181 for each claim plus 2 times the amount of the claim	Department Wide	DOJ issued regulations at Federal Register 83 (January 29, 2018) 3944 - 3947

(1) Current penalty level amounts represent the maximum penalty amounts.
(2) For purposes of calculating the appropriate inflation factor, OMB's guidance issued February 24, 2016 uses the calendar year 1914 CMP Catch-Up Adjustment Multiplier for all penalties enacted prior to 1914.
(3) We plan to complete regulations to adjust the penalty level of this CMP by the end of 2018.

SECTION H: GRANTS OVERSIGHT AND NEW EFFICIENCY ACT REQUIREMENTS

The *Grants Oversight and New Efficiency Act of 2016* (GONE Act) requires the head of each agency to submit to Congress, in coordination with the Secretary of HHS, a report on federal grant and cooperative agreement awards for which closeout has not yet occurred and the period of performance, including any extensions, has been expired for more than two years. Other types of financial assistance, including loans, are excluded from the reporting requirements. With the goal of improving the timely closeout of federal grant awards and thereby improving the accountability and oversight in grants management under the GONE Act, OMB also set forth follow-on reporting and analysis requirements for subsequent years. The summary table below shows the total number and balances of federal grants and cooperative agreements that we awarded for which closeout has not yet occurred and the period of performance has elapsed by more than two years.

CATEGORY	2-3 Years	>3-5 Years	>5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	1	-	-
Number of Grants/Cooperative Agreements with Undisbursed Balances	-	-	-
Total Amount of Undisbursed Balances	**$ -**	**$ -**	**$ -**

We have closed out 84 of the 85 awards that were listed in the FY 2017 GONE Act submission. The only award that is not closed has to remain open due to a pending audit. We will close out the account once the audit is complete.

APPENDIX: GLOSSARY OF ACRONYMS

Abbreviation	Description
2015 Act	Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015
ACH	Automated Clearinghouse
ACS	Automated Collection System
ACTC	Additional Child Tax Credit
AEDPA	Antiterrorism and Effective Death Penalty Act
AEOI	Automatic Exchange of Information
AFR	Agency Financial Report
AGI	Adjusted Gross Income
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
AOTC	American Opportunity Tax Credit
APG	Agency Priority Goal
APR	Annual Performance Report
ARC	Administrative Resource Center
ARRA	American Recovery and Reinvestment Tax Act of 2009
ASM	Assistant Secretary for Management
BEP	Bureau of Engraving and Printing
CDFI	Community Development Financial Institutions
CFIUS	Committee on Foreign Investment in the United States
CFO	Chief Financial Officer
CFS	U.S. Consolidated Financial Statement
CI	Criminal Investigation
Civil Service Fund	Civil Service Retirement and Disability Trust Fund
CMP	Civil Monetary Penalties
CPI	Consumer Price Index
CRO	Chief Risk Officer
CRS	Centralized Receivables Service
CSRS	Civil Service Retirement System
CTC	Child Tax Credit
D.C.	District of Columbia
DATA Act	Digital Accountability and Transparency Act
DCP	Office of D.C. Pensions
DDV	Due Diligence Visits
DFF	Departmental Franchise Fund
DHS	Department of Homeland Security
DNP	Do Not Pay
DO	Departmental Offices
DOJ	Department of Justice
DOL	Department of Labor
EESA	Emergency Economic Stabilization Act of 2008
ECM	Enterprise Case Management

Abbreviation	Description
EIN	Employer Identification Number
EITC	Earned Income Tax Credit
EO	Executive Order
ERM	Enterprise Risk Management
ESA	Exchange Stabilization Agreement
ESF	Exchange Stabilization Fund
Fannie Mae	Federal National Mortgage Association
FARS	Financial Analysis and Reporting System
FASAB	Federal Accounting Standards Advisory Board
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FCDA	Foreign Currency Denominated Assets
FCRA	Federal Credit Reform Act
FDC	Funds from Dedicated Collections
FECA	Federal Employees' Compensation Act
FedRAMP	Federal Risk and Authorization Management Program
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
FinCEN	Financial Crimes Enforcement Network
FIRRMA	Foreign Investment Risk Review Modernization Act
Fiscal Service	Bureau of the Fiscal Service
FISMA	Federal Information Security Management Act
FMB	Funds Management Branch
FMFIA	Federal Managers' Financial Integrity Act
FOMC	Federal Open Market Committee
FR System	Federal Reserve System
FRB	Federal Reserve Bank
FRBNY	Federal Reserve Bank of New York
FRDAA	Fraud Reduction and Data Analytics Act of 2015
Freddie Mac	Federal Home Loan Mortgage Corporation
FRN	Floating Rate Note
FSA	Fiscal Service Administration
FSD	Fiscal Service Debt
FSM	Funds Management Branch
FSU	Fiscal Service Umbrella
FTO	Fine Troy Ounce
FY	Fiscal Year

