Audit Report

OIG-15-012

Audit of the Department of the Treasury's Consolidated Financial Statements for Fiscal Years 2014 and 2013

November 17, 2014

Office of Inspector General

Department of the Treasury

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OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

November 17, 2014

INFORMATION MEMORANDUM FOR SECRETARY LEW

FROM: Eric M. Thorson
Inspector General

SUBJECT: Audit of the Department of the Treasury's Consolidated Financial Statements for Fiscal Years 2014 and 2013

INTRODUCTION

I am pleased to transmit KPMG LLP's (KPMG) report on the Department of the Treasury's (Department) consolidated financial statements as of and for the fiscal years (FY) ending September 30, 2014 and 2013.

The Chief Financial Officer's Act, as amended, requires the Department's Inspector General or an independent auditor, as determined by the Inspector General, to audit the Department's consolidated financial statements. Under a contract monitored by my office, KPMG, an independent certified public accounting firm, performed an audit of the Department's FY 2014 and 2013 consolidated financial statements. The contract required that the audit be performed in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements.*

RESULTS OF INDEPENDENT AUDIT

In its audit of the Department, KPMG reported the following:

- the consolidated financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;

- a material weakness in internal control over unpaid tax assessments and a significant deficiency in internal control over financial reporting systems identified by the auditor of the Internal Revenue Service collectively represent a material weakness for the Department as a whole;

- deficiencies in internal control over information systems at the Bureau of the Fiscal Service represent a significant deficiency for the Department as a whole;

- an *Anti-deficiency Act* violation related to uncompensated services provided to the Department; and

- the Department’s financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA) related to Federal financial management systems requirements and applicable Federal accounting standards.

EVALUATION OF AUDITORS’ PERFORMANCE

To ensure the quality of the audit work performed, we evaluated KPMG’s qualifications and independence, reviewed the approach and planning of the audit, monitored the progress of the audit at key points, reviewed and accepted KPMG’s audit report, and performed other procedures that we deemed necessary. Additionally, we provide oversight of financial statement audits and examinations of certain activities performed under contract at 10 component entities of the Department. Our review, as differentiated from an audit performed in accordance with generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on the consolidated financial statements or conclusions about the effectiveness of internal control or on whether the Department’s financial management systems substantially complied with FFMIA or conclusions on compliance with laws and regulations. KPMG is responsible for the attached auditors’ report dated November 17, 2014, and the conclusions expressed therein. However, our review disclosed no instances where KPMG did not comply, in all material respects, with generally accepted government auditing standards and OMB Bulletin No. 14-02.

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 Marla A. Freedman, Assistant Inspector General for Audit, at (202) 927-5400.

Attachment

cc: Nani A. Coloretti
Assistant Secretary for Management

Dorrice C. Roth
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
U.S. Department of the Treasury:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the U.S. Department of the Treasury (Department), which comprise the consolidated balance sheets as of September 30, 2014 and 2013, 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 the 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 $49.2 and $42.2 billion, net cost of operations of $12.1 and $12.3 billion before applicable eliminating entries, budgetary resources of $12.8 and $12.7 billion, and custodial activity of $3,069 and $2,851 billion, as of and for the years ended September 30, 2014 and September 30, 2013, 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 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 $35.4 and $71.2 billion, net cost of (income from) operations of $3.0 and ($7.7) billion before applicable eliminating entries, and budgetary resources of $17.2 and $37.9 billion, as of and for the years ended September 30, 2014 and September 30, 2013, 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; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 14-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

KPMG LLP is a Delaware limited liability partnership,
the U.S. member firm of KPMG International Cooperative
("KPMG International"), a Swiss entity.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion on the Financial Statements

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 U.S. Department of the Treasury as of September 30, 2014 and 2013, 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 Notes 7, 8, and 11, the Department is a participant in significant legislation and transactions whose purpose is to assist in stabilizing the financial markets. Also as discussed in note 1A, the consolidated financial statements do not include the assets, liabilities, or results of operations of commercial entities in which the Department has a significant equity interest as it has determined that none of these entities meet the criteria for inclusion as a federal entity and are therefore not included in the consolidated financial statements. Furthermore, as discussed in notes 1V, 7, 8, and 11, the value of certain investments, loans, 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. In addition, there are significant uncertainties related to the amounts that the Department will realize from its investments. As such, there will likely be differences between the estimated value of these investments, loans, and commitments as of September 30, 2014 and 2013, and the amounts that may ultimately be realized from these assets 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

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 the 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, 2014, 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 and compliance and other matters that was reported on separately by those 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*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described below, we and the other auditors, identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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. We consider the deficiency described below to be a material weakness.

A. Material Weakness in Internal Control Over Financial Reporting at the IRS (Repeat Condition)

IRS needs to establish internal control over financial reporting and systems in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control* to ensure reliable and timely financial information is obtained, maintained, and reported. IRS continued to make progress in addressing its deficiencies in internal control over financial reporting. However, a material weakness in internal control over unpaid tax assessments and significant deficiency in internal control over financial reporting systems continued to exist in fiscal year 2014 and are collectively considered a material weakness at the Department level. The other auditors performed an audit of IRS's internal control over financial reporting for the purpose of providing an opinion on the effectiveness of internal control. Because of the material weakness, the other auditors' opinion on IRS's internal control over financial reporting stated that IRS did not maintain, in all material respects, effective internal control over financial reporting as of September 30, 2014, and thus did not provide reasonable assurance that losses and misstatements that were material in relation to the IRS's financial statements would be prevented or detected and corrected on a timely basis. The deficiencies are summarized as follows:

1. Internal control deficiencies that affected IRS's management and reporting of unpaid tax assessments continued to exist. Specifically, IRS had the following control deficiencies: (1) taxes receivable and other unpaid tax assessments were not supported by IRS's core general ledger system for tax transactions and instead were supported by a labor-intensive manual compensating estimation process; (2) IRS cannot use the subsidiary ledger and supporting financial systems for unpaid tax assessments to prepare reliable and useful information to manage and report externally because IRS's classification program does not effectively sort, identify, and analyze all the relevant transaction information required for proper classification, recording and reporting; and (3) IRS did not consistently record information accurately in taxpayer accounts, had ineffective processes that caused errors or misclassifications in the amounts taxpayers owed, and did not always follow established procedures for calculating and recording failure-to-pay penalties.
2. Internal control deficiencies over financial reporting systems continued to exist that increase the risk that IRS financial and taxpayer data will remain vulnerable to inappropriate and undetected use, modification or disclosure. Specifically, the IRS did not: (1) install appropriate security updates on certain databases and servers; (2) use strong encryption for communications between key financial applications; (3) sufficiently monitor mainframe control activities that support financial reporting; (4) effectively maintain the secure configuration of a key application used to transfer taxpayer data; (5) comprehensively monitor changes to files supporting mainframe security; and (6) log user access to taxpayer data for one application.

Additional details related to the material weakness identified above have been provided separately to the IRS management by the auditor of the IRS's financial statements.

Recommendation

The other auditors separately provided IRS management with recommendations to address the above material weakness. We recommend that the Assistant Secretary for Management (ASM) and Deputy Chief Financial Officer (DCFO) ensure that the IRS implements requisite corrective actions to resolve this material weakness.

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. We consider the deficiency described below to be a significant deficiency.

B. Significant Deficiency in Internal Control Over Information Systems at the Bureau of the Fiscal Service (Repeat Condition)

Effective information system controls and security programs over financial systems are essential to protecting information resources in accordance with OMB Circular No. A-130, *Management of Federal Information Resources*. The Bureau of the Fiscal Service (Fiscal Service) relies on an extensive array of information technology systems to perform their primary missions. During fiscal year 2014, Fiscal Service implemented detective controls to attempt to resolve the prior year significant deficiency; however, most of these detective controls were not operating effectively. In addition, Fiscal Service did not design and implement preventative controls needed for its complex information technology environment and large transaction volume. Specifically, Fiscal Service has not consistently documented, implemented, or enforced the policies and procedures needed to prevent, detect, and correct information system weaknesses. Additionally, Fiscal Service's general information technology controls did not provide reasonable assurance that: an adequate security management program is in place; access to computer resources (i.e., data, equipment, and facilities) is appropriate and restricted to authorized individuals; responsibilities are properly segregated; and systems are configured and operated securely and as intended.

These deficiencies could compromise the Fiscal Service's ability to ensure security over sensitive financial data and reliability of the financial systems.

Recommendation

Due to the sensitivity of the details of the weaknesses described above, we will issue a separate sensitive but unclassified report detailing the conditions identified and our recommendations for corrective action. We recommend that the ASM and DCFO ensure that the Fiscal Service implement requisite corrective actions to resolve control weaknesses over their information systems.

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 the Department's 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, and certain provisions of other laws and regulations specified in OMB Bulletin No. 14-02. 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, and the other auditors', tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* or OMB Bulletin No. 14-02, and which is described below.

C. Violation of the Anti-Deficiency Act

The Department determined that four individuals, who were not students, had provided uncompensated services as interns in fiscal years 2010 and 2011. This occurred because certain Department individuals did not fully understand the requirements related to employing interns. The Department indicated that upon realizing this error, the Department terminated its relationship with the individuals.

Section 1342 of Title 31 of the United States Code (*Anti-Deficiency Act*) generally prohibits the acceptance of uncompensated services. Notwithstanding this prohibition, uncompensated services may be accepted from students, as provided by 5 U.S.C. § 3111. In addition, gratuitous services may be accepted from other individuals under appropriate circumstances, if the individual providing services agrees in advance that: (1) the services are offered without expectation of payment, and (2) the individual will not assert any future claim against the federal government.

On January 27, 2014, the Comptroller General held that because the Department did not obtain advance written agreements from these individuals, a violation of the *Anti-Deficiency Act* occurred.

Recommendation
We recommend that Treasury periodically remind Department employees that they must obtain approval from the Office of Human Resources prior to accepting any unpaid services to ensure that authority exists to accept such services and that where services are performed by non-students, advance written agreement is obtained.

We, and the other auditors, also performed tests of the Department's compliance with certain provisions referred to in Section 803(a) of the *Federal Financial Management Improvement Act of 1996* (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests of FFMIA and those of the other auditors disclosed instances, described below, in which the Department's financial management systems did not substantially comply with the (1) Federal financial management systems requirements, and (2) applicable Federal accounting standards. The results of our tests of FFMIA and those of the other auditors disclosed no instances in which the Department's financial management systems did not substantially comply with the United States Government Standard General Ledger at the transaction level.

D. Noncompliance with Federal Financial Management Improvement Act of 1996 (Repeat Condition)

The Department's financial management systems did not substantially comply with the following FFMIA requirements:

1. Federal Financial Management Systems Requirements
As discussed in finding A. Material Weakness in Internal Control Over Financial Reporting at the IRS (Repeat Condition), the Department continues to have deficiencies in the IRS's financial management systems.

2. Federal Accounting Standards
As discussed in finding A. Material Weakness in Internal Control Over Financial Reporting at the IRS (Repeat Condition), the Department has a material weakness related to the IRS that affected the Department's ability to prepare its financial statements in accordance with the federal accounting standards. Specifically, IRS financial management systems were unable to support the taxes receivable amount on the consolidated balance sheet, and the compliance assessments and write-offs in the required supplementary information disclosures, in accordance with accounting standards.

Recommendation
The other auditors separately provided IRS management with recommendations to address the above noncompliance with FFMIA. We recommend that the ASM and DCFO ensure that the IRS implements its remediation plan outlining actions to be taken to resolve noncompliance with the FFMIA requirements and the resources and responsible organizational units for such planned actions. Many of the IRS's planned actions are long term in nature and are tied to IRS's systems modernization efforts.

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

November 17, 2014

MANAGEMENT'S RESPONSE TO INDEPENDENT AUDITORS' REPORT

ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

November 17, 2014

KPMG LLP
1801 K Street, NW
Washington, DC 20006

Ladies and Gentlemen:

On behalf of Secretary Lew, we are responding to your audit report on the Department of the Treasury's fiscal year 2014 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 fifteenth consecutive year.

The high level of professionalism, technical expertise, and partnership demonstrated by KPMG in conducting this year's audit contributed greatly to Treasury's successful fiscal year 2014 results. We also appreciate the expertise and commitment demonstrated by the other organizations involved in the audit process – the Office of the Inspector General, Government Accountability Office (GAO), and the firms that audited several of our bureaus.

We acknowledge the one material weakness and one significant deficiency at the Department level, and 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.

In connection with the Anti-Deficiency Act violation that resulted from uncompensated services provided to Treasury during fiscal years 2010 and 2011 by four individuals who were not students, we have implemented the necessary corrective actions – including enhancing on-boarding procedures and increasing awareness of our personnel of these procedures – to ensure that Treasury only accepts uncompensated services in a manner consistent with the Act.

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

Nani A. Coloretti
Assistant Secretary for Management

Dorrice C. Roth
Deputy Chief Financial Officer

SECTION II –

DEPARTMENT OF THE TREASURY
FISCAL YEAR 2014
AGENCY FINANCIAL REPORT

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DEPARTMENT OF THE TREASURY

Agency Financial Report

Fiscal Year 2014

November 17, 2014

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DEPARTMENT OF THE TREASURY

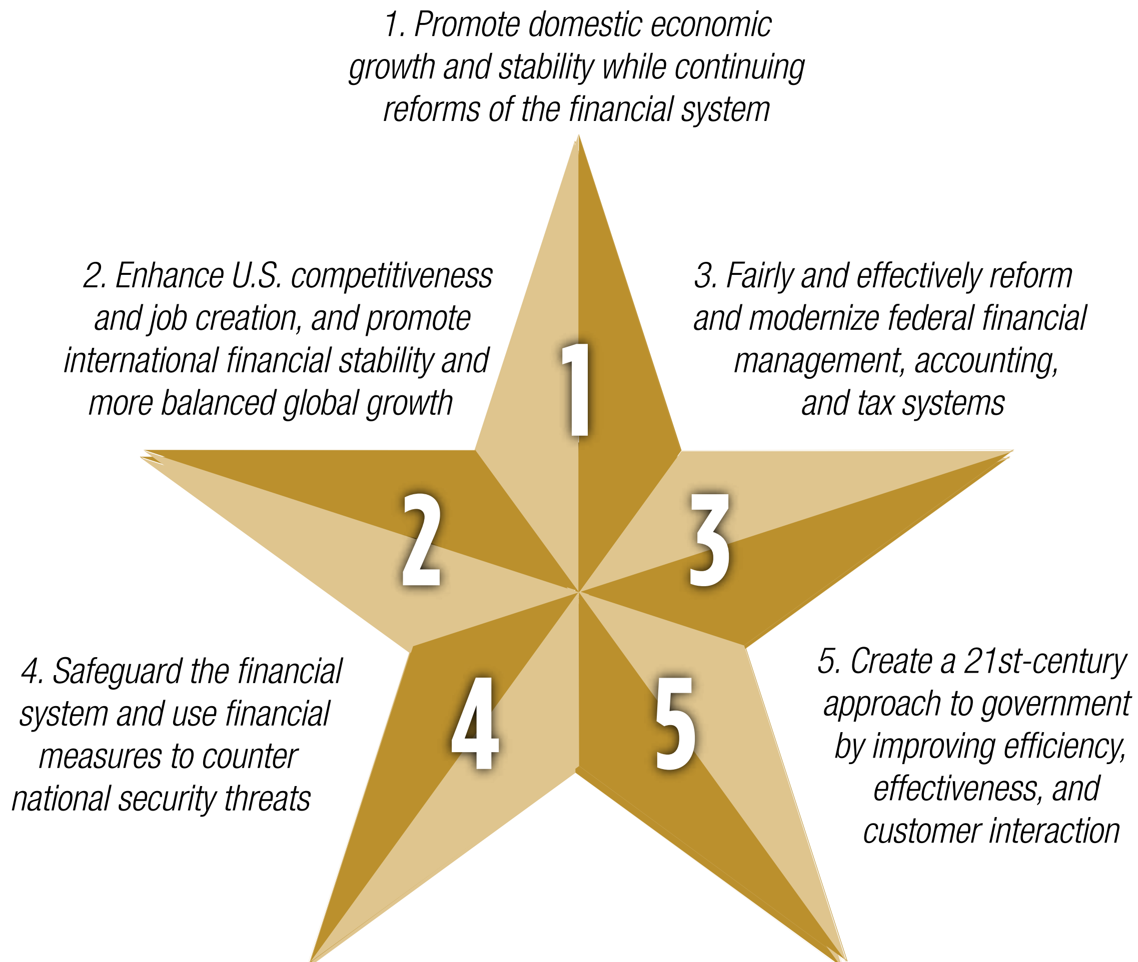
Agency Financial Report

Fiscal Year 2014

Department 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 Strategic Goals



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MESSAGE FROM THE SECRETARY OF THE TREASURY

As we issue the Agency Financial Report for the Department of the Treasury this year, our nation's economy is growing and moving forward steadily. We have seen significant progress in strengthening the economy, thanks to the spirit of the American people and the reforms put in place by the Administration to reform the financial sector since the depths of the financial crisis.

The signs of recovery are clear. This Administration's policies have helped set in motion the fastest pace of U.S. fiscal consolidation in more than 60 years, reducing the deficit from a peak of 9.8 percent of GDP in 2009 to 2.8 percent of GDP in 2014. Fiscal Year 2014 concluded with unemployment below 6 percent — its lowest point since July 2008. The October employment report showed that over the past twelve months, the number of private-sector jobs increased by 2.6 million and p*rivate employment has risen by at least 200,000 for nine consecutive months — the first time that has happened since the 1990s.* These economic indicators emphasize what is possible if we continue to invest in growth and create opportunities for more Americans. This year, we also have continued to protect our international financial system and advance key national security objectives, through regulation, enforcement, financial intelligence analysis, and targeted financial measures.

While the ongoing economic recovery is strong, there is still more work to do. The Treasury Department released a new strategic plan earlier this year that set five goals for the Department so we can meet our obligations to the American people and help secure America's economic future. These goals are: promoting domestic growth and stability; promoting international stability and balanced global growth; modernizing the management of the country's finances; safeguarding and protecting the financial system; and instilling a culture of excellence across the Treasury Department.

As demonstrated in this report, we have already made significant progress toward achieving these goals in fiscal year 2014.

- **Promoting domestic growth and stability:** We made major strides in winding down emergency financial crisis response programs, coordinated the final rules designed to make the financial system stronger and more resilient, and extended affordable housing programs to more Americans;

- **Promoting international financial stability and balanced global growth:** We advanced negotiations for critical free trade agreements, including the Transatlantic Trade and Investment Partnership, and helped improve economic conditions in Europe;

- **Reforming and modernizing federal financial management, accounting, and tax systems:** We implemented tax-related provisions of both the Patient Protection and Affordable Care Act and the Foreign Account Tax Compliance Act, among many other critical tax regulations;

- **Protecting our national security:** We increased coordination with key industry and government partners worldwide, including providing critical support to fragile economies in the Middle East and Africa that are threatened by extremism and terrorism; put in place sophisticated sanctions regimes in response to the Ukraine crisis, and continued efforts to address Iran's nuclear program; and

- **Creating a 21st century approach to government:** We established a Data Steward Group to improve data quality and designated Federal Financial Management Shared Service Providers, which will improve efficiency government-wide.

Looking forward, we need to build on these accomplishments. To get this done, we will continue to work with businesses, industries, and organizations as well as international, federal, state, and local officials to meet the challenges ahead. We will also continue to work with Congress on legislation that can make rules and government oversight more effective. Within the Treasury Department, we will focus on a comprehensive set of management priorities, including recruiting and retaining outstanding employees and improving the customer experience, which will allow us to continue to lead and support government-wide efforts to increase productivity, reduce waste, and modernize processes and systems.

As part of this report, the Treasury Department received an unmodified audit opinion on its consolidated financial statements. Treasury validated the financial and performance data as accurate, complete, and reliable. Treasury strengthened its management controls and made progress toward achieving U.S. financial systems and control objectives. We provide this report as a comprehensive review of the Treasury Department's important work as well as its finances.

I look forward to building on the progress described in this year's Agency Financial Report and leading our efforts to achieve the Treasury Department's strategic goals for stronger, more sustainable economic growth for years to come.

Jacob J. Lew
Secretary of the Treasury
November 17, 2014

PART 1:

Management's Discussion and Analysis

INTRODUCTION

This Agency Financial Report (AFR) presents the Department of the Treasury's (Treasury) operational and financial performance during Fiscal Year (FY) 2014 in pursuit of its vital mission to 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.

Throughout its rich history, Treasury's core mission has not changed. With approximately 100,000 employees in its ranks, Treasury remains the steward of the U.S. economy —taking in revenue, meeting financial obligations, and, when appropriate, borrowing and investing public funds. In recent years, Treasury's role has expanded to include being a leader in safeguarding and growing the nation's economy.

HOW TREASURY MANAGES ORGANIZATIONAL PERFORMANCE

Treasury is committed to using performance information to shape decisions and drive results, with robust and thoughtful processes in place to support this commitment. The Quarterly Performance Review (QPR) process plays a key role in Treasury's management approach, providing a forum for leaders to allocate resources and analyze important organizational performance and management data such as the Federal Employee Viewpoint Survey results, information technology metrics, and procurement information.

This fiscal year, Treasury implemented the Strategic Objective Annual Review (SOAR) process, which builds upon the QPR foundation and enables cross-cutting discussions about strategic issues. Through this review process, representatives from across the Department identified key areas of progress, challenges, risks, and opportunities for each strategic objective. These representatives then established actionable next steps for completion in the ensuing 12 to 18 months that will address the SOAR findings and sustain progress toward the achievement of Treasury's strategic plan. As part of the process, Treasury categorized a subset of objectives as having made "noteworthy progress" (a success story that should be shared widely) or facing "significant challenges" [1](those that impede progress, including ones requiring outside assistance to move forward). Considering the complexity of Treasury's objectives, different elements within the same objective could fall under either category. Categorizing a subset of objectives served as a useful prioritization tool for agency discussions.

WHAT'S IN THIS DISCUSSION?

In addition to highlighting Treasury's financial performance and management challenges, Part I of the AFR provides an overview of Treasury's progress toward its ***FY 2014-2017 Strategic Plan***. The following information is provided for each goal:

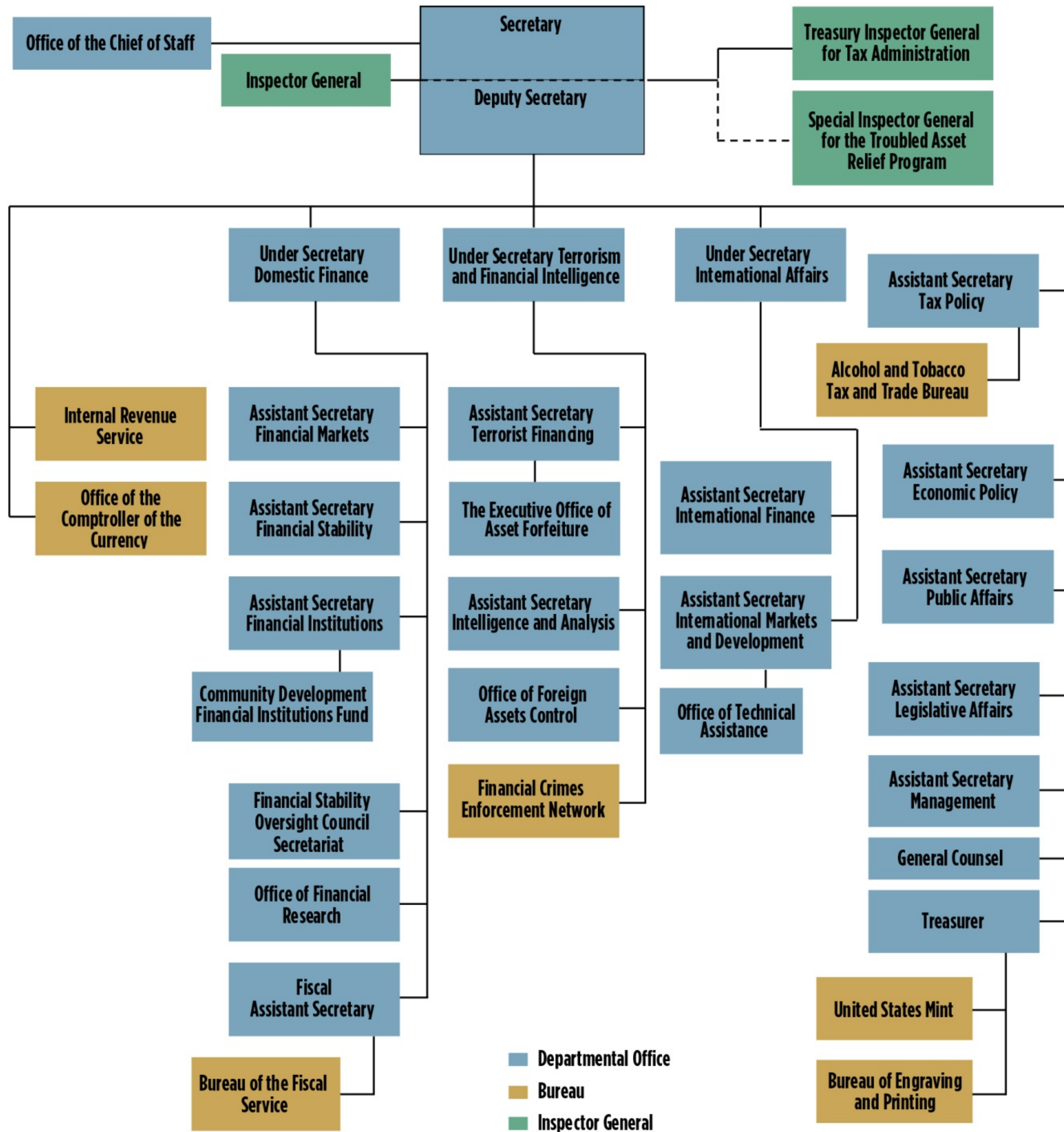
- An overview of Treasury's FY 2014 performance in that goal, including how objectives were categorized during the SOAR
- "In Focus" – A deeper look at some of the critical work being done by Treasury to achieve the goal
- "What's Next?" – A summary of Treasury's plans for the next year, including key next steps identified during the SOAR
- "Summary of Goal Performance" – A table highlighting key progress and remaining challenges for the goal's objectives

While performance information highlights are presented at the end of the discussion, more detailed performance information for all programs listed in Treasury's program inventory are in the Annual Performance Report (APR), released February 2015.[2] This report will be available on Treasury's website at: http://www.treasury.gov/about/budget-performance/annual-performance-plan/Pages/default.aspx.

1 August 2014 guidance from the Office of Management and Budget changes this category to "focus areas for improvement" in future years.
2 Treasury has chosen not to release a consolidated/overarching Performance and Accountability Report. In addition to the APR, readers can access www.performance.gov for the latest information on all agency priority goals and objectives and a copy of Treasury's program inventory.

ORGANIZATION

Treasury is organized into the Departmental Offices, seven bureaus, and three inspectors general. The Departmental Offices are primarily responsible for policy formulation, while the bureaus are the operating units of the organization.[3]



3 Learn more about Treasury's bureaus and offices on the following pages and at http://www.treasury.gov/about/organizational-structure/Pages/default.aspx.

DEPARTMENTAL OFFICES

Domestic Finance works to preserve confidence in the U.S. Treasury securities market, effectively manage federal fiscal operations, strengthen financial institutions and markets, promote access to credit, and improve financial access and education in service of America's long-term economic strength and stability.

International Affairs protects and supports U.S. economic prosperity and national security by working to foster the most favorable external environment for sustained jobs and economic growth in the United States.

Terrorism and Financial Intelligence marshals the Department's intelligence and enforcement functions with the twin aims of safeguarding the financial system against illicit use and combating rogue nations, terrorist facilitators, weapons of mass destruction proliferators, money launderers, drug kingpins, and other national security threats.

Economic Policy reports on current and prospective economic developments and assists in the determination of appropriate economic policies. The office is responsible for the review and analysis of domestic economic issues and developments in the financial markets.

Tax Policy develops and implements tax policies and programs, reviews regulations and rulings to administer the Internal Revenue Code, negotiates tax treaties, and provides economic and legal policy analysis for domestic and international tax policy decisions. Tax Policy also provides revenue estimates for the President's Budget.

The ***Treasurer of the United States*** has direct oversight over the U.S. Mint and Bureau of Engraving and Printing and chairs the Advanced Counterfeit Deterrence Steering Committee and is a key liaison with the Federal Reserve. In addition, the Treasurer serves as a senior advisor to the Secretary in the areas of community development and public engagement.

The ***Office of Management***, including the Chief Financial Officer (CFO), is responsible for managing the Department's financial resources and overseeing Treasury-wide programs, including human capital, information technology, acquisition, and diversity and inclusion efforts.

Three inspectors general – ***the Office of the 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 the Department of the Treasury and its programs.

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

BUREAUS

The ***Alcohol and Tobacco Tax and Trade Bureau (TTB)*** collects federal excise taxes on alcohol, tobacco, firearms, and ammunition; and is responsible for enforcing and administering laws covering the production, use, and distribution of alcohol products.

The ***Bureau of Engraving and Printing (BEP)*** develops and produces U.S. currency notes that are trusted worldwide.

The ***Financial Crimes Enforcement Network (FinCEN)*** safeguards the financial system from illicit use and combats money laundering and 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)*** —previously the Financial Management Service and the Bureau of the Public Debt —provides central payment services to federal program agencies, operates the U.S. government's collections and

deposit systems, provides government-wide accounting and reporting services, and manages the collection of delinquent debt owed to the U.S. government. In addition, the Fiscal Service borrows the money needed to operate the U.S. government through the sale of marketable, savings, and special-purpose (including the state and local government series) U.S. Treasury securities, and accounts for and services the public debt.

The ***Internal Revenue Service (IRS)*** is the largest of the Department's bureaus and determines, assesses, and collects tax revenue in the United States.

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

The ***Office of the Comptroller of the Currency (OCC)*** charters, regulates, and supervises national banks and federal savings associations (thrifts) 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. The OCC also supervises federal branches and agencies of foreign banks and has rule-making authority for all savings associations.

Figure 1: Main Treasury Building in Washington, D.C.

TREASURY FISCAL YEAR 2014-2017 STRATEGIC FRAMEWORK

The strategic framework comprises the Department's strategic goals and objectives. All bureaus and offices align their programs within this framework, which forms the basis for organizational performance management across the agency.

	Strategic Goals	Strategic Objectives	Contributing Bureaus/Offices
Economic	Goal 1: Promote domestic economic growth and stability while continuing reforms of the financial system	1.1: Promote savings and increased access to credit and affordable housing options 1.2: Wind down emergency financial crisis response programs 1.3: Complete implementation of financial regulatory reform initiatives, continue monitoring capital markets, and address threats to stability 1.4: Facilitate commerce by providing trusted and secure U. S. currency, products, and services for use by the public	Domestic Finance International Affairs Economic Policy BEP Fiscal Service OCC TTB U.S. Mint
Economic	Goal 2: Enhance U.S. competitiveness and job creation, and promote international financial stability and more balanced global growth	2.1: Promote free trade, open markets, and foreign investment opportunities 2.2: Protect global economic and financial stability and press for market-determined foreign exchange rates 2.3: Advance U.S. economic, financial, and national security goals by leveraging multilateral mechanisms 2.4: Provide technical assistance to developing countries working to improve public financial management and strengthen their financial systems	International Affairs TFI Economic Policy Tax Policy
Financial	Goal 3: Fairly and effectively reform and modernize federal financial management, accounting, and tax systems	3.1: Improve the efficiency and transparency of federal financial management and government-wide accounting 3.2: Improve the disbursement and collection of federal funds and reduce improper payments made by the U.S. government 3.3: Pursue tax reform, implement the Patient Protection and Affordable Care Act, and Foreign Account Tax Compliance Act, and improve the execution of the tax code	Domestic Finance Tax Policy Fiscal Service IRS TTB
Security	Goal 4: Safeguard the financial system and use financial measures to counter national security threats	4.1: Identify priority threats to the financial system using intelligence analysis and outreach to the financial sector 4.2: Develop, implement, and enforce sanctions and other targeted financial measures 4.3: Improve the cybersecurity of our nation's financial sector critical infrastructure 4.4: Protect the integrity of the financial system by implementing, promoting, and enforcing anti-money laundering and counterterrorism financing standards	TFI Domestic Finance FinCEN OCC
Management	Goal 5: Create a 21st-century approach to government by improving efficiency, effectiveness and customer interaction	5.1: Increase workforce engagement, performance, and diversity by instilling excellence, innovation, and inclusion in Treasury's organizational culture and business practices 5.2: Support effective, data-driven decision-making and encourage transparency through intelligent gathering, analysis, sharing, use, and dissemination of information 5.3: Promote efficient use of resources through shared services, strategic sourcing, streamlined business processes, and accountability 5.4: Create a culture of service through relentless pursuit of customer value	All Offices and Bureaus, led by the Office of Management

FISCAL YEAR 2014 PERFORMANCE BY STRATEGIC GOAL

GOAL 1: PROMOTE DOMESTIC ECONOMIC GROWTH AND STABILITY WHILE CONTINUING REFORMS OF THE FINANCIAL SYSTEM

Economic growth stimulates opportunity, mobility, and security for Americans – and allows citizens and businesses to have more confidence in the safety and soundness of the financial system. In the FY 2014-2017 strategic plan, Treasury commits to promoting domestic economic stability in response to the 2008 financial crisis, building and strengthening domestic financial institutions and markets, and identifying emerging issues requiring Treasury's leadership. An additional priority under this goal is to stimulate domestic economic growth by facilitating commerce and promoting savings, access to credit, and affordable housing options.

In FY 2014, Treasury made notable progress toward achieving its strategic objectives under this goal. As indicated in "Table 1: Summary of Goal One Performance," major strides were made in winding down emergency financial crisis response programs, extending affordable housing programs to more Americans, and implementing major pieces of the financial regulatory reform required under the ***2010 Dodd-Frank Wall Street Reform and Consumer Protection Act***.

In particular, after consulting with the Office of Management and Budget (OMB) on performance in this area, Treasury determined that "noteworthy progress" is being made toward achieving Objective 1.2, "Wind down emergency financial crisis response programs," based on the success of the Troubled Asset Relief Program (TARP).

IN FOCUS: HELPING AMERICAN COMMUNITIES GROW

The 40,500 residents of economically depressed Sumter, South Carolina will see an estimated 1,600 new jobs in their community over the next decade as a result of the construction of a new million-plus square foot manufacturing facility.

Continental Tire's new facility will expand the international automotive supplier's operations in the United States. The project received a combined $57.06 million loan from the Community Reinvestment Fund, National Development Council, and People Incorporated Financial Services as a result of the New Markets Tax Credit Program administered by Treasury's CDFI Fund. Ninety percent of the new jobs created, which offer competitive wages, will be entry level. These types of jobs are desperately needed in Sumter, where the unemployment rate is about 1.5 times the national average (as of September 2014).

WHAT'S NEXT?

Treasury is focused on pursuing opportunities to increase coordination with industry and government partners to execute the latest rules and to obtain high-quality data to monitor threats to the market. Treasury is also taking steps to address the ever-increasing demand for improved services, including more sophisticated and accessible currency and timely permitting and label approval for alcohol and tobacco businesses. Specifically, Treasury plans to pursue the following actions in FY 2015:

- Work with Congress to extend the State Small Business Credit Initiative (SSBCI) authorization and to advance housing finance reform legislation
- Complete rulemakings for Dodd-Frank implementation and develop rulemaking to streamline and clarify the federal labeling and formula requirements for alcoholic beverages
- Complete the remaining pending evaluations of the Community Development Financial Institutions (CDFI) Fund programs
- Continue the transition of the currency quality assurance program and submit alternative metals research to Congress

TABLE 1: SUMMARY OF GOAL ONE PERFORMANCE

Strategic Objective		Key Areas of Progress (♦) and Challenges (≈)
1.1 Promote savings and increased access to credit and affordable housing options	♦	Helped increase housing affordability by extending the Making Homes Affordable Program through 2016 and entering into a partnership with the Department of Housing and Urban Development (HUD) to help increase affordable options for renters
	♦	Held the first successful auction of the Floating Rate Note, the first new Treasury security in 15 years, which will expand the U.S. investor base and provides more options to investors
	♦	Provided more than 32,621 affordable housing units through the CDFI Program, New Markets Tax Credit Program, and Capital Magnet Fund lending and investing in FY 2014
	♦	Introduced *my*RA, a simple, safe and affordable retirement savings option designed for Americans who do not have access to an employer-sponsored retirement plan
	♦	Small business lending at participating banks has grown $13.8 billion over the baseline
	≈	Sales of retail securities continue to decline due to low interest rates and product complexity
1.2 Wind down emergency financial crisis response programs	♦	As of September 2014, Troubled Asset Relief Program (TARP) collections, including proceeds from non-TARP AIG-shares sales, exceed total disbursements by $14.5 billion
	♦	The Capital Purchase Program has generated $226.3 billion in proceeds for taxpayers through FY 2014, with 43 institutions remaining in the program ($624.9 million in outstanding investments)
	♦	Completed the disposition of all remaining shares of General Motors in December 2013 and, subsequent to Treasury's sale of approximately 102 million shares in the initial public offering (IPO) of Ally, began selling additional shares of Ally common stock through a pre-defined written trading plan
	≈	Most of the largest mortgage servicers participating in the Making Home Affordable housing programs need minor or moderate improvement in their compliance with program requirements, according to the most recent Quarterly Servicer Assessment
1.3 Complete implementation of financial regulatory reform initiatives, continue monitoring capital markets, and address threats to stability	♦	Issued the Modernization Report required by Dodd-Frank, which makes recommendations in the areas of insurance sector solvency and marketplace regulation
	♦	Made solid progress in standardizing essential data, including issuing more than 300,000 Legal Entity Identifiers (LEIs) to organizations in 186 countries
	♦	Issued final rules implementing the Volcker Rule and Basel III capital rules
	≈	Coordination with domestic and international actors is resource intensive
	≈	Timely and robust data (and analytical capability) are vital to monitoring markets and identifying threats, but building the environment and infrastructure are costly
1.4 Facilitate commerce by providing trusted and secure U.S. currency, products, and services for use by the public	♦	Launched a currency reader distribution pilot program in 2014 to increase accessibility for the blind and visually impaired
	♦	Met increased demand for currency while implementing operational efficiencies
	♦	Began circulating the redesigned $100 Federal Reserve note, which includes several new security features
	♦	Expanded the use of TTB's Permits Online system, and improvements are in progress to support faster processing times for new businesses seeking a federal alcohol permit
	♦	Removed a significant barrier to wine export trade by launching a consolidated export certificate for wine exports to China
	♦	Hosted an infrastructure investment summit that brought together private investors and state and local government officials to build partnerships and develop strategies to close the infrastructure investment gap
	≈	Increasing complexity of currency design and evolving customer needs require more complex and costly materials, production technologies, and employee skill sets to maintain high-quality notes
	≈	Current legislation restricts changes to metal composition, size, and weight of coinage
	≈	Growth in the alcohol beverage industry and increasing product innovation have increased the demand for TTB approvals, resulting in longer lead times to meet requirements that are pre-conditions to commerce

KEY: ♦ indicates an area of progress; ≈ indicates an area of challenge

GOAL 2: ENHANCE U.S. COMPETITIVENESS AND JOB CREATION, AND PROMOTE INTERNATIONAL FINANCIAL STABILITY AND MORE BALANCED GLOBAL GROWTH

Treasury protects and supports American economic prosperity by strengthening the external environment for U.S. growth, preventing and mitigating global financial instability, and managing key global challenges. Over the next three years, the Department will continue to work with international partners to open new opportunities for American businesses and workers, level the playing field for U.S. firms doing business abroad, develop sound international financial regulatory standards consistent with domestic reforms, promote economic stability in strategically important countries, and leverage U.S. leadership positions in the International Financial Institutions (IFIs) to promote U.S. policy priorities around the world.

In FY 2014, Treasury made progress using a sometimes limited set of policy tools while facing major challenges. As indicated in "Table 2: Summary of Goal Two Performance," evolving global geopolitical and financial crises and slowing economic growth in key regions and countries required Treasury to shift its focus away from some longer-term goals in favor of more immediate priorities. Despite this, Treasury successfully advocated for the prioritization of growth strategies in the Group of 20 (G-20), advanced negotiations for critical trade agreements, and made progress promoting financial stability in Europe. After consulting with OMB on performance in this goal, Treasury determined that "significant challenges" exist to achieving Objective 2.3, "Advance U.S. economic, financial, and national security goals by leveraging multilateral mechanisms," due largely to the need for Congress to approve the 2010 International Monetary Fund (IMF) Quota and Governance Reforms and insufficient support for multilateral assistance priorities, including arrears.

IN FOCUS: Providing Assistance Abroad to Safeguard Stability at Home

For more than 20 years, International Affairs' Office of Technical Assistance (OTA) has helped developing and transitional countries build their capacity to manage government finances more effectively, deliver essential public services, and grow their economies. Such assistance is also in the U.S. national interest as building strong economic governance regimes supports financial sector stability and fosters robust trade and investment relations. Currently, OTA operates in 44 countries with 100 active programs (see map below).

WHAT'S NEXT?

Although progress toward this goal has been hampered by the challenges highlighted above, Treasury aims to bolster the impact of its efforts through expanded and additional bilateral and multilateral engagements in priority regions. Specifically, Treasury plans to pursue the following actions in FY 2015:

- Secure congressional approval of the 2010 IMF Quota and Governance Reforms Proposal
- Gain congressional support for Treasury's International Programs budget proposal, which includes U.S. contributions to multilateral organizations in which the U.S. seeks to maintain a leadership position
- Continue to negotiate tax treaties and international guidelines on the provision of official export financing
- Advance the financial services sections of the major trade agreements currently being negotiated, such as the Trans-Pacific Partnership, the Trade in Services Agreement, and the US-EU Trans-Atlantic Trade and Investment Partnership

TABLE 2: SUMMARY OF GOAL TWO PERFORMANCE

Strategic Objective		Key Areas of Progress (♦) and Challenges (≈)
2.1 Promote free trade, open markets, and foreign investment opportunities	♦	Negotiations of free trade agreements have progressed in key economic hubs such as the Asia-Pacific region; Commitments secured through bilateral engagements including the U.S.-India Economic and Financial Partnership and the U.S.-China Strategic and Economic Dialogue
	♦	During the fiscal year, the Office of Tax Policy prepared for and testified before the Senate Foreign Relations Committee to recommend seven bilateral tax treaties that have been negotiated by the Office on behalf of the United States
	≈	Evolving global economic and geopolitical conditions affect counterparts' priorities and willingness to make concessions in negotiations
	≈	The strengthening US economy yielded a corresponding increase in the number and complexity of cases before the Committee on Foreign Investment in the United States (CFIUS), complicating interagency coordination of the national security reviews
2.2 Protect global economic and financial stability and press for market-determined exchange rates	♦	Have worked to stabilize the European financial system (Ireland and Portugal successfully exited from IMF programs and the Greece IMF program financing gap was resolved)
	♦	Made significant contributions to crisis response through Treasury's Financial Attaché in Moscow and the rapid provision of a loan guarantee and technical assistance to Ukraine
	♦	Refocused the G-20 to consider growth strategies and successfully added global rebalancing to the Leaders' Summit Agenda
	≈	Evolving global geopolitical, economic, and financial crises require Treasury to rapidly shift its focus and limited resources away from longer-term priorities
	≈	Rising costs of overseas operations hinder deployment of Financial Attachés and technical assistance advisors abroad, negatively impacting performance
2.3 Advance U.S. economic, financial, and national security goals by leveraging multilateral mechanisms	♦	Treasury's Development Impact Honor Awards Program successfully highlighted the benefits of multilateral approaches to development
	♦	Continued to successfully encourage the use of systems for measuring, monitoring, and incorporating development results in Multilateral Development Bank operations
	≈	Treasury's work at the IMF is unnecessarily complicated by the U.S.'s status as the only country yet to approve the 2010 IMF Quota and Governance Reforms
	≈	The U.S. could potentially lose influence in IFIs, as overdue U.S. contributions continue to accumulate over time due to funding constraints
2.4 Provide technical assistance to developing countries working to improve public financial management and strengthen their financial systems	♦	Treasury had success in building relationships with foreign counterparts; 100 projects are currently active in 44 countries, and programs received a 3.7 out of 5 in FY 2014 internal evaluations for "traction" (which measures engagement with counterparts)
	♦	A robust annual programmatic review has been instituted for all active projects before funding is allocated for the year; the review process includes defining priorities and measures for programs
	♦	The Office of Technical Assistance (OTA) supported successful reforms by several jurisdictions previously cited by the Financial Action Task Force for serious non-compliance with anti-money laundering and counterterrorism financing standards
	≈	Programmatic impact can be outside of Treasury's control; programs received a 2.9 out of 5 in FY 2014 internal evaluations for "impact" (which measures achievement of desired changes); rising cost of program administration from third parties limiting project selection

KEY: ♦ indicates an area of progress; ≈ indicates an area of challenge

GOAL 3: FAIRLY AND EFFECTIVELY REFORM AND MODERNIZE FEDERAL FINANCIAL MANAGEMENT, ACCOUNTING, AND TAX SYSTEMS

Treasury is entrusted with managing the nation's finances, which includes collecting money due to the United States, making payments owed by the United States, and financing the federal government by, in addition to collecting revenue, determining and executing a borrowing strategy that meets the federal government's needs at the lowest cost over time. It also includes accounting for, and reporting on, the U.S. government's finances to the American people. Sound financial management enables continual operation of essential government services and allows Treasury to meet its financial obligations while minimizing borrowing costs.

Treasury made great strides during FY 2014, as indicated in "Table 3: Summary of Goal Three Performance." Treasury began work to increase the usability of USAspending.gov, created a centralized service to help federal executive branch agencies reduce improper payments, and implemented tax-related provisions of both the Patient Protection and Affordable Care Act (ACA) and the Foreign Account Tax Compliance Act (FATCA). Treasury made additional progress in improving payment accuracy through continued implementation of the "Do Not Pay" Business Center, which uses data to review the eligibility of government beneficiaries. Furthering Treasury's efforts, the IRS combatted tax refund fraud by using analytics to identify tax preparers who submit incorrect or fraudulent tax returns. Despite this progress, tight budget constraints facing the IRS resulted in fewer resources and missed opportunities in enforcement and service.

After consulting with OMB on performance in this area, Treasury determined that "noteworthy progress" was made toward achieving Objective 3.2, "Improve the disbursement and collection of federal funds and reduce improper payments made by the U.S. government," due to achievements in converting to electronic transactions. However, Treasury's future efforts face "significant challenges" due to the difficulty in making further gains toward the objective.

IN FOCUS: Treasury Assists States in Collecting Delinquent Debts

In July 2014, the Bureau of the Fiscal Service (Fiscal Service) released its FY 2013 Annual Report to the States on the Treasury Offset Program's (TOP) Delinquent Debt Collection. The report details each state's success in collecting delinquent debts through a unique partnership with the federal government referred to as the State Reciprocal Program.

Debts successfully recovered through TOP include delinquent child support and state income tax obligations, unemployment insurance compensation fraud debts, and more.

"The Fiscal Service is proud of the work we have done in collecting more than $3.0 billion in delinquent debts for the states in FY 2013, including $1.9 billion of delinquent child support," said Fiscal Service Commissioner Sheryl Morrow. "The simple premise of the offset program is that Treasury should not pay those individuals or businesses that have failed to meet their government obligations without first applying that money to the delinquent obligation."

WHAT'S NEXT?

In the face of continued resource limitations and increasing requirements, including the implementation of new legislative requirements, Treasury plans to pursue the following in FY 2015:

- Implement the Digital Accountability and Transparency Act (DATA) and improve IRS level of service to taxpayers, which will require Congress to approve increase funding to the IRS and Fiscal Service
- Gain approval of legislative proposals to improve debt collection and reduce Earned Income Tax Credit errors
- Build stronger relationships with the tax community and government partners to increase voluntary tax reporting and payment compliance

TABLE 3: SUMMARY OF GOAL THREE PERFORMANCE

Strategic Objective	Key Areas of Progress (♦) and Challenges (≈)	
3.1 Improve the efficiency and transparency of federal financial management and government-wide accounting	♦	Improvements made to the reliability of the Financial Report of the U.S. Government include making progress in establishing the General Fund as a reporting entity and meeting with 35 agencies to create Agency Scorecards to facilitate review of agency performance in financial reporting
	♦	Treasury will receive its 15th clean audit opinion on the Agency Financial Report (AFR) and the Schedules of Federal Debt in FY 2014 and continues to report accurately on the Monthly and Daily Treasury Statements
	♦	Since Treasury assumed program responsibility for USAspending.gov in February 2014, Treasury began usability improvements to the website and plans to launch an improved site in March 2015
	≈	Encourage innovation from federal agencies and stakeholders to make data more accessible and easier to use, through implementation of the DATA Act
3.2 Improve the disbursement and collection of federal funds and reduce improper payments made by the U.S. government	♦	Implementation of the Paperless Treasury Initiative resulted in the percentage of electronic payments increasing from 77 percent in FY 2006 to 94 percent in FY 2014
	♦	Completion of the Collections and Cash Management Modernization initiative resulted in an increase in the percentage of revenue collected (settled) electronically from 79 percent in FY 2006 to 98 percent in FY 2014
	♦	Treasury created a centralized portal and data analytics service, which provides payment verification information for Federal executive branch agencies to help reduce improper payments
	≈	Further progress in increasing electronic payments will necessitate changing taxpayers' behavior to achieve voluntary compliance because current law does not mandate electronic payments for tax refunds, including prepaid cards currently used for benefit payments to those without bank accounts
	≈	Legislation is needed to allow for more debt collection tools as well as additional data sources for the Do Not Pay program to reduce improper payments
3.3 Pursue tax reform, implement the Patient Protection and Affordable Care Act (ACA) and Foreign Account Tax Compliance Act (FATCA), and improve the execution of the tax code	♦	Issued a notice that takes targeted action to reduce the benefits of corporate tax inversions
	♦	Treasury implemented tax-related provisions of both the ACA and FATCA, including publishing major regulatory guidance, and completing 57 FATCA agreements in substance and signing 35 FATCA agreements in FY 2014
	♦	In FY 2014, the IRS suspended or rejected 5.0 million suspicious tax returns and stopped or prevented 1.8 million returns worth more than $10.0 billion to combat identity theft
	♦	The Office of Tax Policy continued providing support for the ongoing efforts to achieve tax reform
	♦	TTB successfully pursued criminal convictions for the illicit trade of alcohol and tobacco products, with millions in tax liabilities identified
	♦	TTB made advancements in tobacco science to support its pursuit of regulatory remedies to address enforcement challenges related to tax rate differentials on certain tobacco products
	≈	The evolving scope and increasing complexity of international tax administration presents an increasing implementation challenge, especially when faced with continued reductions in resources, limited time to make changes, and the need to collaborate with domestic and international partners to enforce the law
	≈	Treasury anticipates future growth in IRS call volumes and walk-in site visits
	≈	Diversion schemes used to evade excise taxes on alcohol and tobacco products continue to grow and evolve, depriving governments and legitimate businesses of revenue
	≈	The constrained budget environment of recent years has major implications for service to taxpayers, enforcement of the tax laws, and the overall administration of the tax system

KEY: ♦ indicates an area of progress; ≈ indicates an area of challenge

GOAL 4: SAFEGUARD THE FINANCIAL SYSTEM AND USE FINANCIAL MEASURES TO COUNTER NATIONAL SECURITY THREATS

Treasury works to protect the integrity of the financial system and advance key national security and foreign policy objectives through: outreach, coordination, and collaboration with public and private sector partners; regulation, enforcement, financial intelligence analysis; and targeted financial activities and measures. The Department looks for opportunities to aid the President's financial stability and foreign policy agenda and develop creative alternatives to intervention, or, in the case of the latter, military action where possible – including identifying, monitoring, and targeting key issues, economic and financial trends, and national security threats in order to avoid key disruptions to economic or national security.

Treasury also works with industry and government partners to foster the resilience of the financial sector's critical infrastructure. As the Sector Specific Agency for Financial Services, defined under Presidential Policy Directive 21, "Critical Infrastructure Security and Resilience," Treasury participates in interagency and cross sector initiatives and plays a key coordinating role in managing responses to disruptive events. While Treasury's sector-specific responsibilities include all hazards, whether natural or manmade, in recent years, the Department has increasingly focused on promoting improvements in cybersecurity across the financial sector.

After consulting with OMB on performance in this area, Treasury determined that Objective 4.2, "Develop, implement, and enforce sanctions and other targeted financial measures," made "noteworthy progress" due to precedent-setting work being done with targeted financial measures other than sanctions and to TFI's response to rapidly increasing demands for the use of these tools. See "Table 4: Summary of Goal Four Performance" for key highlights of progress and challenges.

IN FOCUS: Focusing Enforcement Efforts on High-Priority Threats

Treasury, through the Office of Terrorism and Financial Intelligence (TFI), is responsible for safeguarding the financial system from abuse by illicit actors. FinCEN, a bureau reporting to the undersecretary of TFI, has an area of responsibility that constitutes tens of thousands of financial institutions in the United States and abroad. It is essential to take a risk-based, intelligence-driven approach to enforcement. Consequently, one of Treasury's FY 2014-2015 Agency Priority Goals (APG) is to *employ a proactive, intelligence-driven approach to focus enforcement efforts against high priority threats*.

Since the inception of this APG, FinCEN, among other achievements, developed a number of new advanced analytics algorithms, implemented a series of business rules to assist in the identification of financial activity related to terror finance and child-related crimes, and, as a result of improved processes and prioritizing strategies, FinCEN provided 370 intelligence products related to national security priorities in FY 2014.

See www.performance.gov for additional information on this APG.

WHAT'S NEXT?

Treasury will focus on keeping pace with the rapid evolution of the financial industry and the threat landscape, including the proliferation of virtual currencies. Specifically, Treasury plans to pursue the following actions to sustain or improve progress:

- Continue support of the administration's national security and foreign policy goals through the development and implementation of both traditional and non-traditional sanctions regimes
- Continue rule-making for long-term anti-money laundering and counter terrorist financing priorities
- Gain congressional support for Treasury's cybersecurity budget proposal to strengthen Treasury run systems
- Continue ongoing information sharing, incident management, and resilience activities with public and private sector partners on critical infrastructure and cybersecurity issues

TABLE 4: SUMMARY OF GOAL FOUR PERFORMANCE

Strategic Objective		Key Areas of Progress (♦) and Challenges (≈)
4.1 Identify priority threats to the financial system using intelligence analysis and outreach to the financial sector	♦	Treasury intelligence resources pivoted swiftly to support the U.S. response to the Islamic State of Islam and Levant (ISIL) and the Ukraine crisis while remaining focused on sustained priorities
	♦	Hosted a sanctions outreach and educational symposium that drew approximately 500 attendees
	≈	Sharing and properly using intelligence within the community, and with foreign partners and the financial sector, is an ongoing challenge due to differences in process and increasing workload
	≈	The virtual currency world is rapidly changing, requiring Treasury to respond and adapt quickly
4.2 Develop, implement, and enforce sanctions and other targeted financial measures	♦	Treasury actively managed financial sanctions programs and tools, including by taking individuals and entities off lists due to changed behavior and adding key individuals and entities to help achieve specific missions and broader national security goals
	♦	Forfeiture funds significantly contributed to law enforcement agencies, including in high priority third party money laundering cases by the Department of Homeland Security, the IRS, and FinCEN
	♦	As the U.S. Government worked with P5+1partners to address Iran's nuclear program, Treasury has provided targeted, reversible sanctions relief, while vigorously enforcing existing sanctions
	♦	Treasury developed new sanctions instruments (including the Sectoral Sanctions Identifications and Foreign Sanctions Evaders lists) to meet increasingly nuanced requirements for targeted sanctions
	♦	Treasury issued a great deal of new guidance to aid in complying with complex Ukraine sanctions
	≈	The use of sanctions and other targeted financial measures has expanded greatly in the last two fiscal years, which has strained available resources
4.3 Improve the cybersecurity of our nation's financial sector	♦	OCC created a new Senior Infrastructure Officer position who will focus on cybersecurity policy for the federal banking system
	♦	Treasury stood up and expanded the Cyber Intelligence Group to improve the distribution of timely actionable information to the private sector and bolster communication channels and relationships
	≈	Enhancing collaboration with law enforcement and intelligence community partners in developing and disseminating threat and vulnerability trend analyses targeted for financial sector recipients
	≈	Coordinating efforts with the private sector and governmental entities to improve awareness and utility of tools and practices, such as the NIST Cybersecurity Framework, for enhancing the level of cybersecurity resilience in support of financial stability across the financial sector, including dissemination of information suited to smaller local entities and the service providers upon which they depend
4.4 Protect the integrity of the financial system by implementing, promoting, and enforcing anti-money laundering and counterterrorism financing standards	♦	Treasury enhanced bilateral efforts to combat money laundering and financing of terrorism, including by completing the first ever Memorandum of Understanding between the U.S. and Mexico to share supervisory information on money laundering and terrorism financing
	♦	Treasury and FinCEN issued a proposed rule to enhance financial transparency, by strengthening customer due diligence obligations of financial institutions to help prevent the use of anonymous companies to engage in or launder the proceeds of illegal activity in the U.S. financial sector
	♦	Treasury secured civil penalty assessments working with federal partners against certain institutions (HSBC, JP Morgan, etc.) on Bank Secrecy Act (BSA) and money laundering violations
	♦	FinCEN promulgated rules and improved information sharing efforts to help clarify and strengthen standards, including completing the four-year BSA IT modernization investment, which earned the Government Computer News Award and was completed on time and within budget
	♦	OCC incorporated BSA and anti-money laundering standards into how they evaluate national banks and federal savings associations
	♦	FinCEN issued a Geographic Targeting Order (GTO) requiring enhanced reporting by common currency carriers crossing parts of the Southwest Border, which will help law enforcement efforts
	≈	The rapid evolution of the industry (including the proliferation of virtual currencies) will challenge Treasury's ability to stay ahead of the change and respond appropriately

KEY: ♦ indicates an area of progress; ≈ indicates an area of challenge

GOAL 5: CREATE A 21ST-CENTURY APPROACH TO GOVERNMENT BY IMPROVING EFFICIENCY, EFFECTIVENESS, AND CUSTOMER INTERACTION

Treasury's future success, both immediate and long term, depends on sustaining and developing the resources required to achieve the Department's mission. These critical resources include finances, physical assets, technology, and, most importantly, people. In the FY 2014-2017 strategic plan, Treasury committed to capitalizing on 21st century advances in knowledge, methods, and technology to manage resources as effectively and efficiently as possible, creating the best value for all constituents.

During FY 2014, Treasury made progress toward all of its management-focused strategic objectives. As indicated in "Table 5: Summary of Goal Five Performance," Treasury established a new workforce planning effort, a Data Steward Group to improve data quality, and designated Federal Financial Management Shared Service Providers, which will help improve the government's efficiency. Additionally, pursuant to OMB guidance to reduce real property costs, Treasury has made progress in implementing a three-year real estate plan for FY 2013 - FY 2015 that identifies tangible actions to freeze or reduce Treasury's space footprint, including the following strategies:

- Better use of real property by undertaking space alignment efforts including optimization or consolidation of existing space;
- Increase telework, hoteling, and work space sharing; and
- Maximize utilization through improved work station standards.

FY 2012 Baseline Sq. Ft.	FY 2014 Est'd Sq. Ft.	Change from FY 2012
29,992,024	28,296,288	-1,695,736

IN FOCUS: Increasing Self-Service Options for Taxpayers

Treasury's second APG, *increasing self-service options for taxpayers*, aims to increase taxpayer satisfaction by delivering high-quality, timely, innovative, and consistent customer service to better address taxpayer needs, reduce burden, and encourage voluntary compliance. Using analytics and a user-centric approach, the IRS will develop online options as part of its multi-channel service model.

Since the beginning of FY 2014, the IRS has launched several online interactive tools, including the following:

- **IRS Direct Pay**: Provides a low-friction electronic payment option to enable taxpayers to make payments from their bank account without any fees in a single session.
- **e-Authentication, Release 2**: Provides taxpayers a user-friendly way to securely access and use IRS online tools and applications.
- **IRS2Go Mobile Application, Release 4**: Enables taxpayer self-service access to IRS information and services anywhere, anytime, and on any device.

See www.performance.gov for additional information on this APG.

WHAT'S NEXT?

While Treasury continues to make strides in creating a 21st century approach to government, challenges remain in standardizing data definitions and ensuring high-quality data as well as in sustaining resources focused on building a culture of performance improvement and service. These initiatives take time and Treasury remains committed to fostering an environment where leaders and employees feel encouraged to focus on these important principles of good government. Specifically, Treasury plans to pursue the following actions to sustain or improve progress in FY 2015:

- Finalize plans for a Treasury Senior Executive Service Candidate Development Program
- Adapt Treasury's QPR process to meet new leadership needs and integrate the SOAR process
- Identify procurement areas in which success is likely to generate large savings on a Department-wide scale

TABLE 5: SUMMARY OF GOAL FIVE PERFORMANCE

Strategic Objective		Key Areas of Progress (♦) and Challenges (≈)
5.1 Increase workforce engagement, performance, and diversity by instilling excellence, innovation, and inclusion in Treasury's organizational culture and business practices	♦	Treasury implemented an annual Federal Employee Viewpoint Survey (FEVS) analysis, planning, and execution cycle to use the data to improve workforce engagement
	♦	Treasury established a new workforce planning effort, adopting a model to allow bureaus to analyze future workforce requirements and align them to projected mission needs
	♦	A Diversity and Inclusion Executive Steering Committee was developed and a Diversity Plan established, with active participation by bureaus on the committee and in developing specific implementation plans
	♦	Treasury exceeded the Small Business Administration's small business contracting goals for four consecutive years (FY 2011-2014)
	≈	Treasury has a large number of retirement-eligible employees in key leadership positions, which increases the importance of hiring, training, and retaining emerging leaders
5.2 Support effective data-driven decision-making and encourage transparency through intelligent gathering, analysis, sharing, use, and dissemination of information	♦	Treasury established a Data Steward Group to validate and document the rules that drive data quality and delivery
	♦	Treasury published machine-readable public data listings that developers can leverage to find and use datasets and create new services for the American public
	♦	Treasury improved the speed of Freedom of Information Act (FOIA) request processing and closed ten of its oldest FOIA requests in FY 2014
	♦	Treasury put into place crisis response protocols based on rapidly notifying, collecting, synthesizing, and sharing critical information necessary for senior leadership decision-making during emergencies
	≈	Common definitions and data standards are difficult to establish and monitor; information quality and consistency are difficult to improve across organizational boundaries and within disparate systems within an organization
5.3 Promote efficient use of resources through shared services, strategic sourcing, streamlined business processes, and accountability	♦	Treasury worked with OMB to successfully designate four Federal Financial Management Shared Service Providers, which will help promote the use of shared services government-wide
	♦	Treasury's use of GSA's strategic sourcing vehicle for domestic delivery services contracts resulted in a discount savings of 27.9 percent over other contracts ($6.3 million)
	≈	Data sharing and consistent data analysis is challenging due to multiple contract management systems
	≈	Sustaining the resources to build a performance improvement culture is challenging in an environment of increasing reporting requirements and mission needs
5.4 Create a culture of service through the relentless pursuit of customer value	♦	Several bureaus and offices, including FinCEN, Fiscal Service, Mint, Management, IRS, and TFI, have implemented and are using customer satisfaction surveys to improve program performance and determine priorities
	♦	The IRS and Management have provided internal training and raised employee awareness of customer service best practices
	♦	Leadership in the pursuit of customer value increased in several places, including TTB's proactive efforts to improve online guidance and electronic filing options and Economic Policy's efforts to develop popular forecasting models to share with federal partners
	≈	Providing the quality of service expected by customers is challenging in an environment with constrained resources and increasing demand for services
	≈	Late enactment of tax legislation results in a very limited time to prepare adequately for filing season, which impacts the level of service that can be provided

KEY: ♦ indicates an area of progress; ≈ indicates an area of challenge

PERFORMANCE TREND HIGHLIGHTS

This table contains trend information for some of the measures used in the assessment of Treasury's overall progress toward its strategic goals, followed by contextual information for each measure highlighted. A full discussion of trends for all of Treasury's measures is included in the APR.

Strat. Goal	Measure (Bureau/Office[4])	FY 11	FY 12	FY 13	FY 14 Result	FY 14 Target	Result vs Target
Goal 1: Domestic growth/stability	Number of affordable housing units created by CDFI awardees (Domestic Finance – CDFI Fund)	19,083	27,433	26,391	32,621	26,500	Exceeded
	Manufacturing costs for currency – dollar costs per thousand notes produced (BEP)	34.6	43.3	50.5	42.0	55.0	Exceeded
	Seigniorage per dollar issued (Mint)	.45	.21	.24	.37	.24	Exceeded
	Percent of permit applications processed within service standards (TTB)	N/A	61	50	58	60	Not Met
Goal 2: International growth/stability	Timely review of CFIUS cases (%) (International Affairs)	N/A	N/A	100	100	100	Met
	Impact of Technical Assistance Programs - Changes that result from project engagement - 5 point scale(International Affairs)	3.2	3.1	3.0	2.9	3.1	Not Met
	Traction of Technical Assistance Programs – scope and intensity of engagement - 5 point scale (International Affairs)	3.7	3.9	3.8	3.7	3.6	Exceeded
Goal 3: Modernize federal financial management	Percentage of Treasury payments and associated information made electronically (Fiscal Service)	84.3	88.0	92.5	94.4	95.0	Not Met
	Percentage of total dollar amount of U.S. government receipts collected electronically (Fiscal Service)	96.0	97.0	97.0	98.0	97.0	Exceeded
	Percentage of individual returns processed electronically (IRS)	76.9	80.5	82.5	84.1	84.1	Met
	Taxpayer Self-Assistance Rate (IRS)	70.1	78.5	83.3	84.7	85.0	Not Met
Goal 4: Safeguard fin. system	Percentage of users finding that the financial intelligence collected by FinCEN pursuant its regulations provides valuable information to safeguard the financial system, combat money laundering, and counter terrorist financing (FinCEN)	89	90	80	81	84	Not Met
	Impact of TFI programs and activities – 10 point scale (TFI)	7.6	8.1	8.3	8.5	8.5	Met
Goal 5: Management	FEVS Results-Oriented Culture Index – 1 to 100 (Management)	59	57	55	55	59	Not Met
	Treasury-wide Footprint in Thousands of Sq. Ft. (Management)	37,596	37,998	37,320	28,296	35,514	Exceeded
	Customer Service Representative Level of Service (%) (IRS)	70.1	67.6	60.5	64.4	61.0	Exceeded

4 Bureau/Office identifies the organization within Treasury that monitors and reports the measure.

Measure Context

Strat. Goal	Explanation of Results
Goal 1: Domestic growth/stability	**Number of affordable housing units created by CDFI awardees (Domestic Finance – CDFI Fund)** This metric tracks the number of affordable housing units (including new construction and rehabilitation) created by CDFIs and Community Development Entities receiving financial assistance awards or tax credit allocations through the CDFI Program, New Markets Tax Credit Program, and Capital Magnet Fund. Results exceeded the FY 2014 target due to larger than expected increases in housing investment under the CDFI Program, New Markets Tax Credit Program, and Capital Magnet Fund.
	Manufacturing costs for currency – dollar costs per thousand notes produced (BEP) The actual manufacturing cost for currency, which includes direct labor costs, the cost of raw materials used, and related manufacturing overhead charges, was well below the target level in FY 2014. Factors contributing to this favorable cost performance include better than planned currency ink mileage (more notes printed per pound of ink than planned), a reduced order for redesigned $100 notes, and improved workload balance between the two BEP production facilities to meet changes in Federal Reserve order requirements during the year.
	Seigniorage per dollar issued (Mint) The difference between the face value and the cost of minting and issuing circulating coins. Seigniorage per dollar issued is the seigniorage generated from each dollar of circulating coinage face-value shipped to Federal Reserve Banks. FY 2014 performance exceeded the budget target and the prior year's performance mainly due to lower than expected metal costs and a 59 percent increase in quarter-dollar shipments.
	Percent of permit applications processed within service standards (TTB) In FY 2014, TTB met its 75-day service standard for new permit applications 58 percent of the time, falling short of its annual target of 60 percent. This positive performance trend compared to FY 2013 is largely attributable to the adjusted service standard in FY 2014, which increased from 65 days to 75 days, as the workload challenges and resource constraints that began under sequestration remain. Industry growth in recent years has resulted in delays in processing times, which TTB will address through a combination of industry outreach to promote electronic filing, streamlining internal procedures, and system enhancements.
Goal 2: International growth/stability	**Timely review of CFIUS cases (%) (International Affairs)** By statute and regulation, CFIUS must complete its consideration of a covered transaction within 75 days of acceptance of a notice regarding the transaction, except for transactions that the parties have voluntarily withdrawn. The 100 percent result for FY 2014 reflects that CFIUS timely reviewed notified transactions for national security concerns and concluded action on all covered transactions after determining there were no unresolved national security concerns.
	Impact and Traction of Technical Assistance Programs (International Affairs) For traction, the primary factor that contributed was a relatively high degree of commitment from counterparts to Treasury technical assistance. The average score for impact is lower than traction because the outcomes of technical assistance engagements rely on a range of factors not within OTA's control, including the policy environment and the commitment of in-country actors to reform. It should be noted that there is an inherent difficulty in assigning an aggregate numerical value to a program that consists of many individual projects – these two figures are the average of more than 150 individual project ratings – implemented over multiple countries with different policy and political environments.
Goal 3: Modernize federal financial management	**Percentage of Treasury payments and associated information made electronically AND Percentage of total dollar amount of U.S. government receipts collected electronically (Fiscal Service)** Fiscal Service has been promoting the Paperless Treasury initiative for several years in an effort to disburse payments, as well as receive and settle collections, through electronic means. As a result of these efforts, nearly 98 percent of benefit payments are now disbursed through electronic funds transfer (EFT) and new enrollees are required to receive their benefit payments via EFT. Furthermore, paper Federal Tax Deposit Coupons have been eliminated, requiring businesses to submit their quarterly tax payments electronically. Fiscal Service continues to research additional options for stakeholders to conduct transactions electronically. This ranges from, but is not limited to, allowing taxpayers to pay electronically for items such as National Park Service entrance fees to working with the Internal Revenue Service to increase the voluntary use of electronic tax submissions, refunds, and payments. The latter is the largest payment stream being disbursed by check, thus it resulted in Fiscal Service missing the FY 2014 target by less than 1 percent.

Strat. Goal	Explanation of Results
	Percentage of individual returns processed electronically (IRS) The number of electronically filed individual tax returns divided by the total individual returns filed. The IRS met its projected target for Individual returns processed electronically, which increased by 2 percent over FY 2013. The IRS will continue to process individual returns as efficiently as possible to meet future plans.
	Taxpayer Self-Assistance Rate (IRS) The percentage of taxpayer assistance requests resolved using self-assisted automated services. The shortfall is attributed to a large decrease in Web Services completed. The decrease in Web Services is primarily due to a decrease in "Where's My Refund" which was 86 percent below plan, or 31.9 million below the planned volume. The smaller number of taxpayer accesses of the application is attributed to a concerted effort to inform taxpayers that "Where's My Refund" should only be checked once a day. Previously, the IRS realized about a 10 percent increase each year as taxpayers became acquainted with this service; some were using it several times per day. Future projections will take into account this year's experience.
Goal 4: Safeguard fin. system	**Percentage of users finding that the financial intelligence collected by FinCEN pursuant its regulations provides valuable information to safeguard the financial system, combat money laundering, and counter terrorist financing (FinCEN)** Survey data that looks at the value of FinCEN data, such as whether the data provided unknown information, supplemented or expanded known information, verified information, helped identify new leads, opened a new investigation or examination, supported an existing investigation or examination, or provided information for an investigative or examination report. In FY 2014, 81 percent of users found the financial intelligence useful. FinCEN did not meet the target of 84 percent. To meet future targets, a greater emphasis on both in-person and on-line training that will better assist users in understanding and utilizing the FinCEN Query tool for their unique cases and situations. Additionally, FinCEN will try to identify and address any agency specific issues that might have contributed to lower scores.
	Impact of TFI programs and activities (TFI) The impact of TFI's programs and activities increased in FY2014, measured on a ten-point scale. This increase is mostly due to TFI's support in the U.S. government's response to the Islamic State of Islam and Levant (ISIL) and the Russia/Ukraine crisis, involvement in providing temporary and targeted sanctions relief as part of the negotiations with Iran, as well as increased bilateral engagements with Mexico focused on information sharing on terrorist financing and money laundering. Streamlining of financial sanctions programs and tools and development of new sanctions instruments has also contributed to TFI's growing impact.
Goal 5: Management	**FEVS Results-Oriented Culture Index (ASM)** Denotes the extent to which employees believe their organizational culture promotes improvement in processes, products and services, and organizational outcomes. In FY 2014, government-wide results declined. While Treasury did not meet its FY 2014 target of 59 percent, the results did not decrease from FY 2013.
	Treasury-wide Footprint in Thousands of Sq. Ft. (ASM) Measures the total square footage occupied by Treasury's owned and leased buildings. In FY 2014, Treasury exceeded its target to reduce total square footage due to planned building consolidations.
	Customer Service Representative Level of Service (%) (IRS) The number of toll free callers that either speak to a Customer Service Representative or receive information messages divided by the total number of attempted calls. In FY 2014, level of service reached 64.4 percent, which was 5.6 percent above the planned target of 61.0 percent. Additional funding and much lower than projected telephone demand (87 percent to plan) enabled IRS to deliver a higher level of service to customers than originally planned. The IRS will continue to allocate telephone staffing as efficiently as possible in order to meet all future plans.

Management and Performance Challenges Highlights

Annually, in accordance with the Reports Consolidation Act of 2000, OIG and TIGTA identify the most significant management and performance challenges facing the Department. These challenges do not necessarily indicate deficiencies in performance; rather, some represent inherent risks that require continuous monitoring. Treasury made progress on these issues in fiscal year 2014, and will continue to focus on resolving them during fiscal year 2015 and beyond. However, during fiscal year 2015, the OIG elevated "*Cybersecurity*" from a "Matter of Concern" to a "Management Challenge" as "*Cyber Threats*" and added *"Efforts to Promote Spending Transparency and to Prevent and Detect Improper Payments*," as a new challenge. Refer to Section C of Part 3, Other Information, for a detailed discussion of these challenges, listed below.

Note: SIGTARP does not provide the Secretary with an annual report on management and performance challenges. SIGTARP, as a special inspector general provides oversight of the Troubled Asset Relief Program, a program that spans several federal agencies, while the OIG and TIGTA provide oversight of the Department and IRS, respectively, and report on its management and performance challenges.

Treasury-Wide Management Challenges – As Identified by OIG

- Cyber Threats
- Continued Implementation of Dodd-Frank
- Management of Treasury's Authorities Intended to Support and Improve the Economy
- Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement
- Efforts to Promote Spending Transparency and to Prevent and Detect Improper Payments
- Gulf Coast Restoration Trust Fund Administration

IRS Management Challenges – As Identified By TIGTA

- Security for Taxpayer Data and IRS Employees
- Implementing the Affordable Care Act and Other Tax Law Changes
- Tax Compliance Initiatives
- Fraudulent Claims and Improper Payments
- Achieving Program Efficiencies and Cost Savings
- Modernization
- Providing Quality Taxpayer Service Operations
- Globalization
- Taxpayer Protection and Rights
- Human Capital

FINANCIAL HIGHLIGHTS – FINANCIAL OVERVIEW

The financial highlights below are an analysis of the information included in the Department's consolidated financial statements that appear within the "Annual Financial Report" section of this report. The Department's 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 records of the Department in accordance with 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 should be read with the realization that they 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, 2014 compared to September 30, 2013.

Summary Financial Information *(dollars in billions)*

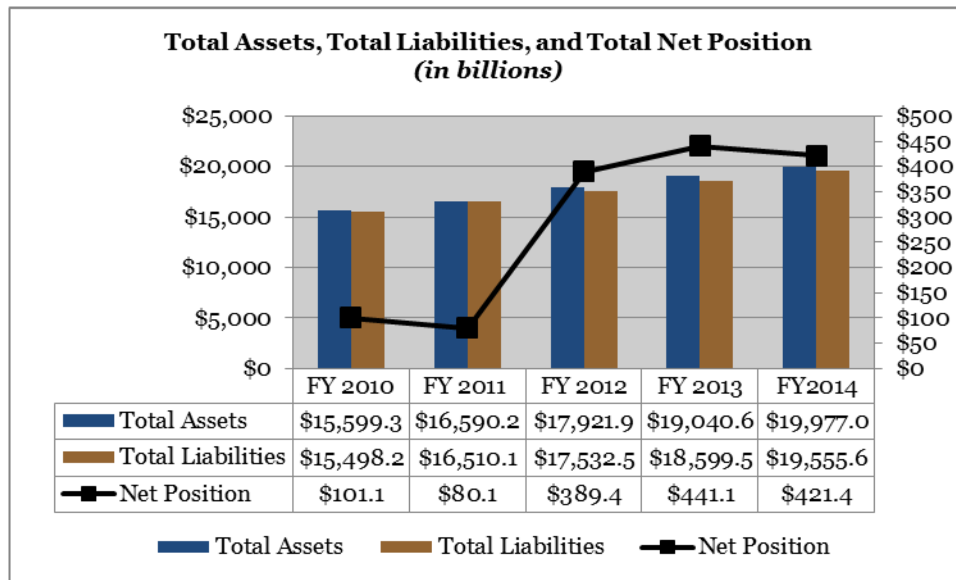
		2014		2013		$ Change	% Change
Total Assets	$	**19,977.0**	$	19,040.6	$	936.4	4.9%
Total Liabilities	$	**19,555.6**	$	18,599.5	$	956.1	5.1%
Total Net Position	$	**421.4**	$	441.1	$	(19.7)	(4.5)%
Total Net Cost of (Revenue From) Treasury Operations	$	**23.9**	$	3.3	$	20.6	624.2%
Net Federal Debt Interest Costs	$	**394.8**	$	390.0	$	4.8	1.2%
GSEs Non-Entity Costs (Revenue)	$	**(28.1)**	$	(126.6)	$	98.5	(77.8)%
Total Budgetary Resources	$	**841.8**	$	857.8	$	(16.0)	(1.9)%
Agency Outlays, Net	$	**337.7**	$	286.9	$	50.8	17.7%
Net Revenue Received (Custodial)	$	**2,816.2**	$	2,591.6	$	224.6	8.7%

Financial Overview. The Department's financial performance as of and for the fiscal year ended September 30, 2014, reflects several major trends. Most significantly, the outstanding federal debt, including interest, rose by $1.1 trillion to finance the U.S. government's operations. Of this increase, $248.6 billion stemmed from the restoration of the accumulated principal balance of Treasury debt securities, including interest, that was either suspended or redeemed early during fiscal year 2013 as a result of extraordinary debt management measures undertaken by the Department during the period between May 20, 2013 and October 16, 2013 in which Congress delayed raising the statutory debt limit. The $248.6 billion was reported as a liability as of September 30, 2013, reflecting the Department's obligation by statute as of September 30, 2013 to restore Treasury debt securities, including interest, to three funds—the Government Securities Investment Fund of the Federal Employees' Retirement System Thrift Savings Plan (TSP), Civil Service Retirement and Disability Trust Fund (Civil Service Fund), and the Postal Service Retiree Health Benefits Fund (Postal Benefits Fund).

Additionally, the Department's "Net Cost from Treasury Operations and Non-Entity Costs" for fiscal year 2014 were impacted by a $98.5 billion reduction in non-entity revenue from the Department's investments held in two Government-Sponsored Enterprises (GSEs)—Fannie Mae and Freddie Mac—pursuant to the Department's Senior Preferred Stock Purchase Agreements (SPSPAs), as amended. The reduction in this revenue is primarily attributable to a fair value loss associated with these investments in fiscal year

2014 compared to a fair value gain reported in the prior fiscal year, coupled with lower senior preferred stock cash dividends received from the GSEs in 2014 compared to 2013.

The Department's 2014 financial performance also reflects the ongoing wind-down of the TARP credit programs, principally through sales of securities and principal repayments of loans made under these programs. TARP's wind-down activity in fiscal year 2014 included, among other things, sales of equity investments in the Automotive Industry Financing Program and Capital Purchase Program. The continued wind-down of the TARP programs drove reductions in the subsidy costs associated with the remaining investments in these programs during fiscal year 2014 due to improved market conditions as reflected in the end-of-year reestimates. Subsidy costs recorded in connection with each credit program represent the difference between the projected costs of the program and the future cash flows anticipated to be generated by the program. Reestimates may occur due to changes in a program's estimated future cash flows caused by changes in market conditions and actual program performance, thereby resulting in an upward or downward reestimate in the credit program receivable to reflect an increase or decrease, respectively, in the estimated total cost of the program.



	FY 2010	FY 2011	FY 2012	FY 2013	FY2014
Total Assets	$15,599.3	$16,590.2	$17,921.9	$19,040.6	$19,977.0
Total Liabilities	$15,498.2	$16,510.1	$17,532.5	$18,599.5	$19,555.6
Net Position	$101.1	$80.1	$389.4	$441.1	$421.4

Figure 1

Total Assets of $20.0 trillion at September 30, 2014 consist of a receivable due from the General Fund of the U.S. government of $17.9 trillion, intra-governmental loans and interest receivable of $1.2 trillion, and fund balance and various other assets which totaled $805.5 billion (Figure 2).

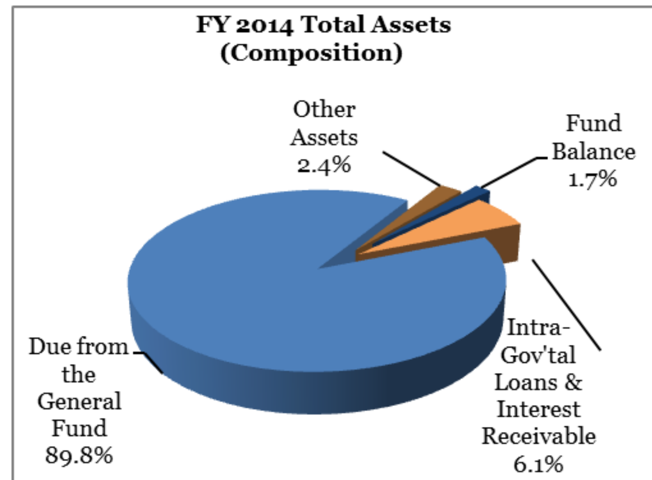


Figure 2

The $936.4 billion (or 4.9 percent) increase in total assets at the end of fiscal year 2014 over the prior year is primarily due to an increase in the "Due from the General Fund of the U.S. Government" account which corresponds to a $1.1 trillion increase in federal debt and related interest payable, partially offset by a $248.6 billion decrease in a liability established in 2013 for the restoration of federal debt principal and interest in connection with the delay in raising of the statutory debt limit. The net addition to Treasury liabilities at September 30, 2014 caused a corresponding rise in the "Due from the General Fund of the U.S. Government" asset account which represents future funds required from the General Fund of the U.S. Government 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 $128.0 billion (or 11.7 percent) to $1.2 trillion at the end of fiscal year 2014 due to increased borrowings by various federal agencies – such as the Departments of Education, Agriculture, and Housing and Urban Development – to fund their existing programs.

Other assets include, among other things, operating cash balances (held on behalf of the U.S. government), foreign currency investments and Special Drawing Rights (SDRs), as well as investments in, and credit program receivables due from, certain financial institutions for which the Department provides financial assistance in an effort to stabilize financial markets. Other assets decreased by $18.2 billion primarily due to a reduction in investments, primarily reflecting the decline in fair value of the Department's GSE investments held pursuant to the SPSPAs, as amended, coupled with the ongoing wind-down of the TARP programs through sales of securities or principal repayments of loans made under these programs. Partially offsetting these declines was an increase in the U.S. government's operating cash balances.

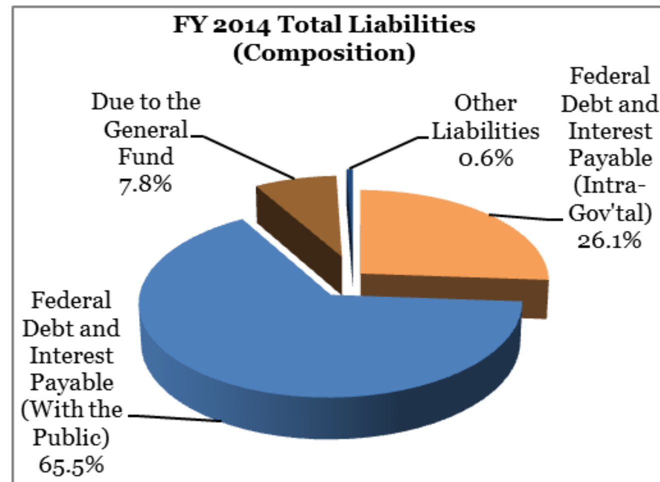
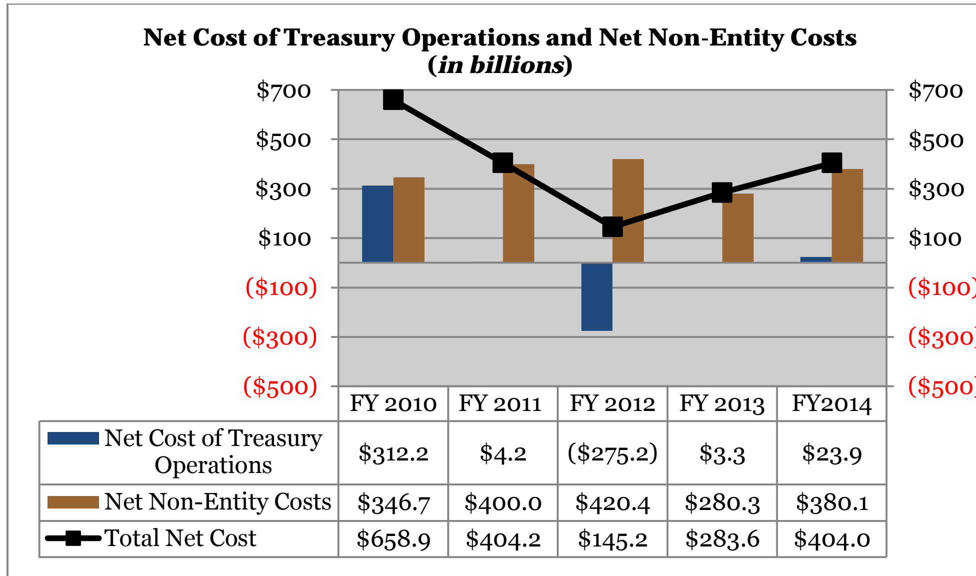


Figure 3

Total Liabilities of $19.6 trillion at September 30, 2014 principally consist of the federal debt held by the public (Figure 3), including interest, of $12.8 trillion, which were mainly issued as Treasury Notes and Bills. Liabilities also include intra-governmental liabilities totaling $6.7 trillion (of which $5.1 trillion represent principal and interest of federal debt in the form of Treasury securities held by federal agencies), and various other liabilities totaling $87.3 billion. The $956.1 billion (or 5.1 percent) increase in total liabilities at the end of fiscal year 2014 over the prior year is attributable to a $1.1 trillion increase in federal debt, including interest, held by the public and federal agencies that was needed to finance the U.S. government's budget deficits. This was partially offset by the 2014 reduction in full of a $248.6 billion liability that was established at the end of fiscal year 2013 for the restoration of federal debt principal and interest owed to the TSP, Civil Service Fund and Postal Benefits Fund in connection with extraordinary measures taken by the Department in 2013 to avoid exceeding the statutory debt limit. These extraordinary measures ended on October 16, 2013 when Congress enacted legislation which temporarily suspended the debt limit, and the Department fully repaid its obligation to the three funds by restoring them with accumulated uninvested Treasury debt principal and interest through October 16, 2013 totaling $296.2 billion and $1.2 billion, respectively.

The increase in total liabilities is also attributable to a $122.5 billion increase in the "Due to the General Fund of the U.S. Government" account, primarily as a result of an increase in intra-governmental loans and interest receivable. The Department, through the Fiscal Service, accounts for and reports on the principal borrowings from and repayments to the General Fund, as well as the related interest due to the General Fund.

Total Net Position of $421.4 billion at September 30, 2014 represents the combined total of the Department's cumulative results of operations and unexpended appropriations at the end of the fiscal year. The $19.7 billion (4.5 percent) decrease in the net position at the end of fiscal year 2014 was principally attributable to a $12.7 billion reduction in unexpended appropriations primarily driven by the cancellation of expired funds associated with the TARP programs.



	FY 2010	FY 2011	FY 2012	FY 2013	FY2014
Net Cost of Treasury Operations	$312.2	$4.2	($275.2)	$3.3	$23.9
Net Non-Entity Costs	$346.7	$400.0	$420.4	$280.3	$380.1
Total Net Cost	$658.9	$404.2	$145.2	$283.6	$404.0

Figure 4

Total Net Cost of Treasury Operations and Non-Entity Cost, as presented on the Department's Consolidated Statements of Net Cost, consists of the Net Cost of Treasury Operations and Net Non-Entity Costs (Figure 4). Net Cost of Treasury Operations represents the gross costs, net of earned revenues, incurred by the Department related to its own entity activities comprising both its operating bureaus and DO that are consolidated with the Department. Net Non-Entity Costs represent the gross costs, net of earned revenues, incurred by the Department on behalf of the U.S. government (or General Fund), and primarily include federal debt interest costs, net of GSE non-entity revenues. Total Net Cost of Treasury Operations and Non-Entity Cost totaled $404.0 billion and $283.6 billion for fiscal years 2014 and 2013, respectively, an increase of $120.4 billion (or 42.4 percent) over the prior year. Net Cost of Treasury Operations and Net Non-Entity Costs contributed $20.6 billion and $99.7 billion, respectively, to the year-over-year increase in net costs.

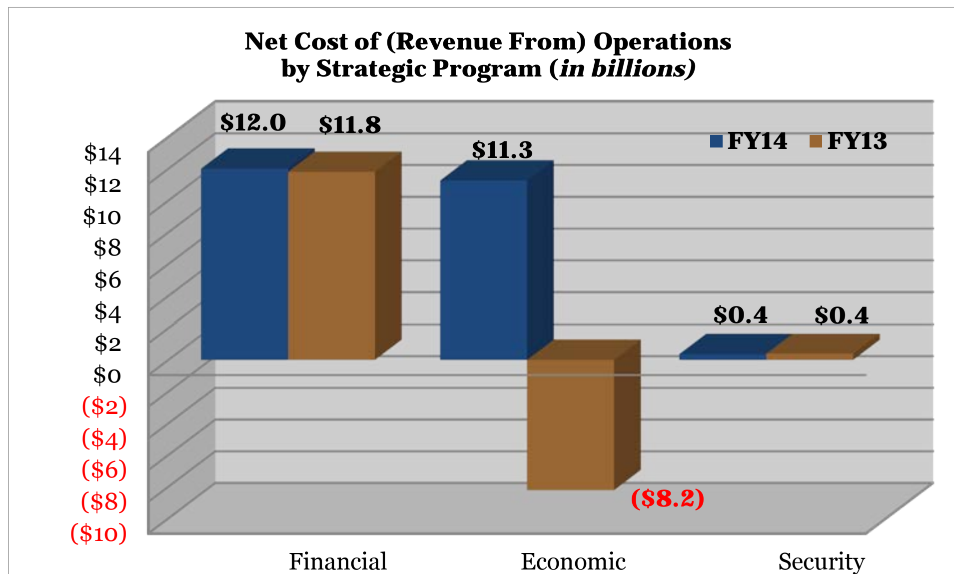


Figure 5

Net Cost of Treasury Operations is presented on the Department's 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). The Department's Net Cost of Treasury Operations totaled $23.9 billion for 2014 compared to $3.3 billion for 2013. The $20.6 billion increased cost of operations was driven primarily by increased net costs associated with the Department's economic programs.

Economic programs incurred net costs of $11.3 billion in fiscal year 2014 compared to net revenues of $8.2 billion in 2013. The year-to-year change is attributable to an $8.8 billion reduction in revenue in 2014 related to TARP's Automotive Industry Financing Program, due to improved market conditions captured in end-of-year reestimates. Additionally, 2013 included a $9.0 billion reduction in expense in the Department's estimated future liability to the GSE's as a result of a new dividend payment requirement under the amended SPSPAs that commenced in 2013 coupled with GSEs' long-term financial forecasts within a specific time horizon.

Net Federal Debt Interest Costs primarily reflect interest expense on the federal debt. Federal interest costs increased by $4.8 billion (or 1.2 percent) in fiscal year 2014 primarily reflecting the rise in the overall outstanding principal balance of the federal debt, and partially offset by a decline in the average interest rate of Treasury debt securities.

GSE Non-Entity Revenue totaled $28.1 billion for 2014 compared to $126.6 billion for 2013. The $98.5 billion decline in this revenue in 2014 was primarily driven by a $23.2 billion decrease in senior preferred stock dividends received from the two GSEs combined, coupled with a $44.4 billion valuation loss on the GSE investments in 2014 compared to a $30.9 billion gain in 2013. The year-over-year valuation loss in these investments primarily stems from a decline in the fair value of the senior preferred stock held due to lower forecasted dividends as a result of lower forecasted GSE earnings to be derived from guarantee fees, coupled with one-time benefits recognized in the GSEs' historical earnings that contributed to the higher fair value of these investments at the end of 2013 but which did not recur at the end of fiscal year 2014.

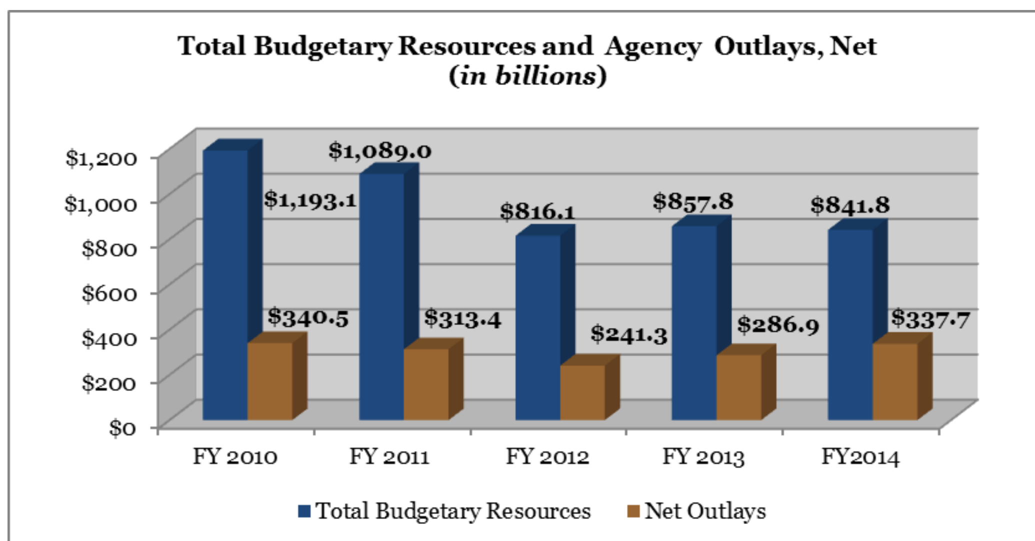


Figure 6

Total Budgetary Resources of $841.8 billion were lower in fiscal year 2014 (Figure 6) by $16.0 billion (or 1.9 percent) primarily due to an $8.6 billion decrease in appropriations and net unobligated balance from prior year budget authority, and an $8.0 billion decrease in spending authority from offsetting collections. These decreases are attributable to the wind-down of the TARP

programs and budget reductions associated with other of the Department's programs, partially offset by increased funding needed in fiscal year 2014 to pay interest on the federal debt.

Agency Outlays, Net of $337.7 billion were higher in fiscal year 2014 (Figure 6) by $50.8 billion (or 17.7 percent) primarily due to fewer collections in fiscal year 2014 from the wind-down of the TARP programs, coupled with reduced receipts of senior preferred stock dividends pursuant to the GSEs' SPSPA program.

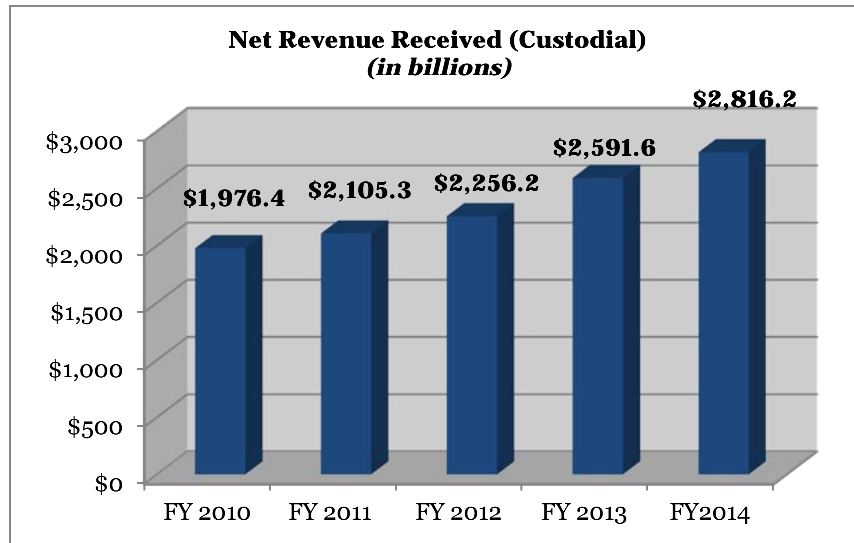


Figure 7

Net Revenue Received (Custodial), representing net revenue collected by Treasury on behalf of the U.S. government, includes various taxes, primarily income taxes, as well as user fees, fines and penalties, and other revenue. Over 90 percent of these revenues are related to income and social security taxes. Net revenue received was $2.8 trillion for fiscal year 2014, an increase of $224.6 billion (or 8.7 percent) over the prior fiscal year (Figure 7). This increase is attributable mainly to an overall improvement in individual and corporate income tax collections.