Abbreviation	Description
G-7	Group of Seven
G-20	Group of 20
GAAP	Generally Accepted Accounting Principles
GAB	General Arrangements to Borrow
GAO	U.S. Government Accountability Office
General Fund	General Fund of the U.S. Government
GONE Act	Grants Oversight and New Efficiency Act of 2016
GPRA	Government Performance and Results Act of 1993
GPRAMA	GPRA Modernization Act of 2010
GSA	General Services Administration
GSE	Government Sponsored Enterprise
HERA	Housing and Economic Recovery Act
HFA	Housing Finance Agency
HHS	Department of Health and Human Services
HVA	High Value Assets
IAP	International Assistance Programs
IEEPA	International Emergency Economic Powers Act
IFR	Interim Final Rulemaking
IMF	International Monetary Fund
Inflation Adjustment Act	Federal Civil Penalties Inflation Adjustment Act of 1990
IPAC	Intra-Governmental Payment and Collection
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Act Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
IRC	Internal Revenue Code
IRGC-QF	Islamic Revolutionary Guard Corps – Qods Force
IRS	Internal Revenue Service
ISIS	Islamic State of Iraq and Syria
IT	Information Technology
ITIN	Individual Taxpayer Identification Number
ITM	Integrated Talent Management
JCPOA	Joint Comprehensive Plan of Action
KTV	Knock-and-Talk Visits
LITC	Low Income Taxpayer Clinic
LLC	Lifetime Learning Credit
LOS	Level of Service
MADR	Market Adjusted Discount Rate
MDB	Multilateral Development Bank
NAB	New Arrangements to Borrow
NAFA	North American Framework Agreement
NFTL	Notice of Federal Tax Lien
NIBP	New Issue Bond Program

Abbreviation	Description
NRP	National Research Program
OAS	International Assistance Programs
OCC	Office of the Comptroller of the Currency
ODCP	Office of D.C. Pensions
OFAC	Office of Foreign Assets Control
OFR	Office of Financial Research
OFS	Office of Financial Stability
OI	Office of Investigation
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPE	Office of the Procurement Executive
OPEB	Other Post-Employment Benefits
OPM	Office of Personnel Management
ORB	Other Retirement Benefits
ORM	Office of Risk Management
OTA	Office of Technical Assistance
OTC	Over-the-Counter
P.L.	Public Law
PAM	Payment Automation Manager
PATH Act	Protecting Americans from Tax Hikes Act
PCA	Private Collection Agencies
PDC	Private Debt Collection
PII	Personally Identifiable Information
PIO	Performance Improvement Officer
PMO	Program Management Office
Postal Benefits Fund	Postal Service Retiree Health Benefits Fund
PP&E	Property, Plant, and Equipment
PTC	Premium Tax Credit
PTIN	Preparer Tax Identification Number
RTC	Resolution Trust Corporation
SARP	State Audit Report Program
SBLF	Small Business Lending Fund
SBR	Statement of Budgetary Resources
SDR	Special Drawing Rights
Secretary	Secretary of the Treasury
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
SIGTARP	Special Inspector General for the Troubled Asset Relief Program
SIPPRA	Social Impact Partnerships to Pay for Results Act
SLGS	State and Local Government Series
SOAR	Strategic Objective Annual Review
SOMA	System Open Market Account

Abbreviation	Description
SPSPA	Senior Preferred Stock Purchase Agreements
SSA	Social Security Administration
SSN	Social Security Number
TARP	Troubled Asset Relief Program
TCJA	Tax Cuts and Jobs Act
TEOAF	Treasury Executive Office of Asset Forfeiture
TFF	Treasury Forfeiture Fund
TFI	Terrorism and Financial Intelligence
TFS	TIER Financial Statements
TFTC	Terrorist Financing Targeting Center
TGA	Treasury General Account
TIER	Treasury Information Executive Repository
TIGTA	Treasury Inspector General for Tax Administration
TIN	Taxpayer Identification Number
TIPS	Treasury Inflation-Protected Securities
TRIA	Terrorism Risk Insurance Act
TRIP	Terrorism Risk Insurance Program
TSP	Thrift Savings Plan
TTB	Alcohol and Tobacco Tax and Trade Bureau
TWEA	Trading with the Enemy Act
TY	Tax Year
U.S.	United States
U.S. Mint	United States Mint
USA Patriot Act	United and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001
USC	United States Code
USPS	United States Postal Service
UTP	Uncertain Tax Position Statement

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