Management Assurances

The Secretary's Assurance Statement

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

Treasury provides assurance that the objectives of Section 2 of the FMFIA (Financial Reporting and Operations) have been achieved, except for the material weaknesses noted below. Treasury is in substantial conformance with Section 4 (Financial Management Systems) of the FMFIA. Also, in accordance with Office of Management and Budget Circular No. A-123, ***Management's Responsibility for Internal Control, Appendix A, Internal Control over Financial Reporting***, Treasury provides qualified assurance that internal control over financial reporting was operating effectively based on the results of the assessment as of June 30, 2014. Treasury's financial management systems are not in substantial compliance with the ***Federal Financial Management Improvement Act*** (FFMIA) due to the Internal Revenue Service's (IRS's) material weakness related to unpaid tax assessments.

As of September 30, 2014, Treasury had two FMFIA material weaknesses as follows (with origination/planned resolution timeframes indicated):

Operations:

- Bureau of the Fiscal Service – Control Deficiencies in the Processes used to Prepare the Consolidated Government-wide Financial Statements (Fiscal Year 2001/2016)

Financial Reporting:

- IRS – Unpaid Tax Assessments (Fiscal Year 1995/2021)

Treasury management remains dedicated to the resolution of these remaining weaknesses. Overall, Treasury continues to work toward progress in reducing internal control weaknesses and in meeting federal financial management systems requirements.

Jacob J. Lew

Secretary of the Treasury

November 17, 2014

FMFIA

The management control objectives under FMFIA are to reasonably ensure that:

- Obligations and costs are in compliance with applicable law
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation
- 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 controls over financial and operational reporting (FMFIA Section 2), and conformance with financial management systems requirements (FMFIA Section 4 and FFMIA) that protect the integrity of federal programs. Deficiencies that seriously affect an agency's ability to meet these objectives are deemed "material weaknesses."

Treasury includes resolution of material weaknesses as a performance requirement for every executive, manager, and supervisor. Additional information on Treasury's material weaknesses and remediation progress can be found in Section F of Part 3, Other Information.

The Department of Health and Human Services and the Department of the Treasury each have responsibilities for ensuring payment accuracy in the Marketplaces and related programs created under the Affordable Care Act. In fiscal year 2015, both Departments will begin to perform comprehensive risk assessments to determine areas that might affect payment accuracy. Performing comprehensive risk assessments is critical to establishing an effective program for achieving payment accuracy in future years. The status of these risk assessments will be reported in the fiscal year 2015 AFR. In the interim, both Departments have established internal controls to provide for effective program operations, reliable financial reporting, and compliance with laws and regulations.

OMB Circular No. A-123, Management's Responsibility for Internal control, Appendix A, Internal Control over Financial reporting

The Department continues to strengthen and improve the execution of the Treasury mission through the application of sound internal controls over financial reporting. In compliance with OMB Circular No. A-123, Appendix A, Treasury uses an extensive annual testing and assessment methodology that identifies and documents internal controls over financial reporting at the transaction level integrated with Government Accountability Office's ***Standards for Internal Control In the Federal Government***. Treasury's bureaus and offices completed their testing and assessment of internal controls for material transactions as of June 30, 2014. Treasury provides qualified assurance that internal control over financial reporting was effective as of June 30, 2014, due to the IRS's unpaid tax assessments material weakness.

In conjunction with the Department's A-123, Appendix A, Fiscal Year 2014 Guidance and Implementation Plan, bureaus and offices documented their compliance with applicable laws and regulations. Based on these results, the Department is in compliance with applicable laws and regulations with the exception of the FFMIA and the Anti-Deficiency Act as addressed in the Auditor's Report included in Part 2 of this AFR.

FFMIA AND FINANCIAL MANAGEMENT SYSTEMS

FFMIA

FFMIA requires federal agencies to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the United States Standard General Ledger at the transaction level. Section 803(c) (1) of the FFMIA requires the Department to make an annual determination of the agency's substantial compliance with Section 803(a) of the Act based on a review of relevant factors. In determining whether the Department's financial systems substantially comply with FFMIA, management considered available information from audit reports and other relevant and appropriate information. The Department's determination leveraged the results of related reviews such as those required by FISMA and OMB Circular A-123. Key factors used in the determination included: improvements and ongoing efforts to strengthen financial management systems and the impact of instances of non-compliance on overall financial management system performance.

During fiscal year 2014, Treasury bureaus and offices used a risk-based approach to assess their financial management systems' compliance with FFMIA, as prescribed in OMB Circular A-123, Appendix D. The bureaus and offices conducted self-assessments to determine their substantial risk level (low, medium, or high) and compliance. For areas in non-compliance, bureaus and offices are required to develop a remediation plan to bring systems into substantial compliance.

All Treasury bureau and office financial management systems are in compliance with FFMIA, with the exception of IRS that did not comply with federal financial management systems requirements or applicable federal accounting standards. As required, the IRS has a remediation plan in place to correct the identified deficiencies. IRS management updates this plan quarterly and Treasury management reviews it. In addition, TIGTA audits IRS's remediation progress annually.

To address the Unpaid Tax Assessments (UA) material weakness, the IRS implemented programming changes in the Custodial Detail Data Base and Redesign Revenue Accounting Control System. These changes improved the accuracy of the financial classification and reduce annual audit adjustments when there are unpaid tax assessments combined with a partial collection statute-expired assessment reported. In addition, the IRS continues to update the Automated Trust Fund Recovery system to increase the number of Trust Fund Recovery Penalty cases that can processed electronically and eliminate the opportunity for errors. The IRS will continue to capture and implement financial systems requirements, perform internal control testing, and validate data to ensure the accuracy of these accounts.

During fiscal year 2014, the Customer Account Data Engine (CADE2) Transition State2 (TS2) initiative deployed two incremental Penalty & Interest (P&I) Common Code base releases to eliminate the differences in programming platforms that caused inconsistent balance due amounts issued on taxpayer notices. The application now calculates, with more consistency, the penalty and interest on individual and business accounts for taxes not received by the due date, resulting in more accurate notices and better service in helping taxpayers meet their tax obligations. Other actions that have been taken include:

- The IRS CADE2 team mapped financial requirements for ten business areas that will address the financial material weakness
- A controlled launch was conducted on CADE2 resulting in validation of new historical data that will be used for further analysis

The IRS also developed a CADE2 TS2 Release Plan on September 30, 2014, that includes high-level milestones to leverage the CADE2 data and make changes to the IRS financial systems (Custodial Detail Data Base and Redesign Revenue Accounting Control

System) to improve the accuracy of the financial classifications and downgrade the UA material weakness related to individual taxpayer accounts, including a new projected closure date of November 30, 2020.

FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

The Department's financial management systems framework consists of two fundamental components: (1) core financial and mixed systems maintained by the Treasury bureaus, and (2) the Department-wide Financial Analysis and Reporting System (FARS). The bureau systems process and record detailed financial transactions and submit summary-level data to FARS, which maintains the key financial data necessary for Treasury-wide consolidated financial reporting. This framework satisfies the bureaus' diverse financial operational and reporting needs as well as the Department's internal and external reporting requirements. The FARS framework provides essential support each year to Treasury's efforts to obtain an unmodified audit opinion.

The FARS includes the following component applications:

- Treasury Information Executive Repository (TIER) – a financial data repository used to consolidate and validate bureau financial data
- TIER Financial Statements (TFS) – a reporting application used to produce monthly and annual financial statements, notes, and other supporting reports (TFS was deployed in fiscal year 2014 to replace Treasury's CFO Vision reporting tool)
- Joint Audit Management Enterprise System (JAMES) – an application that tracks information on open audits and audit report findings, recommendations, and planned corrective actions

Bureaus submit summary-level financial data to TIER monthly. The TFS application uses the bureau data, which are validated by TIER, to produce financial statements and reports on both a Department-wide and bureau-level basis, including Treasury's annual audited financial statements and monthly management reports.

Fourteen Treasury bureaus and offices use centralized financial operations, budget execution services, or IT support 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 the necessary technical and systems architectures. ARC also provides administrative services in the areas of accounting, payroll, human resources, procurement, and travel to Treasury bureaus and offices and to other federal entities to support core business activities. (ARC transitioned all customers to a new travel management system selected by Treasury as its E-Gov Travel solution.) Using these services reduces the need for Treasury to maintain duplicative financial management systems; enhances the quality, timeliness, and accuracy of financial management processes; and provides a more efficient and cost-effective business model. In fiscal year 2014, ARC completed the upgrade to a second instance of the core financial management system to adopt the Common Government-wide Accounting Classification (CGAC) structure, to offer additional functionality to its customers, and meet compliance expectations. In fiscal year 2014, ARC was selected by OMB as one of four designated Financial Management Federal Shared Service Providers and is scheduled to finalize the implementation of its first cabinet level customer agency (Department of Housing and Urban Development) in fiscal year 2016.

GOALS AND THE SUPPORTING FINANCIAL SYSTEM STRATEGIES

Treasury's financial system goals and supporting strategies focus on improving and streamlining the current bureau financial management systems as well as the current FARS applications in order to support new financial requirements and continue to provide management with accurate and timely financial information.

Throughout fiscal year 2014, Treasury updated TIER to meet new and evolving reporting requirements. These include updates to TIER to comply with the data standard reflected in Fiscal Service's implemented Government-wide Treasury Account Symbol

Adjusted Trial Balance System (GTAS). The TIER Focus Group, which serves as a forum for bureau feedback on TIER enhancements and issues, continued to meet to improve communication with the bureaus and coordinate changes impacting financial management systems and financial operations.

Along with the enhanced TIER application, the newly implemented applications TFS and Financial Statement Reporting (FSR) form a unified financial governance solution that focuses on improving financial processes and controls. Implementing these applications will help Treasury to reduce operating cost, re-engineer critical business processes to create efficiencies in execution and documentation of financial reporting, improve the timeliness and quality of financial management processes and reporting, enhance internal controls, and improve visibility and audit trail in the entire reporting process.

In fiscal year 2015, Treasury will replace the current JAMES application with a commercial off-the-shelf (COTS) governance, risk, and compliance (GRC) software product for managing audit follow-up and internal self-assessment activities. By automating certain operational functions, the new product will allow Treasury staff more time for analysis and oversight. The GRC product will improve the ability of management to document, track, and mitigate key risks across Treasury; facilitate collaboration with and across Treasury bureaus, third-party service providers, and oversight bodies; and enable users to manage issues centrally and leverage data over multiple years in the development of corrective action plans.

Customer Account Data Engine (CADE2) Transition State 1 (TS1) daily processing continues to enhance IRS tax administration and improve service to taxpayers by enabling faster refunds for taxpayers, more timely account updates, and faster issuance of taxpayer notices. In addition, TS1 changed the IRS underlying infrastructure by allowing individual taxpayer account data to be stored in a state-of-the-art database, positioning the IRS to implement new applications to access and analyze all of a taxpayer's data from one authoritative source, while enabling the IRS data-centric vision to better manage, track, store, and report on accurate account balances.

In fiscal year 2014, concentrated focus was placed on optimizing database performance. CADE2 TS1.5 enhanced the CADE2 relational database with sustainable system performance, data assurance maturity, and operational and organizational readiness for Filing Season 2014. As a result, the CADE2 relational database ran flawlessly in production. Filing season 2014 initialization (loading) of the database completed well ahead of plan with over 270 million taxpayer accounts, over 1.2 billion individual tax modules, and with financial balances of over $250 billion that were accurate and balanced to the penny with the legacy Individual Master File (IMF). The CADE2 database continued to update daily in pace with the IMF, meeting all service level agreements (data processed and available timely). More than 50,000 IRS users viewed important historical taxpayer data not previously available due to limitations in the 50-year-old legacy IMF. The CADE2 database provides data to support a variety of tax administration functions ranging from inventory analytics and selection, employee customer service support tools, and taxpayer self-services that automate capabilities such as ordering of transcripts, tracking payments, and making payment arrangements.

With an early delivery of the Penalty & Interest (P&I) common code base on January 2, 2014, CADE2 TS2 has already begun delivering benefits for taxpayers. After calculating penalty and interest multiple ways for many years, the penalty and interest application is now calculating penalty and interest on individual and business accounts, for taxes that are not received by the due date, consistently across all master files (Business Master Files and Individual Master Files) and the Integrated Data Retrieval System (IDRS). It also provides service improvements for taxpayers such as more accurate notices and enhanced service in helping taxpayers meet their tax obligations. CADE2 uses the existing master file common code modules as baselines and incorporates additional requirements for IDRS.

In fiscal year 2015, the IRS will make continued progress with in TS2 with the following planned activities:

- Begin work to address IRS's Unpaid Assessments Financial Material Weakness for individual taxpayer accounts by improving accuracy in financial reporting
- Implement enhancements to Penalty & Interest common code for Filing Season 2015
- Design and develop a CADE2 database conversion capability for Filing Season 2016 that will capture and apply all IMF annual conversion changes to the CADE2 database while retaining CADE2 historical data
- Continue prototype work to validate engineering approach to rewriting the IRS core taxpayer account processing applications in modern programming languages and to define a modernized data distribution framework to enable other systems to use CADE2 data, and
- Continue to establish foundational capabilities for the TS2 program such as solution architecture, program requirements, and future state business design.

In fiscal year 2014, BEP continued to enhance and refine its cloud-based, fully integrated enterprise resource planning system, Manufacturing Support Suite (MSS). MSS has reduced manual processes, increased efficiency, improved data quality, and provides real-time enterprise data and information for improved decision-making. BEP plans to continually focus on improving automation and streamlining in a cost-efficient manner in fiscal year 2015.

The Office of the Comptroller of the Currency (OCC) upgraded its Management and Accountability Reporting Tools ($MART) financial system in order to retain access to vendor support for the underlying software in fiscal year 2014. The OCC plans to continue to integrate its applications with its customers and to provide innovative solutions for efficient reporting.

IMPROPER PAYMENTS

Background

The *Improper Payments Elimination and Recovery Act of 2010* (IPERA, Pub. L. 111-204) amends the *Improper Payments Information Act of 2002* (IPIA) and requires agencies to review their programs and activities annually to identify those susceptible to significant improper payments. IPERA also generally repeals the *Recovery Auditing Act*, and significantly increases agency payment recapture efforts by expanding the types of payments to be reviewed and lowering the dollar threshold of annual payments that requires agencies to conduct payment recapture audit programs. OMB Circular No. A-123, *Management's Responsibility for Internal Control,* Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments* (A-123, Appendix C), recently amended October 20, 2014, 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. A-123, 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.

Treasury's Risk Assessment Methodology and Results for FY 2014

In fiscal year 2014, Treasury completed a full program inventory and performed risk assessments to identify programs that have a significant risk of improper payments, per the methodology in OMB Circular No. A-123, Appendix C. The risk assessments performed on Treasury's programs and activities in fiscal year 2014 resulted in low and medium risk susceptibility for improper payments, except for the IRS's Earned Income Tax Credit (EITC) program.

EITC Program

The EITC is a refundable tax credit that offsets income tax owed by low-income taxpayers and, if the credit exceeds the amount of taxes due, provides a lump-sum payment in the form of a refund to those who qualify. Treasury estimates that for fiscal year 2014, between 24.9 percent ($16.2 billion) and 29.4 percent ($19.1 billion) of the total EITC program payments of $65.2 billion were overclaims. The IRS has a robust base enforcement program for the EITC which consists of examinations (audits), math error notices, and document matching. Details on the IRS's EITC program can be found in Section E of Part 3, Other Information.

Payment Recapture Audits

Section 2(h) of the 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. Treasury performed the payment recapture activities required in A-123, Appendix C during fiscal year 2014. Details on Treasury's improper payments and payment recapture program activities and results can be found in Section E of Part 3, Other Information.

Audit Follow-up Program

During fiscal year 2014, Treasury continued its efforts to improve both the general administration of internal control issues throughout the Department and the timeliness of the resolution of all findings and recommendations identified by the Treasury OIG, TIGTA, SIGTARP, GAO, and external auditors. Additional information on Treasury's audit follow-up activities can be found in Section F of Part 3, Other Information.

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PART 2:

Annual Financial Report

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

Nani A. Coloretti
Assistant Secretary for Management

Dorrice C. Roth
Deputy Chief Financial Officer

In fiscal year 2014, Treasury pursued an aggressive set of management programs and initiatives designed to manage the U.S. government's finances efficiently and responsibly. By focusing on a comprehensive set of management priorities, Treasury has led and supported government-wide financial management efforts to increase productivity, reduce waste and non-essential expenses, and modernize processes and systems. These priorities included the Department's two new Agency Priority Goals "Focus Enforcement on High-Priority Threats Using Proactive Analysis" and "Increasing Self-Service Options for the Taxpayers."

In efforts to make doing business with the U.S. government as easy as possible, the Department has transitioned to electronic transactions with the public. In fiscal year 2014, 94 percent of Treasury payments and associated information were made electronically. As the number of Social Security recipients increases, the savings from electronic payments will also increase while providing beneficiaries a safer, more reliable, and convenient way to receive their payments.

In fiscal year 2014, Treasury demonstrated leadership in fiscal prudence and management excellence by:

- Advancing engagement of small businesses by exceeding all small business contracting goals for the fourth year in a row (based on preliminary results) to spur job creation and stimulate local economies;
- Advancing the Administration's goal of reducing the federal footprint by releasing more than one million square feet of space in the Department's real property inventory in fiscal year 2013 (the second highest reduction in the U.S. government), and projecting another 600,000 plus square foot reduction in fiscal year 2014;
- Improving accountability, transparency, and data accessibility to shared services customers by creating a cloud-based central repository and increasing communication around financial and IT data, pricing, and program information; and
- Enhancing efforts to improve technology tools, supporting federal data center consolidation, and increasing shared services by expanding service offerings, onboarding new customers, and improving cost efficiencies at Treasury's Administrative Resource Center and HR Connect (Treasury's line of business for human resources).

The Department received an unmodified audit opinion on its consolidated financial statements for the fifteenth consecutive year. Treasury continues to make steady progress toward resolving the two Federal Managers' Financial Integrity Act material weaknesses remaining open as of September 30, 2014 (IRS – Unpaid Tax Assessments, and Bureau of the Fiscal Service – Systems, Controls, and Procedures to Prepare the Government-wide Financial Statements). Despite the complexity of Treasury's financial systems contributing to these material weaknesses, we have made considerable progress toward resolving the issues.

Nani A. Coloretti
Assistant Secretary for Management
November 17, 2014

Dorrice C. Roth
Deputy Chief Financial Officer
November 17, 2014

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Consolidated Balance Sheets
As of September 30, 2014 and 2013
(In Millions)

ASSETS	2014	2013
Intra-governmental Assets		
Fund Balance (Note 2)	$ **352,928**	$ 367,820
Loans and Interest Receivable (Note 3)	**1,221,599**	1,093,559
Advances to the Unemployment Trust Fund (Note 4)	**20,824**	29,696
Due From the General Fund (Note 4)	**17,949,849**	17,123,357
Other Intra-governmental Assets	**568**	435
Total Intra-governmental Assets	**19,545,768**	18,614,867
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	**211,868**	148,506
Gold and Silver Reserves (Note 6)	**11,062**	11,062
Troubled Asset Relief Program (TARP) - Credit Program Receivables, Net (Note 7)	**2,174**	17,869
Investments in Government Sponsored Enterprises (GSE) (Notes 4 and 8)	**95,810**	140,221
Investments in International Financial Institutions (Note 9)	**6,891**	6,396
Other Investments and Related Interest (Note 10)	**17,921**	14,114
Other Credit Program Receivables, Net (Note 11)	**16,928**	17,628
Loans and Interest Receivable, Net (Note 12)	**9,499**	10,042
Reserve Position in the International Monetary Fund (Note 12)	**12,834**	17,915
Taxes, Interest, and Other Receivables, Net (Note 13)	**42,509**	38,602
Property, Plant, and Equipment, Net (Note 14)	**2,800**	2,646
Other Assets	**898**	756
Total Assets (Note 15)	$ **19,976,962**	$ 19,040,624
Heritage Assets (Note 14)		

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

Consolidated Balance Sheets
As of September 30, 2014 and 2013
(In Millions)

	2014	2013
LIABILITIES		
Intra-governmental Liabilities		
Federal Debt and Interest Payable (Notes 4 and 16)	$ **5,104,620**	$ 4,837,436
Liability for Restoration of Federal Debt Principal and Interest (Notes 4 and 16)	-	128,272
Other Debt and Interest Payable (Note 17)	**13,733**	5,761
Due To the General Fund (Note 4)	**1,539,951**	1,417,423
Other Intra-governmental Liabilities (Note 19)	**565**	477
Total Intra-governmental Liabilities	**6,658,869**	6,389,369
Federal Debt and Interest Payable (Notes 4 and 16)	**12,809,423**	12,003,030
Liability for Restoration of Federal Debt Principal and Interest (Notes 4 and 16)	-	120,356
Certificates Issued to the Federal Reserve (Note 5)	**5,200**	5,200
Allocation of Special Drawing Rights (Note 5)	**52,358**	54,177
Gold Certificates Issued to the Federal Reserve (Note 6)	**11,037**	11,037
Refunds Payable (Notes 4 and 23)	**4,723**	2,914
D.C. Federal Pensions and Judicial Retirement Actuarial Liability (Note 18)	**9,159**	9,164
Other Liabilities (Note 19)	**4,806**	4,234
Total Liabilities (Note 19)	**19,555,575**	18,599,481
Commitments and Contingencies (Note 27)		
NET POSITION		
Unexpended Appropriations:		
Funds from Dedicated Collections (Note 24)	**200**	200
Other Funds	**348,412**	361,095
Subtotal	**348,612**	361,295
Cumulative Results of Operations		
Funds from Dedicated Collections (Note 24)	**46,464**	48,477
Other Funds	**26,311**	31,371
Subtotal	**72,775**	79,848
Total Net Position - Funds from Dedicated Collections (Note 24)	**46,664**	48,677
Total Net Position - Other Funds	**374,723**	392,466
Total Net Position (Note 20)	**421,387**	441,143
Total Liabilities and Net Position	$ **19,976,962**	$ 19,040,624

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

Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2014 and 2013
(In Millions)

Cost of Treasury Operations:	**2014**	2013
Financial Program		
Gross Cost	$ **15,124**	$ 14,929
Less Earned Revenue	**(3,108)**	(3,127)
Net Program Cost	**12,016**	11,802
Economic Program		
Gross Cost (Revenue)	**18,354**	(834)
Less Earned Revenue	**(7,025)**	(7,389)
Net Program Cost (Revenue)	**11,329**	(8,223)
Security Program		
Gross Cost	**375**	394
Less Earned Revenue	**(8)**	(7)
Net Program Cost	**367**	387
Total Program Gross Costs	**33,853**	14,489
Total Program Gross Earned Revenues	**(10,141)**	(10,523)
Total Net Program Cost before Changes in Actuarial Assumptions	**23,712**	3,966
Loss/(Gain) on Pension, ORB, or OPEB Assumption Changes	**170**	(684)
Total Net Cost of Treasury Operations (Note 21)	**23,882**	3,282
Non-Entity Costs		
Federal Debt Interest	**431,618**	425,081
Restoration of Foregone Federal Debt Interest (Note 16)	**444**	20
Less Interest Revenue from Loans	**(37,216)**	(35,132)
Net Federal Debt Interest Costs	**394,846**	389,969
Accrued Restoration of Foregone Federal Debt Interest (Note 16)	-	801
Other Federal Costs, net (Note 21)	**14,054**	17,006
GSEs Non-Entity Revenue (Note 8)	**(28,061)**	(126,606)
Other, net	**(761)**	(828)
Total Net Non-Entity Costs	**380,078**	280,342
Total Net Cost of Treasury Operations and Non-Entity Costs	$ **403,960**	$ 283,624

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, 2014 and 2013
(In Millions)

	2014	2013
CUMULATIVE RESULTS OF OPERATIONS (Note 20)		
Beginning Balance	$ **79,848**	$ 71,887
Budgetary Financing Sources		
Appropriations Used	**460,593**	455,216
Non-Exchange Revenue	**568**	695
Donations and Forfeitures of Cash/Equivalent	**508**	1,093
Transfers In/Out Without Reimbursement	**304**	(30)
Other	**52**	12
Other Financing Sources (Non-Exchange)		
Donation/Forfeiture of Property	**140**	135
Accrued Interest and Discount on Debt	**7,404**	10,905
Accrued Interest on Restoration of Federal Debt Principal (Note 16)	**(801)**	801
Transfers In/Out Without Reimbursement	**(44)**	(42)
Imputed Financing Sources (Note 21)	**796**	776
Transfers to the General Fund and Other (Note 20)	**(72,633)**	(177,976)
Total Financing Sources	**396,887**	291,585
Net Cost of Treasury Operations and Non-Entity Costs	**(403,960)**	(283,624)
Net Change	**(7,073)**	7,961
Cumulative Results of Operations	**72,775**	79,848
UNEXPENDED APPROPRIATIONS (Note 20)		
Beginning Balance	**361,295**	317,509
Budgetary Financing Sources		
Appropriations Received (Note 20)	**470,461**	508,448
Appropriations Transferred In/Out	**144**	25
Other Adjustments	**(22,695)**	(9,471)
Appropriations Used	**(460,593)**	(455,216)
Total Budgetary Financing Sources	**(12,683)**	43,786
Total Unexpended Appropriations	**348,612**	361,295
Net Position	$ **421,387**	$ 441,143

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

Combined Statement of Budgetary Resources
For the Fiscal Year Ended September 30, 2014
(In Millions)

BUDGETARY RESOURCES	**Budgetary**	**Non-Budgetary Financing**	**2014 Total**
Unobligated balance brought forward, October 1	$ 368,339	$ 2,011	$ 370,350
Recoveries of prior year unpaid obligations	3,872	5,365	9,237
Other changes in unobligated balance	(18,218)	(6,326)	(24,544)
Unobligated balance from prior year budget authority, net	353,993	1,050	355,043
Appropriations (discretionary and mandatory) (Note 20)	469,330	-	469,330
Borrowing authority (discretionary and mandatory) (Note 22)	-	1,200	1,200
Spending authority from offsetting collections (discretionary and mandatory)	8,222	7,998	16,220
Total Budgetary Resources	$ 831,545	$ 10,248	$ 841,793
STATUS OF BUDGETARY RESOURCES			
Obligations incurred (Note 22)	$ 482,380	$ 9,271	$ 491,651
Unobligated balance, end of year:			
Apportioned	273,584	603	274,187
Exempt from Apportionment	16,112	-	16,112
Unapportioned	59,469	374	59,843
Total unobligated balance, end of year	349,165	977	350,142
Total Status of Budgetary Resources	$ 831,545	$ 10,248	$ 841,793
CHANGE IN OBLIGATED BALANCE			
Unpaid obligations, brought forward, October 1	$ 132,978	$ 101,434	$ 234,412
Obligations incurred (Note 22)	482,380	9,271	491,651
Outlays (gross)	(480,732)	(9,763)	(490,495)
Recoveries of prior year unpaid obligations	(3,872)	(5,365)	(9,237)
Unpaid obligations, end of year	130,754	95,577	226,331
Uncollected payments:			
Uncollected payments, Federal sources, brought forward, October 1	(245)	(730)	(975)
Change in uncollected payments, Federal sources	18	218	236
Uncollected payments, Federal sources, end of year	(227)	(512)	(739)
Obligated Balance, End of Year	$ 130,527	$ 95,065	$ 225,592
Obligated Balance, Start of Year	$ 132,733	$ 100,704	$ 233,437
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget authority, gross (discretionary and mandatory)	$ 477,552	$ 9,198	$ 486,750
Actual offsetting collections (discretionary and mandatory)	(8,186)	(19,057)	(27,243)
Change in uncollected payments, Federal sources (discretionary and mandatory)	18	218	236
Budget Authority, Net (Discretionary and Mandatory)	$ 469,384	$ (9,641)	$ 459,743
Outlays, gross (discretionary and mandatory)	$ 480,732	$ 9,763	$ 490,495
Actual offsetting collections (discretionary and mandatory)	(8,186)	(19,057)	(27,243)
Outlays, net (discretionary and mandatory)	472,546	(9,294)	463,252
Distributed offsetting receipts	(125,584)	-	(125,584)
Agency Outlays, Net (Discretionary and Mandatory)	$ 346,962	$ (9,294)	$ 337,668

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

Combined Statement of Budgetary Resources
For the Fiscal Year Ended September 30, 2013
(In Millions)

BUDGETARY RESOURCES	**Budgetary**	**Non-Budgetary Financing**	**2013 Total**
Unobligated balance brought forward, October 1	$ 320,785	$ 18,813	$ 339,598
Recoveries of prior year unpaid obligations	7,876	7,608	15,484
Other changes in unobligated balance	(3,366)	(23,430)	(26,796)
Unobligated balance from prior year budget authority, net	325,295	2,991	328,286
Appropriations (discretionary and mandatory) (Note 20)	504,687	-	504,687
Borrowing authority (discretionary and mandatory) (Note 22)	-	576	576
Spending authority from offsetting collections (discretionary and mandatory)	10,091	14,141	24,232
Total Budgetary Resources	$ 840,073	$ 17,708	$ 857,781
STATUS OF BUDGETARY RESOURCES			
Obligations incurred (Note 22)	$ 471,734	$ 15,697	$ 487,431
Unobligated balance, end of year:			
Apportioned	274,291	735	275,026
Exempt from Apportionment	18,983	-	18,983
Unapportioned	75,065	1,276	76,341
Total unobligated balance, end of year	368,339	2,011	370,350
Total Status of Budgetary Resources	$ 840,073	$ 17,708	$ 857,781
CHANGE IN OBLIGATED BALANCE			
Unpaid obligations, brought forward, October 1	$ 142,307	$ 110,866	$ 253,173
Obligations incurred (Note 22)	471,734	15,697	487,431
Outlays (gross)	(473,187)	(17,521)	(490,708)
Recoveries of prior year unpaid obligations	(7,876)	(7,608)	(15,484)
Unpaid obligations, end of year	132,978	101,434	234,412
Uncollected payments:			
Uncollected payments, Federal sources, brought forward, October 1	(186)	(818)	(1,004)
Change in uncollected payments, Federal sources	(59)	88	29
Uncollected payments, Federal sources, end of year	(245)	(730)	(975)
Obligated Balance, End of Year	$ 132,733	$ 100,704	$ 233,437
Obligated Balance, Start of Year	$ 142,121	$ 110,048	$ 252,169
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget authority, gross (discretionary and mandatory)	$ 514,778	$ 14,717	$ 529,495
Actual offsetting collections (discretionary and mandatory)	(10,088)	(42,358)	(52,446)
Change in uncollected payments, Federal sources (discretionary and mandatory)	(59)	88	29
Budget Authority, Net (Discretionary and Mandatory)	$ 504,631	$ (27,553)	$ 477,078
Outlays, gross (discretionary and mandatory)	$ 473,187	$ 17,521	$ 490,708
Actual offsetting collections (discretionary and mandatory)	(10,088)	(42,358)	(52,446)
Outlays, net (discretionary and mandatory)	463,099	(24,837)	438,262
Distributed offsetting receipts	(151,404)	-	(151,404)
Agency Outlays, Net (Discretionary and Mandatory)	$ 311,695	$ (24,837)	$ 286,858

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

Statements of Custodial Activity
For the Fiscal Years Ended September 30, 2014 and 2013
(In Millions)

	2014	2013
Sources of Custodial Revenue (Note 23)		
Individual Income and FICA Taxes	$ **2,605,049**	$ 2,448,546
Corporate Income Taxes	**353,141**	311,994
Estate and Gift Taxes	**20,155**	19,830
Excise Taxes	**93,405**	83,970
Railroad Retirement Taxes	**5,954**	5,511
Unemployment Taxes	**8,612**	7,896
Deposit of Earnings, Federal Reserve System	**99,235**	75,767
Fines, Penalties, Interest and Other Revenue	**4,512**	2,886
Total Revenue Received	**3,190,063**	2,956,400
Less Refunds and Other Payments	**(373,863)**	(364,788)
Net Revenue Received	**2,816,200**	2,591,612
Non-Cash Accrual Adjustment	**1,967**	(959)
Non-TARP Investments in American International Group, Inc. (Note 7):		
Cash Proceeds from Sale of Stock	-	2,588
Non-Cash Market Adjustments	-	(2,611)
Total Custodial Revenue	**2,818,167**	2,590,630
Disposition of Custodial Revenue (Note 23)		
Amounts Provided to Fund Non-Federal Entities	**312**	358
Amounts Provided to Fund the Federal Government	**2,815,888**	2,591,254
Non-Cash Accrual Adjustment	**1,967**	(959)
Non-TARP Investments in American International Group, Inc. (Note 7):		
Cash Proceeds from Stock Sales Provided to Fund the Federal Government	-	2,588
Non-Cash Market Adjustment	-	(2,611)
Total Disposition of Custodial Revenue	**2,818,167**	2,590,630
Net Custodial Revenue	$ -	$ -

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

NOTES TO THE FINANCIAL STATEMENTS

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1. Summary of Significant Accounting Policies

A. Reporting Entity

The accompanying financial statements include the operations of the U.S. Department of the Treasury (Department or Treasury), one of 24 CFO Act agencies of the Executive Branch of the U.S. government, and certain custodial activities the Department manages on behalf of the entire U.S. government. The following paragraphs describe the activities of the reporting entity.

The Department was established by an Act of Congress approved on September 2, 1789. Many subsequent acts affected the development of the Department, delegating new duties to its 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 United States on international monetary, trade, and investment issues; overseeing Departmental overseas operations; and directing the manufacture of coins, currency, and other products for customer agencies and the public.

The Department's reporting entities include Departmental Offices (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 (GSE) 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 Office of 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.

The Department's 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); United States Mint (Mint); Office of the Comptroller of the Currency (OCC); and Alcohol and Tobacco Tax and Trade Bureau (TTB). The Department's financial statements reflect the reporting of its own entity activities comprising both the Department's operating bureaus and DO, that are consolidated with the Department. This includes appropriations received to conduct its operations and revenue generated from those operations. They also reflect the reporting of certain non-entity (custodial) functions it performs on behalf of the U.S. government and others. Non-entity activities include collecting certain federal revenue, servicing the federal debt, disbursing certain federal funds, and maintaining certain assets and liabilities for the U.S. government (refer to Notes 4 and 15), as well as for other federal entities. The Department's reporting entity does not include the General Fund of the U.S. government (General Fund), which maintains receipt, disbursement, and appropriation accounts for all federal agencies.

Following generally accepted accounting principles (GAAP) for federal entities, the Department does not consolidate into its financial statements the assets, liabilities, or results of operations of any financial organization or commercial entity in which it holds either a direct, indirect, or beneficial majority equity investment, unless they constitute a part of the reporting entity per GAAP. Even though some of the equity investments are significant, these entities meet the criteria of "bailed out" entities under paragraph 50 of Statement of Federal Financial Accounting Concepts (SFFAC) No. 2, *Entity and Display*, which directs that such "bailout" investments should not be consolidated into the Financial Report of the U.S. government, either in part or as a whole.

B. Basis of Accounting and Presentation

The financial statements have been prepared from the accounting records of the Department in conformity with accounting principles generally accepted in the United States for federal entities, and the 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). FASAB is recognized by the American Institute of Certified Public Accountants 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 years 2014 and 2013 information.

To provide additional clarity to its financial statements, the Department has presented additional financial statement line items on the Consolidated Balance Sheets and Consolidated Statements of Changes in Net Position than are required by the guidance in OMB Circular No. A-136. The following summarizes how the Department's additional financial statement line items relate to the financial statement guidelines of the OMB Circular No. A-136. For the Consolidated Balance Sheets: (*i*) Advances to the Unemployment Trust Fund and Due From the General Fund represent other intra-governmental assets; *(ii*) Gold and Silver Reserves and the Reserve Position in the International Monetary Fund (IMF) represent other monetary assets; (*iii*) Loans and Interest Receivable represents other assets; (*iv*) Liability for Restoration of Federal Debt Principal and Interest and Due To the General Fund represent other intra-governmental liabilities; (*v*) Liability for Restoration of Federal Debt Principal and Interest, Certificates Issued to the Federal Reserve, Allocation of Special Drawing Rights, Gold Certificates Issued to the Federal Reserve, Refunds Payable, and the D.C. Federal Pensions and Judicial Retirement Actuarial Liability represent other liabilities. For the Consolidated Statements of Changes in Net Position, the financial statement line items - Accrued Interest and Discount on Debt, Accrued Interest on Restoration of Federal Debt Principal, and Transfers to the General Fund and Other - represent other non-exchange financing sources.

Transactions and balances among the Department's entities have been eliminated from the Consolidated Balance Sheets, the Consolidated Statements of Net Cost, and the Consolidated Statements of Changes in Net Position. The Statements of Budgetary Resources are presented 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 the accounting records of the Department 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 the Department is a component of the U.S. government, a sovereign entity and, accordingly, its 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 or other 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.

Certain fiscal year 2013 activity and balances presented on the financial statements have been reclassified to conform to the presentation in the current year, the effects of which are immaterial. In fiscal year 2014, the Department realigned certain of its program costs as reported on its Consolidated Statements of Net Cost to conform to changes in the Department's strategic goals. Corresponding costs reported for the prior fiscal year were reclassified to conform to the current year presentation.

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

The Fund Balance is the aggregate amount of the Department's accounts with the U.S. government's central accounts from which the Department is authorized to make expenditures and pay liabilities. It is an asset because it represents the Department's 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 issued by the Department, through FFB. No loan loss allowance or credit reform subsidy costs are recorded for loans purchased from federal agencies or for guaranteed loans made to non-federal borrowers because the outstanding balances (interest and principal) are guaranteed by those agencies.

Intra-governmental non-entity loans and interest receivable from other federal agencies represent the principal and related interest receivable on loans issued by the Department, through the Fiscal Service. The Department acts 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 the Department's intermediary role in issuing these loans, the Department does not record a loan loss allowance related to these non-entity intra-governmental loans. Instead, loan loss allowances and subsidy costs are recognized by the ultimate lender, the federal agency that issued the loans to the public. Interest revenue on intra-governmental loans is accrued when earned.

E. Advances to the Unemployment Trust Fund

Advances are issued to the Department of Labor's (DOL) Unemployment Trust Fund from the General Fund for states to pay unemployment benefits. The Fiscal Service accounts for the advances issued on behalf of the General Fund. As outlined in the United States Code (USC) 42 USC §1323, 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 United States that form the public debt, to the nearest lower 1/8 of 1.0 percent. Interest on the advances is due on September 30th of each year. Advances are repaid by transfers from the Unemployment Trust Fund to the General Fund 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.

F. Cash, Foreign Currency, and Other Monetary Assets

Substantially all of the Department's operating cash is non-entity government-wide cash held in depository institutions and Federal Reserve Bank (FRB) accounts. Agencies can deposit funds that are submitted to them directly into either a Federal Reserve

Treasury General Account (TGA) or a local TGA depositary. The balances in these TGA accounts are transferred into the Federal Reserve Bank of New York's (FRBNY) TGA at the end of each 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.

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.

The Department's foreign currency investments having original maturities of three months or less are classified as cash equivalents. Special Drawing Rights (SDRs) holdings comprise most of the other monetary assets (refer to the accounting policy below entitled "Special Drawing Rights").

G. Investments

Investments in GSEs

The Department holds 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). These non-federal investment holdings are presented at their fair value. Changes in the valuation of these investments are recorded as non-entity exchange transactions on the Consolidated Statements of Net Cost. Dividends related to these investments are also recorded as non-entity exchange transactions, and accrued when declared.

The GSE Senior Preferred Stock Purchase Agreements (SPSPAs), entered into by the Department with each GSE when the GSEs were placed under conservatorship, require the Department to increase its 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. As funding to the GSEs to pay their excess liabilities is appropriated directly to the Department, such payments as needed are reported 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 in Due To the General Fund, as the Department holds the investment on behalf of the General Fund.

Investments in International Financial Institutions

The Department, on behalf of the United States, invests 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, the Department, on behalf of the United States, provides 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 the Department's Consolidated Balance Sheets.

In addition, the Department, on behalf of the United States, contributes funding to MDBs to finance grants and extend credit to poor countries at below market-based interest rates. These U.S. contributions, also referred to as "concessional window" contributions, are reported as an expense within the Economic Program on the Department's Consolidated Statements of Net Cost.

Other Investments and Related Interest

The ESF holds most of the Department's foreign currency investments. The ESF's other foreign currency denominated assets and investment securities are available-for-sale securities recorded at fair value. These holdings are normally invested in interest-

bearing securities issued or held through foreign governments or monetary authorities. Interest on investments, amortization of premiums, and accretion of discounts are recognized on an accrual basis. Premiums and discounts are amortized or accreted over the life of the related investment security as an adjustment to yield using the effective interest method.

H. Credit Program Receivables

The Department accounts for all of its TARP credit program receivables, including investments in common and preferred stock and warrants of public companies, loans, and loan guarantees or guaranty-like insurance activities, under the provisions of credit reform accounting pursuant to the Federal Credit Reform Act (FCRA) (refer to Note 7). In addition to its TARP programs, the Department accounts for all other of its credit program receivables under the provisions of credit reform accounting, including the loans or equity securities associated with the Department's state and local Housing Finance Agency (HFA) initiative programs, SBLF program, CDFI program, and certain portions of the Department's participation in the IMF (refer to Note 11).

To account for the Department's TARP and other credit program receivables, the Department applies the accounting provisions of Statement of Federal Financial Accounting Standards (SFFAS) No. 2, *Accounting for Direct Loans and Loan Guarantees,* as amended. SFFAS No. 2, as amended, which was promulgated as a result of FCRA, 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, the Department estimates 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 risk inherent in the asset.

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, the Department first predicts or estimates the future performance of direct and guaranteed loans when preparing its annual budget. The data used for these budgetary estimates are re-estimated 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. The re-estimated data is then used to report the cost of the loans disbursed under the direct or guaranteed loan program as a "Program Cost" in the Department's Consolidated Statements of Net Cost.

Cash flows associated with the Department's 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. Security-level data and assumptions used as the basis for cash flow model forecasts and program performance are drawn from widely available market sources, as well as information published by investees. Key inputs to the cash flow forecasts include:

- Security characteristics such as unpaid principal balance, coupon rate, weighted-average loan age, issued bond balance, credit rating, maturity date, principal and interest payment schedules, priority of payments, and performance of underlying collateral
- Department actions, as well as changes in legislation
- Forecast prepayment rates and default rates
- Forecast dividend payments
- 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 the Department's credit programs represents the difference between the Department's projected costs of the program and the future cash flows anticipated to be received by the Department. The subsidy allowance specifically takes into consideration projected repayments and defaults and the projected cost of borrowings. The allowance is amortized to reflect the difference between projected and actual financing costs.

The Department's actions, as well as changes in legislation, may impact estimated future cash flows and related subsidy costs. The cost or cost savings of a modification is recognized 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. Taxes, Interest, and Other Receivables, Net

Federal taxes receivable, net, and the corresponding liability due to the General Fund, are not accrued until related tax returns are filed or assessments are made by the IRS and agreed to by either the taxpayer or the court. Additionally, the prepayments are netted against liabilities. Accruals are made 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. An allowance for doubtful accounts is recorded 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. Compliance assessment 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. Compliance assessments and related write-offs are not reported on the balance sheet. Statutory provisions require the accounts to be maintained until the statute for collection expires.

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. Costs for developing internal-use software are accumulated in work-in-development until a project is placed into service and testing and final acceptances are successfully completed. Once completed, the costs are transferred to depreciable property.

The Department leases land and buildings from the General Services Administration (GSA) to conduct most of its operations. Such leases do not meet capital lease requirements for financial reporting purposes. GSA charges a standard level user fee which approximates commercial rental rates for similar properties.

The Department's bureaus are diverse both in size and in operating environment. Accordingly, the Department's 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 IRS which generally range from $10 million to $50 million). The Department also uses 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 Departmental 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. Leasehold improvements are depreciated over the term of the lease or the useful life of the improvement, whichever is shorter. Capital leases are depreciated 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 Department's diversity of PP&E. Land and land improvements, construction-in-progress, and internal-use software in development are not depreciated.

Heritage Assets

Heritage assets are assets of historical significance. Multi-use heritage assets are those heritage assets for which the predominant use is general government operations. All acquisition, reconstruction, and betterment costs for the Treasury multi-use heritage asset buildings are capitalized as general PP&E and depreciated over their service life.

K. Federal Debt and Interest Payable

Debt and associated interest are reported on the accrual basis of accounting. Interest costs are accrued as expense when incurred and are reported on the Consolidated Statements of Net Cost as non-entity costs. Certain Treasury securities are issued at a discount or premium. These discounts and premiums are amortized over the term of the security using an interest method for all long-term securities and the straight-line method for short-term securities.

L. Commitments and Contingencies

The Department, through FFB, makes loan commitments with federal agencies, or private sector borrowers whose loans are guaranteed by federal agencies, to extend credit for their own use (refer to the accounting policy above entitled "***Loans and Interest Receivable, Intra-Governmental***"). The Department establishes loan commitments when the Department and other parties fully execute promissory notes in which the Department becomes obligated to issue such loans immediately or at some future date. The Department reduces loan commitments when it issues the loans or when the commitments expire. Most obligations of the Department give a borrower the contractual right to a loan or loans immediately or at some point in the future within an agreed upon timeframe.

The Department, on behalf of the United States, subscribes to capital for certain MDBs, portions of which are capital commitments which are callable under certain limited circumstances to meet the obligations of the respective MDB. The capital commitments become binding on the United States when the Department issues instruments of subscription stating its intention to subscribe to the U.S. portion of callable capital, subject to the amounts provided for in appropriations acts. Additionally the Department, on behalf of the United States, participates in the IMF through certain borrowing arrangements that supplement IMF resources.

In accordance with SFFAS No. 5, *Accounting for Liabilities of the Federal Government*, the Department recognizes material contingent liabilities when the following criteria are met:

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

The estimated liability recorded by the Department 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, the minimum amount in the range is recognized, and the range and a description of the nature of the contingency are disclosed. The Department follows this policy in recording a contingent liability, if any, related to the GSE SPSPA program (refer to Note 8), and loss contingencies that may arise from claims, assessments, litigations, fines, penalties, and other sources (refer to Note 27).

If one or more, but not all, of the above criteria for recognition are met, and there is a reasonable possibility of loss, the Department 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 United States.

Allocations and Holdings

The Department records the SDR holdings as part of "Cash, Foreign Currency, and Other Monetary Assets," and the SDR allocations as the "Allocation of Special Drawing Rights" liability when the IMF allocates SDRs to the Department. The liabilities represent the amount that is payable in the event of liquidation of, or withdrawal by the United States from, the SDR department of the IMF or cancellation of the SDRs.

SDR holdings increase primarily as a result of IMF SDR allocations. SDR transactions are recorded as incurred. They include acquisitions and sales of SDRs, interest received on SDR holdings, interest charges on SDRs allocations, and valuation adjustments. The U.S. government receives remuneration in SDRs from the IMF based on claims on the IMF as represented by the U.S. Reserve Position. The remuneration is credited to the ESF which transfers to either the TGA or a specified financing 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. The certificates may be issued 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 the Department at such times and in such amounts as the Secretary may determine, and do not bear interest. Certificates issued to the FRB are reported 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. Amounts that the Department has concluded to be valid refunds owed to taxpayers are recorded 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 the Department for these paid claims. Generally, the Department reimburses 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 the Department. The second component is the estimated liability for future workers compensation as a result of past events. Both components are reported 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

Annual and compensatory leave earned by the Department's employees, but not yet used, is reported as an accrued liability. The accrued balance is adjusted 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. Sick and other leave are expensed as taken, and the Department does 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

The Department recognizes the full costs of its employees' pension benefits, including recognizing imputed costs for the difference between the estimated service cost and the contributions made by the Department. However, the assets and liabilities associated with these benefits are recognized by the Office of Personnel Management (OPM) rather than the Department.

Most employees of the Department hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), to which the Department contributes between 7.0 percent and 7.5 percent of pay. On January 1, 1987, the Federal Employees' Retirement System (FERS) went into effect pursuant to Public Law (P.L.) 99-335. Employees hired after December 31, 1983 are automatically covered by FERS and Social Security. A primary feature of FERS is that it offers a savings plan to which the Department automatically contributes one percent of base pay and matches any employee contributions up to an additional four percent of base pay. For most employees hired after December 31, 1983, the Department also contributes the employer's matching share for Social Security. For the FERS basic benefit, the Department contributes 11.9 percent for regular FERS employees.

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. The Department reports the full cost of providing other retirement benefits (ORB). The Department also recognizes 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 the Department's bureaus, OCC, separately sponsors a defined life insurance benefit plan for current and retired employees, and is the administrator for a private defined benefit retirement plan, the Pentegra Defined Benefit Plan (PDBP), that provides certain health and life insurance benefits for certain of its retired employees who meet eligibility requirements.

District of Columbia Federal Pensions and Judicial Retirement Plans

Pursuant to Title XI of the *Balanced Budget Act of 1997*, as amended, the Department became responsible for certain District of Columbia (D.C.) retirement plans (refer to Note 18). 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 actuarial liability is based upon 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 D.C. Federal Pensions 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 and period of calculation); and ***(iii)*** for the annual rate of investment return assumption, OPM and the D.C. Federal Pensions and Judicial retirement plans use the same underlying yield curve but, unlike the D.C. Federal Pension Funds, OPM converts to a single equivalent rate.

R. Revenue and Financing Sources

The Department's activities are financed either through exchange revenue it receives 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 and accompanying photocopy and reproduction charges. Exchange revenues are recognized when earned; i.e., goods are delivered or services are rendered. Revenue from reimbursable agreements is recognized when the services are provided. Non-exchange revenues are recorded when received or accrued when the Department has a legal claim through the respective collecting bureau. Appropriations used are recognized as financing sources when related expenses are incurred or assets are purchased.

The Department also incurs certain costs that are 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 behalf of the Department. These subsidized costs are recognized on the Consolidated Statements of Net Cost, and the imputed financing for these costs is recognized on the Consolidated Statements of Changes in Net Position. As a result, there is no effect on net position. Other non-exchange financing sources, such as donations and transfers of assets without reimbursements, are also recognized for the period in which they occurred on the Consolidated Statements of Changes in Net Position.

The Department recognizes revenue it receives from disposition of forfeited property as non-exchange revenue on the Consolidated Statements of Changes in Net Position. The costs related to the Forfeiture Fund program are reported on the Consolidated Statements of Net Cost. The Treasury Forfeiture Fund 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 Treasury Forfeiture Fund. Forfeited property balances are reported in "Other Assets" on the Consolidated Balance Sheets.

S. Custodial Revenues

Non-entity revenue reported on the Department's Statements of Custodial Activity includes cash collected by the Department, 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. The Statements of

Custodial Activity are presented on the "modified accrual basis." The Department recognizes revenues as cash is collected, and records 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

Appropriations are recorded when authorized by legislation. Incurred obligations of appropriations are recorded when the Department places an order or signs a contract for goods and services, awards a grant, or takes other actions that require the Department to make payments to the public or another federal entity. Outlays are recorded when disbursements are made.

Permanent and Indefinite Appropriations

Permanent and indefinite appropriations are used to disburse tax refunds, income tax credits, and child tax credits. Refund payment funding is recognized as appropriations are used. Permanent indefinite authority for refund activity is available for an indefinite period of time in the amount necessary to cover the refund and/or credit. Tax refunds and credits are reported 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.

The Department also has two permanent and indefinite appropriations related to debt activity. One is used to pay interest on the public debt securities; 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. Debt redemption appropriations are related to the Department's liability and are reported on the Department's Consolidated Balance Sheet. Interest appropriations are recorded at the beginning of the fiscal year and again at mid-year, if necessary, and any unused authority is returned to the General Fund at the end of the fiscal year. Permanent indefinite authority for debt redemptions and related interest is available for an indefinite period of time.

The Department also has 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. The Department's renewable energy project is also covered by permanent indefinite appropriations.

Additionally, the Department has other permanent and indefinite appropriations to make certain payments on behalf of the U.S. government. These appropriations are provided 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 United States.

U. Income Taxes

As an agency of the U.S. government, the Department is 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

The Department has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities to prepare its financial statements. Actual results may differ from these estimates. It is possible that the results of operations, cash flows and/or the financial position of the Department may be materially affected in future periods by adverse changes in the outlook for the key assumptions underlying management's estimates. Significant transactions subject to estimates 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, imputed costs, actuarial liabilities, cost and earned revenue allocations, as well as contingencies and any related recognized liabilities.

The Department accounts for all of its TARP and non-TARP credit program receivables in accordance with credit reform accounting (refer to the accounting policy above entitled "Credit Program Receivables," and Notes 7 and 11). These receivables are derived using credit reform modeling which is subject to the use of estimates and forecasts that have inherent uncertainty. The Department recognizes 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 the Department has an equity interest, estimates of expected default, and prepayment rates. The "TARP Credit Program Receivables, Net" line item on the Consolidated Balance Sheets is reflective of relatively illiquid, troubled assets whose values are particularly sensitive to future economic conditions and other assumptions.

The Department uses 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. Forecasts of future cash flows are updated 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.

The Department performs annual calculations, as of September 30, to assess its need for recording an estimated liability in accordance with SFFAS No. 5 related to the Department's 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 the Department's liability to the GSEs, is most sensitive to future changes in the housing price index, as well as to future changes in guarantee fees received by the GSEs on single family mortgages.

The annual valuation performed as of September 30 on 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 asset's fair value. A key input into the investment valuation for the senior preferred stock is the present value of the projected quarterly dividend payments, and a key input for the warrants is the market value of the shares of common stock of the GSEs which are traded on the over-the-counter (OTC) Bulletin Board. The Department evaluates the need for adjusting its OTC market-based valuation of the warrants for the effects of significant events occurring after the close of the market but before the end of the measurement date. Any changes in valuation, including impairment, are recorded and disclosed in accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources.* Since the valuation is an annual process, the change in valuation of the preferred stock and warrants are deemed usual and recurring. Note 8 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 required to be funded by the Department.

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, the Department considers whether it has the ability and intent to hold

the investment until a market price recovery, and considers 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. The Department takes on possible credit risk when it makes direct loans or credits to foreign entities or becomes exposed to institutions which engage in financial transactions with foreign countries (refer to Note 10). The following programs of the Department 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 and Temporary Credit Liquidity Program); investments, loans, and other credit programs of the TARP; non-TARP credit programs including the CDFI Fund, SBLF, and certain portions of the Department's participation in the IMF; and the Terrorism Risk Insurance Program.

The Department's activities generally focus on the underlying problems in the credit markets. The ongoing instability in those markets, coupled with market disruptions resulting from terrorist attacks, exposes the Department to potential costs and losses. The extent of the risk assumed by the Department 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 7, 8, 11, and 27).

For Emergency Economic Stabilization Act (EESA) programs, the statute requires that budgetary costs of the troubled assets and guarantees of troubled assets be calculated by adjusting the discount rate for market risks. Within the TARP programs, the Department invested in many assets that would traditionally be held by private investors, and their valuation would inherently include market risk. Accordingly, for all TARP direct loans, equity investments, and other credit programs, the Department calculates a Market Risk Adjusted Discount Rate (MRADR). The Department's cost estimates for the TARP programs are adjusted to reflect the additional return required by the market to compensate for variability around the expected losses reflected in the cash flows. Under SFFAS No. 2, including market risk in the cash flow estimates is consistent with the type of assets being valued. The inclusion of the MRADR is the mechanism for deriving a fair value of the assets. As directed by Congress, a MRADR is also used in the credit reform model for certain portions of the Department's participation in the IMF.

The Department faces 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 of the Department's counterparties.

Y. Funds from Dedicated Collections

The Department accounts 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. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits, or purposes. The Department applies 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 the Department's financial statements.

Z. Allocation Transfers

The Department is 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 the U.S. 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 the Department receives allocation transfers, as the child, from the Executive Office of the President (See Circular No.A-136, II.4.2, question 5 for three exceptions).

The Department allocates funds, as the parent, to the Department of Energy and Department of Health and Human Services (HHS). Also, the Department receives allocation transfers, as the child, from the Agency for International Development, HHS, Department of Transportation, Executive Office of the President, and General Services Administration.

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. These activities are not reported in the Department's consolidated financial statements, but instead are reported in Note 26.

AB. Related Parties and Other Entities

The primary "related parties" with whom the Department conducts business are other federal agencies, mainly through the normal lending activities of the Fiscal Service and the FFB. These activities are disclosed in the consolidated financial statements. Additionally, the Secretary serves on the Federal Housing Finance Oversight Board, and consults with the Director of FHFA on matters involving Fannie Mae and Freddie Mac. This provides the Department an advisory role in the FHFA's actions as the conservator for Fannie Mae and Freddie Mac. The Department has no transactions with FHFA, but rather transacts directly with the GSEs. The Department also utilizes the services of the FRBs to execute a variety of transactions on behalf of the Fiscal Service and the ESF. Due to the magnitude and variety of services provided, the following provides an overview of the FRBs' purpose, governance, and the various services provided on behalf of the Department.

Federal Reserve System

The Federal Reserve System (FR System) was created by Congress under the Federal Reserve Act of 1913. The FR System consists of the Federal Reserve Board of Governors (Board), the Federal Open Market Committee (FOMC), and the FRBs. 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. The FR

System is not included in the federal budget. It is considered an independent central bank, and its decisions are not ratified by the executive branch of the U.S. government.

The Department interacts with the FRBs in a variety of ways, including the following:

- The FRBs serve as the Department's fiscal agent and depositary, executing banking and other financial transactions on the Department's behalf. The Department reimburses 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 (refer to Note 16)
- 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 12)
- The FRBs are required by Board policy to transfer their excess earnings to the Department on behalf of the U.S. government (refer to Notes 13 and 23)

The Department also consults with the FR System on matters affecting the economy and certain financial stability activities (refer to Notes 7). The above financial activities involving the Department are accounted for and disclosed in the Department's consolidated financial statements. In accordance with SFFAC No. 2, ***Entity and Display,*** the FR Systems' assets, liabilities, and operations are not consolidated into the Department's financial statements.

Federal Reserve System Structure

The Board is an independent organization governed by seven members who are appointed by the President and confirmed by the Senate. The full term of a Board member is 14 years, and the appointments are staggered so that one term expires on January 31 of each even-numbered year. The Board has a number of supervisory and regulatory responsibilities for institutions including, among others, state-chartered banks that are members of the FR System, bank holding companies, and savings and loan holding companies. In addition, the Board has general supervisory responsibilities for the 12 FRBs, and issues currency (Federal Reserve Notes) to the FRBs for distribution.

The FOMC is comprised of the seven Board members and five of the 12 FRB presidents, and is charged with formulating and conducting 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. The 12 FRBs are chartered under the Federal Reserve Act, which requires each member bank to own the capital stock of its FRB. Supervision and control of each FRB is exercised by a board of directors, of which three are appointed by the Board of Governors of the FR System, and six are elected by their member banks.

The FRBs participate in formulating and conducting monetary policy, distribute currency and coin, and serve as fiscal agents for the Department, 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.

Federal Reserve System Assets and Liabilities

The FRBs hold Treasury and other securities in the SOMA for the purpose of conducting monetary policy. Treasury securities held by the FRBs totaled $1.9 trillion at September 30, 2014 and 2013, respectively (refer to Note 16). 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 United States, which are collateralized by the Treasury securities and other assets held by the FRBs.

Financial and other information concerning the FR System, including financial statements for the Board and the FRBs, may be obtained at http://www.federalreserve.gov.

FRB Residual Earnings Transferred to the Department

FRBs generate income from interest earned on securities, reimbursable services provided to federal agencies, and the provision of priced services to depository institutions as specified by the Monetary Control Act of 1980. Although the FRBs generate earnings from carrying out open market operations, via the earnings on securities held in the SOMA account, their execution of these operations is for the purpose of accomplishing monetary policy rather than generating earnings. Each FRB is required by Board policy to transfer to the Department its residual (or excess) earnings after providing for the cost of operations, payment of dividends, and reservation of an amount necessary to equate surplus with paid-in capital. These residual earnings may vary due to, among other things, changes in the SOMA balance levels that may occur in conducting monetary policy. In the event of losses, or a substantial increase in capital, an FRB will suspend its payments to the U.S. Treasury until such losses or increases in capital are recovered through subsequent earnings. The FRB residual earnings of $99.2 billion and $75.8 billion for fiscal years ended September 30, 2014 and 2013, respectively, are reported as custodial revenues on the Department's Statements of Custodial Activity. They constituted 3.1 percent and 2.6 percent of the Department's total custodial revenues collected in fiscal years 2014 and 2013, respectively. "Taxes, Interest and Other Receivables, Net" includes a receivable for FRB's residual earnings which represents the earnings due to the U.S. Treasury as of September 30, but not collected by the U.S. Treasury until after the end of the month (refer to Note 13).

2. FUND BALANCE

As of September 30, 2014 and 2013, Fund Balance consisted of the following (in millions):

		2014		2013
Appropriated Funds	$	**347,180**	$	358,611
Revolving Funds		**4,225**		7,016
Special Funds		**754**		1,403
Clearing Funds		**446**		503
Deposit Funds		**74**		115
Other Funds (principally Receipt, Suspense, and Trust Funds)		**249**		172
Total Fund Balance	$	**352,928**	$	367,820

Appropriated funds consist of amounts appropriated annually by Congress to fund the operations of the Department.

Revolving funds are used for continuing cycles of business-like activity in which the fund charges for the sale of products or services and uses the proceeds to finance its spending, usually without requirement for annual appropriations. A public enterprise revolving fund is an account that is authorized by law to be credited with offsetting collections from the public, and those monies are used to finance operations. Also included in revolving funds are the working capital fund and financing funds. The working capital fund is a fee-for-service fund established to support operations of components within the Department. The financing funds relate to credit reform activities.

Special funds include funds designated for specific purposes, including the disbursement of non-entity monies received in connection with the Presidential Election Campaign. Clearing funds represent reconciling differences with the Department's balances as reported in the U.S. government's central accounts. These fund accounts temporarily hold unidentifiable general, special, or trust fund collections that belong to the U.S. government until they are classified to the proper receipt or expenditure account by the federal entity. Deposit funds are accounts that record amounts held temporarily by the U.S. government until ownership is determined, and include seized cash and other amounts received as an advance that are not accompanied by an order.

STATUS OF FUND BALANCE

As of September 30, 2014 and 2013, the status of the fund balance consisted of the following (in millions):

		2014		2013
Unobligated Balance - Available	$	**290,299**	$	294,009
Unobligated Balance - Not Available		**59,843**		76,341
Unpaid Obligations		**225,592**		233,437
Subtotal		**575,734**		603,787
Adjustment for Borrowing Authority		**(99,248)**		(103,333)
Adjustment for ESF		**(98,071)**		(101,777)
Adjustment for IMF		**(22,931)**		(28,197)
Adjustment for Intra-Treasury Investments		**(8,086)**		(8,334)
Adjustment for Authority Unavailable for Obligations		**3,786**		3,790
Other Adjustments		**1,744**		1,884
Total Status of Fund Balance	$	**352,928**	$	367,820

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, such amounts may be used for upward and downward adjustments for existing obligations in future years. The Unpaid Obligations 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 do not post to budgetary status accounts, the following adjustments are required to reconcile the budgetary status to the non-budgetary Fund Balance as reported on the Consolidated Balance Sheets:

- Adjustments for Borrowing Authority – Borrowing authority is in budgetary status reported on the Combined Statement of Budgetary Resources but not in the Fund Balance because amounts have not been received
- 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 Statement of Budgetary Resources; however, they are not a component of the Fund Balance as they represent invested funds
- Adjustments for IMF – The reserve position in the IMF, loans and interest receivable, and related balances that meet the criteria for reporting as part of budgetary resources are reported on the Combined Statement of Budgetary Resources; however, they are not a component of the Fund Balance as they represent other monetary assets
- Adjustments for Intra-Treasury Investments – Budgetary resources include Treasury security investments; however, the money has been moved from the Fund Balance to Investments, which is eliminated on the Consolidated Balance Sheets
- Adjustment for Authority Unavailable for Obligations – Resources unavailable for obligations reduced the budgetary resources reported on the Combined Statement of Budgetary Resources, however, they do not impact the Fund Balance

As of September 30, 2014 and 2013, the Department had no budgetary authority in the Fund Balance that was specifically withheld from apportionment by the OMB. The balances in non-entity funds; such as certain deposit funds (e.g., seized cash), are being held by the Department 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 12 regarding restrictions related to the line of credit held on the U.S. quota in the IMF.

3. LOANS AND INTEREST RECEIVABLE – INTRA-GOVERNMENTAL

ENTITY INTRA-GOVERNMENTAL

The Department, through FFB, issues 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 lendor 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 the 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. The Department has not recognized any credit-related losses on its loans, nor has the Department recorded an allowance for uncollectible intra-governmental loans.

As of September 30, 2014 and 2013, entity intra-governmental loans (issued by the FFB) and interest receivable consisted of the following (in millions):

	Loans Receivable	**Interest Receivable**	**2014 Total**	Loans Receivable	Interest Receivable	2013 Total
Department of Agriculture	**$ 42,725**	**$ 23**	**$ 42,748**	$ 40,638	$ 22	$ 40,660
United States Postal Service[(1)]	**15,000**	**47**	**15,047**	15,000	49	15,049
Department of Energy	**14,770**	**60**	**14,830**	14,034	52	14,086
General Services Administration	**-**	**-**	**-**	1,733	31	1,764
Department of Education	**1,267**	**10**	**1,277**	1,133	8	1,141
Other Agencies	**5**	**-**	**5**	86	-	86
Total Entity Intra-governmental	**$ 73,767**	**$ 140**	**$ 73,907**	$ 72,624	$ 162	$ 72,786

(1) The United States Postal Service (USPS) experienced an operating deficit in both fiscal years 2014 and 2013. The Department, 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

The Department, through the Fiscal Service, accounts for and reports 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, 2014 and 2013, non-entity intra-governmental loans (issued by the Fiscal Service) and interest receivable due to the General Fund consisted of the following (in millions):

	Loans Receivable	**Interest Receivable**	**2014 Total**	Loans Receivable	Interest Receivable	2013 Total
Department of Education	**$ 965,394 $**	**- $**	**965,394** $	851,295 $	- $	851,295
Department of Agriculture	**68,718**	**2**	**68,720**	61,777	1	61,778
Department of Housing & Urban Development	**27,661**	**-**	**27,661**	26,079	-	26,079
Department of Homeland Security	**24,081**	**-**	**24,081**	24,076	-	24,076
Export Import Bank of the U.S.	**21,634**	**-**	**21,634**	18,102	-	18,102
Department of Transportation	**8,185**	**-**	**8,185**	6,958	-	6,958
Small Business Administration	**7,756**	**-**	**7,756**	8,088	-	8,088
Department of Labor	**5,872**	**-**	**5,872**	6,027	-	6,027
Department of Energy	**4,452**	**25**	**4,477**	3,967	26	3,993
Railroad Retirement Board	**3,532**	**41**	**3,573**	3,587	42	3,629
Overseas Private Investment Corporation	**2,807**	**-**	**2,807**	2,293	-	2,293
National Credit Union Administration	**2,600**	**1**	**2,601**	4,725	2	4,727
Department of Defense	**1,392**	**-**	**1,392**	1,175	-	1,175
Department of Commerce	**1,312**	**-**	**1,312**	576	-	576
Other Agencies	**2,227**	**-**	**2,227**	1,977	-	1,977
Total Non-Entity Intra-governmental	**$ 1,147,623 $**	**69 $**	**1,147,692** $	1,020,702 $	71 $	1,020,773
Total Intra-governmental Loans and Interest Receivable (Entity and Non-Entity)	**$ 1,221,390 $**	**209 $**	**1,221,599** $	1,093,326 $	233 $	1,093,559

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.

General Fund assets, such as loans and interest receivable, cash, and investments in the GSEs, are held and managed by the Department on behalf of the U.S. government, and constitute resources available to meet the operating needs of the U.S. government. These Department-managed assets are separately reported on the Consolidated Balance Sheets, with a corresponding amount reported as Due To the General Fund that represents a liability to reflect assets owed by the Department to the General Fund.

General Fund liabilities, primarily federal debt and liability for restoration of Federal Debt Principal and Interest, are obligations of the U.S. government. These Department-managed liabilities are separately reported 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, 2014 and 2013, the General Fund liabilities owed by the Department exceeded the assets held on behalf of the General Fund by $16.4 trillion and $15.7 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, 2014 and 2013, Due From the General Fund included the following non-entity assets (in millions):

Liabilities Requiring Funding from the General Fund	**2014**	2013
Federal Debt and Interest Payable - Held by the Public (Note 16)	**$ 12,809,423**	$ 12,003,030
Federal Debt and Interest Payable - Intra-governmental (Note 16)	**5,104,620**	4,837,436
Liability for Restoration of Federal Debt Principal and Interest - Due to the Public (Note 16)	-	120,356
Liability for Restoration of Federal Debt Principal and Interest - Intra-governmental (Note 16)	-	128,272
Refunds Payable (Note 23)	**4,723**	2,914
Adjustment for Eliminated Liabilities	**31,083**	31,349
Total Due From the General Fund	**$ 17,949,849**	$ 17,123,357

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

As of September 30, 2014 and 2013, Due To the General Fund included the following non-entity liabilities (in millions):

Assets to be Distributed to the General Fund	**2014**	2013
Fund Balance	**$ 540**	$ 434
Loans and Interest Receivable - Intra-governmental (Note 3)	**1,147,692**	1,020,773
Advances to the Unemployment Trust Fund	**20,824**	29,696
Cash Due to the General Fund (Held by the Department) (Note 5)	**153,532**	82,865
Accounts Receivable - Intra-governmental	**500**	362
Foreign Currency	**49**	60
Custodial Gold without certificates and Silver held by the U.S. Mint	**25**	25
Investments in Government Sponsored Enterprises (Note 8)	**95,810**	140,221
Credit Reform Downward Subsidy Re-estimates	**1,490**	8,213
Loans and Interest Receivable	**71**	88
Taxes and Other Non-Entity Receivables Due to General Fund	**42,295**	38,519
Adjustment for Eliminated Assets	**77,123**	96,167
Total Due To the General Fund	**$ 1,539,951**	$ 1,417,423

The assets to be distributed to the General Fund do not represent all of the non-entity assets managed by the Department. Refer to Note 15 for all non-entity assets held by the Department.

The Fund Balance reported above represents the non-entity funds held by the Department 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 general use by the Department.

Advances have been issued from the General Fund to the DOL's Unemployment Trust Fund to disburse to states for unemployment benefits. The Department transfers repayment of these advances to the General Fund.

The non-entity Credit Reform Downward Subsidy Re-estimates result from changes in forecasted future cash flows of the equity investments and direct loans under the Department's TARP and non-TARP credit programs (refer to Note 1H and 1V).

Taxes and Other Non-Entity Receivables Due to General Fund primarily represents IRS-related federal taxes receivable (refer to Note 13).

The Adjustment for Eliminated Assets principally represents loans and interest payable owed by the 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, 2014 and 2013 were as follows (in millions):

	2014	2013
Entity:		
Cash	$ **84**	$ 69
Foreign Currency and Foreign Currency Denominated Assets	**4,438**	10,125
Other Monetary Assets:		
Special Drawing Right Holdings	**53,154**	54,972
U.S. Dollars Held in Cash by the IMF	**140**	132
Total Entity	**57,816**	65,298
Non-Entity:		
Operating Cash of the U.S. government	**153,202**	82,742
Foreign Currency	**49**	60
Miscellaneous Cash Held by All Treasury Reporting Entities	**801**	406
Total Non-Entity	**154,052**	83,208
Total Cash, Foreign Currency, and Other Monetary Assets	$ **211,868**	$ 148,506

Non-entity operating and other miscellaneous cash due to the General Fund which was held by the Department consisted of the following as of September 30, 2014 and 2013(in millions):

	2014	2013
Operating Cash - FRB Account	$ **158,302**	$ 88,386
Outstanding Checks	**(5,100)**	(5,644)
Total Operating Cash of the U.S. government	**153,202**	82,742
Miscellaneous Cash	**413**	192
Subtotal	**153,615**	82,934
Amounts Due to the Public	**(83)**	(69)
Total Cash Due to the General Fund (Note 4)	$ **153,532**	$ 82,865

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, 2014 and 2013 using current exchange rates plus accrued interest.

Foreign Currency Denominated Assets

FCDA holdings are normally invested in interest-bearing securities issued by or held through foreign governments or monetary authorities. FCDA holdings include securities whereby the FRBNY, on behalf of the ESF, enters into transactions to purchase foreign-currency-denominated government-debt securities. These government-debt securities are under agreements to resell for which the accepted collateral is the debt instruments, denominated in euros, and is issued or guaranteed in full by European governments. These agreements are subject to daily margining requirements. FCDAs with original maturities of three months or less, including securities purchased under agreement to resell, were valued at $4.4 billion and $10.1 billion as of September 30, 2014 and 2013, 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, the Department 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, 2014 and 2013. 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 market value in terms of the U.S. dollar from weighted amounts of each of four freely usable currencies, as defined by the IMF. These currencies are the U.S. dollar, the European euro, the Japanese yen, and the British pound sterling. The U.S. SDR holdings (assets resulting from various SDR-related activities including remuneration on the U.S. reserve position) and allocations from the IMF (liabilities of the United States coming due only in the event of a liquidation of, or the United States' withdrawal from, the SDR department of the IMF, or cancellation of SDRs) are revalued 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 United States 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 United States 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 United States, the payment of the U.S. commitment related to SDR allocations is conditional on events listed above, in which the United States has a substantial or controlling voice. The United States has received no SDR allocations since 2009.

As of September 30, 2014 and 2013, the total amount of SDR holdings of the United States was the equivalent of $53.2 billion and $55.0 billion, respectively. As of September 30, 2014 and 2013, the total value of SDR allocations to the United States was the equivalent of $52.4 billion and $54.2 billion, respectively.

NON-ENTITY

Non-entity cash, foreign currency, and other monetary assets principally include the Operating Cash of the U.S. government which is managed by the Department. 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 the Department's 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. Operating Cash of the U.S. government is either insured by the Federal Deposit Insurance Corporation (FDIC) (for balances up to $250,000 as of September 30, 2014 and 2013), or collateralized by securities pledged by the depository institutions and held by the FRB.

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

The Department, through the Mint, is 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 being held by the Department are partially offset by a liability for gold certificates issued by the Secretary to the FRBNY 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 FRBNY. The Department's liability incurred by issuing the Gold Certificates, as reported on the Consolidated Balance Sheets, is limited to the gold being held by the Department at the statutory value. Upon issuance of Gold Certificates to the FRBNY, the proceeds from the certificates are deposited into the operating cash of the U.S. government. All of the Department's certificates issued are payable to the FRBNY. 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, 2014 and 2013, the values of gold and silver reserves consisted of the following:

	FTOs	**Statutory Rate**	**2014 Statutory Carrying Value (in millions)**	**Market Rate Per FTO**	**2014 Market Value (in millions)**
Gold	**248,046,116**	**$ 42.2222**	**$ 10,473**	**$ 1,216.50**	**$ 301,748**
Gold Held by Federal Reserve Banks	**13,452,811**	**$ 42.2222**	**568**	**$ 1,216.50**	**16,365**
Total Gold	**261,498,927**		**11,041**		**318,113**
Silver	**16,000,000**	**$ 1.2929**	**21**	**$ 17.11**	**274**
Total Gold and Silver Reserves			**$ 11,062**		**$ 318,387**

	FTOs	Statutory Rate	2013 Statutory Carrying Value (in millions)	Market Rate Per FTO	2013 Market Value (in millions)
Gold	248,046,116	$ 42.2222	$ 10,473	$ 1,326.50	$ 329,033
Gold Held by Federal Reserve Banks	13,452,811	$ 42.2222	568	$ 1,326.50	17,845
Total Gold	261,498,927		11,041		346,878
Silver	16,000,000	$ 1.2929	21	$ 21.68	347
Total Gold and Silver Reserves			$ 11,062		$ 347,225

7. TROUBLED ASSET RELIEF PROGRAM – CREDIT PROGRAM RECEIVABLES, NET

The Department has administered a number of programs designed to help stabilize the financial system and restore the flow of credit to consumers and businesses. Through TARP, the Department made direct loans and equity investments, and entered into other credit programs. TARP's authority to make new commitments to purchase or guarantee troubled assets expired in October 2010. Since then, the Department has focused its efforts on winding down the various TARP programs through recoveries of investments in the form of repayments, sales, dividends, interest and other income. The Department also continues to implement the housing programs under TARP to help struggling homeowners avoid foreclosure. The table below displays the remaining TARP assets held as of September 30, 2014 and 2013, by the observability of inputs significant to the measurement of each value (in millions):

Program	**Quoted Prices for Identical Assets (1)**	**Significant Observable Inputs (2)**	**Significant Unobservable Inputs (3)**	**2014 Total**
Capital Purchase Program	**$ 106**	**$ -**	**$ 175**	**$ 281**
Automotive Industry Financing Program	**1,483**	**-**	**-**	**1,483**
Other Programs	**38**	**-**	**372**	**410**
Total TARP Programs	**$ 1,627**	**$ -**	**$ 547**	**$ 2,174**

(1) Measurement is based on direct market quotes for the specific asset, e.g. quoted prices of common stock.
(2) Measurement is primarily derived from market observable data, other than a direct market quote, for the asset. This data could be market quotes for similar assets for the same entity.
(3) Measurement is primarily derived from inputs which generally represent management's best estimate of how a market participant would assess the risk inherent in the asset. These unobservable inputs are used because there is little to no direct market activity.

Program	Quoted Prices for Identical Assets (1)	Significant Observable Inputs (2)	Significant Unobservable Inputs (3)	2013 Total
Capital Purchase Program	$ 125	$ -	$ 1,668	$ 1,793
Automotive Industry Financing Program	3,647	11,950	-	15,597
Other Programs	18	-	461	479
Total TARP Programs	$ 3,790	$ 11,950	$ 2,129	$ 17,869

See table above for explanations to (1), (2), and (3).

CAPITAL PURCHASE PROGRAM

TARP implemented the Capital Purchase Program (CPP) in fiscal year 2009 to help stabilize the financial system by providing capital to certain viable U.S. financial institutions. The CPP was designed to increase the capacity of those institutions to lend to businesses and consumers and support the economy. Under this program, the Department invested a total of $204.9 billion and purchased senior perpetual preferred stock and subordinate debentures from qualifying U.S. controlled banks, savings associations, and certain bank and savings and loan holding companies (Qualified Financial Institution or QFI). The senior preferred stock has a stated dividend rate ranging from 5.0 percent to 9.0 percent. The dividends are cumulative for bank holding companies and non-cumulative for others, and are payable when and if declared by the institution's board of directors. In addition to the senior preferred stock, the Department received warrants, with a ten-year term, from public QFIs to purchase a number of shares of common stock. Additionally, the Department exercised warrants received from non-public QFIs resulting in additional holdings of senior preferred stock (or subordinated debentures as appropriate) of non-public QFIs.

In fiscal years 2014 and 2013, repayments and sales of CPP investments totaled $1.5 billion and $4.8 billion, respectively. Of these CPP investment repayments and sales in fiscal years 2014 and 2013, net proceeds of $289 million and $1.5 billion, respectively, resulted from auction sales to the public. Total CPP repayments and sales resulted in net proceeds less than cost of $169 million and $493 million in fiscal year 2014 and 2013, respectively. As a result of repayments and sales since this program's

implementation in fiscal year 2009, the Department had remaining CPP investments totaling $281 million and $1.8 billion as of September 30, 2014 and 2013, respectively.

The estimated value of the CPP preferred equity investments is based on the net present values of the expected dividend payments and proceeds from repurchases and sales. Inputs to the model include institution specific accounting data obtained from regulatory filings, an institution's stock price volatility, historical bank failure information, as well as market prices of comparable securities trading in the market. The market risk adjustment was estimated in 2014 by grouping institutions with similar financial performance and applying credit spreads for similar securities, and estimated in 2013 through a calibration process to the market value of certain trading securities of financial institutions within the TARP programs or other comparable financial institutions. The Department estimates the values and projects the cash flows of warrants using an option-pricing approach based on the current stock price and its volatility. Investments in common stock which are exchange traded are valued at the quoted market price as of fiscal year end.

AUTOMOTIVE INDUSTRY FINANCING PROGRAM

The Automotive Industry Financing Program (AIFP) was designed to help prevent a significant disruption of the American automotive industry, which could have had a negative effect on the economy of the United States.

Ally Financial Inc. (formerly known as GMAC Inc.)

The Department invested a total of $16.3 billion in GMAC Inc. between December 2008 and December 2009 to help support its ability to originate new loans to General Motors and Chrysler dealers and consumers, and to help address GMAC's capital needs. In 2010, GMAC changed its corporate name to Ally Financial, Inc. (Ally). As a result of exchanges, conversions, warrant exercises and sales since the Department's initial investment in December 2008, the Department held 981,971 (pre-split) shares of Ally common stock, representing 73.8 percent of Ally's outstanding common stock, as of September 30, 2013. The Department also held 119 million shares of Ally Series F-2 Mandatorily Convertible Preferred Securities (Series F-2), with a stated dividend rate of 9.0 percent, which were convertible into at least 513,000 shares of Ally common stock. In fiscal years 2014 and 2013, the Department received $141 million and $534 million, respectively, in dividends from Ally.

In November 2013, Ally repurchased all of the Series F-2 preferred stock from the Department for $5.2 billion, and the Department received an additional $725 million for the elimination of certain rights under an original agreement, resulting in net proceeds in excess of cost of $300 million. During fiscal year 2014, the Department sold 410,000 (pre-split) shares of Ally common stock in January 2014, and an additional 113 million (post-split shares) of Ally common stock, for a combined total of $5.8 billion in cash proceeds, resulting in net proceeds less than cost of $1.4 billion. The Department's remaining investment in Ally at September 30, 2014 consisted of 64.1 million shares of common stock (after considering a 310-for-1 common stock split of Ally common shares in April 2014), representing 13.4 percent of Ally's outstanding common stock. The fair value of the Department's Ally investments held was $1.5 billion and $12.0 billion at September 30, 2014 and 2013, respectively. The fair value of Ally common stock held at September 30, 2014 was based on the New York Stock Exchange (NYSE) quoted market price. The Ally common stock held at September 30, 2013 was valued at the price per share in a related November 2013 Ally private common stock offering. To value the preferred stock holdings in Ally at September 30, 2013, the Department considered observable market data from the November 2013 transactions, discounted to September 30, 2013 at a risk-free discounted rate to reflect the timing of the expected cash flows.

General Motors Company

In fiscal year 2009, the Department provided $51.0 billion to General Motors Corporation (Old GM) through various loan agreements while Old GM was in bankruptcy. During fiscal year 2009, General Motors Company (New GM) was created and by September 30, 2012, through various sales and restructurings of its investment, the Department held 500 million shares of New

GM common stock, or 31.9 percent of New GM's total outstanding common shares. Between fiscal years 2013 and 2014, the Department sold all 500 million shares of the New GM common stock, of which 399 million shares were sold in fiscal year 2013 for $12.0 billion resulting in net proceeds less than cost of $5.4 billion, and the remaining 101 million shares were sold in fiscal year 2014 for $3.8 billion resulting in net proceeds less than cost of $639 million. The fair value of the New GM common shares held as of September 30, 2013 was $3.6 billion, which was based on the NYSE quoted market price as of that date, plus the value of any traded but not settled shares. Traded but not settled shares were valued based on the actual trade proceeds.

COMMUNITY DEVELOPMENT CAPITAL INITIATIVE PROGRAM

To help unlock the flow of credit to consumers and small businesses, the Department created the Community Development Capital Initiative (CDCI) program in fiscal year 2010 to provide additional low-cost capital in Community Development Financial Institutions (CDFIs) for purposes of encouraging more lending to small businesses. Under the terms of the program, the Department purchased senior preferred stock (or subordinated debt) from eligible CDFIs with an initial dividend rate of 2.0 percent that will increase to 9.0 percent after eight years. The Department invested a total of $570 million in 84 institutions under the CDCI. In fiscal years 2014 and 2013, the Department received $10 million and $86 million in repayments, respectively. As a result of repayments since this program's implementation in fiscal year 2010, the Department had remaining CDCI investments valued at $372 million and $371 million as of September 30, 2014 and 2013, respectively. The Department values the CDCI preferred stock investments in a manner broadly analogous to the methodology used to value the preferred stock securities within the CPP program. This program is included in the "Other Programs" column of the table within this note.

HOUSING PROGRAMS UNDER TARP *(Non-Direct Loan and Equity Investment Program)*

Housing programs under TARP are designed 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. As of September 30, 2014 and 2013, the Department had committed up to $38.5 billion for these programs. For fiscal year 2014 and 2013, payments made on behalf of the housing programs under TARP totaled $4.3 billion and $3.9 billion, respectively, reported within the Economic Program on the Consolidated Statements of Net Cost.

SUMMARY TABLES FOR DIRECT LOAN AND EQUITY INVESTMENT PROGRAMS

The following tables provide the net composition, subsidy cost, modifications and re-estimates, a reconciliation of subsidy cost allowances, and the components of the subsidy for each TARP direct loan and equity investment program for the fiscal years ended September 30, 2014 and 2013. There were no budget execution subsidy rates for fiscal year 2014 and 2013, for the programs listed in the table below.

Troubled Asset Relief Program Direct Loans and Equity Investments

As of September 30, 2014 (in millions)		**CPP**	**AIFP**	**Other Programs (2)**	**2014**
Direct Loans and Equity Investment Programs:					
Direct Loans and Equity Investments Outstanding, Gross	$	625 $	1,763 $	465 $	2,853
Subsidy Cost Allowance		(344)	(280)	(55)	(679)
Direct Loans and Equity Investments Outstanding, Net	$	281 $	1,483 $	410 $	2,174
Obligations for Loans and Investments Not Yet Disbursed	$	- $	- $	126 $	126
Reconciliation of Subsidy Cost Allowance:					
Balance, Beginning of Period	$	1,350 $	4,281 $	(4) $	5,627
Interest and Dividend Revenue		88	141	16	245
Net Proceeds from Sales and Repurchases of Assets in Excess of (Less than) Cost		(169)	(1,786)	66	(1,889)
Write-Offs		(797)	(826)	-	(1,623)
Net Interest Income (Expense) on Borrowings from the Fiscal Service and Financing Account Balance		(40)	(133)	(16)	(189)
Balance, End of Period, Before Re-estimates		432	1,677	62	2,171
Subsidy Re-estimates		(88)	(1,397)	(7)	(1,492)
Balance, End of Period	$	344 $	280 $	55 $	679
Reconciliation of Subsidy Cost:					
Subsidy Re-estimates		(88)	(1,397)	(7)	(1,492)
Total Direct Loans and Equity Investment Programs Subsidy Cost (Income)	$	(88) $	(1,397) $	(7) $	(1,492)

As of September 30, 2013 (in millions)		AIG(1)	CPP	AIFP	Other Programs (3)	2013
Direct Loans and Equity Investment Programs:						
Direct Loans and Equity Investment Outstanding, Gross	$	- $	3,143 $	19,878 $	475 $	23,496
Subsidy Cost Allowance		-	(1,350)	(4,281)	4	(5,627)
Direct Loans and Equity Investments Outstanding, Net	$	- $	1,793 $	15,597 $	479 $	17,869
Obligations for Loans and Investments Not Yet Disbursed	$	- $	- $	- $	984 $	984
Reconciliation of Subsidy Cost Allowance:						
Balance, Beginning of Period	$	1,658 $	2,930 $	19,706 $	(1,452) $	22,842
Subsidy Income for Modifications		-	-	-	(55)	(55)
Interest and Dividend Revenue		-	262	534	296	1,092
Net Proceeds from Sales and Repurchases of Assets in Excess of (Less than) Cost		(1,679)	(493)	(5,361)	1,743	(5,790)
Write-Offs		-	(104)	-	(7)	(111)
Net Interest Income (Expense) on Borrowings from the Fiscal Service and Financing Account Balance		(11)	(105)	(412)	(84)	(612)
Balance, End of Period, Before Re-estimates		(32)	2,490	14,467	441	17,366
Subsidy Re-estimates		32	(1,140)	(10,186)	(445)	(11,739)
Balance, End of Period	$	- $	1,350 $	4,281 $	(4) $	5,627
Reconciliation of Subsidy Cost:						
Subsidy Cost for Modifications	$	- $	- $	- $	(55) $	(55)
Subsidy Re-estimates		32	(1,140)	(10,186)	(445)	(11,739)
Total Direct Loans and Equity Investment Programs Subsidy Cost (Income)	$	32 $	(1,140) $	(10,186) $	(500) $	(11,794)

(1) During fiscal year 2013, the Department sold its remaining ownership interest in American International Group, Inc. (AIG), comprised of 234 million shares of AIG common stock that was held by TARP and the General Fund (154 million and 80 million shares, respectively), for total gross cash proceeds of $7.6 billion, of which TARP and the General Fund received $5.0 billion and $2.6 billion, respectively. For the TARP shares sold, the proceeds were less than the Department's cost by $1.7 billion. The 2013 sale of the General Fund shares for $2.588 billion, which resulted in a $23 million loss from the final sale, is not reflected in the table above but, instead, is reported on the Statements of Custodial Activity.

(2) As of September 30, 2013, the Department had liquidated all of its equity investments or had been repaid on all outstanding loans made under the Public-Private Investment Program (PPIP) in which the Department was a limited partner for purposes of helping restart the financial securities market and provide liquidity for legacy securities. As of September 30, 2014 and 2013, the Department had remaining legal commitments to disburse up to $126 million and $984 million, respectively, in additional equity to Public-Private Investment Funds (PPIFs) which will remain until all distributions have been received from the PPIFs and all PPIF liabilities have been settled.

(3) During fiscal year 2013, the Department's investment of $100 million in the FRB's Term Asset-Backed Securities Loan Facility (TALF) program was fully repaid with interest. Under this program, the Department provided credit protection to FRB in support of its program to provide low-cost funding to qualified small business borrowers that owned eligible collateral.

8. INVESTMENTS IN GOVERNMENT SPONSORED ENTERPRISES

Congress established Fannie Mae and Freddie Mac as GSEs to support the supply of mortgage loans. A key function of the GSEs is to package 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 undermining the entire housing market. This led Congress to pass the Housing and Economic Recovery Act (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 the Department entered into a Senior Preferred Stock Purchase Agreement (SPSPA) with each GSE. These actions were taken to preserve the GSEs' assets, ensure a sound and solvent financial condition, and mitigate systemic risks that contributed to market instability. The SPSPAs were amended in August 2012 (the amended SPSPAs) which changed, among other things, the basis for determining quarterly dividends that are paid by the GSEs to the U.S. government. The dividend change in the amended SPSPAs became operationally effective commencing with the quarter ending March 31, 2013.

The actions taken by the Department are intended to provide financial stability to the U.S. economy. The purpose of the Department's 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. Draws under the SPSPAs result in an increased investment in the GSEs as further discussed below.

Under the SPSPAs, the Department 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-transferrable 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 GSE's positive net worth above a capital reserve amount. The capital reserve amount was initially set at $3.0 billion for calendar year 2013, and declined to $2.4 billion on January 1, 2014, and will continue to decline by $600 million at the beginning of each calendar year thereafter until it reaches zero by calendar year 2018. The GSEs will not pay a quarterly dividend if their positive net worth is below the required capital reserve threshold. Cash dividends of $72.5 billion and $95.7 billion were received during fiscal years ended September 30, 2014 and 2013, respectively. Dividends received in fiscal years 2014 and 2013 were primarily attributable to a federal income tax benefit that was recognized in the earnings of one GSE in fiscal year 2014 and the earnings of the other GSE in fiscal year 2013.

The SPSPAs, which have no expiration date, provide for the Department 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. The maximum amount available to each GSE under this agreement was previously based on a formulaic cap which ended December 31, 2012, at which time, the maximum amount became fixed effective 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, the liquidation preference of the initial 1,000,000 shares is increased by the amount of the draw. There were no payments to the GSEs for the fiscal years ended September 30, 2014 and 2013.

ACCOUNTING TREATMENT

Entity Transactions– If the Department estimates a contingent liability to the GSEs, this liability will be accrued and reported on the Department's Consolidated Balance Sheets pursuant to the SPSPAs and funded through the Department's direct

appropriations. The liability accrual will be reflected at its gross amount as an "entity" cost on the Department's Consolidated Statements of Net Cost, within the line item, "Cumulative Results of Operations" on the Department's 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 actual payments are made 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 the Department's Consolidated Statements of Net Cost as "GSEs Non-Entity Cost (Revenue)." 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 that are likewise reported as "GSEs Non-Entity Cost (Revenue)."

INVESTMENTS IN GSES

As of September 30, 2014 and 2013, the Department's investments in the GSEs consisted of the following (in millions):

GSEs Investments	**Gross Investments As of 9/30/14**	**Cumulative Valuation Gain/(Loss)**	**9/30/2014 Fair Value**
Fannie Mae Senior Preferred Stock	**$ 116,989**	**$ (64,289)**	**$ 52,700**
Freddie Mac Senior Preferred Stock	**72,160**	**(40,760)**	**31,400**
Fannie Mae Warrants for Common Stock	**3,104**	**4,606**	**7,710**
Freddie Mac Warrants for Common Stock	**2,264**	**1,736**	**4,000**
Total GSEs Investments	**$ 194,517**	**$ (98,707)**	**$ 95,810**

GSEs Investments	Gross Investments As of 9/30/13	Cumulative Valuation Gain/(Loss)	9/30/2013 Fair Value
Fannie Mae Senior Preferred Stock	$ 116,989	$ (40,429)	$ 76,560
Freddie Mac Senior Preferred Stock	72,160	(16,295)	55,865
Fannie Mae Warrants for Common Stock	3,104	1,978	5,082
Freddie Mac Warrants for Common Stock	2,264	450	2,714
Total GSEs Investments	$ 194,517	$ (54,296)	$ 140,221

SENIOR PREFERRED STOCK AND WARRANTS FOR COMMON STOCK

In determining the fair value of the senior preferred stock and warrants for common stock, the Department 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 of the nature of the instruments, which are not publicly traded and for which 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 decreased at September 30, 2014 when compared to 2013 primarily due to lower forecasted dividends as a result of lower

forecasted GSE earnings to be derived from guarantee fees, coupled with one-time benefits recognized in the GSEs' historical earnings that contributed to the higher fair value of these investments at the end of 2013 but which did not recur at the end of 2014. The fair value of the warrants is impacted by the nominal exercise price and the large number of potential exercise shares, the market trading of the common stock that underlies the warrants as of September 30, the principal market, and the market participants. Other factors impacting the fair value include, among other things, the holding period risk related directly to the assumption of the amount of time that it will take to sell the exercised shares without depressing the market. The fair value of the warrants increased at the end of fiscal year 2014 when compared to 2013 primarily due to increases in the market price of the underlying common stock of each GSE.

CONTINGENT LIABILITY TO GSES

As part of the annual process undertaken by the Department, a series of long-term financial forecasts are prepared 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. The Department used 25-year financial forecasts prepared through year 2039 and 2038 in assessing if a contingent liability was required as of September 30, 2014 and 2013, respectively. If future payments under the SPSPAs are deemed to be probable within the forecast horizon, the Department will estimate and accrue a contingent liability to the GSEs to reflect the forecasted equity deficits of the GSEs. This accrued contingent liability will be undiscounted and will not take into account any of the offsetting dividends that would be received, as the dividends would be owed directly to the General Fund. Such recorded accruals will be adjusted as new information develops or circumstances change.

Based on its annual assessment, the Department estimated no probable future funding draws as of September 30, 2014 and 2013, and thereby accrued no contingent liability. At September 30, 2014 and 2013, the maximum remaining contractual commitment to the GSEs for the remaining life of the SPSPAs was $258.1 billion which, as discussed above, was established as of December 31, 2012.

In assessing the need for an estimated contingent liability, the Department relies 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, 2014, include three potential wind-down scenarios, with varying assumptions regarding the timing as to when new guaranteed mortgage-backed securities would cease being issued by the GSEs. 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 is required under the amended SPSPAs to be reduced to $250.0 billion by December 31, 2018.

The Department's forecasts of potential future draws by the GSEs may differ from actual experience. Potential future actual 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, 2014 and 2013, along with their summarized unaudited aggregated financial operating results for the nine months ended of September 30, 2014 and 2013 were as follows (in millions):

		2014		2013
Combined Assets				
Investment Securities	**$**	**206,154**	$	266,305
Mortgage Loans		**4,701,174**		4,702,674
Other		**245,772**		294,028
Total Combined Assets		**5,153,100**		5,263,007
Combined Liabilities				
Long-Term Debt		**4,894,011**		4,959,558
Other		**247,504**		258,396
Total Combined Liabilities		**5,141,515**		5,217,954
Combined Net Equity	**$**	**11,585**	$	45,053
For the Nine Months Ended September 30				
Combined Net Interest Income	**$**	**25,502**	$	30,238
Combined Benefit for Loan Losses		**3,457**		11,213
Combined Net Interest Income After Benefit for Loan Losses	**$**	**28,959**	$	41,451
Combined Net Income	**$**	**20,360**	$	117,579
Combined Regulatory Capital - Minimum Capital Deficit as of September 30	**$**	**(228,267)**	$	(195,697)

The GSEs' combined financial condition and results of operations as of and for the nine months ended September 30, 2013 include a $74.5 billion federal income tax benefit realized in net income by both GSEs combined during the nine months ended September 30, 2013. The financial information above also excludes financial guarantees not consolidated on the GSEs' balance sheets.

The above information was taken directly from the quarterly reports filed with the SEC, which are publicly available on the SEC's website (www.SEC.gov) and also the GSE investor relations websites.

The decline in the GSEs' combined net income for the nine months ended September 30, 2014 compared to the same period in 2013 was primarily attributable to one-time federal income tax benefits that were recognized in their 2013 earnings that did not recur in 2014.

GSES NON-ENTITY REVENUE

For the fiscal years ended September 30, 2014 and 2013, GSEs Non-Entity Revenue consisted of the following (in millions):

Summary of GSEs Non-Entity Revenue		**2014**		2013
Fair Value Loss/(Gain) on GSEs Warrants/Preferred Stock	**$**	**44,411**	$	(30,879)
GSEs Preferred Stock Dividends		**(72,472)**		(95,727)
Total GSEs Non-Entity Revenue	**$**	**(28,061)**	$	(126,606)

REGULATORY ENVIRONMENT

A provision within the Dodd-Frank Act required the Secretary to conduct a study and develop recommendations regarding the options for ending the conservatorship of the two GSEs. In 2011, the President delivered to Congress a report from the Secretary that provided recommendations regarding the options for ending the conservatorship and plans to wind down the GSEs. 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 foreclosure prevention activities and credit availability; ***(ii)*** reduce taxpayer risk through increasing the role of private capital in the mortgage market; and ***(iii)*** build a new single-family securitization infrastructure.

The Temporary Payroll Tax Cut Continuation Act of 2011 was funded by an increase of ten basis points in the GSEs' guarantee fees (referred to as "the increased fees") which began in April 2012, and is effective through October 1, 2021. The increased fees are remitted to the Department and not retained by the GSEs. Accordingly, the increased fees do not affect the profitability of the GSEs. For fiscal years 2014 and 2013, the GSEs remitted to the Department the increased fees totaling $1.9 billion and $946 million, respectively, which are reported within the line item entitled "Fines, Penalties, Interest and Other Revenue" on the Department's Statements of Custodial Activity.

9. Investments in International Financial Institutions

As of September 30, 2014 and 2013, Investments in International Financial Institutions (or Multilateral Development Banks) consisted of the following (in millions):

		2014		2013
International Bank for Reconstruction and Development	$	**2,471**	$	2,216
Inter-American Development Bank [1]		**1,796**		1,695
Asian Development Bank		**879**		772
European Bank for Reconstruction and Development		**636**		636
International Finance Corporation		**569**		569
African Development Bank		**270**		238
North American Development Bank		**225**		225
Multilateral Investment Guarantee Agency		**45**		45
Total	$	**6,891**	$	6,396

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

10. Other Investments and Related Interest

Other investments and related interest include foreign currency holdings that are typically invested in interest-bearing securities issued or held through foreign governments or monetary authorities (refer to Note 5). ESF holds most of the Department's foreign currency investments.

As of September 30, 2014 and 2013, Other Investments and Related Interest consisted of the following (in millions):

Type of Investment		**Cost/ Acquisition Value**		**Unamortized (Premium)/ Discount**		**Interest Receivable**		**9/30/14 Net Investment**		**Unrealized Gain/(Loss)**		**9/30/14 Fair Value**
Foreign Investments:												
Euro Bonds & Notes	**$**	**5,286**	**$**	**135**	**$**	**65**	**$**	**5,486**	**$**	**91**	**$**	**5,577**
Japanese Government Bonds		**5,678**		**13**		**3**		**5,694**		**7**		**5,701**
Other FCDAs		**6,623**		-		-		**6,623**		**3**		**6,626**
Other Investments		**28**		**(2)**		-		**26**		**(9)**		**17**
Total Non-Federal	**$**	**17,615**	**$**	**146**	**$**	**68**	**$**	**17,829**	**$**	**92**	**$**	**17,921**

Type of Investment		Cost/ Acquisition Value		Unamortized (Premium)/ Discount		Interest Receivable		9/30/13 Net Investment		Unrealized Gain/(Loss)		9/30/13 Fair Value
Foreign Investments:												
Euro Bonds & Notes	$	4,556	$	143	$	75	$	4,774	$	85	$	4,859
Japanese Government Bonds		6,326		15		4		6,345		8		6,353
Other FCDAs		2,884		-		-		2,884		-		2,884
Other Investments		28		(2)		-		26		(8)		18
Total Non-Federal	$	13,794	$	156	$	79	$	14,029	$	85	$	14,114

11. Other Credit Program Receivables, Net

The Department administers a number of programs, in addition to the TARP programs, designed to stabilize the nation's financial system and restore the flow of credit to consumers, businesses, and homeowners. As of September 30, 2014 and 2013, Other Credit Program Receivables, Net consisted of the following (in millions):

	2014	2013
State and Local Housing Finance Agency Program (GSE sponsored)	**$ 7,617**	$ 8,420
Small Business Lending Fund Program	**3,150**	3,605
International Monetary Fund Programs:		
U.S. Quota in the IMF Program (FCRA portion)	**1,836**	1,896
New Arrangements to Borrow Program (FCRA portion)	**4,237**	3,668
Other Direct Loans Program	**88**	39
Total	**$ 16,928**	$ 17,628

State and Local Housing Finance Agency (HFA) Program

Under HERA, the Department, together with the FHFA, Fannie Mae, and Freddie Mac, created a program in October 2009 to provide support to HFAs. This program was 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. The HFA Program is comprised of two separate programs: ***(i)*** the New Issue Bond Program (NIBP) and ***(ii)*** the Temporary Credit and Liquidity Program (TCLP). As of September 30, 2014 and 2013, the HFA net credit program receivable of $7.6 billion and $8.4 billion, respectively, included a positive subsidy allowance of $1.1 billion and $915 million, respectively, which reflects the Department's projection that the HFA program will result in a net cost to the Department after accounting for repayments, interest, and fees.

Under the terms of the NIBP, the Department purchased securities of Fannie Mae and Freddie Mac backed by new mortgage revenue bonds issued by HFAs. As of September 30, 2014 and 2013, the NIBP gross credit program receivable was $8.7 billion and $9.3 billion, respectively. The Department performed a financial statement re-estimate of the NIBP program's cost as of September 30, 2014 and 2013. These re-estimates resulted in an upward re-estimate, or an increase in the cost of the program, of $175 million as of September 30, 2014, and a downward re-estimate, or decrease in cost of the program, of $74 million as of September 30, 2013. The upward re-estimate in fiscal year 2014 was primarily driven by lower forecasted prepayment rates that increase the cost of the program since HFA bonds carry a lower weighted average coupon than the funding cost of the program. The downward re-estimate in fiscal year 2013 was primarily driven by higher than estimated principal collections.

Under the terms of the TCLP, the Department purchased participation certificates issued by Fannie Mae and Freddie Mac, representing participating interests in credit and liquidity facilities that the GSEs are providing to certain HFAs as part of the program. Fannie Mae and Freddie Mac provided replacement credit and liquidity facilities to HFAs to help reduce the costs of maintaining existing financing and relieve financial strains on the HFAs. The Department agreed to support the GSE replacement credit and liquidity facilities by purchasing from the GSEs interests in certain HFA bonds in the event such bonds were tendered to the GSEs. As of September 30, 2014 and 2013, the liquidity facilities covered $851 million and $2.0 billion, respectively, of single-family and multi-family variable-rate demand obligations (VRDOs). As of September 30, 2014 and 2013, none of these bonds had been tendered to the GSEs and, accordingly, the Department had not disbursed any funds. As such, the Department did not perform September 30, 2014 or 2013 subsidy re-estimates for TCLP.

Small Business Lending Fund Program

The *Small Business Jobs Act of 2010* (P.L. 111-240) created the SBLF program. Pursuant to the Act, the Department provided capital to qualified community banks, for purposes of encouraging bank lending to small businesses, by purchasing qualifying non-cumulative preferred stock or equivalents in each bank. As an incentive to participating banks to increase lending to small businesses, the dividend rate a bank pays to the Department for SBLF funding will be reduced as the bank's small business lending increases. For most banks, the initial dividend rate of 5.0 percent may be reduced to as low as 1.0 percent. For institutions which did not increase lending by the end of the first two years of the program, the rate increased to 7.0 percent, effective for the quarter ending March 31, 2014. The program provides an incentive for banks to repay loans within 4 ½ years. At that time, the rate will increase to 9.0 percent for banks remaining in the program. The Department treats these purchases of capital as direct loans in accordance with the requirements of FCRA. The Department's authority to provide new capital to SBLF participants expired in September 2011 and, accordingly, there were no new capital disbursements since that date.

As of September 30, 2014 and 2013, SBLF's net credit program receivable was $3.2 billion and $3.6 billion, respectively. These amounts include a positive subsidy allowance of $36 million and $28 million at September 30, 2014 and 2013, respectively, which reflects the Department's projection that the SBLF program will result in a net cost to the Department.

The Department performed financial statement re-estimates of the program's cost as of September 30, 2014 and 2013 which resulted in an upward re-estimate, or an increase in the cost of the program, of $24 million and $34 million. Both the 2014 and 2013 upward re-estimates were driven by changes in performance assumptions, actual performance to-date, and actual program funding costs. The 2014 performance assumptions anticipate an overall cost to the program due to lower dividend rates, both actual and projected, paid by participating institutions relative to previously projected dividend rates. These lower dividend rates are the result of participating banks increasing small business lending to qualify for lower dividend rates.

International Monetary Fund Programs

The *Supplemental Appropriations Act of 2009* authorized an increase in the U.S. quota in the IMF, as well as an increase in U.S. participation in the New Arrangements to Borrow (NAB), one of the IMF's supplemental borrowing arrangements (refer to Note 12). The legislation applied FCRA to both program increases and, thus, the program increases are treated as direct loans to the IMF. For U.S. budget and accounting purposes, there are effectively two portions of the IMF quota and NAB programs. As of September 30, 2014 and 2013, the U.S. quota in the IMF totaled $62.5 billion and $64.6 billion, respectively, and comprised a FCRA and non-FCRA portion of $7.4 billion and $55.1 billion, respectively, at September 30, 2014, and $7.6 billion and $57.0 billion, respectively, at September 30, 2013. As of September 30, 2014 and 2013, the U.S. NAB arrangement with the IMF totaled $102.4 billion and $106.0 billion, respectively, and comprised a FCRA and non-FCRA portion of $92.6 billion and $9.8 billion, respectively, at September 30, 2014, and $95.8 billion and $10.2 billion, respectively, at September 30, 2013. These designations only affect the manner in which the Department accounts for the use and repayment of these funds. The U.S. commitments to the IMF are denominated in SDRs and, thus, the dollar amounts of these commitments fluctuate with the SDR valuation rate. The following is a discussion of the FCRA portions of both the U.S. quota and NAB programs.

United States Quota in the IMF

At September 30, 2014 and 2013, the Department reported a net credit program receivable of $1.8 billion and $1.9 billion, respectively, representing amounts disbursed under the FCRA portion of the U.S. quota's reserve position, net of a positive subsidy allowance of $159 million and $99 million, respectively. This positive subsidy reflects the Department's projection that the program will result in a net cost to the Department after accounting for repayments and net interest. The Department reported the remaining undisbursed FCRA portion of the U.S. quota totaling $5.5 billion and $5.7 billion at September 30, 2014 and 2013,

respectively, as a letter of credit (refer to Note 12). The Department performed financial statement re-estimates of the program's cost as of September 30, 2014 and 2013. The re-estimates resulted in an increase in program costs (or an upward re-estimate) of $59 million and $5 million for fiscal years 2014 and 2013, respectively, primarily due to a fluctuation in the valuation of the SDR rate since the calculation of the prior fiscal year's re-estimate.

New Arrangements To Borrow

FCRA disbursements outstanding under the NAB for fiscal years ended 2014 and 2013 totaled a net credit program receivable of $4.2 billion and $3.7 billion, respectively. The program had a positive subsidy allowance of $134 million and a negative subsidy allowance of $15 million as of September 30, 2014 and 2013, respectively.

The Department performed a financial statement re-estimate of the program's cost as of September 30, 2014 and 2013. These re-estimates resulted in an increase in the projected cost of the program (or an upward re-estimate) of $145 million as of September 30, 2014, and a decrease in the projected cost of the program (or a downward re-estimate) of $1 million as of September 30, 2013. The re-estimates are primarily driven by the fluctuation in the valuation of the SDR rate since the prior year's re-estimate.

Summary Tables

The following tables provide the net composition of the Department's portfolio, subsidy cost, and re-estimates, a reconciliation of subsidy cost allowances, budget subsidy rates, and the components of the subsidy for each credit program for the fiscal years ended September 30, 2014 and 2013. The subsidy rates disclosed pertain only to that year's cohorts. 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 2014 and 2013 could result from disbursements of loans from both current year cohorts and prior year(s) cohorts, and also includes re-estimates.

(in millions)		HFA	SBLF	IMF-Quota	IMF-NAB	Other [1]	2014 TOTAL
Credit Program Receivables, Net:							
Credit Program Receivables, Gross	$	8,667 $	3,186 $	1,995 $	4,371 $	104 $	18,323
Subsidy Cost Allowance		(1,050)	(36)	(159)	(134)	(16)	(1,395)
Credit Program Receivables, Net	$	7,617 $	3,150 $	1,836 $	4,237 $	88 $	16,928
New Credit Program Loans Disbursed	$	- $	- $	- $	718 $	52 $	770
Obligations for Loans Not Yet Disbursed	$	- $	- $	- $	- $	502 $	502
Reconciliation of Subsidy Cost Allowance:							
Balance, Beginning	$	915 $	28 $	99 $	(15) $	17 $	1,044
Subsidy Cost for Disbursements		-	-	-	2	3	5
Fees Received		13	-	-	-	-	13
Subsidy Allowance Amortized		(53)	(16)	1	2	(1)	(67)
Balance, Ending, Before Re-estimates		875	12	100	(11)	19	995
Subsidy Re-estimates		175	24	59	145	(3)	400
Balance, Ending	$	1,050 $	36 $	159 $	134 $	16 $	1,395
Re-estimates							
Interest Rate Re-estimate	$	- $	- $	- $	- $	(6) $	(6)
Interest on Re-estimate		29	2	-	1	-	32
Technical/Default Re-estimate		146	22	59	144	3	374
Total Re-estimates – Increase (Decrease) in Subsidy Cost	$	175 $	24 $	59 $	145 $	(3) $	400
Reconciliation of Subsidy Costs:							
Subsidy Cost for Disbursements	$	- $	- $	- $	2 $	3 $	5
Subsidy Re-estimates		175	24	59	145	(3)	400
Total Credit Program Receivables Subsidy Costs	$	175 $	24 $	59 $	147 $	- $	405
Administrative Expense	$	5 $	14 $	- $	- $	1 $	20

(1) CDFI Financial Assistance Direct Loan Program budget subsidy rates for Interest Differential and for Defaults were 1.41% and 7.48%, respectively.

(in millions)		HFA	SBLF	IMF-Quota	IMF-NAB	Other [2]	2013 TOTAL
Credit Program Receivables, Net:							
Credit Program Receivables, Gross	$	9,335 $	3,633 $	1,995 $	3,653 $	56 $	18,672
Subsidy Cost Allowance		(915)	(28)	(99)	15	(17)	(1,044)
Credit Program Receivables, Net	$	8,420 $	3,605 $	1,896 $	3,668 $	39 $	17,628
New Credit Program Loans Disbursed	$	- $	- $	- $	2,163 $	14 $	2,177
Obligations for Loans Not Yet Disbursed	$	- $	- $	- $	- $	333 $	333
Reconciliation of Subsidy Cost Allowance:							
Balance, Beginning	$	1,128 $	50 $	137 $	(21) $	13 $	1,307
Subsidy Cost for Disbursements		-	-	-	7	6	13
Fees Received		27	-	-	-	-	27
Loans Written Off		-	-	-	-	(1)	(1)
Subsidy Allowance Amortized		(166)	(56)	(43)	-	(1)	(266)
Balance, Ending, Before Re-estimates		989	(6)	94	(14)	17	1,080
Subsidy Re-estimates		(74)	34	5	(1)	-	(36)
Balance, Ending	$	915 $	28 $	99 $	(15) $	17 $	1,044
Re-estimates							
Interest on Re-estimate	$	(10) $	2 $	- $	- $	- $	(8)
Technical/Default Re-estimate		(64)	32	5	(1)	-	(28)
Total Re-estimates – Increase (Decrease) in Subsidy Cost	$	(74) $	34 $	5 $	(1) $	- $	(36)
Reconciliation of Subsidy Costs:							
Subsidy Cost for Disbursements	$	- $	- $	- $	7 $	6 $	13
Subsidy Re-estimates		(74)	34	5	(1)	-	(36)
Total Credit Program Receivables Subsidy Costs	$	(74) $	34 $	5 $	6 $	6 $	(23)
Administrative Expense	$	9 $	16 $	- $	- $	- $	25

(2) CDFI Financial Assistance Direct Loan Program budget subsidy rates for Interest Differential and for Defaults were 28.25% and 12.01%, respectively.

12. RESERVE POSITION IN THE INTERNATIONAL MONETARY FUND AND RELATED LOANS AND INTEREST RECEIVABLE

The United States participates in the IMF through a quota subscription and certain borrowing arrangements that supplement IMF resources. The *Supplemental Appropriations Act of 2009* (P.L. 111-32) provided for an increase of approximately SDR 5.0 billion (approximately $8.0 billion) in the U.S. quota in the IMF, as well as an increase in the United States' participation in the NAB up to the dollar equivalent of SDR 75 billion. These increases in the U.S. quota and NAB arrangement became effective in fiscal year 2011. Unlike all prior U.S. funding for the IMF, P.L. 111-32 subjects the increases in both the U.S. quota and the NAB to the requirements of FCRA. All U.S. quota and NAB funding prior to P.L. 111-32, referred to as "non-FCRA funds," do not result in net budgetary outlays. All such funding provided pursuant to P.L. 111-32, referred to as "FCRA funds," is accounted for in accordance with credit reform accounting guidelines (refer to Note 11). A credit program receivable is established for FCRA fund amounts disbursed. Additionally, FCRA fund amounts disbursed do not result in net budgetary outlays, except for subsidy costs of the programs which constitute the excess of program disbursements over the net present value of expected future repayments.

RESERVE POSITION IN THE INTERNATIONAL MONETARY FUND

Quota subscriptions are paid 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 the Department and maintained by the FRBNY, represents the Department's 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 United States 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 United States, 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 United States, and is available at any time to meet U.S. funding needs.

The U.S. quota is denominated in SDRs. As of September 30, 2014 and 2013, the U.S. quota in the IMF was SDR 42.1 billion. The equivalent U.S. dollar value of the U.S. quota consisted of the following (in millions):

	Non-FCRA	**FCRA**	**Total 2014**	Non-FCRA	FCRA	Total 2013
Letter of Credit [1]	**$ 42,243**	**$ 5,514**	**$ 47,757**	$ 39,075	$ 5,706	$ 44,781
Reserve Position [2]	**12,834**	**1,859**	**14,693**	17,915	1,923	19,838
Total U.S. Quota in the IMF	**$ 55,077**	**$ 7,373**	**$ 62,450**	$ 56,990	$ 7,629	$ 64,619

(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 that is held in cash in an IMF account at the FRBNY.

(2) The Reserve Position amounts shown in the non-FCRA columns are included in "Reserve Position in the IMF" as reported on the Consolidated Balance Sheets, while amounts shown in the FCRA columns are included in "Other Credit Program Receivables, Net" as reported on the Consolidated Balance Sheets. The FCRA amount shown represents the initial 2011 disbursement under P.L. 111-32 of SDR 1.2 billion at the current exchange rate (refer to Note 11).

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. The Department periodically adjusts this balance to maintain the SDR value of the U.S. quota. As of September 30, 2014 and 2013, the U.S. quota reflects a net downward adjustment in value of $2.2 billion and $342 million, respectively, due to the appreciation of the U.S. dollar against the SDR.

LOANS AND INTEREST RECEIVABLE

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

in two such arrangements – the NAB and the General Arrangements to Borrow (GAB). In accordance with P.L. 111-32 which provided for an increase in the United States' participation in the NAB of up to the dollar equivalent of SDR 75 billion, the United States increased its NAB participation from SDR 6.6 billion to SDR 69.1 billion, which was equivalent to $102.4 billion and $106.0 billion as of September 30, 2014 and 2013, respectively. As of September 30, 2014 and 2013, under the U.S. NAB arrangement with the IMF, there was $9.4 billion and $10.0 billion of U.S. non-FCRA loans outstanding, net of $413 million and $156 million of allowance for loan loss, respectively, and $4.2 billion and $3.7 billion of U.S. FCRA loans (refer to Note 11) outstanding under the NAB arrangement, respectively. These amounts are liquid and interest-bearing claims on the IMF, and the non-FCRA portions are reported as Loans and Interest Receivable, Net on the Consolidated Balance Sheets, while the FCRA portions are reported as Other Credit Program Receivables, Net on the Consolidated Balance Sheets. As of September 30, 2014, the IMF had not utilized the GAB.

13. TAXES, INTEREST, AND OTHER RECEIVABLES, NET

As of September 30, 2014 and 2013, Taxes, Interest, and Other Receivables, Net consisted of the following (in millions):

	2014	2013
Non-Entity		
Federal Taxes Receivable, Gross	**$ 156,158**	$ 159,087
Less: Allowance on Taxes Receivable	**(116,143)**	(124,074)
Interest Receivable on FRB Deposits of Earnings	**1,681**	3,079
Other Receivables	**687**	465
Less: Allowance on Other Receivables	**(78)**	(30)
Total Non-Entity (Note 15)	**42,305**	38,527
Entity		
Miscellaneous Entity Receivables and Related Interest	**204**	75
Total Taxes, Interest, and Other Receivables, Net	**$ 42,509**	$ 38,602

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 is established to represent an estimate for uncollectible amounts. The portion of tax receivables 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) - IRS Federal Taxes Receivable, Net).

In addition to amounts attributed to taxes, these receivables also include accrued interest income due on funds deposited in FRBs. The Department does not establish an allowance for the receivable on deposits of FRB earnings.

14. Property, Plant, and Equipment, Net

As of September 30, 2014 and 2013, Property, Plant, and Equipment, Net consisted of the following (in millions):

	Depreciation Method	**Service Life**	**Cost**	**Accumulated Depreciation**	**2014 Net Book Value**
Buildings, structures and facilities	**S/L**	**3 - 50 years**	**$ 740**	**$ (396)**	**$ 344**
Furniture, fixtures and equipment	**S/L**	**2 - 20 years**	**2,861**	**(1,983)**	**878**
Construction in progress	**N/A**	**N/A**	**68**	**-**	**68**
Land and land improvements	**N/A**	**N/A**	**18**	**(1)**	**17**
Internal-use software in use	**S/L**	**2 - 15 years**	**2,270**	**(1,302)**	**968**
Internal-use software in development	**N/A**	**N/A**	**289**	**-**	**289**
Assets under capital lease	**S/L**	**2 - 25 years**	**18**	**(6)**	**12**
Leasehold improvements	**S/L**	**2 - 25 years**	**413**	**(189)**	**224**
Total			**$ 6,677**	**$ (3,877)**	**$ 2,800**

	Depreciation Method	Service Life	Cost	Accumulated Depreciation	2013 Net Book Value
Buildings, structures and facilities	S/L	3 - 50 years	$ 737	$ (382)	$ 355
Furniture, fixtures and equipment	S/L	2 - 20 years	2,867	(2,005)	862
Construction in progress	N/A	N/A	133	-	133
Land and land improvements	N/A	N/A	18	(1)	17
Internal-use software in use	S/L	2 - 15 years	1,837	(1,143)	694
Internal-use software in development	N/A	N/A	343	-	343
Assets under capital lease	S/L	2 - 25 years	9	(3)	6
Leasehold improvements	S/L	2 - 25 years	403	(167)	236
Total			$ 6,347	$ (3,701)	$ 2,646

The service life ranges vary significantly due to the diverse nature of PP&E held by the Department.

Heritage Assets

The Department has a total of fifteen heritage assets, of which five are considered multi-use, for fiscal years 2014 and 2013. 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 considered 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 historical artifacts. The condition of the heritage assets is disclosed within the Required Supplementary Information (Unaudited) section of this report.

15. NON-ENTITY VS. ENTITY ASSETS

Non-entity assets are those that are held and managed by the Department on behalf of the U.S. government (General Fund) but are not available for use by the Department. As of September 30, 2014 and 2013, the Department's total assets, segregated between non-entity and entity, are shown below (in millions):

			2014	
		Non-Entity	**Entity**	**Total**
Intra-governmental Assets:				
Fund Balance [(a)]	**$**	**1,988 $**	**350,940 $**	**352,928**
Loans and Interest Receivable (Note 3)		**1,147,692**	**73,907**	**1,221,599**
Advances to the Unemployment Trust Fund (Note 4)		**20,824**	**-**	**20,824**
Due From the General Fund (Note 4)		**17,949,849**	**-**	**17,949,849**
Other Intra-governmental Assets		**500**	**68**	**568**
Total Intra-governmental Assets		**19,120,853**	**424,915**	**19,545,768**
Cash, Foreign Currency, and Other Monetary Assets (Note 5) [(b)]		**154,052**	**57,816**	**211,868**
Gold and Silver Reserves (Note 6) [(c)]		**11,062**	**-**	**11,062**
Investments in GSEs (Note 8)		**95,810**	**-**	**95,810**
Taxes, Interest, and Other Receivables, Net (Note 13)		**42,305**	**204**	**42,509**
Other Assets [(d)]		**72**	**69,873**	**69,945**
Total Assets	**$**	**19,424,154 $**	**552,808 $**	**19,976,962**

[(a)] *$540 million of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*
[(b)] *$153.5 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 TARP and non-TARP credit program receivables, net, totaling $2.2 billion and $16.9 billion, respectively, a reserve position in the IMF of $12.8 billion, and other various assets on the Consolidated Balance Sheets not separately presented in this table.*

			2013	
		Non-Entity	Entity	Total
Intra-governmental Assets:				
Fund Balance [(e)]	$	1,254 $	366,566 $	367,820
Loans and Interest Receivable (Note 3)		1,020,773	72,786	1,093,559
Advances to the Unemployment Trust Fund (Note 4)		29,696	-	29,696
Due From the General Fund (Note 4)		17,123,357	-	17,123,357
Other Intra-governmental Assets		364	71	435
Total Intra-governmental Assets		18,175,444	439,423	18,614,867
Cash, Foreign Currency, and Other Monetary Assets (Note 5) [(f)]		83,208	65,298	148,506
Gold and Silver Reserves (Note 6) [(g)]		11,062	-	11,062
Investments in GSEs (Note 8)		140,221	-	140,221
Taxes, Interest, and Other Receivables, Net (Note 13)		38,527	75	38,602
Other Assets [(h)]	$	90	87,276	87,366
Total Assets		18,448,552 $	592,072 $	19,040,624

[(e)] *$434 million of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*
[(f)] *$82.9 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 TARP and non-TARP credit program receivables, net, totaling $17.9 billion and $17.6 billion, respectively, a reserve position in the IMF of $17.9 billion, and other various assets on the Consolidated Balance Sheets not separately presented in this table.*

16. Federal Debt and Interest Payable and Related Liabilities

The Department 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 HUD.

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, represent balances of Treasury securities held by individual federal agencies with either the authority or the requirement to invest excess receipts in U.S. Treasury securities in which the principal and interest are guaranteed by the full faith and credit of the U.S. government.

The Federal Debt and Interest Payable as of September 30, 2014 and 2013 was as follows (in millions):

Held by Other Federal Agencies (Intra-governmental)	**2014**	2013
Beginning Balance	**$ 4,725,136**	$ 4,759,532
New Borrowings/(Repayments)	**269,546**	(34,396)
Subtotal at Par Value	**4,994,682**	4,725,136
Premium/(Discount)	**67,586**	69,210
Debt Principal Not Covered by Budgetary Resources (Note 19)	**5,062,268**	4,794,346
Interest Payable Covered by Budgetary Resources	**42,352**	43,090
Total	**$ 5,104,620**	$ 4,837,436

Held by the Public	**2014**	2013
Beginning Balance	**$ 11,976,279**	$ 11,269,586
New Borrowings	**808,692**	706,693
Subtotal at Par Value	**12,784,971**	11,976,279
Premium/(Discount)	**(29,379)**	(24,444)
Debt Principal Not Covered by Budgetary Resources (Note 19)	**12,755,592**	11,951,835
Interest Payable Covered by Budgetary Resources	**53,831**	51,195
Total	**$ 12,809,423**	$ 12,003,030

Federal Debt Held by Other Federal Agencies

Certain federal agencies are allowed to invest excess funds in debt securities issued by the Department on behalf of the U.S. government. The terms and the conditions of debt securities issued are designed to meet the cash needs of the U.S. government. 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), for fiscal years 2014 and 2013 was 3.3 percent and 3.6 percent, respectively. The average intra-governmental interest rate on TIPS for both fiscal years 2014 and 2013 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, 2014 and 2013 was as follows (in millions):

		2014	2013
Social Security Administration	$	**2,782,918**	$ 2,756,390
Office of Personnel Management		**958,796**	821,466
Department of Defense Agencies		**694,595**	620,815
Department of Health and Human Services		**276,085**	278,766
All Other Federal Entities - Consolidated		**282,288**	247,699
Total Federal Debt Held by Other Federal Agencies	$	**4,994,682**	$ 4,725,136

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, 2014 and 2013 consisted of the following (in millions):

(at par value)	**Term**	**Average Interest Rates**		**2014**
Marketable:				
Treasury Bills	**1 Year or Less**	**0.1%**	**$**	**1,409,627**
Treasury Notes	**Over 1 Year - 10 Years**	**1.8%**		**8,160,196**
Treasury Bonds	**Over 10 Years**	**4.9%**		**1,534,068**
Treasury Inflation-Protected Securities (TIPS)	**5 Years or More**	**0.9%**		**1,044,676**
Treasury Floating Rate Notes (FRN)	**2 Years**	**0.1%**		**122,985**
Total Marketable				**12,271,552**
Non-Marketable	**On Demand out to 40 Years**	**2.3%**		**513,419**
Total Federal Debt Held by the Public			**$**	**12,784,971**

(at par value)	Term	Average Interest Rates		2013
Marketable:				
Treasury Bills	1 Year or Less	0.1%	$	1,527,909
Treasury Notes	Over 1 Year - 10 Years	1.8%		7,750,336
Treasury Bonds	Over 10 Years	5.1%		1,363,114
Treasury Inflation-Protected Securities (TIPS)	5 Years or More	1.1%		936,041
Total Marketable				11,577,400
Non-Marketable	On Demand out to 40 Years	2.4%		398,879
Total Federal Debt Held by the Public			$	11,976,279

The Department generally issues Treasury bills, notes, bonds, and TIPS to meet the borrowing needs of the U.S. government. The Department issues marketable bills at a discount or at par, and pays 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. Treasury bills are issued with a term of one year or less.

The Department issues marketable notes and bonds as long-term securities that pay semi-annual interest based on the securities' stated interest rates. These securities are issued 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. Treasury notes are issued with a term of over one year to ten years, and Treasury bonds are issued with a term of more than ten years. The Department also issues TIPS that have interest and redemption payments tied to the Consumer Price Index (CPI) for all Urban Consumers, a widely used measurement of inflation. TIPS are issued with a term of five years or more, and the principal for TIPS is adjusted 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 $97.1 billion and $88.5 billion as of September 30, 2014 and 2013, respectively.

In January 2014, Treasury began issuing a new marketable security, the Floating Rate Note (FRN), which pays 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. These securities, like marketable notes and bonds, are issued 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, 2014, adjusted by any discount or premium on securities outstanding as of that date. These notes are currently issued with a term of two years.

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, 2014, the FRBs had total holdings of $1.9 trillion which: *(i)* excluded $535 billion in Treasury securities used in overnight reverse repurchase transactions, and *(ii)* included a net of $2.3 billion in Treasury securities held by the FRB as collateral for securities lending activities. As of September 30, 2013, the FRBs had total holdings of $1.9 trillion which: *(i)* excluded $145 billion in Treasury securities used in overnight reverse repurchase transactions, and *(ii)* included a net of $3.1 billion in Treasury securities held by the FRB as collateral for securities lending activities. Treasury securities are held by the FRB in the FRB System Open Market Account for the purpose of conducting monetary policy.

STATUTORY DEBT LIMIT

Congress provided the Department with statutory authority to take certain extraordinary measures in the event that Treasury debt nears the statutory debt limit and a delay in raising the statutory debt limit occurs. These measures authorize the Department to deviate from its normal debt management operations and exercise legal authorities to avoid exceeding the statutory debt limit.

During the period of the delay in raising the statutory debt limit, the Department may undertake the following extraordinary measures: *(i)* suspend new issuances of Treasury debt securities to the Government Securities Investment Fund of the Federal Employees' Retirement System Thrift Savings Plan (TSP), the Civil Service Retirement and Disability Trust Fund (Civil Service Fund), the Postal Service Retiree Health Benefits Fund (Postal Benefits Fund), and the ESF as investments; *(ii)* redeem early a certain amount of Treasury debt securities held by the Civil Service Fund; (*iii*) suspend new issuances of State and Local Government Series (SLGS) securities; *(iv)* utilize FFB to exchange outstanding Treasury debt securities held by the Civil Service Fund for non-Treasury debt securities (refer to Note 17); and (*v*) issue cash management bills to manage short-term financing needs.

When the period of delay in raising the statutory debt limit ends, the Department discontinues its use of extraordinary measures and resumes its normal debt management operations. Furthermore, the Department is required by the relevant statutes, to restore the TSP, Civil Service Fund and Postal Benefits Fund with the accumulated principal balance of Treasury debt 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 uninvested principal). The Department is also required by the relevant statutes, to pay these funds the related lost interest (forgone interest) on the uninvested principal. The Department is not required by statute to restore the ESF with uninvested principal or lost interest incurred during a period of delay. When the period of delay in raising the statutory debt limit ends, the Department also resumes issuances of SLGS.

During fiscal year 2013, there were two delays in raising the debt limit. The first delay occurred from December 31, 2012 through February 3, 2013. On February 4, 2013, Congress enacted the ***No Budget, No Pay Act of 2013*** (P.L. 113-3) which temporarily suspended the statutory debt limit through May 18, 2013. On May 19, 2013, in accordance with P.L. 113-3, the statutory debt limit was raised to $16.699 trillion, the amount of the qualifying federal debt securities outstanding on that date. In fiscal year 2013, following the end of the delay in the debt limit raise, the Department restored the funds involved in the extraordinary measures undertaken during the period of delay with uninvested principal and interest totaling $31 billion and $20 million, respectively.

The second fiscal year 2013 delay in raising the statutory debt limit occurred from May 20, 2013 through October 16, 2013. On October 17, 2013, Congress enacted the ***Continuing Appropriations Act, 2014*** (P.L. 113-46) which temporarily suspended the statutory debt limit through February 7, 2014. On February 8, 2014, in accordance with P.L. 113-46, the statutory debt limit was raised to $17.212 trillion, the amount of the qualifying federal debt securities outstanding on that date. In fiscal year 2014, following the end of the delay in the debt limit raise, the Department restored the funds involved in the extraordinary measures undertaken during the period of delay with uninvested principal and interest totaling $296.2 billion and $1.2 billion, respectively.

During fiscal year 2014, another delay in raising the statutory debt limit occurred from February 10, 2014 until February 15, 2014. On February 15, 2014, Congress enacted the ***Temporary Debt Limit Extension Act*** (P.L. 113-83) which temporarily suspended the debt limit through March 15, 2015. In fiscal year 2014, following the end of the delay in the debt limit raise, the Department restored the funds involved in the extraordinary measures undertaken during this period of delay with uninvested principal and interest totaling $68.5 billion and $28.4 million, respectively.

Of the $1.2 billion of forgone interest paid in fiscal year 2014, $444 million was recorded as a current year, non-entity expense (within the line item entitled "Restoration of Forgone Federal Debt Interest") in fiscal year 2014, and $801 million was accrued as a non-entity expense in fiscal year 2013 (within the line item, Accrued Restoration of Foregone Federal Debt Interest) on the Department's Consolidated Statements of Net Cost, with a corresponding offsetting amount reported as Accrued Interest on Restoration of Federal Debt Principal on the Consolidated Statements of Changes in Net Position.

The second delay in raising the statutory debt limit in fiscal year 2013 (which commenced on May 20, 2013) did not end until October 16, 2013 and, as such, none of the uninvested principal and foregone interest payable had been restored to the involved funds as of September 30, 2013. Accordingly, the Department recorded a liability for the uninvested principal owed to the funds totaling $247.8 billion as of September 30, 2013, as well as for forgone interest payable to the funds for the period May 20, 2013 through September 30, 2013 totaling $801 million. The liability for the uninvested principal and foregone interest payable as of September 30, 2013 was reported on the Department's Consolidated Balance Sheets in the line item, Liability for Restoration of Federal Debt Principal and Interest, of which $128.3 billion represented an intra-governmental liability of the combined principal and interest payable to the Civil Service Fund and Postal Benefits Fund which are administered by the OPM, and the remaining $120.3 billion represented the principal and interest payable to the TSP, a public liability. Corresponding amounts were reported in the "Due From the General Fund" on the Consolidated Balance Sheets for the total $248.6 billion of uninvested principal and foregone interest owed to the funds as of September 30, 2013 (refer to Note 4).

17. OTHER DEBT AND INTEREST PAYABLE

The Department, through FFB, has outstanding borrowings and related accrued interest owed to the Civil Service Fund. At September 30, 2014 and 2013, FFB had outstanding borrowings of $13.7 billion and $5.8 billion, inclusive of $121 million and $66 million of accrued interest payable, respectively. In both fiscal years 2014 and 2013, the Department, through FFB, paid $1.4 billion in principal. The outstanding borrowings at September 30, 2014 had stated interest rates that ranged from 2.88 percent to 4.63 percent per annum, and an effective interest rate of 3.52 percent. The outstanding borrowings at September 30, 2013 had

both a stated and effective interest rate of 4.63 percent per annum. Maturity dates ranged from June 30, 2015 to June 30, 2024 for outstanding borrowings at September 30, 2014, and from June 30, 2014 to June 30, 2019 for outstanding borrowings on September 30, 2013.

On October 1, 2013, the Department, through FFB, exchanged $9.3 billion of non-Treasury debt securities that did not count against the debt limit, for an equivalent amount of Treasury debt securities held by the Civil Service Fund that did count against the debt limit. FFB used the Treasury debt securities it had received from the Civil Service Fund to repay $8.8 billion of outstanding principal borrowings, including interest, owed to the Fiscal Service. The Fiscal Service then extinguished the Treasury debt securities it had received from FFB, which thereby helped the Department to remain below the statutory debt limit. These transactions resulted in a cumulative $13.7 billion outstanding debt obligation owed by FFB to the Civil Service Fund as of September 30, 2014 which was reported as an intra-governmental liability on the Department's Consolidated Balance Sheets entitled "Other Debt and Interest Payable."

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

Title XI of the *Balanced Budget Act of 1997*, as amended was intended to relieve the D.C. government of the burden of unfunded pension liabilities transferred to the District by the U.S. government in 1979. To fulfill its responsibility, the Department manages 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). The Department is 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 are related to creditable service performed on or before June 30, 1997, while the Judicial Retirement Fund benefit payments are related 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, 2014 and 2013 is as follows (in millions):

	2014	2013
Beginning Liability Balance	**$ 9,164**	$ 10,059
Pension Expense:		
Normal Cost	**6**	5
Interest on Pension Liability During the Year	**170**	199
Actuarial (Gains) Losses During the Year:		
From Experience	**210**	128
From Discount Rate Assumption Change	**192**	(523)
From Other Assumption Changes	**(26)**	(156)
Total Pension Expense	**552**	(347)
Less Amounts Paid	**(557)**	(548)
Ending Liability Balance	**$ 9,159**	$ 9,164

Additional Information ($ in millions):

	D.C. Federal Pension Fund	Judicial Retirement Fund	2014 Total
Pensions and Other Actuarial Liability	**$ 8,949**	**$ 210**	**$ 9,159**
Funded Liability	**(3,645)**	**(141)**	**(3,786)**
Actuarial Liability (Unfunded)	**$ 5,304**	**$ 69**	**$ 5,373**
Amount Received from the General Fund	**$ 468**	**$ 10**	**$ 478**
Annual Rate of Investment Return Assumption	**1.76% - 4.32%**	**1.76% - 4.32%**	
Future Annual Rate of Inflation and Cost-Of-Living Adjustment:			
Police Officers	**2.39%**	**N/A**	
Firefighters	**2.39%**	**N/A**	
Teachers	**2.51%**	**N/A**	
Judicial	**N/A**	**2.50%**	
Future Annual Rate of Salary Increases:			
Police Officers	**2.31%**	**N/A**	
Firefighters	**2.20%**	**N/A**	
Teachers	**3.00%**	**N/A**	
Judicial	**N/A**	**1.90%**	

	D.C. Federal Pension Fund	Judicial Retirement Fund	2013 Total
Pensions and Other Actuarial Liability	$ 8,972	$ 192	$ 9,164
Funded Liability	(3,652)	(138)	(3,790)
Actuarial Liability (Unfunded)	$ 5,320	$ 54	$ 5,374
Amount Received from the General Fund	$ 496	$ 9	$ 505
Annual Rate of Investment Return Assumption	1.86% - 4.41%	1.86% - 4.41%	
Future Annual Rate of Inflation and Cost-Of-Living Adjustment:			
Police Officers	2.43%	N/A	
Firefighters	2.43%	N/A	
Teachers	2.53%	N/A	
Judicial	N/A	2.56%	
Future Annual Rate of Salary Increases:			
Police Officers	3.40%	N/A	
Firefighters	3.08%	N/A	
Teachers	3.90%	N/A	
Judicial	N/A	2.34%	

19. LIABILITIES

LIABILITIES NOT COVERED BY BUDGETARY AND OTHER RESOURCES

As of September 30, 2014 and 2013, liabilities not covered by budgetary and other resources consisted of the following (in millions):

	2014	2013
Intra-governmental Liabilities Not Covered by Budgetary and Other Resources		
Federal Debt Principal, Premium/Discount (Note 16)	**$ 5,062,268**	$ 4,794,346
Liability for Restoration of Federal Debt Principal and Interest (Note 16)	-	128,272
Other Intra-governmental Liabilities	**124**	123
Total Intra-governmental Liabilities Not Covered by Budgetary and Other Resources	**5,062,392**	4,922,741
Federal Debt Principal, Premium/Discount (Note 16)	**12,755,592**	11,951,835
Liability for Restoration of Federal Debt Principal and Interest (Note 16)	-	120,356
Gold and Silver Reserves (Note 6)	**11,062**	11,062
D.C. Federal Pensions and Judicial Retirement - Actuarial Liability (Unfunded)(Note 18)	**5,373**	5,374
Other Liabilities	**1,164**	2,624
Total Liabilities Not Covered by Budgetary and Other Resources	**17,835,583**	17,013,992
Total Liabilities Covered by Budgetary and Other Resources	**1,719,992**	1,585,489
Total Liabilities	**$ 19,555,575**	$ 18,599,481

OTHER LIABILITIES

Total "Other Liabilities" displayed on the Consolidated Balance Sheets consists of both liabilities that are covered and not covered by budgetary resources. Other liabilities at September 30, 2014 and 2013, consisted of the following (in millions):

	Current	**Non-Current**	**2014 Total**	Current	Non-Current	2013 Total
Intra-governmental						
Accounts Payable	**$ 212**	**$ -**	**$ 212**	$ 204	$ -	$ 204
Unfunded Federal Workers Compensation Program Liability (FECA)	**46**	**54**	**100**	48	56	104
Other Accrued Liabilities	**248**	**5**	**253**	169	-	169
Total Intra-governmental	**$ 506**	**$ 59**	**$ 565**	$ 421	$ 56	$ 477
With the Public						
Liability for Deposit Funds (Held by the U.S. government for Others) and Suspense Accounts	**$ 222**	**$ -**	**$ 222**	$ 245	$ -	$ 245
Actuarial Federal Workers Compensation Program Liability (FECA)	-	**616**	**616**	-	618	618
Accrued Funded Payroll and Benefits	**303**	-	**303**	269	-	269
Accounts Payable and Other Accrued Liabilities	**3,597**	**68**	**3,665**	3,047	55	3,102
Total With the Public	**$ 4,122**	**$ 684**	**$ 4,806**	$ 3,561	$ 673	$ 4,234

20. NET POSITION

Unexpended Appropriations represents the amount of spending authorized as of year-end that is unliquidated or unobligated and has not lapsed, been rescinded, or withdrawn. No-year appropriations remain available for obligation until expended. Annual appropriations remain available for upward or downward adjustment of obligations until expired. Adjustments related to unexpended appropriations, such as cancellations of expired funds or rescissions, are reported 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 pensions, and (d) expenses for contingent liabilities.

APPROPRIATIONS RECEIVED

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

TRANSFERS TO THE GENERAL FUND AND OTHER

The amount reported as "Transfers to the General Fund and Other" on the Consolidated Statement of Changes in Net Position under "Other Financing Sources" includes the following for the year ended September 30, 2014 and 2013 (in millions):

	2014	2013
Categories of Transfers to the General Fund and Other		
Interest Revenue	**$ 40,245**	$ 38,436
Increase in Liquidation Preference of GSEs Preferred Stock, GSEs Preferred Stock Dividends and Valuation Changes (Note 8)	**28,061**	126,606
Downward Re-estimates of Credit Reform Subsidies (Notes 7 and 11)	**1,598**	11,718
Other	**2,729**	1,216
Total	**$ 72,633**	$ 177,976

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. The interest revenue is accrued on inter-agency loans held by the Department on behalf of the U.S. government. A corresponding amount is reported on the Consolidated Statements of Net Cost under "Non-Entity Costs: Less Interest Revenue from Loans." The amount reported on the Consolidated Statements of Net Cost is reduced by eliminations with Treasury bureaus. The credit reform downward re-estimate subsidies that are transferred to the General Fund result from a change in forecasts of future cash flows.

The "Other" line mainly represents collections from other federal agencies as reimbursement of costs incurred by the Department for its administration of trust funds established within the Social Security Act. The Department is directed by statute to execute these administrative services. 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 United States Mint is required to distribute seigniorage and numismatic profits in excess of operating expenses to the General Fund (refer to Note 22). In any given year, the amount recognized as seigniorage may differ from the amount distributed to the General Fund by an insignificant amount due to timing differences.

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

The Department's Consolidated Statements of Net Cost display information on a consolidated basis. The Department consists of DO and seven operating bureaus that the Department provides 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 Concepts and Standards for the Federal Governmen***t 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

Intra-departmental costs/revenues resulting from the provision of goods and/or services on a reimbursable basis among Departmental sub-organizations are reported as costs by providing sub-organizations and as revenues by receiving sub-organizations. The Department recognized intra-departmental imputed costs on the Consolidated Statements of Net Cost of $564 million and $621 million during fiscal years 2014 and 2013, respectively. Accordingly, such costs or revenues are eliminated in the consolidation process.

Intra-governmental Costs

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

In certain cases, other federal agencies incur costs that are directly identifiable to the Department's operations. In accordance with SFFAS No. 30, ***Inter-Entity Cost Implementation Amending*** SFFAS No. 4, ***Managerial Cost Accounting Standards and Concepts***, the Department recognizes identified costs paid on behalf of the Department by other agencies. The imputed inter-departmental financing sources currently recognized by the Department include the actual cost of future benefits for the federal pension plans that are paid by other federal entities, the FEHB, and any un-reimbursed contract dispute payments made from the Treasury Judgment Fund on behalf of the Department. The funding for these costs is reflected 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 behalf of the Department were $796 million and $776 million for the fiscal years ended September 30, 2014 and 2013, respectively.

CONSOLIDATED STATEMENTS OF NET COST PRESENTATION

OMB Circular No. A-136, ***Financial Reporting Requirements***, as revised, requires that the presentation of the Consolidated Statements of Net Cost align directly with the goals and outcomes identified in the Strategic Plan. Accordingly, the Department has presented the gross costs and earned revenues by the applicable strategic goals in its fiscal years 2014 – 2017 Strategic Plan. The majority of Treasury bureaus' and reporting entities' net cost information falls within a single strategic goal in the Consolidated Statements of Net Cost. DO and TTB allocate costs and related revenues to multiple programs using a net cost percentage calculation. All of the Department's management offices coordinate, on a Treasury-wide basis, their efforts to achieve the Management program-related strategic goals (refer to the Strategic Framework section of Management's Discussion and Analysis). For financial statement presentation purposes, the net costs associated with the Department's Management program-related goals are combined with the net costs associated with the Financial program-related strategic goals.

The Department's 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. These costs are not reflected as program costs related to the Department's strategic plan missions. Such costs are eliminated in the consolidation process to the extent that they involve transactions with Treasury sub-organizations.

Non-entity other federal costs shown on the Consolidated Statements of Net Cost for the years ended September 30, 2014 and 2013 consisted of the following (in millions):

		2014		2013
Credit Reform Interest on Uninvested Fund (Intra-governmental)	$	**7,800**	$	8,210
Judgment Claims and Contract Disputes		**2,642**		5,125
Resolution Funding Corporation		**2,628**		2,503
Corporation for Public Broadcasting		**445**		422
All Other Payments		**539**		746
Total	**$**	**14,054**	**$**	17,006

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

For Fiscal Year Ended September 30, 2014

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						
Intra-governmental Gross Costs	$ -	$ 364	$ 3,231	$ -	$ 4,348	$ -
Less: Earned Revenue	-	(150)	(3,146)	-	(95)	-
Intra-governmental Net Costs	-	214	85	-	4,253	-
Gross Costs with the Public	-	1,407	883	-	8,286	-
Less: Earned Revenue	-	-	(2)	-	(398)	-
Net Costs with the Public	-	1,407	881	-	7,888	-
Net Cost: Financial Program	-	1,621	966	-	12,141	-
ECONOMIC PROGRAM						
Intra-governmental Gross Costs	105	-	760	-	-	74
Less: Earned Revenue	(5)	-	(96)	-	-	(3)
Intra-governmental Net Costs	100	-	664	-	-	71
Gross Costs with the Public	517	-	13,815	-	-	2,700
Less: Earned Revenue	(661)	-	(2,531)	-	-	(2,781)
Net Costs with the Public	(144)	-	11,284	-	-	(81)
Net Cost (Revenue): Economic Program	(44)	-	11,948	-	-	(10)
SECURITY PROGRAM						
Intra-governmental Gross Costs	-	-	172	31	-	-
Less: Earned Revenue	-	-	(22)	-	-	-
Intra-governmental Net Costs	-	-	150	31	-	-
Gross Costs with the Public	-	-	158	79	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs with the Public	-	-	158	79	-	-
Net Cost: Security Program	-	-	308	110	-	-
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	(44)	1,621	13,222	110	12,141	(10)
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	-	-	166	-	-	-
Total Net Cost of (Revenue From) Treasury Operations	$ (44)	$ 1,621	$ 13,388	$ 110	$ 12,141	$ (10)

(a) Of the total $11.9 billion of net cost reported by Departmental Offices for the Economic Program, OFS, DO Policy Offices, Treasury International Assistance Programs, and ESF contributed $3.0 billion, $3.7 billion, $2.2 billion, and $1.9 billion respectively. Other net costs were spread throughout other DO programs or offices.

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

For Fiscal Year Ended September 30, 2014

Program Costs	Office of the Comptroller of the Currency	Alcohol and Tobacco Tax and Trade Bureau	Combined Total	Eliminations	2014 Consolidated
FINANCIAL PROGRAM					
Intra-governmental Gross Costs	$ -	$ 14	$ 7,957	$ 3,449	$ 4,508
Less: Earned Revenue	-	(2)	(3,393)	(687)	(2,706)
Intra-governmental Net Costs	-	12	4,564	2,762	1,802
Gross Costs with the Public	-	40	10,616	-	10,616
Less: Earned Revenue	-	(2)	(402)	-	(402)
Net Costs with the Public	-	38	10,214	-	10,214
Net Cost: Financial Program	-	50	14,778	2,762	12,016
ECONOMIC PROGRAM					
Intra-governmental Gross Costs	147	14	1,100	728	372
Less: Earned Revenue	(29)	(1)	(134)	(93)	(41)
Intra-governmental Net Costs	118	13	966	635	331
Gross Costs with the Public	910	40	17,982	-	17,982
Less: Earned Revenue	(1,010)	(1)	(6,984)	-	(6,984)
Net Costs with the Public	(100)	39	10,998	-	10,998
Net Cost (Revenue): Economic Program	18	52	11,964	635	11,329
SECURITY PROGRAM					
Intra-governmental Gross Costs	-	-	203	65	138
Less: Earned Revenue	-	-	(22)	(14)	(8)
Intra-governmental Net Costs	-	-	181	51	130
Gross Costs with the Public	-	-	237	-	237
Less: Earned Revenue	-	-	-	-	-
Net Costs with the Public	-	-	237	-	237
Net Cost: Security Program	-	-	418	51	367
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	18	102	27,160	3,448	23,712
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	4	-	170	-	170
Total Net Cost of (Revenue From) Treasury Operations	$ 22	$ 102	$ 27,330	$ 3,448	$ 23,882

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

For Fiscal Year Ended September 30, 2013

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							
Intra-governmental Gross Costs	$	- $	342 $	2,527 $	- $	4,409 $	-
Less: Earned Revenue		-	(146)	(3,069)	-	(99)	-
Intra-governmental Net Costs		-	196	(542)	-	4,310	-
Gross Costs with the Public		-	1,367	855	-	8,392	-
Less: Earned Revenue		-	(1)	(32)	-	(402)	-
Net Costs with the Public		-	1,366	823	-	7,990	-
Net Cost: Financial Program		-	1,562	281	-	12,300	-
ECONOMIC PROGRAM							
Intra-governmental Gross Costs		95	-	1,505	-	-	76
Less: Earned Revenue		(2)	-	(327)	-	-	(3)
Intra-governmental Net Costs		93	-	1,178	-	-	73
Gross Costs with the Public		591	-	(6,744)	-	-	4,009
Less: Earned Revenue		(693)	-	(1,528)	-	-	(4,165)
Net Costs with the Public		(102)	-	(8,272)	-	-	(156)
Net Cost (Revenue): Economic Program		(9)	-	(7,094)	-	-	(83)
SECURITY PROGRAM							
Intra-governmental Gross Costs		-	-	184	43	-	-
Less: Earned Revenue		-	-	(46)	(1)	-	-
Intra-governmental Net Costs		-	-	138	42	-	-
Gross Costs with the Public		-	-	162	71	-	-
Less: Earned Revenue		-	-	-	-	-	-
Net Costs with the Public		-	-	162	71	-	-
Net Cost: Security Program		-	-	300	113	-	-
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions		(9)	1,562	(6,513)	113	12,300	(83)
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes		-	-	(679)	-	-	-
Total Net Cost of (Revenue From) Treasury Operations	$	(9)$	1,562 $	(7,192)$	113 $	12,300 $	(83)

(a) Of the total $7.1 billion of net revenue reported by Departmental Offices for the Economic Program, GSE and OFS contributed $9.2 billion and $7.7 billion, respectively, of net revenue, partially offset by DO Policy Offices, ESF, and Treasury International Assistance Programs of $5.6 billion, $1.7 billion, and $2.2 billion, respectively. Other net costs were spread throughout other DO programs or offices.

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

For Fiscal Year Ended September 30, 2013

Program Costs	Office of the Comptroller of the Currency	Alcohol and Tobacco Tax and Trade Bureau	Combined Total	Eliminations	2013 Consolidated
FINANCIAL PROGRAM					
Intra-governmental Gross Costs	$ -	$ 14	$ 7,292	$ 3,016	$ 4,276
Less: Earned Revenue	-	(3)	(3,317)	(627)	(2,690)
Intra-governmental Net Costs	-	11	3,975	2,389	1,586
Gross Costs with the Public	-	39	10,653	-	10,653
Less: Earned Revenue	-	(2)	(437)	-	(437)
Net Costs with the Public	-	37	10,216	-	10,216
Net Cost: Financial Program	-	48	14,191	2,389	11,802
ECONOMIC PROGRAM					
Intra-governmental Gross Costs	142	15	1,833	1,462	371
Less: Earned Revenue	(32)	(1)	(365)	(338)	(27)
Intra-governmental Net Costs	110	14	1,468	1,124	344
Gross Costs with the Public	899	40	(1,205)	-	(1,205)
Less: Earned Revenue	(975)	(1)	(7,362)	-	(7,362)
Net Costs with the Public	(76)	39	(8,567)	-	(8,567)
Net Cost (Revenue): Economic Program	34	53	(7,099)	1,124	(8,223)
SECURITY PROGRAM					
Intra-governmental Gross Costs	-	-	227	66	161
Less: Earned Revenue	-	-	(47)	(40)	(7)
Intra-governmental Net Costs	-	-	180	26	154
Gross Costs with the Public	-	-	233	-	233
Less: Earned Revenue	-	-	-	-	-
Net Costs with the Public	-	-	233	-	233
Net Cost: Security Program	-	-	413	26	387
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	34	101	7,505	3,539	3,966
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	(5)	-	(684)	-	(684)
Total Net Cost of (Revenue From) Treasury Operations	$ 29	$ 101	$ 6,821	$ 3,539	$ 3,282

22. 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 advance payment has been made, but for which delivery or performance has not yet occurred. Undelivered orders at September 30, 2014 and 2013 are shown below (in millions):

		2014	2013
Paid	**$**	**9** $	42
Unpaid		**165,644**	172,804
Undelivered orders at the end of the year	**$**	**165,653** $	172,846

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 of the Treasury to repay a portion of a capital investment or transfer seigniorage and numismatic profits (refer to Note 20). Contributed capital for the fiscal years ended September 30, 2014 and 2013 was $25 million and $42 million, respectively.

Apportionment Categories of Obligations Incurred

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. Obligations incurred for direct and reimbursable obligations by apportionment category for the fiscal years ended September 30, 2014 and 2013 are shown below (in millions):

		2014	2013
Direct - Category A	**$**	**117** $	173
Direct - Category B		**41,689**	51,173
Direct - Exempt from Apportionment		**444,343**	429,364
Total Direct		**486,149**	480,710
Reimbursable - Category B		**4,400**	5,448
Reimbursable - Exempt from Apportionment		**1,102**	1,273
Total Reimbursable		**5,502**	6,721
Total Direct and Reimbursable	**$**	**491,651** $	487,431

Terms of Borrowing Authority Used

Several Departmental 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. Repayment requirements are defined by OMB Circular No. A-11. 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, the excess will be repaid to the Department. If principal and interest do not exceed interest expense due, the Department will borrow the difference. The

Department makes periodic principal repayments based on the analysis of cash balances and future disbursement needs. All interest on borrowings are due on September 30. Interest rates on FCRA borrowings range from 0.04 percent to 7.59 percent.

AVAILABLE BORROWING

The available borrowing authority and related changes in available borrowing authority as of and for the fiscal years ended September 30, 2014 and 2013 are shown below (in millions):

	2014	2013
Beginning Balance	**$ 103,333**	$ 109,930
Current Authority	**1,200**	576
Borrowing Authority Withdrawn	**(4,404)**	(5,130)
Borrowing Authority Converted to Cash	**(881)**	(2,043)
Ending Balance	**$ 99,248**	$ 103,333

RECONCILIATION OF THE PRESIDENT'S BUDGET

The Budget of the United States (also known as the President's Budget), with actual numbers for fiscal year 2014, was not published at the time that these financial statements were issued. The President's Budget is expected to be published in February 2015, and can be located at the OMB website http://www.whitehouse.gov/omb and will be available from the U.S. government Printing Office. The following chart displays the differences between the Combined Statement of Budgetary Resources (SBR) in the fiscal year 2013 Agency Financial Report and the actual fiscal year 2013 balances included in the fiscal year 2015 President's Budget.

Reconciliation of Fiscal Year 2013 Combined Statement of Budgetary Resources to the Fiscal Year 2015 President's Budget

(in millions)	Budgetary Resources	Outlays (net of offsetting collections)	Distributed Offsetting Receipts	Net Outlays	Obligations Incurred
Statement of Budgetary Resources (SBR) Amounts	$ 857,781	$ 438,262	$ (151,404)	$ 286,858	$ 487,431
Included in the Treasury Department Chapter of the President's Budget (PB) but not in the SBR					
IRS non-entity tax credit payments and other outlays (1)	91,470	91,460	-	91,460	91,470
Tax and Trade Bureau (TTB) non-entity collections for Puerto Rico	349	349	-	349	349
Continued dumping subsidy - U.S. Customs and Border Patrol	88	127	-	127	127
Other	(1)	54	(10)	44	55
Subtotal	91,906	91,990	(10)	91,980	92,001
Included in the SBR but not in the Treasury Department chapter of the PB					
Treasury resources shown in non-Treasury chapters of the PB (2)	(49,419)	(7,179)	-	(7,179)	(9,155)
Offsetting collections net of collections shown in PB	(10,118)	-	(158)	(158)	-
Treasury offsetting receipts shown in other chapters of PB	-	-	19	19	-
Unobligated balance carried forward, recoveries of prior year funds and expired accounts	(236,073)	-	-	-	-
ESF resources not shown in PB (3)	(42,394)	-	-	-	-
Treasury Financing Accounts (CDFI, GSE, OFS and SBLF)	(17,630)	26,995	-	26,995	(15,666)
Enacted reduction, 50% Transfer Accounts, and Capital Transfers to General Fund not included in PB	(52)	-	-	-	-
Other	(5)	(4)	-	(4)	(5)
Subtotal	(355,691)	19,812	(139)	19,673	(24,826)
Trust Funds (4)	(2,410)	(73)	-	(73)	(1,019)
President's Budget Amounts(5)	**$ 591,586**	**$ 549,991**	**$ (151,553)**	**$ 398,438**	**$ 553,587**

(1) *These are primarily Earned Income Tax Credit, Child Tax Credit, and Build America Bond payments that are reported with refunds as custodial activities in the Department's financial statements and thus are not reported as budgetary resources.*
(2) *The largest of these resources relate to the Department's International Assistance Programs.*
(3) *The ESF is a self-sustaining component. Its primary sources of revenue are derived from interest on the ESF's SDR holdings, investments in U.S. Treasury securities, and investments in foreign currency-denominated assets.*
(4) *The Trust Funds' (OCC, CDFI Capital Magnet Fund & Cheyenne River Restoration) negative outlays appear in the offsetting receipts section of the Analytical Perspectives.*
(5) *Per the President's Budget for fiscal year 2015 – Budgetary Resources and Outlays are from the Analytical Perspective. Offsetting Receipts and Obligations Incurred are from the Appendix.*

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 fund symbols are available in the next fiscal year for new obligations unless some restrictions had 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 fund symbols are not available for new obligations, but may be used to adjust obligations and make disbursements that were recorded before the budgetary authority expired or to meet a bona fide need that arose in the fiscal year for which the appropriation was made.

23. Collection and Disposition of Custodial Revenue

The Department collects the majority of federal revenue from income and excise taxes. Collection activity, by revenue type and tax year, for the fiscal years ended September 30, 2014 and 2013 are shown below (in millions):

		Tax Year				
		2014	**2013**	**2012**	**Pre-2012**	**2014 Collections**
Individual Income and FICA Taxes	**$**	**1,691,131 $**	**864,318 $**	**24,251 $**	**25,349 $**	**2,605,049**
Corporate Income Taxes		**252,895**	**87,966**	**1,188**	**11,092**	**353,141**
Estate and Gift Taxes		**44**	**7,005**	**879**	**12,227**	**20,155**
Excise Taxes		**71,133**	**22,080**	**56**	**136**	**93,405**
Railroad Retirement Taxes		**4,579**	**1,370**	**3**	**2**	**5,954**
Unemployment Taxes		**4,141**	**4,306**	**52**	**113**	**8,612**
Fines, Penalties, Interest & Other Revenue - Tax Related		**262**	-	-	**1**	**263**
Tax Related Revenue Received		**2,024,185**	**987,045**	**26,429**	**48,920**	**3,086,579**
Deposit of Earnings, Federal Reserve System		**76,944**	**22,291**	-	-	**99,235**
Fines, Penalties, Interest & Other Revenue - Non-Tax Related		**3,317**	**932**	-	-	**4,249**
Non-Tax Related Revenue Received		**80,261**	**23,223**	-	-	**103,484**
Total Revenue Received	**$**	**2,104,446 $**	**1,010,268 $**	**26,429 $**	**48,920 $**	**3,190,063**
Less Amounts Collected for Non-Federal Entities						**312**
Total					**$**	**3,189,751**

		Tax Year				
		2013	2012	2011	Pre-2011	2013 Collections
Individual Income and FICA Taxes	$	1,580,379 $	821,555 $	22,270 $	24,342 $	2,448,546
Corporate Income Taxes		217,602	83,575	2,005	8,812	311,994
Estate and Gift Taxes		27	10,243	625	8,935	19,830
Excise Taxes		60,880	22,912	50	128	83,970
Railroad Retirement Taxes		4,192	1,317	1	1	5,511
Unemployment Taxes		3,974	3,786	51	85	7,896
Fines, Penalties, Interest & Other Revenue - Tax Related		1,155	113	-	-	1,268
Tax Related Revenue Received		1,868,209	943,501	25,002	42,303	2,879,015
Deposit of Earnings, Federal Reserve System		53,958	21,809	-	-	75,767
Fines, Penalties, Interest & Other Revenue - Non-Tax Related		1,322	296	-	-	1,618
Non-Tax Related Revenue Received		55,280	22,105	-	-	77,385
Total Revenue Received	$	1,923,489 $	965,606 $	25,002 $	42,303 $	2,956,400
Less Amounts Collected for Non-Federal Entities						358
Total					$	2,956,042

AMOUNTS PROVIDED TO FUND THE U.S. GOVERNMENT

For the years ended September 30, 2014 and 2013, collections of custodial revenue transferred to other federal entities were as follows (in millions):

		2014	2013
Department of the Interior	$	**769** $	763
General Fund		**2,815,119**	2,593,079
Total(1)	$	**2,815,888**$	2,593,842

(1) Transferred amounts in fiscal year 2013 include Amounts Provided to Fund the Federal Government and Cash Proceeds from (AIG) Stock Sales Provided to Fund the Federal Government, as reported on the Statements of Custodial Activity.

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, was as follows for the years ended September 30, 2014 and 2013 (in millions):

	Tax Year				
	2014	**2013**	**2012**	**Pre-2012**	**2014 Refunds / Payments**
Individual Income and FICA Taxes	**$ 13,681**	**$ 290,791**	**$ 23,988**	**$ 7,298**	**$ 335,758**
Corporate Income Taxes	**4,439**	**10,935**	**6,655**	**13,285**	**35,314**
Estate and Gift Taxes	-	**227**	**419**	**234**	**880**
Excise Taxes	**454**	**900**	**182**	**207**	**1,743**
Railroad Retirement Taxes	-	**2**	-	**18**	**20**
Unemployment Taxes	-	**114**	**16**	**18**	**148**
Total	**$ 18,574**	**$ 302,969**	**$ 31,260**	**$ 21,060**	**$ 373,863**

	Tax Year				
	2013	2012	2011	Pre-2011	2013 Refunds / Payments
Individual Income and FICA Taxes	$ 702	$ 287,132	$ 21,861	$ 10,740	$ 320,435
Corporate Income Taxes	5,358	12,893	6,717	16,601	41,569
Estate and Gift Taxes	-	188	298	561	1,047
Excise Taxes	512	797	91	118	1,518
Railroad Retirement Taxes	-	2	-	70	72
Unemployment Taxes	1	112	20	14	147
Total	$ 6,573	$ 301,124	$ 28,987	$ 28,104	$ 364,788

FEDERAL TAX REFUNDS AND OTHER AMOUNTS PAYABLE

As of September 30, 2014 and 2013, refunds and other amounts payable consisted of the following (in millions):

		2014	2013
Internal Revenue Service	$	**4,722** $	2,910
Alcohol and Tobacco Tax and Trade Bureau		**1**	4
Total	$	**4,723** $	2,914

24. FUNDS FROM DEDICATED COLLECTIONS

The majority of the Department's FDC activities are attributed to the ESF. In addition, such funds managed by BEP, Mint, and OCC (the Department's non-appropriated bureaus) and certain funds managed by the IRS are public enterprise (or revolving) funds and receive no appropriations from the Congress. Other miscellaneous FDCs are managed by the Fiscal Service, DO, IRS, FRF, and TFF.

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
MNT	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	0205445003	Debt Collection Special Fund
Fiscal Service	0208/95445	Debt Collection Special Fund
Fiscal Service	0209/05445	Debt Collection Special Fund
Fiscal Service	0200/15445	Debt Collection Special Fund
Fiscal Service	0201/25445	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
DO	020X5816	Confiscated and Vested Iraqi Property and Assets
DO	020X8790	Gifts and Bequests Trust Fund
IRS	020X5510	Private Collection Agency Program
IRS	020X5433	Informant Reimbursement
FRF	020X5590	Financial Research Fund
TFF	020X5697	Treasury Forfeiture Fund

Pursuant to the legal authority found in Section 10 of the Gold Reserve Act of 1934, as amended, the ESF may purchase or sell foreign currencies, hold U.S. foreign exchange 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 U.S. Treasury securities, and investments in foreign currency assets are 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 U.S. Securities are the result of intra-Departmental flows.

The BEP, Mint, OCC, and IRS operate "public enterprise/revolving funds" to account for their respective revenues and expenses. 31 USC § 5142 established the revolving 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 examinations and assessments for the oversight of the national banks, savings associations, and savings and loan holding companies. These non-appropriated funds contribute to the inflows of resources to the government to specifically fund these entity's 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 federal government. There are minimal transactions with other government agencies.

There are other FDCs at several Treasury 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, and public donations, 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. The Department's 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 securities issued by the Fiscal Service. The cash collected by the Fiscal Service is deposited in the General Fund, which uses the cash for general government purposes.

The investments provide Department bureaus and other federal agencies with authority to draw upon the General Fund to make future benefit payments or other expenditures. When the Department bureaus or other federal agencies require redemption of these securities to make expenditures, the government finances those redemptions out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the government finances all other expenditures.

The securities are an asset to the Department bureaus and other federal agencies and a liability of the Fiscal Service. The General Fund is liable to the Fiscal Service. Because the Department 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.

The balances related to the investments made by the Department bureaus are not displayed on the Department's financial statements 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 Department bureaus (refer to Note 4).

Summary Information for Funds from Dedicated Collections as of and for the Fiscal Year Ended September 30, 2014

(in millions)	Exchange Stabilization Fund	Public Enterprise/ Revolving Funds	Other FDC Funds	Combined FDC Funds
ASSETS				
Fund Balance	$ -	$ 930	$ 687	$ 1,617
Investments and Related Interest – Intra-governmental	22,649	935	2,827	26,411
Cash, Foreign Currency and Other Monetary Assets	57,592	-	26	57,618
Investments and Related Interest	17,904	-	-	17,904
Other Assets	-	1,787	148	1,935
Total Assets	$ 98,145	$ 3,652	$ 3,688	$ 105,485
LIABILITIES				
Intra-governmental Liabilities	$ -	$ 34	$ 629	$ 663
Certificates Issued to Federal Reserve Banks	5,200	-	-	5,200
Allocation of Special Drawing Rights	52,358	-	-	52,358
Other Liabilities	6	411	183	600
Total Liabilities	57,564	445	812	58,821
Net Position				
Unexpended Appropriations	200	-	-	200
Cumulative Results of Operations	40,381	3,207	2,876	46,464
Total Liabilities and Net Position	$ 98,145	$ 3,652	$ 3,688	$ 105,485
Statement of Net Cost				
Gross Cost	$ 3,875	$ 4,453	$ 538	$ 8,866
Less: Earned Revenue	(1,976)	(4,490)	(134)	(6,600)
(Gains)/Losses on Pension, ORB, or OPEB Assumption Changes	-	4	-	4
Total Net Cost of (Revenue From) Operations	$ 1,899	$ (33)	$ 404	$ 2,270
Statement of Changes in Net Position				
Cumulative Results of Operations:				
Beginning Balance	$ 42,280	$ 3,065	$ 3,132	$ 48,477
Budgetary Financing Sources	-	(22)	69	47
Other Financing Sources	-	131	79	210
Total Financing Sources	-	109	148	257
Net Cost of (Revenue From) Operations	(1,899)	33	(404)	(2,270)
Change in Net Position	(1,899)	142	(256)	(2,013)
Ending Balance	$ 40,381	$ 3,207	$ 2,876	$ 46,464

Summary Information for Funds from Dedicated Collections as of and for the Fiscal Year Ended September 30, 2013

(in millions)	Exchange Stabilization Fund	Public Enterprise/ Revolving Funds	Other FDC Funds	Combined FDC Funds
ASSETS				
Fund Balance	$ -	$ 801	$ 742	$ 1,543
Investments and Related Interest – Intra-governmental	22,670	1,310	3,210	27,190
Cash, Foreign Currency and Other Monetary Assets	65,097	-	12	65,109
Investments and Related Interest	14,096	-	-	14,096
Other Assets	-	1,549	120	1,669
Total Assets	$ 101,863	$ 3,660	$ 4,084	$ 109,607
LIABILITIES				
Intra-governmental Liabilities	$ -	$ 33	$ 499	$ 532
Certificates Issued to Federal Reserve Banks	5,200	-	-	5,200
Allocation of Special Drawing Rights	54,177	-	-	54,177
Other Liabilities	6	562	453	1,021
Total Liabilities	59,383	595	952	60,930
Net Position				
Unexpended Appropriations	200	-	-	200
Cumulative Results of Operations	42,280	3,065	3,132	48,477
Total Liabilities and Net Position	$ 101,863	$ 3,660	$ 4,084	$ 109,607
Statement of Net Cost				
Gross Cost	$ 2,163	$ 5,812	$ 468	$ 8,443
Less: Earned Revenue	(453)	(5,871)	-	(6,324)
(Gains)/Losses on Pension, ORB, or OPEB Assumption Changes	-	(5)	-	(5)
Total Net Cost of (Revenue From) Operations	$ 1,710	$ (64)	$ 468	$ 2,114
Statement of Changes in Net Position				
Cumulative Results of Operations:				
Beginning Balance	$ 43,990	$ 3,165	$ 1,892	$ 49,047
Budgetary Financing Sources	-	(42)	1,647	1,605
Other Financing Sources	-	(122)	61	(61)
Total Financing Sources	-	(164)	1,708	1,544
Net Cost of (Revenue From) Operations	(1,710)	64	(468)	(2,114)
Change in Net Position	(1,710)	(100)	1,240	(570)
Ending Balance	$ 42,280	$ 3,065	$ 3,132	$ 48,477

25. 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, 2014 and 2013, the Reconciliation of Net Cost of Operations to Budget consisted of the following (in millions):

	2014	2013
RESOURCES USED TO FINANCE ACTIVITIES		
Budgetary Resources Obligated:		
Obligations Incurred (Note 22)	**$ 491,651**	$ 487,431
Less: Spending Authority from Offsetting Collections and Recoveries of Prior Year Unpaid Obligations	**(36,244)**	(67,901)
Obligations Net of Offsetting Collections and Recoveries	**455,407**	419,530
Less: Distributed Offsetting Receipts	**(125,584)**	(151,404)
Net Obligations	**329,823**	268,126
Other Resources:		
Donations and Forfeiture of Property	**140**	135
Financing Sources for Accrued Interest and Discount on Debt	**7,404**	10,905
Financing Sources for Accrued Interest on Restoration of Federal Debt Principal (Note 16)	**(801)**	801
Transfers In/Out Without Reimbursement	**(44)**	(42)
Imputed Financing Sources from Cost Absorbed by Others	**796**	776
Transfers to the General Fund and Other (Note 20)	**(72,633)**	(177,976)
Net Other Resources Used to Finance Activities	**(65,138)**	(165,401)
Total Resources Used to Finance Activities	**264,685**	102,725
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	**(6,217)**	(12,595)
Resources that Fund Expenses Recognized in Prior Periods	**(9,409)**	(8,930)
Budgetary Offsetting Collections & Receipts that do not affect Net Cost of Treasury Operations and Non-Entity Costs	**(127,130)**	(175,527)
Adjustment to Accrued Interest and Discount on Debt	**5,260**	1,381
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities	**1,053**	(1,225)
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Treasury Operations and Non-Entity Costs	**(1,649)**	(332)
Total Resources Used to Finance Items Not Part of the Net Cost of Treasury Operations and Non-Entity Costs	**(138,092)**	(197,228)
Total Resources Used to Finance the Net Cost of Treasury Operations and Non-Entity Costs	**402,777**	299,953
Total Components of Net Cost of Treasury Operations and Non-Entity Costs That Will Require or Generate Resources in Future Periods	**(1,688)**	(18,865)
Total Components of Net Cost of Treasury Operations and Non-Entity Costs That Will Not Require or Generate Resources[a]	**2,871**	2,536
Total Components of Net Cost of Treasury Operations and Non-Entity Costs That Will Not Require or Generate Resources in the Current Period	**1,183**	(16,329)
Net Cost of Treasury Operations and Non-Entity Costs	**$ 403,960**	$ 283,624

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

26. Schedule of Fiduciary Activity

The following funds have been identified by the Department as meeting the criteria for fiduciary activity. Details of the funds are provided below.

Bureau	Fund Code	Authority	Fund Title/Description
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	02015X6078	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	020X6133	31 USC 1322	Payment of Unclaimed Moneys
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	020X6311	98 Stat. 1876	Kennedy Center Revenue Bond
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	SM DIF Account for Dep. & Check Adj.
Fiscal Service	020X6830	104 Stat. 1061	Net Interest Payments to/from State
Fiscal Service	020X6999	31 USC 3513	Accounts Payable, Check Issue UNDDR
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
OAS	020X6317.001	22 USC 2431	Belize Escrow, Debt Reduction

Unclaimed monies were authorized by 31 USC 5119, which authorized the Fiscal Service to collect unclaimed monies on behalf of the public. Other fiduciary activities by the Department as listed above are included in All Other Fiduciary Funds.

Schedule of Fiduciary Activity

	2014			2013		
(in millions)	**Unclaimed Monies - Fiscal Service**	**All Other Fiduciary Funds**	**Total Fiduciary Funds**	Unclaimed Monies - Fiscal Service	All Other Fiduciary Funds	Total Fiduciary Funds
Fiduciary Net Assets, Beginning of Year	**$ 551**	**$ 155**	**$ 706**	$ 509	$ 343	$ 852
Increases:						
Contributions to Fiduciary Net Assets	**34**	**338**	**372**	48	316	364
Investment earnings	-	**1**	**1**	-	1	1
Total Increases	**34**	**339**	**373**	48	317	365
Decreases:						
Disbursements to and on behalf of beneficiaries	**(5)**	**(354)**	**(359)**	(6)	(505)	(511)
Total Decreases	**(5)**	**(354)**	**(359)**	(6)	(505)	(511)
Net Increase (Decrease) in Fiduciary Assets	**29**	**(15)**	**14**	42	(188)	(146)
Fiduciary Net Assets, End of Year	**$ 580**	**$ 140**	**$ 720**	$ 551	$ 155	$ 706

Schedule of Fiduciary Net Assets

	2014			2013		
(in millions)	**Unclaimed Monies - Fiscal Service**	**All Other Fiduciary Funds**	**Total Fiduciary Funds**	Unclaimed Monies - Fiscal Service	All Other Fiduciary Funds	Total Fiduciary Funds
Fiduciary Net Assets						
Cash and Cash Equivalents	**$ 580**	**$ 126**	**$ 706**	$ 551	$ 145	$ 696
Investments	-	**19**	**19**	-	18	18
Total Fiduciary Assets	**580**	**145**	**725**	551	163	714
Less: Fiduciary Liabilities	-	**(5)**	**(5)**	-	(8)	(8)
Total Fiduciary Net Assets	**$ 580**	**$ 140**	**$ 720**	$ 551	$ 155	$ 706

27. COMMITMENTS AND CONTINGENCIES

LEGAL CONTINGENCIES

The Department is 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. The Department discloses contingent liabilities where the conditions for liability recognition have not been met and the likelihood of unfavorable outcome is more than remote. The Department does not accrue for possible losses related to cases where the potential loss cannot be estimated 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 the Department's Judgment Fund, which is separate from the operating resources of the Department. For cases related to the *Contract Disputes Act of 1978* and awards under federal anti-discrimination and whistle-blower protection acts, the Department must reimburse the Judgment Fund from future appropriations.

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

Pending Legal Actions

- *Tribal Trust Fund Cases:* Numerous cases have been filed in the U.S. District Courts in which Native American Tribes seek a declaration that the United States has not provided the tribes with a full and complete accounting of their trust funds, and seek 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 the Department 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 United States 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. The Department is 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, the U.S. District Court for the District of Columbia, and the U.S. District Court of Iowa in which the plaintiffs allege, among other things, that the U.S. government took their property and contractual rights as preferred and common stockholders when the third amendments to the SPSPAs between

the Department and each GSE were executed in August 2012 (refer to Note 8). 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 the Department in September 2008. In the Court of Federal Claims, the plaintiffs seek just compensation (damages) from the U.S. government. In the District Court, the plaintiffs seek to set aside the third amendments to the SPSPAs as well as damages. On September 30, 2014, the District Court granted the defendants' motions to dismiss four cases, and the plaintiffs filed appeals in October 2014. The Department is unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

- ***Lynchpins of Liberty v. United States of America:*** The plaintiffs in this case, filed in the U.S. District Court for the District of Columbia, seek actual and punitive damages in connection with IRS' alleged unlawful requests for information and unreasonable delays in processing the plaintiffs' applications for tax exempt status. The Department is unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

- ***Starr International Co., Inc. v. United States:*** The plaintiffs' principal class claim in this case, filed in the U.S Court of Federal Claims, arises out of the receipt by the United States of a 79.9 percent equity interest in American International Group, Inc. (AIG) as part of the consideration for the extension of an $85 billion, two-year revolving credit facility to AIG by the FRBNY in September 2008 and prior to the passage of the EESA. Plaintiffs claim that the transfer of the equity interest, which was in the form of Series C preferred stock held by a trust for the benefit of the U.S. government, was an illegal exaction under Section 13(3) of the Federal Reserve Act or constituted a taking of AIG shareholders' property for which just compensation is due under the Fifth Amendment to the United States Constitution. In a separate class claim, plaintiffs allege that an illegal exaction, or taking for which just compensation is due, occurred when the U.S. government allegedly caused AIG to conduct a reverse stock split in June 2009 without a separate class vote of the then outstanding common shareholders. Plaintiffs seek compensatory damages from the U.S. government, including an amount related to the exchange of Series E and F preferred shares for common shares of AIG in January 2011 that were previously held by TARP, which common shareholders allegedly could have blocked had the reverse stock split not occurred. The Department is unable to determine the likelihood of an unfavorable outcome or make an estimate of potential loss at this time.

- ***Estes v. United States:*** The State of Kansas filed a complaint in the U.S. Court of Federal Claims requesting the Department to redeem matured savings bonds not possessed by Kansas, but which have registered owners with last known addresses in Kansas. The Department informed the State of Kansas that it would not redeem these savings bonds since it was not the registered owner of the bonds. The U.S. government has filed a motion to dismiss the complaint. The Department is unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

- ***Adam Steele, Brittany Montrois 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 the Department to cease charging a user fee to obtain a PTIN and asking for more information than is necessary to issue a PTIN. The Department is unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

- ***Anonymous Whistleblower v. United States:*** A whistleblower case was filed in the U.S. Tax Court under seal. The anonymous claimant allegedly provided confidential information about tax fraud committed by multiple other taxpayers to the IRS. Having been denied a whistleblower award, the claimant has filed a claim in the U.S. Tax Court. The case is currently being held in abeyance until the Court determines the scope and standard of review it will follow in these cases. The Department is unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

- *Other Legal Actions:* The Department also is 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. It is not expected that these cases will have a material adverse effect on the Department's financial position or results.

OTHER COMMITMENTS AND CONTINGENCIES

Loan Commitments

The Department, through the FFB, makes loan commitments with federal agencies, or private sector borrowers whose loans are guaranteed by federal agencies, to extend them credit for their own use (refer to Notes 1L and 3). As of September 30, 2014 and 2013, the Department had loan commitments totaling $17.9 billion and $73.6 billion, respectively.

Multilateral Development Banks

The Department, on behalf of the United States, has subscribed to capital for certain MDBs, portions of which 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, 2014 and 2013, U.S. callable capital in MDBs was as follows (in millions):

	2014	2013
Inter-American Development Bank	**$ 40,983**	$ 36,437
International Bank for Reconstruction and Development	**37,570**	33,585
Asian Development Bank	**16,014**	13,456
European Bank for Reconstruction and Development	**3,055**	3,055
African Development Bank	**3,042**	2,534
North American Development Bank	**1,275**	1,275
Multilateral Investment Guarantee Agency[(1)]	**315**	315
Total	**$ 102,254**	$ 90,657

(1) Both fiscal years 2014 and 2013 include commitments of $22 million for the undisbursed portion of the subscription to paid-in capital investments.

Amounts included in the above table do not include amounts for which the Department may be liable to pay if future congressional action is taken to fund executed agreements between the Department and certain MDBs.

Terrorism Risk Insurance Program

The *Terrorism Risk Insurance Act* (TRIA), signed into law in November 2002, was enacted to address market disruptions resulting from terrorist attacks on September 11, 2001. TRIA 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 Terrorism Risk Insurance Program (TRIA Program) is activated upon the certification of an "act of terrorism" by the Secretary in concurrence with the U.S. Secretary of State and the U.S. Attorney General. If a certified act of terrorism occurs, insurers may be eligible to receive reimbursement from the U.S. government for insured losses above a designated deductible amount. Insured losses above this amount will be shared between insurance companies and the U.S. government. TRIA also gives the Department authority to recoup federal payments made under the TRIA Program 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 TRIA as of September 30, 2014 or 2013.

Exchange Stabilization Agreement

The North American Framework Agreement (NAFA), signed by the Department in 1994, includes the Exchange Stabilization Agreement (ESA) with Mexico. The Department, through the ESF, has a standing swap line for $3.0 billion with Mexico under the

NAFA and its implementing ESA. The amounts and terms (including the assured source of repayment) of any borrowing under NAFA and ESA will have to be negotiated and agreed to before any actual drawing can occur. The ESA does provide sample clauses that state that transactions shall be exchange rate neutral for the ESF, and shall bear interest based on a then current rate tied to U.S. Treasury bills. There were no drawings outstanding on the ESF swap line as of September 30, 2014 and 2013. The Department renewed the ESA through December 14, 2014.

New Arrangements to Borrow

The Supplemental Appropriations Act of 2009 (P.L. 111-32) provided the authorization and appropriation for an increase in the United States' participation in the New Arrangements to Borrow (NAB). Because the U.S. financial participation in the IMF is denominated in SDRs, P.L. 111-32 authorized and appropriated up to the dollar equivalent of SDR 75 billion to implement this commitment. The United States agreed in May 2010 that its participation in the NAB would increase from SDR 6.6 billion to SDR 69.1 billion, pursuant to IMF Executive Board Decision No. 14577-(10/35). Total U.S. participation in the NAB of SDR 69.1 billion was equivalent to $102.4 billion and $106.0 billion as of September 30, 2014 and 2013, respectively. Refer to Notes 11 and 12 for more information on the NAB.

Commitment to GSEs

The SPSPA agreements between the Department and each GSE, which have no expiration date, provide for the Department to disburse funds to the GSEs if, at the end of any quarter, the FHFA determines that the liabilities exceed its assets. At September 30, 2014 and 2013, the Department's maximum remaining potential commitment to the GSEs was $258.1 billion. Refer to Note 8 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

The Department estimated that $7.8 billion and $4.3 billion as of September 30, 2014 and 2013, respectively, may be payable as other claims for tax refunds. This estimate represents amounts (principal and interest) that may be paid for claims pending judicial review by the federal courts or internally, by Appeals. In fiscal year 2014, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts and appeals courts is $3.1 billion and $4.7 billion, respectively. In fiscal year 2013, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts and appeals courts was $0.8 billion and $3.5 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, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, some unpaid tax assessments do not meet the criteria for financial statement recognition. Under Internal Revenue Code Section 6201, the Department is authorized and required to make inquiries, determinations, and assessments of all taxes which have not been 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. The Department also has 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, unpaid assessments require taxpayer or court agreement to be considered federal taxes receivable. Assessments not agreed to by taxpayers or the courts are considered compliance assessments and are not considered 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 are considered federal taxes receivable.

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

Although compliance assessments and write-offs are not considered 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, 2014 and 2013, were as follows (in millions):

		2014	2013
Total Unpaid Assessments	**$**	**380,000** $	374,000
Less: Compliance Assessments		**(86,000)**	(85,000)
Write Offs		**(138,000)**	(130,000)
Gross Federal Taxes Receivable		**156,000**	159,000
Less: Allowance for Doubtful Accounts		**(116,000)**	(124,000)
Federal Taxes Receivables, Net	**$**	**40,000** $	35,000

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 $2.0 billion as of September 30, 2014 and 2013. The related unpaid assessments of those businesses are reported as taxes receivable or write-offs, but the Department may also recover portions of those businesses' unpaid assessments from any and all individual officers and directors against whom a trust fund recovery penalty is assessed.

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, special occupational taxes are collected from certain tobacco businesses. During fiscal years 2014 and 2013, TTB collected approximately $22.2 billion and $22.9 billion in taxes, interest, and other revenues, respectively. Federal excise taxes are also collected on certain articles produced in Puerto Rico and the Virgin Islands, and imported into the United States. In accordance with 26 USC 7652, such taxes collected on rum imported into the United States are "covered over" or paid into the treasuries of Puerto Rico and the Virgin Islands.

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

Deferred Maintenance

In fiscal years 2014 and 2013, the Department had no material amounts of deferred maintenance costs to report on vehicles, buildings, and structures owned by the Department.

Deferred maintenance applies to owned PP&E. Deferred maintenance is maintenance that was not performed when it should have been, or was scheduled to be, and is put off or delayed for a future period. Maintenance is defined 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. Maintenance 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 deferred maintenance and acceptable operating condition of an asset. Periodic condition assessments, physical inspections, and review of manufacturing and engineering specifications, work orders, and building and other structure logistics reports can be used under these methodologies. Heritage assets held by the Department are generally in acceptable physical condition, and there is no deferred maintenance on heritage assets.

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, 2014 and 2013 disaggregated by Treasury reporting entity rather than by Treasury major budget account, since Treasury manages its budget at the reporting entity level.

Fiscal Year 2014 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 brought forward, October 1	$	59 $	735 $	366,944 $	44 $	990
Recoveries of prior year unpaid obligations		-	39	9,061	3	115
Other changes in unobligated balance		-	(7)	(24,427)	(1)	(86)
Unobligated balance from prior year budget authority, net		59	767	351,578	46	1,019
Appropriations (discretionary and mandatory)		-	448,094	9,368	112	11,657
Borrowing authority (discretionary and mandatory)		-	-	1,200	-	-
Spending authority from offsetting collections (discretionary and mandatory)		700	219	11,621	-	156
Total Budgetary Resources	$	759 $	449,080 $	373,767 $	158 $	12,832
STATUS OF BUDGETARY RESOURCES						
Obligations incurred	$	688 $	448,041 $	27,085 $	103 $	11,751
Unobligated balance, end of year:						
Apportioned		71	1,001	271,912	52	645
Exempt from Apportionment		-	4	15,397	-	7
Unapportioned		-	34	59,373	3	429
Total unobligated balance, end of year		71	1,039	346,682	55	1,081
Total Status of Budgetary Resources	$	759 $	449,080 $	373,767 $	158 $	12,832
CHANGE IN OBLIGATED BALANCE						
Unpaid obligations, brought forward, October 1	$	50 $	508 $	232,096 $	23 $	1,297
Obligations incurred		688	448,041	27,085	103	11,751
Outlays (gross)		(631)	(447,214)	(27,085)	(95)	(11,604)
Recoveries of prior year unpaid obligations		-	(39)	(9,061)	(3)	(115)
Unpaid obligations, end of year		107	1,296	223,035	28	1,329
Uncollected payments:						
Uncollected payments, Federal sources, brought forward, October 1		(64)	(32)	(833)	(3)	(30)
Change in uncollected payments, Federal sources		17	7	218	2	(7)
Uncollected payments, Federal sources, end of year		(47)	(25)	(615)	(1)	(37)
Obligated Balance, End of Year	$	60 $	1,271 $	222,420 $	27 $	1,292
Obligated Balance, Start of Year	$	(14)$	476 $	231,263 $	20 $	1,267
BUDGET AUTHORITY AND OUTLAYS, NET						
Budget authority, gross (discretionary and mandatory)	$	700 $	448,313 $	22,189 $	112 $	11,813
Actual offsetting collections (discretionary and mandatory)		(684)	(229)	(22,680)	(2)	(149)
Change in uncollected payments, Federal sources (discretionary and mandatory)		17	7	218	2	(7)
Budget Authority, Net (Discretionary and Mandatory)	$	33 $	448,091 $	(273)$	112 $	11,657
Outlays, gross (discretionary and mandatory)	$	631 $	447,214 $	27,085 $	95 $	11,604
Actual offsetting collections (discretionary and mandatory)		(684)	(229)	(22,680)	(2)	(149)
Outlays, net (discretionary and mandatory)		(53)	446,985	4,405	93	11,455
Distributed offsetting receipts		-	(41,788)	(83,281)	-	(515)
Agency Outlays, Net (Discretionary and Mandatory)	$	(53)$	405,197 $	(78,876)$	93 $	10,940

(a) Of the $374 billion of Total Budgetary Resources for Departmental Offices, GSE and OFS had $259 billion and $17 billion, respectively. The remainder is spread throughout other offices.

Fiscal Year 2014 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 brought forward, October 1	$ 496	$ 1,076	$ 6	$ 368,339	$ 2,011
Recoveries of prior year unpaid obligations	18	-	1	3,872	5,365
Other changes in unobligated balance	(22)	-	(1)	(18,218)	(6,326)
Unobligated balance from prior year budget authority, net	492	1,076	6	353,993	1,050
Appropriations (discretionary and mandatory)	-	-	99	469,330	-
Borrowing authority (discretionary and mandatory)	-	-	-	-	1,200
Spending authority from offsetting collections (discretionary and mandatory)	2,876	641	7	8,222	7,998
Total Budgetary Resources	$ 3,368	$ 1,717	$ 112	$ 831,545	$ 10,248
STATUS OF BUDGETARY RESOURCES					
Obligations incurred	$ 2,862	$ 1,014	$ 107	$ 482,380	$ 9,271
Unobligated balance, end of year:					
Apportioned	506	(1)	1	273,584	603
Exempt from Apportionment	-	704	-	16,112	-
Unapportioned	-	-	4	59,469	374
Total unobligated balance, end of year	506	703	5	349,165	977
Total Status of Budgetary Resources	$ 3,368	$ 1,717	$ 112	$ 831,545	$ 10,248
CHANGE IN OBLIGATED BALANCE					
Unpaid obligations, brought forward, October 1	$ 198	$ 223	$ 17	$ 132,978	$ 101,434
Obligations incurred	2,862	1,014	107	482,380	9,271
Outlays (gross)	(2,762)	(1,003)	(101)	(480,732)	(9,763)
Recoveries of prior year unpaid obligations	(18)	-	(1)	(3,872)	(5,365)
Unpaid obligations, end of year	280	234	22	130,754	95,577
Uncollected payments:					
Uncollected payments, Federal sources, brought forward, October 1	(6)	(4)	(3)	(245)	(730)
Change in uncollected payments, Federal sources	-	-	(1)	18	218
Uncollected payments, Federal sources, end of year	(6)	(4)	(4)	(227)	(512)
Obligated Balance, End of Year	$ 274	$ 230	$ 18	$ 130,527	$ 95,065
Obligated Balance, Start of Year	$ 192	$ 219	$ 14	$ 132,733	$ 100,704
BUDGET AUTHORITY AND OUTLAYS, NET					
Budget authority, gross (discretionary and mandatory)	$ 2,876	$ 641	$ 106	$ 477,552	$ 9,198
Actual offsetting collections (discretionary and mandatory)	(2,852)	(641)	(6)	(8,186)	(19,057)
Change in uncollected payments, Federal sources (discretionary and mandatory)	-	-	(1)	18	218
Budget Authority, Net (Discretionary and Mandatory)	$ 24	$ -	$ 99	$ 469,384	$ (9,641)
Outlays, gross (discretionary and mandatory)	$ 2,762	$ 1,003	$ 101	$ 480,732	$ 9,763
Actual offsetting collections (discretionary and mandatory)	(2,852)	(641)	(6)	(8,186)	(19,057)
Outlays, net (discretionary and mandatory)	(90)	362	95	472,546	(9,294)
Distributed offsetting receipts	-	-	-	(125,584)	-
Agency Outlays, Net (Discretionary and Mandatory)	$ (90)	$ 362	$ 95	$ 346,962	$ (9,294)

Fiscal Year 2013 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 brought forward, October 1	$ 51	$ 389	$ 336,359	$ 34	$ 980
Recoveries of prior year unpaid obligations	-	40	15,262	4	134
Other changes in unobligated balance	-	(6)	(26,674)	(1)	(72)
Unobligated balance from prior year budget authority, net	51	423	324,947	37	1,042
Appropriations (discretionary and mandatory)	-	434,829	58,105	105	11,553
Borrowing authority (discretionary and mandatory)	-	-	576	-	-
Spending authority from offsetting collections (discretionary and mandatory)	664	225	18,242	3	126
Total Budgetary Resources	$ 715	$ 435,477	$ 401,870	$ 145	$ 12,721
STATUS OF BUDGETARY RESOURCES					
Obligations incurred	$ 656	$ 434,742	$ 34,926	$ 101	$ 11,731
Unobligated balance, end of year:					
Apportioned	20	696	273,133	42	637
Exempt from Apportionment	-	6	17,894	-	7
Unapportioned	39	33	75,917	2	346
Total unobligated balance, end of year	59	735	366,944	44	990
Total Status of Budgetary Resources	$ 715	$ 435,477	$ 401,870	$ 145	$ 12,721
CHANGE IN OBLIGATED BALANCE					
Unpaid obligations, brought forward, October 1	$ 117	$ 942	$ 249,824	$ 36	$ 1,672
Obligations incurred	656	434,742	34,926	101	11,731
Outlays (gross)	(723)	(435,136)	(37,392)	(110)	(11,972)
Recoveries of prior year unpaid obligations	-	(40)	(15,262)	(4)	(134)
Unpaid obligations, end of year	50	508	232,096	23	1,297
Uncollected payments:					
Uncollected payments, Federal sources, brought forward, October 1	(55)	(28)	(858)	(7)	(41)
Change in uncollected payments, Federal sources	(9)	(4)	25	4	11
Uncollected payments, Federal sources, end of year	(64)	(32)	(833)	(3)	(30)
Obligated Balance, End of Year	$ (14)	$ 476	$ 231,263	$ 20	$ 1,267
Obligated Balance, Start of Year	$ 62	$ 914	$ 248,966	$ 29	$ 1,631
BUDGET AUTHORITY AND OUTLAYS, NET					
Budget authority, gross (discretionary and mandatory)	$ 664	$ 435,054	$ 76,923	$ 108	$ 11,679
Actual offsetting collections (discretionary and mandatory)	(687)	(221)	(46,396)	(6)	(137)
Change in uncollected payments, Federal sources (discretionary and mandatory)	(9)	(4)	25	4	11
Budget Authority, Net (Discretionary and Mandatory)	$ (32)	$ 434,829	$ 30,552	$ 106	$ 11,553
Outlays, gross (discretionary and mandatory)	$ 723	$ 435,136	$ 37,392	$ 110	$ 11,972
Actual offsetting collections (discretionary and mandatory)	(687)	(221)	(46,396)	(6)	(137)
Outlays, net (discretionary and mandatory)	36	434,915	(9,004)	104	11,835
Distributed offsetting receipts	-	(39,401)	(111,272)	-	(731)
Agency Outlays, Net (Discretionary and Mandatory)	$ 36	$ 395,514	$ (120,276)	$ 104	$ 11,104

(a) Of the $401 billion of Total Budgetary Resources for Departmental Offices, GSE and OFS constituted $260 billion and $38 billion, respectively. The remainder was spread throughout other offices.

Fiscal Year 2013 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 brought forward, October 1	$ 694	$ 1,087	$ 4	$ 320,785	$ 18,813
Recoveries of prior year unpaid obligations	42	-	2	7,876	7,608
Other changes in unobligated balance	(42)	-	(1)	(3,366)	(23,430)
Unobligated balance from prior year budget authority, net	694	1,087	5	325,295	2,991
Appropriations (discretionary and mandatory)	-	-	95	504,687	-
Borrowing authority (discretionary and mandatory)	-	-	-	-	576
Spending authority from offsetting collections (discretionary and mandatory)	3,961	1,005	6	10,091	14,141
Total Budgetary Resources	$ 4,655	$ 2,092	$ 106	$ 840,073	$ 17,708
STATUS OF BUDGETARY RESOURCES					
Obligations incurred	$ 4,159	$ 1,016	$ 100	$ 471,734	$ 15,697
Unobligated balance, end of year:					
Apportioned	496	-	2	274,291	735
Exempt from Apportionment	-	1,076	-	18,983	-
Unapportioned	-	-	4	75,065	1,276
Total unobligated balance, end of year	496	1,076	6	368,339	2,011
Total Status of Budgetary Resources	$ 4,655	$ 2,092	$ 106	$ 840,073	$ 17,708
CHANGE IN OBLIGATED BALANCE					
Unpaid obligations, brought forward, October 1	$ 276	$ 284	$ 22	$ 142,307	$ 110,866
Obligations incurred	4,159	1,016	100	471,734	15,697
Outlays (gross)	(4,195)	(1,077)	(103)	(473,187)	(17,521)
Recoveries of prior year unpaid obligations	(42)	-	(2)	(7,876)	(7,608)
Unpaid obligations, end of year	198	223	17	132,978	101,434
Uncollected payments:					
Uncollected payments, Federal sources, brought forward, October 1	(6)	(5)	(4)	(186)	(818)
Change in uncollected payments, Federal sources	-	1	1	(59)	88
Uncollected payments, Federal sources, end of year	(6)	(4)	(3)	(245)	(730)
Obligated Balance, End of Year	$ 192	$ 219	$ 14	$ 132,733	$ 100,704
Obligated Balance, Start of Year	$ 270	$ 279	$ 18	$ 142,121	$ 110,048
BUDGET AUTHORITY AND OUTLAYS, NET					
Budget authority, gross (discretionary and mandatory)	$ 3,961	$ 1,005	$ 101	$ 514,778	$ 14,717
Actual offsetting collections (discretionary and mandatory)	(3,985)	(1,007)	(7)	(10,088)	(42,358)
Change in uncollected payments, Federal sources (discretionary and mandatory)	-	1	1	(59)	88
Budget Authority, Net (Discretionary and Mandatory)	$ (24)	$ (1)	$ 95	$ 504,631	$ (27,553)
Outlays, gross (discretionary and mandatory)	$ 4,195	$ 1,077	$ 103	$ 473,187	$ 17,521
Actual offsetting collections (discretionary and mandatory)	(3,985)	(1,007)	(7)	(10,088)	(42,358)
Outlays, net (discretionary and mandatory)	210	70	96	463,099	(24,837)
Distributed offsetting receipts	-	-	-	(151,404)	-
Agency Outlays, Net (Discretionary and Mandatory)	$ 210	$ 70	$ 96	$ 311,695	$ (24,837)

PART 3:

Other Information (Unaudited)

SECTION A: SCHEDULE OF SPENDING

Schedule of Spending (Unaudited)

For Fiscal Years Ended September 30, 2014 and 2013

(In Millions)

The following Schedule of Spending (SOS) presents an overview of the funds available for the Department to spend and how the Department spent these funds as of and for the fiscal years ended September 30, 2014 and 2013. The financial data used to populate this schedule is the same underlying data used to populate the Department's Statement of Budgetary Resources (SBR). Accordingly, the budgetary financial information in this schedule is presented on a combined basis rather than on a consolidated basis. Specifically, the SOS presents Total Resources (or "Total Budgetary Resources" per the SBR), Amount Available but Not Agreed to be Spent (or "Unobligated balance, end of year – Apportioned and Exempt from Apportionment" per the SBR), and "Amount Not Available to be Spent" (or "Unobligated balances, end of year – Unapportioned" per the SBR).

	2014	2013
What Money is Available to Spend?		
Total Resources	**$ 841,793**	$ 857,781
Less: Amount Available but Not Agreed to be Spent	**(290,299)**	(294,009)
Less: Amount Not Available to be Spent	**(59,843)**	(76,341)
Total Amounts Agreed to be Spent	**$ 491,651**	$ 487,431
How was the Money Spent/Issued?		
Interest and Dividends[1]	**$ 441,926**	$ 427,946
Grants, Subsidies, and Contributions[2]	**15,915**	24,590
Personnel Compensation and Other Related Benefits	**11,249**	11,254
Investments and Loans[3]	**8,465**	7,201
Other Contractual Services	**4,252**	4,079
Other	**9,844**	12,361
Total Amounts Agreed to be Spent	**$ 491,651**	$ 487,431
Who did the Money go to?		
Federal	**$ 195,616**	$ 201,954
Non-Federal	**296,035**	285,477
Total Amounts Agreed to be Spent	**$ 491,651**	$ 487,431

[1] Interest and Dividends is primarily comprised of Interest on the Public Debt and interest expense related to credit reform activities.
[2] Grants, Subsidies, and Contributions are primarily comprised of cash payments to States, other political subdivisions, corporations, associations, and individuals; credit reform program related subsidies; and contributions to foreign countries.
[3] Investments and Loans primarily include investments made in connection with loans issued for credit reform and non-credit reform activities.

SECTION B: TAX GAP AND TAX BURDEN

TAX GAP

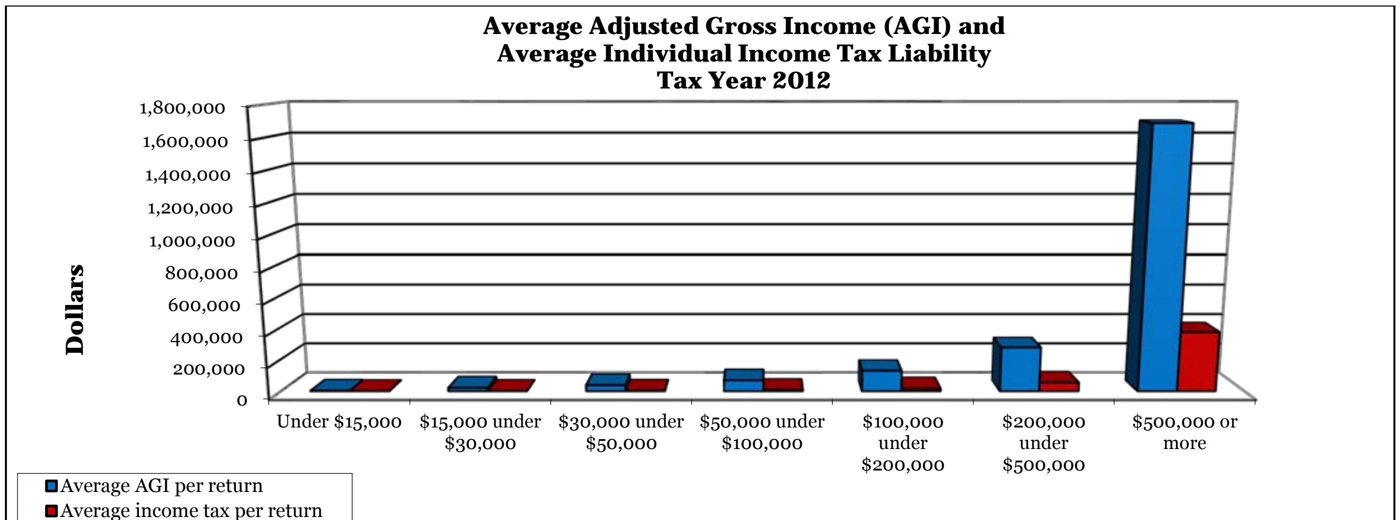
The tax gap is the difference between the amount of tax imposed by law and what taxpayers actually pay on time. The tax gap arises from the three types of noncompliance: not filing required tax returns on time or at all (the nonfiling gap), underreporting the correct amount of tax on timely filed returns (the underreporting gap), and not paying on time the full amount reported on timely filed returns (the underpayment gap). Of these three components, only the underpayment gap is observed; the nonfiling gap and the underreporting gap must be estimated. Each instance of noncompliance by a taxpayer contributes to the tax gap, whether or not the IRS detects it, and whether or not the taxpayer is even aware of the noncompliance. Some of the tax gap arises from intentional (willful) noncompliance, and some of it arises from unintentional mistakes.

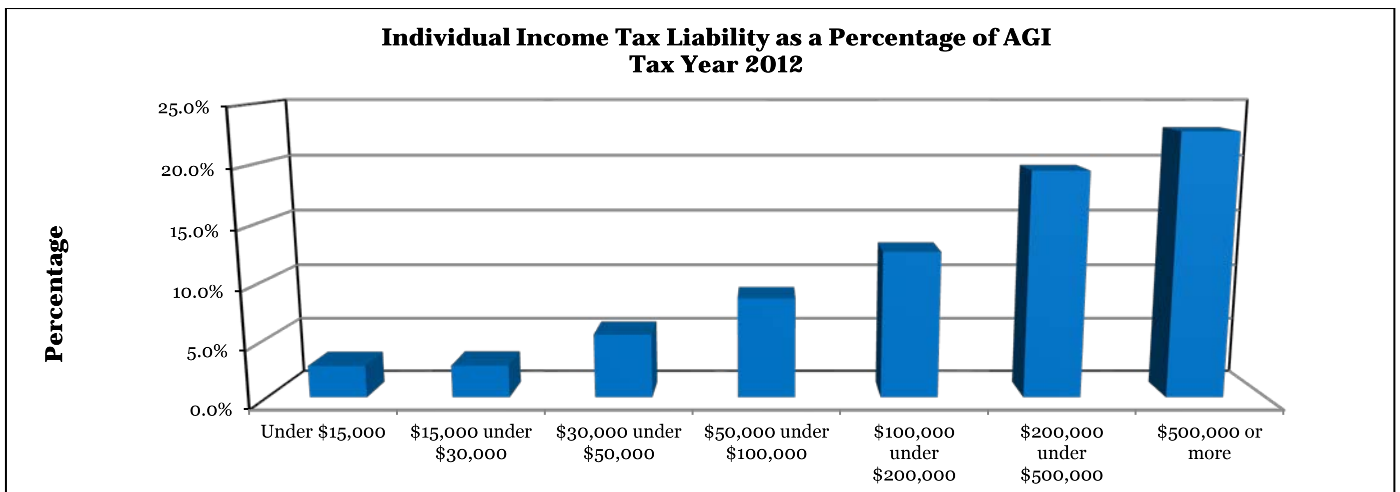
The collection gap is the cumulative amount of tax, penalties, and interest assessed over many years, but not paid by a certain point in time, which the IRS expects will remain uncollectible. In essence, it represents the difference between the total balance of unpaid assessments and the net taxes receivable reported on the balance sheet of the IRS. The tax gap and the collection gap are related and overlapping concepts, but they have significant differences. The collection gap is a cumulative balance sheet concept for a particular point in time, while the tax gap is like an income statement item for a single year. Moreover, the tax gap estimates include all noncompliance, while the collection gap includes only amounts that have been assessed (a small portion of all noncompliance) and have not yet reached their statutory collection expiration date. Also, the tax gap includes only tax, while the collection gap includes tax, penalties, and interest.

TAX BURDEN

The Internal Revenue Code (IRC) provides for progressive rates of tax, whereby higher incomes are generally subject to higher rates of tax. The following pages present in both graph and table format various income levels and their associated tax liabilities for individuals and corporations. This information is the most recent available for individuals (tax year 2012) and corporations (tax year 2011). The graphs and charts are representative of more detailed data and analyses available from the IRS Statistics of Income office.

For individuals, the information illustrates, in both percentage and dollar terms, the tax burden borne by varying levels of Adjusted Gross Income (AGI). The corporate information illustrates, for varying corporate asset categories, the tax burden borne by these entities as a percentage of taxable income.

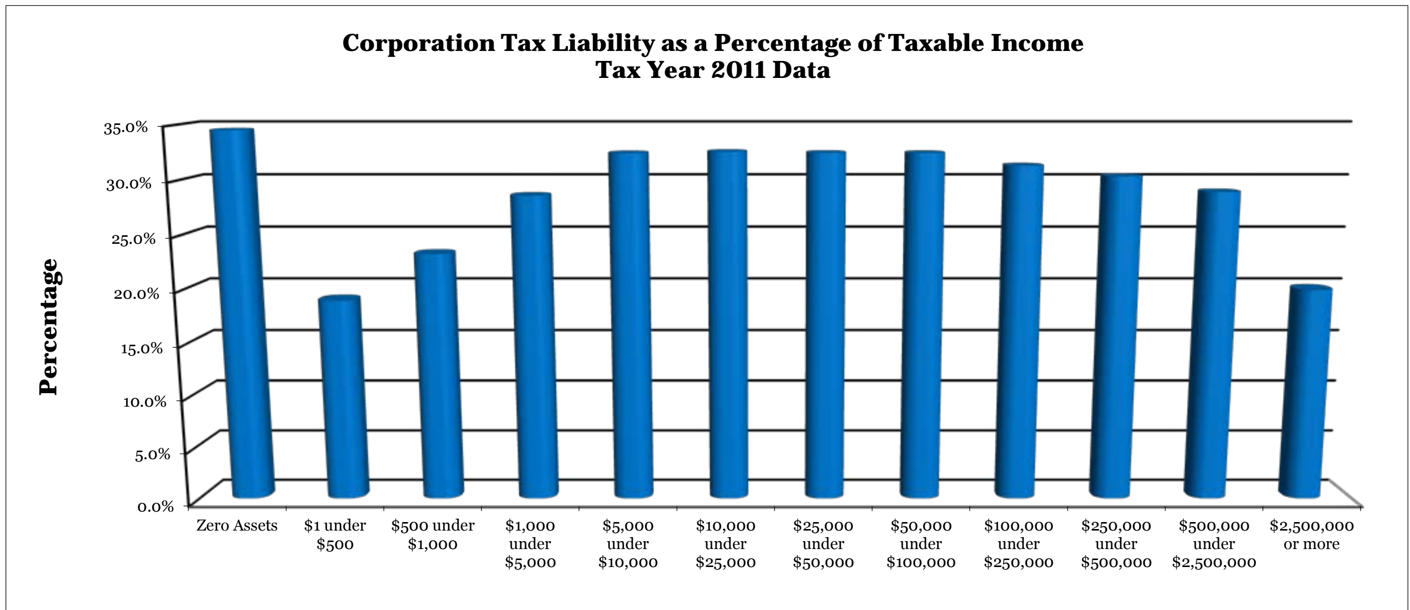




INDIVIDUAL INCOME TAX LIABILITY

Tax Year 2012

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	37,096	$ 82,510	$ 2,290	$ 2,224	$ 62	2.8%
$15,000 under $30,000	30,519	670,097	18,787	21,957	616	2.8%
$30,000 under $50,000	25,325	989,413	54,739	39,069	2,161	5.5%
$50,000 under $100,000	31,089	2,215,015	192,091	71,248	6,179	8.7%
$100,000 under $200,000	15,647	2,100,003	265,391	134,211	16,961	12.6%
$200,000 under $500,000	4,154	1,186,751	231,596	285,689	55,753	19.5%
$500,000 or more	1,098	1,856,342	423,133	1,690,658	385,367	22.8%
Total	**144,928**	**$ 9,100,131**	**$ 1,188,027**			



CORPORATION TAX LIABILITY

Tax Year 2011

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	$ 14,156	$ 4,889	34.5%
$1 under $500	6,264	1,181	18.9%
$500 under $1,000	3,243	752	23.2%
$1,000 under $5,000	10,715	3,061	28.6%
$5,000 under $10,000	6,834	2,217	32.4%
$10,000 under $25,000	10,493	3,417	32.6%
$25,000 under $50,000	10,425	3,385	32.5%
$50,000 under $100,000	12,413	4,029	32.5%
$100,000 under $250,000	23,342	7,308	31.3%
$250,000 under $500,000	26,194	7,945	30.3%
$500,000 under $2,500,000	109,134	31,542	28.9%
$2,500,000 or more	761,180	151,168	19.9%
Total	**$ 994,393**	**$ 220,894**	

Section C: Management And Performance Challenges Identified by the inspectors general and the Secretary's Responses

In accordance with the *Reports Consolidation Act of 2000*, the Inspectors General is required to identify specific management and performance challenges facing the Department. At the end of each fiscal year, the Treasury Office of Inspector General (OIG) and Treasury Inspector General for Tax Administration (TIGTA) send an update of these management challenges to the Secretary and cite any new challenges for the upcoming fiscal year. The Special Inspector General for the Troubled Asset Relief Program did not provide the Secretary with an annual update on management and performance challenges. This section contains the management and performance challenges letters from OIG and TIGTA and the Secretary's responses describing actions taken and planned to address the challenges.

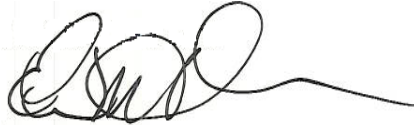
OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 23, 2014

INFORMATION MEMORANDUM FOR SECRETARY LEW

FROM: Eric M. Thorson
Inspector General



SUBJECT: Management and Performance Challenges Facing the Department of the Treasury (OIG-CA-15-001)

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.

In assessing the Department's most serious challenges, we are mindful of two external factors that affect Treasury. The first is the slow economic recovery despite the efforts of the Administration and Congress. The second is the Nation's budget deficit. The results of the last national election brought little clarity to the direction the Federal Government will take in addressing these matters, and the upcoming November congressional elections, regardless of the results, will likely continue these uncertainties. As the outgoing and new Congresses grapple with much of the same unfinished business when it comes to the Federal budget and the Nation's debt, significant issues related to programs like Social Security and Medicare are still not addressed while new pressures on federal spending emerge, such as the military action against the Islamic State of Iraq and the Levant. The polarized political environment in which the Federal Government has been operating since 2010, with the repeated cycle of budget and debt ceiling stopgaps, has resulted in waste and inefficiency. While the Department has implemented strong controls over spending, it is imperative that senior leaders and front-line managers remain ever vigilant when exercising the authorities and responsibilities entrusted to them.

Treasury has, throughout the years, had to administer major new programs and initiatives intended to support and improve the country's economy. Last year I reported on a new responsibility, the administration of the Gulf Coast Restoration Trust Fund. This year I am reporting on new responsibilities to implement the Digital Accountability and Transparency Act of 2014 (DATA Act) and to guard against improper payments of federal dollars. In nearly every case, the Department has had to start up and administer new programs and operations with thin staffing and very limited, if any, new resources. That situation remains the case again. Like last year, we cannot emphasize enough to the Department's stakeholders how critically important it is that Treasury is resourced sufficiently to carry out its authorities and responsibilities to include maintaining a strong control environment.

This year we are reporting six challenges, four of which are repeated from last year and two of which are new challenges.

- Cyber Threats (New Challenge)
- Continued Implementation of Dodd-Frank
- Management of Treasury's Authorities Intended to Support and Improve the Economy
- Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act Enforcement
- Efforts to Promote Spending Transparency and to Prevent and Detect Improper Payments (New Challenge)
- Gulf Coast Restoration Trust Fund Administration

In addition to the above challenges, we are continuing to report our elevated concerns about two matters – currency and coin production and the need to document key activities and decisions.

2014 Management and Performance Challenges

Challenge 1: Cyber Threats

For the last several years, we have reported on our growing concern with cybersecurity. This year we elevated cyber threats to the Department's top management challenge. Cybersecurity represents one of the most serious problems facing the Nation and depends on a reliable critical infrastructure, including information systems and networks, to manage national security and economic threats. It is a persistent area of 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 grow and become more sophisticated and subtle, they pose an ongoing challenge for Treasury to safeguard its internal systems and operations and the financial sector it oversees.

Attackers frequently exploit the most vulnerable networks in a string of trusted connections to gain access to government systems. Recent cyber attacks at the US Investigations Services (referred to as USIS) caused the Department of Homeland Security (DHS) and the Office of Personnel Management (OPM) to suspend background check services and most of their contracts with USIS. Another recent attack allowed access to the OPM's e-QIP system which stores detailed data on people with security clearances.

We found in our audits of selected Treasury bureaus that security measures were not sufficient at the time to fully prevent and detect vulnerabilities to their networks and systems. In addition to Treasury's own networks and systems, management must be cognizant of, and defend against, the risks posed by attacks made against other agencies, 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.

Cyber attacks on banking institutions continue to evolve at an accelerated rate, ranging from distributed denial of service attacks on bank websites to phishing attacks to fraudulent wire payments, depending on the goals of the attacking entities. 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.

Effective public-private coordination will be required to address the growing threat of cyber attacks against the Nation's critical infrastructure. In this regard, Treasury will be 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. Considering the multitude of threats, Treasury will need to continue to strengthen partnerships and coordination among law enforcement, financial institutions, regulators, and private entities in the financial sector to address these threats.

Challenge 2: Continued Implementation of Dodd-Frank

In response to the need for financial reform, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) in July 2010. Among other things, Dodd-Frank established the Financial Stability Oversight Council (FSOC), which you chair as the Treasury Secretary. FSOC's mission is to identify risks to financial stability that could arise from the activities of large, interconnected financial companies; respond to any emerging threats to the financial system; and promote market discipline. FSOC accomplished much over the past year. That said, FSOC must continue to work in order to meet all of its responsibilities.

Annual reporting – As required, FSOC issued its fourth annual report in May 2014. The report contained recommendations to (1) further address structural vulnerabilities in key markets, (2) take steps to address reform of the housing finance market, (3) identify alternative interest rate benchmarks, (4) heighten risk management and supervisory attention in specific areas, (5) promote forward looking capital and liquidity planning, (6) monitor the impact of the volatile interest rate environment, (7) continue efforts to assess cybersecurity vulnerabilities, and (8) improve the quality and comprehensiveness of financial data.

Designation of nonbank financial companies for consolidated supervision – FSOC proposed the designation of one company for additional supervision by the Board of Governors of the Federal Reserve System (FRB) in September 2014; however, the company has requested a hearing before FSOC to contest the proposed designation. Additionally, FSOC completed annual reevaluations for two of the three companies designated in 2013 and did not rescind either company's designation. FSOC continues to review other nonbank financial companies for potential designation.

Money Market Reform – FSOC released a statement acknowledging the Securities and Exchange Commission's (SEC) adoption of amendments to the rules that govern money market mutual funds in July 2014. The amendments make structural and operational reforms to address risks of investor runs on money market funds, while preserving the benefits of the funds. FSOC intends to fully examine the SEC's rules and their potential impact on money market mutual funds and financial stability.

Risk Monitoring and Regulatory Coordination – FSOC has considered issues such as market volatility, the government shutdown and debt ceiling impasse, interest rate risk, economic developments in Europe and emerging economies, housing finance reform, the NASDAQ trading halt in August 2013, and risks to financial stability arising from cybersecurity vulnerabilities. To facilitate this risk monitoring process, FSOC established the Systemic Risk Committee which serves as a forum for member agency staff to identify and analyze potential risks that may extend beyond the jurisdiction of any one agency.

The Council of Inspectors General on Financial Oversight (CIGFO), also established by Dodd-Frank, which I chair, facilitates the sharing of information among member inspectors general with a focus on reporting our concerns that may apply to the broader financial sector and ways to improve financial oversight. Accordingly, CIGFO is an important source of independent analysis to FSOC. As required, CIGFO met quarterly and issued its fourth annual report in July 2014. CIGFO also established its third Working Group in December 2013. The Working Group assessed the extent to which FSOC is operating in a manner consistent with the expectations outlined in its Transparency Policy. The Working Group determined that FSOC operated in a manner consistent with the expectations outlined in its Transparency Policy. However, the Working Group identified practices in place that, if incorporated into the policy, would make it stronger. Also, the Working Group identified certain additional practices that FSOC should implement to increase transparency. During the Working Group's audit, FSOC approved a revised Transparency Policy which took into consideration matters we brought to FSOC staff's attention, and FSOC is addressing other recommendations made by the Working Group.[1] Going forward, CIGFO will continue to review FSOC operations and its efforts to oversee the U.S. financial system.

Dodd-Frank also established two offices within Treasury: the Office of Financial Research (OFR) and the Federal Insurance Office (FIO).[2] OFR is the data collection, and research and analysis arm of FSOC. Last year, we reviewed the stand-up of OFR. In our report on that review, we noted among other things that OFR had not yet developed performance measures for the office. We are currently conducting a review to assess the design and implementation of performance measures by OFR. FIO is charged with monitoring the insurance industry, including identifying gaps or issues in the regulation of insurance that could contribute to a systemic crisis in the insurance industry or financial system. In May 2014, we issued a report on the stand-up of FIO. In our report, we noted that four of the five reports required by Dodd-Frank were completed well after their due dates and the other had not yet been completed. As of September 2014, the report that was due in September 2012 describing the breadth and scope of the global reinsurance market and the critical role such a market plays in supporting insurance in the U.S. was still not issued. We are currently conducting a review to assess the authority and processes by which the FIO coordinates federal efforts and develops federal policy on prudential aspects of international insurance matters, and if FIO's activities are consistent with its authority.

As we have stated in the past, the intention of Dodd-Frank is most notably to prevent, or at least minimize, the impact of a future financial sector crisis on the U.S. economy. To accomplish this, Dodd-Frank placed great responsibility with Treasury. This management challenge from our perspective is to maintain an effective FSOC process that timely identifies and appropriately responds to emerging risks and is supported by OFR and FIO within Treasury. This is especially important in times of economic growth and financial institution profitability, when such government action is generally unpopular. As the regulatory framework prescribed by Dodd-Frank is institutionalized and matures, we will reassess our reporting of it as a management challenge going forward.

Challenge 3: Management of Treasury's Authorities Intended to Support and Improve the Economy

Congress provided Treasury with broad authorities to address the financial crisis under the Housing and Economic Recovery Act (HERA) and the Emergency Economic Stabilization Act (EESA) enacted in 2008, the American Recovery and Reinvestment Act of 2009 (Recovery Act), and the Small Business

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[1] CIGFO, *Audit of the Financial Stability Oversight Council's Compliance with Its Transparency Policy* (CIGFO-14-001); issued July 1, 2014.

[2] Dodd-Frank also established two other offices within Treasury – the Offices of Minority and Women Inclusion (OMWI) at Departmental Offices and at the Office of the Comptroller of the Currency. We are currently conducting a review of OMWI at Departmental Offices.

Jobs Act of 2010. As we stated last year, to a large extent Treasury's program administration under these acts has matured, but challenges remain in managing Treasury's programs and its outstanding investments. Additionally, the long-term impact on small business lending resulting from investment decisions under Small Business Jobs Act programs is still not clear. Our discussion of this challenge will begin with this act and then address the others for which Treasury is responsible.

Management of the Small Business Lending Fund and State Small Business Credit Initiative

The Small Business Jobs Act created within Treasury a $30 billion Small Business Lending Fund (SBLF) to assist financial institutions increase the availability of credit to small businesses. It also provided $1.5 billion to Treasury to allocate to eligible state programs through the State Small Business Credit Initiative (SSBCI). These programs represent key initiatives of the Administration to support job creation by facilitating the increase in lending to small businesses. Treasury approved the majority of SBLF and SSBCI applications during the last quarter of fiscal year 2011, and because the majority of applicants waited until near the application deadlines to apply, Treasury encountered significant delays in implementing the two programs. As a result, Treasury made a number of investment and funding decisions to meet deadlines, without establishing clear oversight obligations of participating states beforehand. Now that Treasury has disbursed significant funds for these programs, the challenge is to exercise sufficient oversight to ensure that funds are used appropriately, SBLF dividends owed Treasury are paid, and the programs achieve intended results.

SBLF – As of September 2011, Treasury disbursed more than $4 billion to 332 financial institutions across the country. Throughout the life of the program, institutions receiving funds from SBLF pay dividends to Treasury at rates ranging from 1 to 9 percent. The lower rates are an incentive for institutions to increase small business lending.

Treasury faces challenges in measuring program effectiveness and ensuring that the SBLF program meets its intended objective. The intent of the authorizing legislation was to stimulate lending to small businesses, but participating financial institutions are not required to report how they use Treasury's investment nor are they obligated to increase their small business lending. Furthermore, although participating institutions must report their small business lending activity, it is difficult to isolate the impact of the SBLF program from other factors that affect lending, which is further complicated when participating institutions commingle SBLF funding with other funds. Finally, to ensure accurate measurement of program performance and that dividend rate adjustments resulting from reported small business lending are warranted, Treasury needs to verify that institutions are accurately reporting lending information.

SSBCI – As of August 31, 2014, Treasury disbursed approximately $1.1 billion in SSBCI funding awarded to 57 participating states, territories, and municipalities. Treasury disburses the funds to participants in three increments, with second and third disbursements made after the entity certifies that it has used 80 percent of its previous disbursement. States had been slow to use their SSBCI funding as many either had to establish new small business lending programs to use the funds received and/or redirect funds midstream to better performing programs than those originally designated. In anticipation of the program's sunset in 2017, Treasury is requesting an additional $1.5 billion to expand the program and provide funding to states through fiscal year 2021.

Primary oversight of the use of SSBCI funds is the responsibility of each participating state. The states may use funds awarded for programs that partner with private lenders and investors to extend credit to small businesses. Such programs may include those that finance loan loss reserves and provide loan

insurance, loan guarantees, loan participation, venture capital funds, and collateral support. States must report quarterly and annually on their use of funds and certify quarterly that their programs approved for SSBCI funding comply with program requirements.

Treasury's principal challenge in the SSBCI program is holding participating states accountable for the proper use of funds. Because participating states re-allocate SSBCI funds to many other recipients and sub-recipients, these additional layers, without a robust monitoring program by the states, further muddle the tracking of the funds. As a result, Treasury as well as the states have difficulty determining whether states and subsequent program recipients are complying with SSBCI program requirements.

Bond Guarantee Program

The Small Business Jobs Act and the fiscal years 2013 and 2014 appropriations acts provided Treasury with authority to guarantee bonds issued for eligible community and economic development activities. The bond guarantee periods cannot exceed 30 years. Under this authority, Treasury committed to issue $525 million in bond guarantees. As the program administrator, Treasury's Community Development Financial Institutions (CDFI) Fund experienced challenges in standing up the program. For example, it missed the program's statutory implementation date of September 2012 because budgetary authority to guarantee bonds was not obtained until the first quarter of fiscal year 2013 and regulations were still being developed. The program was eventually established in June 2013. Going forward, CDFI Fund must oversee the issuance of the bonds and the use of the bond proceeds by eligible CDFIs to make financing more accessible in underserved communities. Our office plans to assess the CDFI Fund's administration of this program.

Management of the Housing and Economic Recovery Act and the Emergency Economic Stabilization Act

Through several HERA and EESA programs, Treasury injected capital into financial institutions and businesses.

Under HERA, Treasury supports the financial solvency of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) which continue to operate under the conservatorship of the Federal Housing Finance Agency. To cover the losses of the two government sponsored enterprises (GSE) and maintain a positive net worth, Treasury invested $187 billion of senior preferred stock in the two GSEs as of September 30. 2014. Although the GSEs did not require Treasury's support in fiscal year 2014, their futures remain uncertain and further assistance may be required. If such support is needed, the current funding capacity available to Fannie Mae is $117.6 billion and $140.5 billion to Freddie Mac.

Through the Housing Finance Agency Initiative supporting state and local finance agencies, Treasury purchased $15.3 billion of securities issued by Fannie Mae and Freddie Mac backed by state and local Housing Finance Agency bonds (New Issue Bond Program) and committed $8.2 billion for a participation interest in the obligations of Fannie Mae and Freddie Mac (Temporary Credit and Liquidity Program). Treasury received payments of principal and interest on its securities, and as of June 30, 2014, held an investment of approximately $8.8 billion. Additionally, several state and local housing agencies opted out of the Temporary Credit and Liquidity Program reducing Treasury's commitment to about $1.0 billion. Treasury must continue to monitor the underlying assets of its investment in the Housing Finance Agency Initiative.

Legislation has been proposed in the Congress to address housing finance reform, but a solution that all can agree on is still in a formative stage. Accordingly, it is difficult to predict what lies ahead for winding down the Fannie Mae and Freddie Mac conservatorships and housing finance reform.

We also note that Treasury continues to administer programs established under the Troubled Asset Relief Program. That program, however, is not under the jurisdictional oversight of our office.

Management of Recovery Act Programs

Since 2009, Treasury has been responsible for overseeing an estimated $150 billion of funding and tax relief for programs that provided payments for specified energy property in lieu of tax credits and payments to states for low-income housing projects in lieu of tax credits; grants and tax credits through the CDFI Fund; economic recovery payments to Social Security beneficiaries and others; and payments to U.S. territories for distribution to their citizens. While funding for non-Internal Revenue Service (IRS) programs is coming to a close, Treasury must continue to oversee approximately $27 billion to recipients under Treasury's payments in lieu of tax credit programs – to persons for specified energy properties and to states for low-income housing projects. In short, management must continue to enforce award compliance of approximately 95,000 recipients over an extended period of time (5 years from the placed in-service date of the specified energy property and 15 years beginning on January 1 of the year following the placed in-service date for the low-income housing project). Additionally, our Office of Investigations has several open matters involving claims for specified energy properties and low-income housing projects.

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

As we have reported in the past, preventing criminals and terrorists from using our financial networks to sustain their operations and/or launch attacks against the U.S. continues to be a challenge. Treasury's Office of Terrorism and Financial Intelligence (TFI) is dedicated to disrupting the ability of terrorist organizations to fund their operations. TFI brings together intelligence gathering and analysis, economic sanctions, international cooperation, and private-sector cooperation to identify donors, financiers, and facilitators supporting terrorist organizations, and disrupt their ability to fund them. Enhancing the transparency of the financial system is one of the cornerstones of this effort. Treasury carries out its responsibilities to enhance financial transparency through the laws collectively known as the Bank Secrecy Act (BSA). The Financial Crimes Enforcement Network (FinCEN) is the Treasury bureau responsible for administering BSA, while Treasury's Office of Foreign Assets Control (OFAC) administers U.S. foreign sanction programs.

FinCEN and OFAC rely on help from other Federal agencies, the states, and financial institutions to enforce compliance with their programs. Accordingly, to be effective, Treasury must establish and maintain working relationships with these entities.

With respect to FinCEN, cooperation among these entities was advanced in August 2014 with the President's signing of the Money Remittances Improvement Act of 2014. The act allows federal regulators to rely on approved state examinations of nonbank financial institutions such as money services businesses (MSB). FinCEN, IRS, and the states will need to work together to ensure that MSBs are identified, registered, and in compliance with laws and regulations. FinCEN also faces the continuing challenge to enhance financial transparency as a way to strengthen efforts to combat financial crime. To this end, FinCEN has been working on clarifying and strengthening customer due diligence requirements. This includes requirements for institutions to identify beneficial ownership of their accountholders so that their true identities are not hidden. FinCEN issued a notice of proposed rulemaking to that effect in July

2014, "Customer Due Diligence Requirements for Financial Institutions." Furthermore, FinCEN is also working on issuing anti-money laundering regulations for non-bank financial institutions such as vehicle dealers, pawnbrokers, travel agents, finance companies, and real estate closing and settlement services, as well as financial services intermediaries such as investment advisors. Most recently, FinCEN was challenged with providing clarifying guidance to the financial community, who may be reluctant to do business with state-legalized marijuana dispensaries.

While these dispensaries remain illegal under federal law, FinCEN's February 2014 guidance for financial institutions clarified reporting obligations with respect to services to marijuana-related businesses consistent with BSA obligations. This guidance includes conducting due diligence on prospective customers.

Another challenge facing FinCEN is the need to address cross-border electronic transmittal of funds. In September 2010, pursuant to the Intelligence Reform and Terrorism Prevention Act of 2004, FinCEN proposed a regulation that would require certain depository institutions and MSBs to report cross-border electronic transmittals of funds. In the notice of proposed rulemaking, FinCEN acknowledged that it did not anticipate having systems in place before 2011. In this regard, the act required FinCEN to certify that the information technology systems were in place to accept reports from the regulated industry prior to prescribing regulations requiring institutions to report on transmittal of funds. FinCEN officials recently told us that with the BSA IT Modernization Program now complete, the bureau finally has the framework to develop a new report to collect the large volume of cross-border electronic transmittals of funds. FinCEN's BSA IT Modernization Program was completed in March 2014. As of this writing, FinCEN is working on a supplemental rule to implement reporting of cross-border electronic transmittals of funds.

Other matters of concern on the horizon include the increasing use of (1) mobile devices for banking, internet banking, internet gaming, and peer-to-peer transactions; and (2) virtual currencies.[3] FinCEN and other regulatory agencies will need to make sure that providers of these services that are covered by BSA understand their obligations under that statute. Monitoring the transactions of tomorrow may prove to be increasingly difficult for Treasury. In this regard, in 2013, FinCEN issued guidance on virtual currencies and regulatory responsibilities to provide clarity for businesses and individuals engaged in this expanding field of financial activity. FinCEN's rules defined certain businesses or individuals which use convertible virtual currencies or make a business of exchanging, accepting, and transmitting them as MSBs. MSBs have registration requirements and a range of anti-money laundering, recordkeeping, and reporting responsibilities under FinCEN's regulations.

Given the criticality of this challenge to the Department's mission, and notwithstanding the efforts described above, we continue to consider anti-money laundering and combating terrorist financing as inherently high-risk.

Challenge 5: Efforts to Promote Spending Transparency and to Prevent and Detect Improper Payments

Spending Transparency

Over the past several years, Congress and the Administration have taken steps to increase and improve the public availability of information about federal spending. Transparency initiatives are intended to allow

[3] Bitcoins are an example of a virtual currency. These consist of a series of numbers created automatically on a set schedule and traded anonymously between digital addresses or "wallets." Certain exchange firms buy or sell Bitcoins for legal tender at a rate that fluctuates with the market. Congress and regulators continue their efforts to determine the legality, legitimacy, and regulatory framework for virtual currencies such as Bitcoins.

citizens to better understand how tax dollars are used and, by making spending information more easily available, help to identify and prevent fraud and waste, facilitate better decision making, and improve operational efficiency. The DATA Act, signed into law in May 2014, furthers these efforts by ensuring that the Federal Government provides consistent, reliable, and useful online data about how it spends taxpayer dollars. The purpose of the law is to:

- expand the Federal Funding Accountability and Transparency Act of 2006 by disclosing direct Federal agency expenditures and linking federal contract, loan, and grant spending information to programs of Federal agencies, enabling taxpayers and policy makers to track federal spending more easily;
- establish Government-wide data standards for financial data and provide consistent, reliable, and searchable Government-wide spending data that is displayed for taxpayers and policy makers on USASpending.gov[4] (or a successor system that displays the data);
- simplify reporting for entities receiving federal funds by streamlining reporting requirements and reducing compliance costs while improving transparency;
- improve the quality of data submitted to USASpending.gov by holding Federal agencies accountable for the completeness and accuracy of the data submitted; and
- apply approaches developed by the Recovery Accountability and Transparency Board to spending across the Federal Government.

To fulfill its purpose, the DATA Act imposes certain requirements on the Secretary of the Treasury, the Director of the Office of Management and Budget (OMB), the inspectors general of each Federal agency, and the Comptroller General of the United States. In brief, the DATA Act requires Treasury and OMB to:

- by May 2015, establish Government-wide financial data standards for any federal funds made available to or expended by Federal agencies and entities receiving federal funds;
- by May 2017, ensure this financial data is accurately posted and displayed on USASpending.gov, or a successor system; and
- by May 2018, ensure the data standards established are applied to the data made available on the website.

In addition, the act states that Treasury may establish a data analysis center or expand an existing service to support the prevention or reduction of improper payments by Federal agencies and improve efficiency and transparency in federal spending. Upon the establishment of a data analysis center, Treasury is required to enter into agreements with Federal agencies, including inspectors general and federal law enforcement agencies, to provide data from the data analytics center to assist those agencies in, among other things, identifying and preventing waste, fraud, and abuse and in conducting investigations.

Inspectors general of each Federal agency, including Treasury, are required by the act to conduct three biennial reviews beginning in 2016 of a statistically valid sample of spending data submitted by the agency. Each review is to assess the completeness, timeliness, quality, and accuracy of the data sampled and the implementation and use of data standards by the agency.

[4] Prior to 2014, the General Services Administration was responsible for operating and maintaining the USASpending.gov website. In February 2014, the Office of Management and Budget announced the transfer of those responsibilities to Treasury's Bureau of the Fiscal Service. Treasury has developed a plan to take on operational responsibility of the website in April 2015.

Implementing the DATA Act is a complex undertaking requiring a significant level of interagency coordination and cooperation to develop, establish, and apply new financial data standards and to develop new data handling methodologies within a short timeframe. Among the challenges brought on by the DATA Act is the fact that it assigns to Treasury and OMB much of the responsibility for the act's successful implementation while providing no additional funding. As of September 15, 2014, only 8 months away from the due date for the establishment of data standards, Treasury and OMB officials have told us that they are still in the early stages of planning the DATA Act implementation. While the two parties have established a DATA Act governance and implementation structure and held initial meetings, key decisions are still to be made concerning the nature of the data standards and their application at individual agencies, new data collection methodologies and Treasury's data analytic capabilities to name just a few.

Given the broad government-wide implications and critical roles assigned to Treasury by the Data Act, we consider this a high risk implementation project and management challenge. It should be noted that we have initiated a series of audits of Treasury's efforts to meet its responsibilities under the DATA Act.

Detect Improper Payments

In light of the continuing problem of improper payments (estimated at $106 billion, or 3.5 percent of all federal payments, for fiscal year 2013) and the extreme pressures on the budget, the Federal Government has intensified efforts to reduce improper payments in major federal programs. The Do Not Pay Initiative is a chief component of these efforts. Executive Order 13520, "Reducing Improper Payments and Eliminating Waste in Federal Programs" (November 2009) directed agencies to identify ways in which information sharing may improve eligibility verification and pre-payment scrutiny. In June 2010, the President issued a memorandum directing the establishment of a "single point of entry" through which agencies would access relevant data in order to determine eligibility for a federal award or payment.[5] In an April 2012 memorandum, OMB described the efforts of OMB and Treasury to establish the Do Not Pay Initiative.[6] The memorandum directed Federal agencies to develop a plan for using Treasury's

Do Not Pay system for pre-payment eligibility reviews. In January 2013, the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) was enacted, codifying the ongoing efforts to develop and enhance the Do Not Pay Initiative. Additionally, IPERIA required that not later than June 1, 2013, all agencies review payments and awards for all programs through the system.

The Do Not Pay Initiative includes multiple resources that are designed to help agencies confirm that the right recipient obtains the right payment for the right reason at the right time. IPERIA provides the Federal Government with new tools and authorities to help agencies effectively implement the Do Not Pay Initiative. As required by IPERIA, in August 2013 OMB issued implementation guidance for the Do Not Pay Initiative in OMB memorandum M-13-20, "Protecting Privacy while Reducing Improper Payments with the Do Not Pay Initiative." The guidance details Treasury's responsibilities to include hosting a working system for the Do Not Pay Initiative that allows agencies to perform pre-award eligibility and prepayment reviews. Other Treasury responsibilities include entering into computer matching agreements; developing memoranda of understanding with agencies; ensuring records are complete, accurate, and current; complying with the Privacy Act; and periodically reporting to OMB.

In accordance with OMB guidance, the Bureau of the Fiscal Service (Fiscal Service) designed its Do No Pay Business Center to give critical information to paying agencies to help reduce improper payments.

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[5] Presidential Memorandum, "Enhancing Payment Accuracy through a Do Not Pay List," June 18, 2010.

[6] OMB Memorandum M-12-11, "Reducing Improper Payments through the 'Do Not Pay List,'" Apr. 12, 2012.

The Do Not Pay Business Center provides two services to agencies: the Do Not Pay Portal and Do Not Pay Data Analytics Service. The Do Not Pay Portal is intended to provide users with a single entry point to search for entities that may be listed in a variety of data sources such as Social Security Administration's (SSA) 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.

While Fiscal Service established the Do Not Pay Business Center, several challenges face the program. For example, the effectiveness of the Do Not Pay Business Center as a tool to identify and prevent improper payments is hindered because the center does not have access to SSA's full death data.[7] In addition, the Do Not Pay Business Center does not have access to two of the six IPERIA-required data sources; the Department of Housing and Urban Development's Credit Alert Verification Reporting System and SSA's Prisoner Update Processing System databases. We note that legislation has been proposed to make SSA's full death data available for the Do Not Pay Initiative. In addition, Fiscal Service is working to acquire access to the two IPERIA-required databases for the Do Not Pay Business Center.

With its potential to significantly reduce improper payments while at the same time ensuring privacy, the Do Not Pay Program 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 Do Not Pay Business Center. In addition, we are planning to review the Do Not Pay Program's data analytic capabilities during the coming fiscal year.

Challenge 6: Gulf Coast Restoration Trust Fund Administration

In response to the *Deepwater Horizon* oil spill, Congress enacted the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act). This law established within Treasury the Gulf Coast Restoration Trust Fund (Trust Fund) and requires Treasury to deposit into the Trust Fund 80 percent of administrative and civil penalties paid by responsible parties for the *Deepwater Horizon* oil spill. The funds are to be distributed for environmental and economic restoration activities affecting the Gulf Coast states (Alabama, Florida, Louisiana, Mississippi, and Texas). While the total amount that will eventually be deposited into the Trust Fund is unknown at this time, estimates range from $5 billion to $15 billion. To date, the Trust Fund received approximately $653 million as a result of the Federal Government's settlement with the Transocean defendants. Litigation is ongoing with other defendants.

Under the RESTORE Act, money from the Trust Fund is allocated to five components:

- Direct Component (35 percent) – administered by Treasury for allocation in equal shares to the Gulf Coast states for ecological and economic restoration of the Gulf Coast region;
- Comprehensive Plan Component (30 percent) – administered by the Gulf Coast Ecosystem Restoration Council[8] for allocation to Gulf Coast states and Federal agencies, pursuant to a comprehensive plan approved by the council, to undertake projects and programs using the best available science that would restore and protect the Gulf Coast region's natural resources, ecosystems, fisheries, marine and wildlife habitats, beaches, and coastal wetlands;

[7] Fiscal Service purchased the public version of the Death Master File, which does not include deaths reported by state agencies.

[8] The Gulf Coast Ecosystem Restoration Council consists of the following members, or designees: (1) at the Federal level, the Secretaries of the Interior, Army, Commerce, Agriculture, the head of the department in which the Coast Guard is operating (currently the Secretary of Homeland Security), and the Administrator of the Environmental Protection Agency; and (2) at the state level, the Governors of Alabama, Florida, Louisiana, Mississippi, and Texas.

- Spill Impact Component (30 percent) – administered by the Gulf Coast Ecosystem Restoration Council for allocation to the Gulf Coast states for eligible oil spill restoration activities, pursuant to the council's approval of the states' plans to improve the ecosystems or economy of the Gulf Coast region, using a regulatory formula;
- National Oceanic and Atmospheric Administration (NOAA) Science Program Component (2.5 percent) – administered by NOAA for its Gulf Coast Ecosystem Restoration Science, Observation, Monitoring, and Technology Program. This program is to carry out research, observation, and monitoring to support the long-term sustainability of the ecosystem, fish stocks, fish habitat, and the recreational, commercial, and charter fishing industry in the Gulf of Mexico; and
- Centers of Excellence Research Grants Program Component (2.5 percent) – administered by Treasury for allocation in equal shares to the Gulf Coast states for competitive grant awards to nongovernmental entities and consortia in the Gulf Coast region, including public and private institutions of higher education, to establish centers for excellence to conduct Gulf Coast region research.

The RESTORE Act prescribes how funds will be distributed and gives the Secretary authority to withhold funds if certain conditions in the act are not met, including compliance with procurement rules and regulations. What makes the administration of the RESTORE Act a challenge is that the numerous entities and councils which are to receive and further allocate funding are still establishing their own policies and procedures. There is the need for cooperation and coordination by these entities and councils to ensure funds are spent responsibly.

The RESTORE Act also authorized our office to conduct, supervise, and coordinate audits and investigations of projects, programs and activities funded under this legislation. To date, we have reported on the progress of Treasury's activities to develop regulations governing the Trust Fund components and establish a grant program for administering the Direct Component and the Centers of Excellence Research Grants Program Component. We continue to meet with the Fiscal Assistant Secretary's staff and provide our perspectives on controls as the procedures to administer the Trust Fund are being developed. We are actively engaged in coordinating with affected Federal, state, and local government entities to ensure effective oversight of programs established by the act.

It should be noted that as October 14, 2014, the Department announced that eligible states and local governments can apply for and receive grants to support the recovery of communities affected by the *Deepwater Horizon* oil spill. The appropriate disbursement and use of these funds will be a focus of our work going forward.

Other Matters of Concern

Although we are not reporting these as management and performance challenges, we want to highlight two areas of concern – (1) currency and coin production and (2) documenting key activities and decisions.

<u>Currency and Coin Production</u>

In January 2012, we reported on deficiencies with the BEP's production process, which led to 1.4 billion finished NexGen $100 notes being printed (in 2010) but not accepted by FRB because creasing was detected in some of the finished notes. Although the production problems were identified and sufficiently resolved and FRB began supplying financial institutions with the redesigned NexGen $100 Notes in October 2013; BEP and FRB still need to decide on a course of action for the disposition of the 1.4 billion finished notes that have not been accepted by FRB.

Another matter related to currency redesign that should be kept in mind is meaningful access to U.S. currency for blind and visually impaired individuals. In response to a court ruling on that matter, in 2011 Treasury submitted a three-element approach and a plan to explore emerging technologies to provide such access. Two elements of this approach--raised tactile features and large, high-contrast numerals—require changes to the design of currency. The third element is a three-phased program started in July 2014 to provide currency readers. The lessons learned from the NexGen $100 Note production process audits underscore the need for sound and comprehensive project management as BEP undertakes this redesign effort.

Challenges continue to exist with coin production. For example, the cost of producing penny and nickel coins were double their face value because rising metal prices have resulted in higher production costs.

It is also imperative that BEP and the Mint consider the effect of alternative payment methods and other technological advances (such as stored value cards, the Internet, smartphones, virtual currencies, etc.) on their respective business models, practices, and future planning and interactions with their customer, FRB.

Documenting Key Activities and Decisions

In prior years, I have cited several audits by my office that highlighted lapses by the Department in maintaining a complete and concurrent record of key activities and decisions. These audits reported on the selection of financial agents for Treasury's investment in Fannie Mae and Freddie Mac mortgage backed securities, Treasury's consultative role with the Department of Energy's Solyndra loan guarantee, and OCC's oversight of foreclosure-related consent orders. More recently, we reported that while Fiscal Service's decisions to establish the Direct Express® Debit MasterCard® program and select the program's financial agent were reasonable, its analyses and documentation of those decisions should have been more complete.[9]

Maintaining proper documentation is a fundamental tenet of government accountability and transparency. Maintaining proper documentation is also in the best long-term interest of Treasury and its component offices and bureaus if actions are later questioned, as they have been. In this regard, appropriate documentation can be as simple as contemporaneous notes providing a record of why decisions were made, the way they were made, and how the government satisfied itself that the decisions were the best course. Also adding to the documentation challenge is the increase in federal retirements along with the resulting loss of institutional knowledge. We do note that Treasury has issued policy that addresses documentation requirements, such as Treasury Directive 80-05, *Records and Information Management Program*. In our view, this is a matter of Treasury management personnel needing to remain aware and vigilant.

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: Nani A. Coloretti
Assistant Secretary for Management

[9] Office of Inspector General, *Fiscal Service Needs to Improve Program Management of Direct Express* (OIG-14-031); issued Mar. 26, 2014.

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20005

INSPECTOR GENERAL FOR TAX ADMINISTRATION

October 15, 2014

MEMORANDUM FOR SECRETARY LEW

FROM: J. Russell George
Inspector General

SUBJECT: Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2015

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 vulnerabilities to the Nation's tax system. For Fiscal Year (FY) 2015, the top management and performance challenges, in order of priority, are:

- Security for Taxpayer Data and IRS Employees;
- Implementing the Affordable Care Act and Other Tax Law Changes;
- Tax Compliance Initiatives;
- Fraudulent Claims and Improper Payments;
- Achieving Program Efficiencies and Cost Savings;
- Modernization;
- Providing Quality Taxpayer Service Operations;
- Globalization;
- Taxpayer Protection and Rights; and
- Human Capital.

Despite operating with a significantly reduced budget in FY 2013, the IRS collected nearly $2.9 trillion in tax revenue, processed more than 240 million tax returns and supplemental documents, and issued approximately $364 billion in tax refunds. The IRS continued to face budgetary pressure and address ongoing congressional inquiries and investigations related to the IRS's prior criteria and processes to select and review applications for tax-exempt status. In FY 2015, the IRS will continue to face budgetary constraints that will present a substantial challenge in effectively carrying out its mission. In FY 2014, the IRS budget was approximately

[1] 31 U.S.C. § 3516(d) (2006).

$11.3 billion, $850 million less than its FY 2010 level. During the same period, the IRS lost almost 10,000 full-time permanent employees. As the IRS faces new or growing challenges with a reduced budget and smaller staff, it must identify and implement innovative and cost-saving strategies to accomplish its mission of providing America's taxpayers top-quality service by helping them understand and meet their tax responsibilities and enforce the law with integrity and fairness.

Further, the IRS has increased responsibilities as it implements and administers certain provisions of the Patient Protection and Affordable Care Act (Affordable Care Act).[2] Until FY 2012, the IRS received some funding from the Department of Health and Human Services to support implementation of the Affordable Care Act. Since FY 2013, all Affordable Care Act spending has been funded from the IRS's operating budget. The IRS estimated its FY 2014 Affordable Care Act budget needs at approximately $400 million and requested approximately $450 million in its FY 2015 budget. If the IRS does not receive sufficient funding, it expects that Affordable Care Act implementation costs will adversely affect both taxpayer service and enforcement activities. This includes a projected further decline in the IRS Level of Service[3] due to increased demand to address Affordable Care Act questions. In addition, the IRS may reduce hours and services at its walk-in centers throughout the country.

The following information detailing the 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 FOR TAXPAYER DATA AND IRS EMPLOYEES

The IRS relies extensively on its computer systems to support both its financial and mission–related operations. Effective information systems security is essential to ensure that data are protected against inadvertent or deliberate misuse, improper disclosure or destruction, and that computer operations supporting tax administration are secured against disruption or compromise. Protecting the confidentiality of this sensitive information is paramount. Otherwise, taxpayers could be exposed to the loss of privacy and to financial loss and damages resulting from identity theft or other financial crimes.

According to an Office of Management and Budget report to Congress, threats to Federal information—whether from insider threat (*e.g.*, mistakes, as well as fraudulent or malevolent acts by employees or contractors), criminal elements, or nation states—continue to grow in number and sophistication, creating risks to the reliable functioning of our Government.[4] The IRS faces the daunting task of securing its massive computer systems against this growing threat. According to the Department of Homeland Security's U.S. Computer Emergency Readiness Team, Federal agencies reported 60,753 cyberattacks in FY 2013, an increase of about 24 percent from FY 2012.[5]

Computer security has been problematic for the IRS since 1997. In April 2014, the Government Accountability Office (GAO) reported that the IRS is making progress in addressing information

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[2] Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of the U.S. code), as amended by the Heath Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.
[3] Level of Service is the primary measure of service to taxpayers. It is the relative success rate of taxpayers who call for live assistance on the IRS toll-free telephone lines.
[4] Office of Mgmt. & Budget, Exec. Office of the President, *Fiscal Year 2012 Report to Congress on the Implementation of The Federal Information Security Management Act of 2002,* at 1 (Mar. 2013).
[5] Office of Mgmt. & Budget, Exec. Office of the President, *Annual Report to Congress: Federal Information Security Management Act, at* 31 (May 2014).

security control weaknesses; however, the GAO noted that weaknesses remain that could affect the confidentiality, integrity, and availability of financial and sensitive taxpayer data.[6]

TIGTA also continues to identify significant security weaknesses in this area. During a review to determine whether closed corrective actions to security weaknesses and findings reported by TIGTA have been fully implemented, we found that 8 of the 19 planned corrective actions had not been fully implemented and should not have been closed. These planned corrective actions involved systems containing taxpayer data.[7] When the right degree of security diligence is not applied to systems, disgruntled insiders or malicious outsiders can exploit security weaknesses and may gain unauthorized access.

TIGTA also reported that taxpayer and other sensitive information may be at risk due to a lack of background investigation requirements in five contracts for courier, printing, document recovery, and sign language interpreter services. For example, in one printing services contract, the IRS provided the contractor a computer disk containing 1.4 million taxpayer names, addresses, and Social Security Numbers; however, none of the contractor personnel who worked on this contract were subject to a background investigation.[8] By allowing contractor personnel access to taxpayer data and other sensitive information without the appropriate background investigation, the IRS exposes taxpayers to increased risk of fraud and identity theft.

Beyond safeguarding a vast amount of sensitive financial and personal data, the IRS must also protect more than 92,000 people working in more than 650 facilities nationwide. Physical violence, harassment, and intimidation of these employees pose significant challenges to the implementation of a fair and effective system of tax administration.

The IRS has approximately 25,000 frontline employees who have direct contact with taxpayers and their representatives. While the IRS has programs that focus on employee protection, including the Potentially Dangerous Taxpayer and Caution Upon Contact programs, the IRS has not developed sufficient procedures to enable frontline employees to readily identify whether a taxpayer representative has been designated as a Potentially Dangerous Taxpayer or Caution Upon Contact.[9] The safety of frontline employees, others working in the same facilities, and taxpayers is at risk when these employees unknowingly meet with potentially dangerous taxpayer representatives.

In the last four years, threats directed at the IRS have become the second largest component of the workload of TIGTA's Office of Investigations. Between FYs 2011 and 2013, TIGTA processed more than 8,200 threat-related complaints. This resulted in nearly 4,000 threat investigations that required the prompt response of TIGTA special agents to mitigate those threats and determine whether criminal prosecutions of the perpetrators making the threats were warranted.

The continuing public debate surrounding the Affordable Care Act and increased scrutiny over Federal Government spending and management could fuel threats against the Federal Government, including IRS employees and facilities.

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[6] U.S. Gov't Accountability Office, GAO-14-405, *IRS Needs to Address Control Weaknesses That Place Financial and Taxpayer Data at Risk* (Apr. 2014).

[7] TIGTA, Ref. No. 2013-20-117, *Improved Controls Are Needed to Ensure That All Planned Corrective Actions for Security Weaknesses Are Fully Implemented to Protect Taxpayer Data* (Sep. 2013).

[8] TIGTA, Ref. No. 2014-10-037, *Some Contractor Personnel Without Background Investigations Had Access to Taxpayer Data and Other Sensitive Information* (July 2014).

[9] TIGTA, Ref. No. 2014-40-020, *Improvement Is Needed to Better Enable Frontline Employee Identification of Potentially Dangerous and Caution Upon Contact Designations* (Mar. 2014).

IMPLEMENTING THE AFFORDABLE CARE ACT AND OTHER TAX LAW CHANGES

One of the challenges the IRS confronts each year in processing tax returns is the implementation of new tax law changes as well as changes resulting from expired tax provisions. Correctly implementing tax law changes remains a significant challenge because the legislative actions generating the changes often occur late in the year, shortly before the filing season begins. As a result, the IRS must often act quickly to assess the changes and determine the necessary actions to ensure that all legislative requirements are satisfied. Errors in the IRS's tax return processing systems may delay tax refunds, affect the accuracy of taxpayer accounts, and/or result in incorrect taxpayer notices.

The Affordable Care Act represents the largest set of tax law changes in more than 20 years and presents a continuing challenge for the IRS as provisions take effect. Changes in the implementation of Affordable Care Act tax provisions could result in increased demand for customer service assistance resulting in more contacts with the IRS. Depending on the nature of any changes, the IRS's strategy and plans to provide adequate customer service could be affected. This is particularly important because beginning in January 2015, the IRS will take the lead in providing Affordable Care Act-related customer service to taxpayers.[10]

The Affordable Care Act provision which imposed an excise tax on medical devices became effective in Calendar Year 2013. Manufacturers, producers, and importers are responsible for collecting the excise tax and filing Form 720, *Quarterly Federal Excise Tax Return*. The IRS is attempting to develop a compliance strategy to ensure that businesses are compliant with medical device excise tax filing and payment requirements. However, the IRS still cannot identify the population of medical device manufacturers registered with the Food and Drug Administration that are required to file a Form 720 and pay the medical device excise tax.

TIGTA remains concerned about the protection of confidential taxpayer data that will be provided to the Federal and State Exchanges. We determined that the steps the IRS took to provide assistance to the Exchanges were helpful; however, additional procedures are needed to provide greater assurance that Federal tax information is protected prior to its release. IRS procedures do not require the Exchanges to submit an initial independent Security Assessment Report that could help evaluate risk levels at the individual agencies and be used to prioritize on-site reviews. Without sufficient and complete information regarding the status of required security controls, the IRS might approve the release of Federal tax information to an environment that puts the information at risk of unauthorized disclosure or misuse.[11]

The Affordable Care Act provides for a refundable tax credit, the Premium Tax Credit, to offset an individual's health insurance expenses. Like other refundable credits, the Premium Tax Credit carries a risk for improper payments. The IRS informed us that two new systems are under development that will address Affordable Care Act tax refund fraud risk. However, until these new systems are successfully developed and tested, TIGTA remains concerned that the IRS's existing fraud detection system may not be capable of identifying Affordable Care Act refund fraud or schemes prior to the issuance of tax refunds.

[10] TIGTA, Ref. No. 2014-43-043, *The Affordable Care Act: An Improved Strategy Is Needed to Ensure Accurate Reporting and Payment of the Medical Device Excise Tax* (July 2014).
[11] TIGTA, Ref. No. 2014-23-070, *Affordable Care Act: Expanded Guidance Provided Assistance to the Exchanges, but Greater Assurance of the Protection of Federal Tax Information Is Needed* (Sep. 2014).

TAX COMPLIANCE INITIATIVES

Increasing budgetary pressure has led to a reduction of IRS resources in the enforcement area, which has impacted tax compliance. Since FY 2010, the number of enforcement personnel has decreased by 20 percent, from 17,206 in FY 2010 to 13,696 at the end of FY 2013. The decline in IRS personnel has contributed to a decrease in the number of examinations and an increase in the number of delinquent tax accounts that are assigned to an inactive status. Although we identified some positive indicators in compliance activities, the negative trends are cause for concern, especially given that diminished enforcement could also affect voluntary compliance over time.[12]

Businesses and Individuals

The underreporting of individual and corporate income, employment, and estate taxes, at $376 billion a year, accounts for the largest portion of the $450 billion Tax Gap, which is defined as the difference between the estimated amount taxpayers owe and the amount they voluntarily and timely pay for a tax year. The IRS addresses this gap by attempting to identify questionable tax returns when they are received and processed and by conducting examinations of tax returns filed to determine if any adjustments to the information reported on the tax returns are needed. In addition, the IRS issues notices and contacts taxpayers to collect the delinquent taxes. If necessary, the IRS takes enforcement action, such as filing liens and seizing assets, to collect the taxes.

The IRS Commissioner testified in May 2014 that the IRS expects the Federal Government will lose almost $3 billion in revenue in FY 2014 as a result of key enforcement programs operating well below historical levels. This includes the IRS performing 100,000 fewer individual audits and significant declines in audits of high-wealth individuals, businesses, and partnerships.

TIGTA recently reviewed the IRS's Delinquent Return[13] Refund Hold Program (Program) that addresses taxpayer filing compliance by delaying issuance of a taxpayer's income tax refund for up to six months while the IRS investigates a return delinquency on another tax year. The refund can be used to offset any balance due on a taxpayer's delinquent return. The Program helps to reduce the Tax Gap by increasing revenue at a lower cost and in a shorter time period than assigning a return delinquency to a revenue officer who attempts to obtain the delinquent return. As part of the Program, the IRS holds refunds that meet certain criteria, including a specific dollar threshold.

Program results show that taxpayers whose refunds are held are significantly more likely to resolve return delinquencies on previous tax years than taxpayers whose refunds are not held. In Calendar Year 2012, the Program collected nearly $242 million which was applied to balances due on delinquent returns.

Because of limited resources, the IRS has been unable to expand the Program's use, even though there could be tangible benefits in doing so. In the current budget environment, lowering the threshold and expanding the Program represents an opportunity to increase

[12] TIGTA, Ref. No. 2014-30-062, *Trends in Compliance Activities Through Fiscal Year 2013* (Sep. 2014).
[13] A tax return is delinquent if a taxpayer does not file the return with the IRS by the due date (including extensions) for any year in which a filing requirement exists.

both taxpayer filing compliance and revenue dollars at a lower cost than traditional collection programs, such as assigning cases to revenue officers in the field.[14]

Tax-Exempt Entities

In its most recent Strategic Plan, the IRS noted the complexity of tax laws related to the administration of tax-exempt and government entities. While these entities are not subject to Federal income tax, they represent a significant aspect of tax administration with approximately 2.5 million entities holding $18 trillion in assets.

The IRS's prior use of inappropriate criteria for selecting and reviewing applications for tax-exempt status has been a significant concern to Congress and to organizations seeking tax-exempt status. There have been a number of congressional hearings and investigations into this matter. It is likely that the IRS will continue to receive scrutiny in the exempt organizations area in FY 2015, and its actions will be reviewed by TIGTA.

Similar to for-profit employers, tax-exempt organizations with compensated employees are required to pay payroll taxes that are withheld from employees' wages "in trust" for the Federal Government as well as other applicable Federal taxes. Payroll taxes required to be withheld from employees and matched by the tax-exempt organization generally consist of income taxes and Old Age, Survivors, and Disability Insurance, commonly referred to as Social Security and Medicare taxes. TIGTA found that more than 64,200 tax-exempt organizations accumulated nearly $875 million in Federal tax debt as of June 16, 2012. While some organizations owed minor amounts, approximately 1,200 tax-exempt organizations owed more than $100,000 each.[15] We reviewed a judgmental sample of 25 Internal Revenue Code Section 501(c)(3) tax-exempt organizations that appeared to have significant Federal tax noncompliance.[16] The IRS tried to resolve the tax liabilities and collection action has been taken on all 25 tax-exempt organizations and most officers of the organizations that we reviewed. We recommended the IRS periodically complete analyses to identify and evaluate tax-exempt organizations with significant unpaid payroll and other Federal taxes and that receive funding from government grants and pay large salaries to executives and officers to determine if there are any tax-exempt issues that may warrant examinations.

FRAUDULENT CLAIMS AND IMPROPER PAYMENTS

Improper payments by Federal Government agencies have been an issue for many years, and numerous efforts have been made to identity, measure, and reduce them. These include laws specifically addressing improper payments, an Executive Order,[17] and guidance by certain oversight agencies, such as the Office of Management and Budget. The Improper Payments Information Act of 2002[18] requires Federal agencies, including the IRS, to estimate the amount

[14] TIGTA, Ref. No. 2014-30-023, *Expansion of the Delinquent Return Refund Hold Program Could Improve Filing Compliance and Help Reduce the Tax Gap* (May 2014).
[15] TIGTA, Ref. No. 2014-10-012, *Some Tax-Exempt Organizations Have Substantial Delinquent Payroll Taxes* (Jul. 2014).
[16] These 25 organizations had Federal tax debt totaling more than $25 million, incurred delinquencies in five or more tax periods, and accepted funding from Medicare, Medicaid, and government grants. These organizations are not representative of all delinquent organizations but appear to be among the worst examples of the more than 64,200 tax-exempt organizations with delinquent Federal taxes. Thus, the results from these 25 cases cannot be projected to the more than 64,200 tax-exempt organizations with delinquent Federal taxes.
[17] Exec. Order 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*, 74 Fed. Reg. 62201 (2009).
[18] Pub. L. No. 107-300, 116 Stat. 2350.

of improper payments made each year and report to Congress on the causes of and the steps taken to reduce improper payments, as well as to address whether they have the information systems and other infrastructure needed to reduce improper payments. TIGTA reported that the IRS continued to not provide all required improper payments information to the Department of the Treasury for inclusion in the *Department of the Treasury Agency Financial Report* for FY 2013 as required by the Act.[19]

The Earned Income Tax Credit remains the largest refundable credit[20] based on the total claims paid, and it continues to be vulnerable to a high rate of noncompliance, including incorrect or erroneous claims caused by taxpayer error or resulting from fraud. The IRS estimates that 24 percent of all Earned Income Tax Credit payments made in FY 2013, or $14.5 billion, were paid in error.[21] TIGTA continues to report that the IRS does not have effective processes to ensure that claimants qualify for these credits at the time tax returns are processed and prior to issuance of fraudulent tax refunds. In addition, the IRS estimates that it has paid between $124 billion and $148 billion in improper Earned Income Tax Credit payments in FYs 2003 through 2013.[22]

The IRS's compliance resources are limited and additional alternatives to traditional compliance methods have not been developed. Consequently, the IRS does not address the majority of potentially erroneous Earned Income Tax Credit claims. This is despite the IRS having processes that successfully identify billions of dollars in potentially erroneous Earned Income Tax Credit payments. Statutory requirements further limit the IRS's ability to ensure that Earned Income Tax Credit claims are valid before they are paid. The Internal Revenue Code 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. Because of this requirement, the IRS cannot conduct extensive eligibility checks similar to those that occur with other Federal programs that typically certify eligibility prior to the issuance of payments or benefits.[23]

Another significant and growing problem with an increasingly significant impact on tax administration is identity theft. Identity theft for the purpose of committing tax fraud occurs when an individual uses another person's name and Taxpayer Identification Number (generally a Social Security Number) to file a fraudulent tax return to obtain a fraudulent tax refund. The IRS has described identity theft as the number one tax scam for 2014.[24] The IRS has made this issue one of its top priorities and has made some progress; however, significant improvements are still needed.

The IRS continues to expand identity theft filters to identify fraudulent tax returns at the time the returns are processed. As of April 30, 2014, the IRS reported that it identified and confirmed 236,313 fraudulent tax returns and prevented the issuance of nearly $1.2 billion in fraudulent tax refunds as a result of identity theft filters. Tax returns identified by these filters are held during processing until the IRS can verify the taxpayer's identity. However, verifying whether the

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[19] TIGTA, Ref, No. 2014-40-027, *The Internal Revenue Service Fiscal Year 2013 Improper Payment Reporting Continues to Not Comply With the Improper Payments Elimination and Recovery Act* (Mar. 2014).
[20] A refundable credit allows taxpayers to reduce their tax liability to below zero and thus receive a tax refund even if no income tax was withheld or paid.
[21] The estimated Earned Income Tax Credit improper payment range for Fiscal Year 2013 was from 22 to 26 percent and from $13.3 billion to $15.6 billion.
[22] Department of the Treasury Performance and Accountability Reports for Fiscal Years 2003 through 2010 and Department of Treasury Agency Financial Reports for Fiscal Years 2011 through 2013.
[23] TIGTA, Ref. No. 2014-40-093, *Existing Compliance Processes Will Not Reduce the Billions of Dollars in Improper Earned Income Tax Credit and Additional Child Tax Credit Payments* (Sep. 2014).
[24] IRS Press Release, IR-2014-16 (February 19, 2014).

returns are fraudulent will require additional resources. Without the necessary resources, it is unlikely that the IRS will be able to work the entire inventory of potentially fraudulent tax returns it identifies. The net cost of failing to provide the necessary resources is substantial, given that the potential revenue loss to the Federal Government of these tax fraud-related identity theft cases is in the billions of dollars annually. Less easy to quantify is the erosion in taxpayer confidence concerning the security of the system of tax administration when they do not receive the assistance that they seek to regain the integrity of their identities.

To provide relief to victims of identity theft, the IRS began issuing Identity Protection Personal Identification Numbers (IP PIN) to eligible taxpayers in FY 2011. Use of an IP PIN provides relief to taxpayers because it allows the IRS to process tax returns without delay and helps prevent the misuse of taxpayers' Social Security Numbers on fraudulent tax returns. However, TIGTA determined that the IRS did not provide an IP PIN to 532,637 taxpayers who had an identity theft indicator on their tax account indicating that the IRS resolved their case. The IRS also did not provide an IP PIN to 24,628 taxpayers who were potential victims since their Personally Identifiable Information had been lost by the IRS or breached/stolen from the IRS. IRS officials stated they did not provide an IP PIN because these individuals have not been a victim of tax-related identity theft. However, it should be noted that this position is not consistent with actions the IRS takes to proactively provide an IP PIN to taxpayers who have an increased exposure to the possibility of identity theft. Finally, IRS programming errors resulted in 32,274 taxpayers not timely receiving an IP PIN.[25]

TIGTA's Office of Investigations focuses its limited resources on investigating identity theft characterized by any type of IRS employee involvement, the misuse of client information by tax preparers, or the impersonation of the IRS through phishing[26] schemes and other means. In the late summer of 2013, TIGTA became aware of numerous complaints from around the country about suspicious callers claiming to be IRS employees collecting taxes from recent IRS audits. The callers demanded that the tax payments be made to pre-paid debit cards and threatened arrest, suspension of business or driver's licenses, and even deportation if the callers' demands were not met. In many cases, the callers became hostile and insulting. As of August 2014, the TIGTA Hotline received more than 120,000 reports related to this scam, and it is estimated that the scheme has resulted in more than $7 million in payments made by the victims. TIGTA special agents are actively investigating this criminal activity.

Although the IRS is continuing to make changes to its processes to increase its ability to detect, prevent, and track fraudulent tax returns and improve assistance to victims of identity theft, there is still significant work to be done to address this growing and difficult problem.

ACHIEVING PROGRAM EFFICIENCIES AND COST SAVINGS

Given the current economic environment and the increased focus by the Administration, Congress, and the American people on Federal Government accountability and efficient use of resources, the American people must be able to trust that their Government is taking action to stop wasteful practices and is spending every tax dollar wisely. This challenge has become even more pressing in recent years as the IRS has struggled to maintain key taxpayer service and enforcement operations while operating with a reduced budget and smaller staff.

[25] TIGTA, Ref. No. 2014-40-086, *Identity Protection Personal Identification Numbers Are Not Provided to All Eligible Taxpayers* (Sep. 2014).

[26] Phishing is an attempt by an individual or group to solicit personal and financial information from unsuspecting users in an electronic communication by masquerading as trustworthy entities such as government agencies, popular social websites, auction sites, online payment processors, or information technology administrators.

While the IRS has taken steps to improve program effectiveness and reduce costs, progress in this area will continue to be a major challenge in FY 2015. Recently, TIGTA reported that the IRS incurred unnecessary costs as a result of storing records past due for disposal. As of June 2013, the IRS had 238,523 cubic feet of records past due for disposal on which it was obligated to pay ongoing monthly storage costs. We calculated the excess cost paid from the start of FY 2011 through March 2014, and determined that the IRS had to pay more than $700,000 in excess storage costs related to these records. While these unnecessary expenditures are not a significant portion of the approximately $15 million the IRS spends annually on storage costs for tax records, the current IRS budget environment makes it a priority to find any cost savings.

In the same audit, we found that the IRS did not perform a sufficient review of National Archives Records Administration invoices for $30.8 million in tax record storage services before certifying them for payment. Specifically, we did not identify any evidence that the IRS performed a review of available supporting information or compared the charges to any internal IRS records prior to certifying the invoices for payment.[27]

We also found that the IRS does not effectively manage server software licenses and is not adhering to Federal requirements and industry best practices. Until the IRS addresses these issues, it will continue to incur increased risks in managing software licenses. TIGTA estimates that the amount wasted because of the inadequate management of server software licenses is in the range of $81 million to $114 million based on amounts spent for licenses and annual license maintenance that were not being used at the time of a compliance review.[28]

TIGTA also reported that the IRS could reduce its paper return processing costs by more than $17 million annually if the same electronic filing requirement that currently applies to paid preparers who file individual tax returns was also applied to paid preparers filing business tax returns. Paid preparers who file 11 or more individual returns are required to file the returns electronically. Federal law currently prohibits the IRS from creating requirements for businesses to electronically file. Legislation would be needed in order for an electronic filing requirement to be implemented.[29]

MODERNIZATION

The Business Systems Modernization Program (Modernization Program) is a complex effort to modernize IRS technology and related business processes. The IRS's modernization efforts continue to focus on core tax administration systems designed to provide taxpayers and IRS employees with more sophisticated tools. These efforts will provide the foundation for implementing a real-time tax system and reducing improper payments and fraudulent refunds. They will also provide the technology infrastructure and architecture that will enable taxpayers and other stakeholders the capability to securely access tax account information. The complexity of these efforts continues to pose significant technological and business challenges for the IRS. For FY 2015, the IRS requested $330 million to modernize its business systems.

In February 2013, the GAO reported that it removed the Modernization Program from its High Risk List because of the IRS's progress in addressing the significant weaknesses in information technology and financial management capabilities and commitment to sustaining progress in the

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[27] TIGTA, Ref. No. 2014-10-074, *Controls Over Records Storage Costs Could Be Improved* (Sep. 2014).
[28] TIGTA, Ref. No. 2014-20-042, *The Internal Revenue Service Should Improve Server Software Asset Management and Reduce Costs* (Sep. 2014).
[29] TIGTA, Ref. No. 2014-40-084, *A Service-Wide Strategy Is Needed to Increase Business Tax Return Electronic Filing* (Sep. 2014).

future.[30] Although the GAO removed the Modernization Program from its High Risk List, we believe the program remains a high risk and major management challenge for the IRS because of the need for improvements in information technology practices and performance.

The IRS considers the Customer Account Data Engine 2 (CADE 2) program critical to the IRS mission. It is the IRS's most important information technology investment. The CADE 2 system provides for a centralized database of individual taxpayer accounts. Once implemented, it will allow IRS employees to view tax data online and provide timely responses to taxpayers.

Over the past several years, TIGTA has reported on the progress of CADE 2 implementation. In September 2012, we reported that the IRS had data integrity checks in place at several levels of the CADE 2 database. Despite these controls and their data integrity testing efforts, the IRS could not ensure that the data on the CADE 2 database were consistently accurate and complete at the data field level. This is due to the complexity of many of the data transformation rules and embedded business logic contained within certain data fields.[31] In September 2013, we reported that the CADE 2 database could not be used as a trusted source for downstream systems. The IRS applied a total of 2.4 million data corrections to the CADE 2 database as a result of data validation tests. At that time, the IRS was unable to evaluate 431 CADE 2 database columns of data for data accuracy.[32] However, we reported in September 2014 that the IRS's data validation efforts were efficiently performed due to adequate planning and resource coordination. Still, while a large percentage of the data fields are validated periodically with automated tools, the IRS has no documented plan to ensure that data fields validated using other means are validated periodically.[33]

Modernizing legacy tax administration systems to receive and process CADE 2 data and to process new legislative changes, such as the Affordable Care Act, will continue to present a major challenge for the IRS.

PROVIDING QUALITY TAXPAYER SERVICE OPERATIONS

Providing quality customer service to taxpayers is the IRS's first step to achieving compliance with tax laws. An important component of this involves answering taxpayers' questions to assist them in correctly preparing their tax returns, because providing them with accurate information reduces the incidence of taxpayer errors and the subsequent need to send notices and correspondence when taxpayers make errors. Further, quality taxpayer service can also reduce unintentional noncompliance and shrinks the need for future collection activity.

In the past, TIGTA has evaluated the IRS's efforts to provide quality customer service and made recommendations for areas of improvement. Although the IRS has implemented certain procedures to better assist taxpayers, budget reductions pose a significant challenge and continue to force the IRS to cut service to taxpayers. As demand for taxpayer services continues to increase, resources devoted to customer service have decreased, thereby affecting the quality of customer service that the IRS is able to provide.

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[30] GAO-13-283, *High Risk Series – An Update* (Feb. 2013).
[31] TIGTA, Ref. No. 2012-20-109, *The Customer Account Data Engine 2 Database Was Initialized; However, Database and Security Risks Remain, and Initial Timeframes to Provide Data to Three Downstream Systems May Not Be Met* (Sep. 2012).
[32] TIGTA, Ref. No. 2013-20-125, *Customer Account Data Engine 2 Database Deployment Is Experiencing Delays and Increased Costs* (Sep. 2013).
[33] TIGTA, Ref. No. 2014-20-063, *Customer Account Data Engine 2 Database Validation Is Progressing; However, Data Coverage, Data Defect Reporting, and Documentation Need Improvement* (Sep. 2014).

TIGTA has seen a decline in the IRS's ability to provide a sufficient level of customer service in each of the channels that taxpayers use, including telephone, face-to-face assistance at Taxpayer Assistance Centers (TAC) and Volunteer Program sites, and correspondence. Despite the various options, most taxpayers continue to use the telephone as the primary method to make contact with the IRS. The IRS continues to struggle in providing high-quality customer service over the telephone. There are long customer wait times, customers abandoning calls, and customers redialing the IRS toll-free telephone lines for service. For the 2014 Filing Season, as of May 3, 2014, approximately 65 million taxpayers contacted the IRS by calling the various toll-free telephone assistance lines seeking help to understand the tax laws and meet their tax obligations. As of May 3, 2014, IRS assistors answered approximately 11 million calls compared to more than 15 million calls answered at the same time last year. IRS numbers continue to show a decline in the total number of taxpayers who contact the IRS who are actually assisted. As of March 8, 2014, the number of taxpayers actually assisted had dropped from 56.1 percent to 51.6 percent as of the same time last year.[34]

Additionally, each year, many taxpayers seek assistance from one of the IRS's 388 TACs. However, the IRS estimates that the number of taxpayers it will assist at its TACs will decline this fiscal year. The IRS assisted more than 6.5 million taxpayers in FY 2013 and plans to assist 5.6 million taxpayers in FY 2014, which is 14 percent fewer than in FY 2013. The IRS indicated that budget cuts and its strategy of not offering services at TACs that can be obtained through other service channels (such as the IRS's website) resulted in the reduction of the number of taxpayers the IRS plans to assist at the TACs. As part of these service reductions in FY 2014, the TACs no longer prepared tax returns, did not answer any tax law questions after the filing season ended, and no longer answered taxpayers' tax refund inquiries unless the taxpayer had waited more than 21 days for a refund.[35]

The IRS's ability to process taxpayer correspondence in a timely manner has also declined. The backlog of paper correspondence inventories has substantially increased. The over-age inventory rose from 181,000 at the end of 2010 to almost 1.2 million at the end of 2013.

GLOBALIZATION

The scope, complexity, and magnitude of the international financial system present significant enforcement challenges for the IRS. The number of taxpayers conducting international business transactions continues to grow as technological advances provide opportunities for offshore investments that were once only possible for large corporations and wealthy individuals.

As this global economic activity increases, so do concerns regarding the International Tax Gap.[36] While the IRS has not developed an accurate and reliable estimate of the International Tax Gap, non-IRS sources estimate it to be between $40 billion and $133 billion annually. To address the International Tax Gap, the IRS developed an international tax strategy plan with two major goals: (1) enforce the law to ensure that all taxpayers meet their obligations and (2) improve service to make voluntary compliance less burdensome.

International tax noncompliance remains a significant area of concern for the IRS. However, the IRS's collection efforts need to be enhanced to ensure that delinquent international taxpayers

[34] TIGTA, Ref. No. 2014-40-029, *Interim Results of the 2014 Filing Season* (Mar. 2014).
[35] TIGTA, Ref. No. 2014-40-077, *Key Tax Provisions Were Implemented Correctly for the 2014 Filing Season* (Sep. 2014).
[36] The International Tax Gap consists of taxes owed but not collected on time from a U.S. person or foreign person whose cross-border transactions are subject to U.S. taxation.

become compliant with their U.S. tax obligations. TIGTA found that the IRS has not provided effective oversight to International Collection (part of the Small Business/Self-Employed Division), which contributed to several control weaknesses in the program. For example, International Collection does not have adequate policies and procedures, position descriptions, or the training needed to ensure that international revenue officers can properly work International Collection cases. Additionally, the IRS does not have a specific inventory selection process that ensures that the International Collection cases with the highest risk and most collection potential are worked by the revenue officers.[37]

The Foreign Account Tax Compliance Act (FATCA)[38] is an important development in the IRS's efforts to improve U.S. tax compliance involving foreign financial assets and offshore accounts. The FATCA was enacted to combat tax evasion by U.S. persons holding investments in offshore accounts. Under FATCA, a U.S. taxpayer with financial assets outside the United States will be required to report those assets to the IRS. In addition, foreign financial institutions will be required to report to the IRS certain information about financial accounts held by U.S. taxpayers or by foreign entities in which U.S. taxpayers hold a substantial ownership interest.

TIGTA reported that there are some barriers for the IRS in ensuring the tax compliance of real estate sales transactions subject to the Foreign Investment in Real Property Tax Act of 1980 (FIRPTA).[39] The intent of the FIRPTA is to ensure that foreign sellers of U.S. real estate pay income taxes on any gains resulting from the sale of the property. However, under existing law, it is difficult for the IRS to ensure that many of the real estate transactions involving foreign sellers are in compliance with the FIRPTA. TIGTA's review of Form 1099-S, *Proceeds From Real Estate Transactions*, revealed that approximately 53 percent of the real estate sales reported may not have properly complied with the FIRPTA. In addition, TIGTA identified various internal control weaknesses in the IRS's processing of FIRPTA withholding payments and withholding credits claimed by foreign sellers on their income tax returns. These internal control weaknesses resulted in the issuance of erroneous refunds and balance due notices.[40]

TAXPAYER PROTECTION AND RIGHTS

The IRS must ensure that tax compliance activities are balanced against the rights of the taxpayers to receive fair and equitable treatment. In June 2014, the IRS updated Publication 1, *Your Rights as a Taxpayer*. In this publication, the IRS outlines the rights of the taxpayer and the processes for examination, appeals, collection, and refunds. The IRS continues to dedicate significant resources and attention to implementing the taxpayer rights provisions of the IRS Restructuring and Reform Act of 1998.[41] The following audits related to taxpayer rights provisions are mandated to be completed annually by TIGTA: Notices of Levies; Restrictions on the Use of Enforcement Statistics to Evaluate Employees; Fair Debt Collection Practices Act[42] Violations; Notices of Liens; Seizures; Illegal Tax Protestor Designations; Statute of Limitations for the Assessment of Additional Taxes and Penalties; Collection Due Process Appeals; Denial

[37] TIGTA, Ref. No. 2014-30-054, *The Internal Revenue Service Needs to Enhance Its International Collection Efforts* (Sep. 2014).
[38] Pub. L. No. 111-147, §§ 501-41, 124 Stat 71, 97-117 (2010)(codified in scattered sections of 26 U.S.C.).
[39] Enacted as Subtitle C of Title XI (the Revenue Adjustments Act of 1980) of the Omnibus Reconciliation Act of 1980, Pub. L. No. 96-499, 94 Stat. 2599, 2682 (Dec. 5, 1980).
[40] TIGTA, Ref. No. 2014-30-051, *Additional Actions Are Needed to Help Ensure Taxpayer Compliance With the Foreign Investment in Real Property Tax Act* (Sep. 2014).
[41] Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered section of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).
[42] 15 U.S.C. §§1601 note, 1692-1692o (2006).

of Requests for Information; Restrictions on Directly Contacting Taxpayers Instead of Authorized Representatives; and Separated or Divorced Joint Filer Requests.

In general, the IRS has improved its compliance with these statutory taxpayer rights provisions and is documenting its protection of taxpayer rights. However, during the review of the IRS's use of enforcement statistics to evaluate employees, TIGTA found instances of noncompliance with the IRS Restructuring and Reform Act of 1998 Section 1204 requirements.[43] Specifically, TIGTA identified instances of noncompliance with each subsection of the law: Section 1204(a), which prohibits the IRS from using any record of tax enforcement results to evaluate employees or to impose or suggest production quotas or goals; Section 1204(b), which requires that employees be evaluated using the fair and equitable treatment of taxpayers as a performance standard; and Section 1204(c), which requires each appropriate supervisor to self-certify quarterly whether records of tax enforcement results were used in a prohibited manner. Use of records of tax enforcement results may create the misperception that safeguarding taxpayer rights is secondary to IRS enforcement results.

In addition, TIGTA reported that complaints against tax return preparers are not always timely processed.[44] TIGTA's review of 8,354 complaints received in Calendar Years 2012 and 2013 identified that work on 47 percent of the complaints had yet to be initiated as of September 11, 2013. Nearly one-half of these complaints had been in the IRS's inventory for at least 60 business days. Additionally, processes do not ensure that complaints are accurately and consistently worked. TIGTA's review of a statistically valid sample of 73 complaints found that, for 25 complaints worked, the risk-ranking process used by case processors to rank, score, and prioritize the complaints was insufficient because each case processor applied the risk-ranking elements differently. Tax return preparers serve a critical role in tax administration. Because of this critical role, identifying problem preparers through the complaint process is an essential component of the IRS's oversight responsibilities. Unqualified or unethical tax return preparers can negatively impact taxpayers as well as tax revenue if the tax returns they prepare are incorrect and/or fraudulent.

HUMAN CAPITAL

Human capital is the Federal Government's most critical asset, making the strategic management of human capital a key ongoing challenge facing the IRS. Budget reductions in recent years have caused the IRS to reduce staffing, which may have unforeseen implications on the IRS's ability to carry out its mission in future years. Specifically, the IRS's workforce shrank by approximately 9.3 percent between FYs 2011 and 2014. Additionally, by the end of FY 2017, nearly 70 percent of all IRS executives and nearly one-half of the IRS's non-executive managers are projected to be eligible for retirement. The anticipated retirements and reduction in employees possessing unique skills and institutional knowledge is particularly challenging as the number of tax returns the IRS processes continues to rise, the number of identity theft-fraud cases continues to increase, and the IRS needs to implement Affordable Care Act-related tax provisions.

TIGTA reported on how declining resources were impacting the Automated Collection System (ACS).[45] We found that since FY 2010, the number of ACS employees has decreased by 39

[43] TIGTA, Ref No. 2014-30-055, *Fiscal Year 2014 Statutory Audit of Compliance With Legal Guidelines Restricting the Use of Records of Tax Enforcement Results* (Sep. 2014).
[44] TIGTA, Ref. No. 2014-40-056, *Processes Do Not Ensure That Complaints Against Tax Return Preparers Are Timely, Accurately, and Consistently Processed* (Aug. 2014).
[45] TIGTA, Ref. No. 2014-30-080, *Declining Resources Have Contributed to Unfavorable Trends in Several Key Automated Collection System Business Results* (Sep. 2014).

percent due to attrition or reassignment. The combination of fewer resources and the business need to continue answering telephone calls has contributed to unfavorable trends in several ACS business results over the past four years. Specifically, we determined that inventory is growing because new inventory is outpacing case closures, cases in inventory are aging because inventory is taking longer to close, revenue declined while more cases were closed as uncollectible, and fewer enforcement actions (liens and levies) were taken.

TIGTA also reported that implementation of the mandated sequestration, coupled with a trend of lower budgets, reduced staffing, and the loss of supplementary funding for the implementation of the Affordable Care Act, affected the IRS's ability to effectively deliver its priority program areas, including customer service and enforcement activities.[46] Our analysis of select customer service and enforcement statistics indicates that the downward trend in these areas may continue. The IRS's Level of Service decreased from 68 percent in FY 2012 to 61 percent in FY 2013. Key examination and collection statistics also declined. Examinations of individual tax returns declined approximately 5 percent from FY 2012 to FY 2013; and collection activities initiated by the IRS, such as liens, levies, and property seizures, declined approximately 33 percent during the same period.

With a shrinking workforce and budget, it will be a challenge for the IRS to successfully achieve its mission of providing America's taxpayers with top-quality service by helping them understand and meet their tax responsibilities and enforcing the law with integrity and fairness.

CONCLUSION

This memorandum is provided as our annual summary of the most serious major management and performance challenges confronting the IRS in FY 2015. TIGTA's *Fiscal Year 2015 Annual Audit Plan* contains our proposed reviews, which are organized by these challenges, in order of priority. If you have any questions or wish to discuss our views on the challenges in greater detail, please contact me at
(202) 622-6500.

cc: Deputy Secretary

Acting Assistant Secretary for Management and Chief Financial Officer

Commissioner of Internal Revenue

[46] TIGTA, Ref. No. 2014-10-025, *Implementation of Fiscal Year 2013 Sequestration Budget Reductions* (June 2014).

**MANAGEMENT'S RESPONSE TO THE
MANAGEMENT AND PERFORMANCE CHALLENGES IDENTIFIED BY THE
TREASURY INSPECTOR GENERAL
AND
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION**

In their memoranda dated October 23 and October 15, 2014, the Treasury Inspector General (IG) and the Treasury Inspector General for Tax Administration (TIGTA), respectively, identified the major challenges facing management. The Special Inspector General for the Troubled Asset Relief Program (SIGTARP) did not provide Treasury with an annual update on management and performance challenges. The Department of the Treasury concurs with the IG and the TIGTA on these challenges. These challenges do not necessarily indicate deficiencies in performance; rather, some represent inherent risks that must be monitored continuously. Moving forward, Treasury will continue to address these issues proactively. The following tables summarize the major management and performance challenges facing the Department of the Treasury, and provide information on the actions taken by Treasury in fiscal year 2014 and planned for fiscal year 2015 and beyond. The IG's matters of concern are also addressed below.

Jacob J. Lew
Secretary of the Treasury
November 17, 2014

RESPONSE TO OIG

OIG CHALLENGE NO. 1	SUMMARY OF MAJOR ISSUES
Cyber Threats	• Build on existing partnerships among financial institutions, regulators, and private entities in the financial sector and across critical sectors • Identify and respond to emerging cyber threats against financial institutions and the broader financial sector • Obtain near-to real-time cybersecurity situational awareness across entire department • Improve the protection of our headquarters' local area network and our classified systems and networks • Address any sensitive data leakage and wireless security issues

Domestic Finance

Fiscal Year 2014 Major Accomplishments

- Doubled size of staff from 7 to 14 staff – most staff Top Secret/Sensitive Compartmented Information - cleared
- Further clarified and strengthened roles and responsibilities within the partnership, which is comprised of the sector coordinating council (Financial Services Sector Coordinating Council for Critical Infrastructure Protection, FSSCC); the sector information sharing and communications organization (Financial Services Information Sharing and Analysis Center, FS-ISAC); and the regulatory community (Financial and Banking Information Infrastructure Committee); and other stakeholders
- Increased the sector's capacity for internal communications on cybersecurity by promoting awareness and best practices with senior executives including Chief Executive Officers, Chief Information Officers, Chief Information Security Officers
- Stood up and fully operationalized the Financial Sector Cyber Intelligence Group (CIG) within Treasury to provide timely and actionable cyber threat information to the financial sector
- Partnered with Department of Homeland Security (DHS), the intelligence community and law enforcement to build cyber-intelligence capabilities focused on protecting the financial services sector, including the exchange of personnel with different agencies
- Participated in the implementation of key Administration cybersecurity activities including Executive Order 13636 Improving Critical Infrastructure Cybersecurity and Presidential Policy Directive (PPD)-21 Critical Infrastructure Security and Resilience
- Convened discussions with personnel from the American Bankers Association and insurance companies (in partnership with FIO) to identify and address emerging threats
- Coordinated government and industry responses to attacks on individual institutions of the financial services sector
- Developed Financial System Infrastructure Mapping to identify critical interrelationships among sector entities
- Developed Financial Services Process Flows to capture primary flows of key processes within the sector

Actions Planned or Underway

- Continue to work with the FSSCC and FS-ISAC, enlisting the trade associations to extend effective crisis management and communications to firms of all sizes
- Coordinate Private Sector Clearance Program with DHS for the Financial Services sector
- Engage with industry and government partners to promote use of the National Institute of Standards and Technology (NIST) cybersecurity framework within the financial sector
- Continued to produce and disseminate Weekly Cyber Highlights with the Office of Intelligence and Analysis (OIA) for senior levels within Treasury

- Prepare and deliver classified briefings for senior executives of individual financial institutions as well as members of the sector coordinating council (Financial Services Sector Coordinating Council for Critical Infrastructure Protection, FSSCC); the Financial Services Information Sharing and Analysis Center, FS-ISAC; and the financial regulatory community (Financial and Banking Information Infrastructure Committee FBIIC)
- Respond to FS-ISAC formal requests for information
- Convene monthly classified meetings with cleared financial sector representatives and interagency partners to discuss the current cyber threats, prioritized intelligence needs, and obtain feedback on cyber products
- Coordinate with U.S. government cyber partners to maintain access to Treasury on cyber issues 24/7
- Engage intelligence collectors, in conjunction with OIA, to identify the types of cybersecurity information most needed by the financial sector
- Participate in National Security Council (NSC)-led Cyber Response Group (CRG) (weekly) and interagency cyber coordination calls (daily)
- Work with U.S. government interagency partners to enhance national processes for cyber incident response
- Organize and participate in an ongoing program of cybersecurity exercises involving financial institutions and government partners
- Continue to develop Financial Services Process Flows to capture primary flows of key processes within the sector

Management (Chief Information Officer)

Fiscal Year 2014 Major Accomplishments

- Achieved the following milestones associated with fiscal year 2014 Cybersecurity Cross-Agency Priority goals:
  - Monitored 98 percent of Treasury IT assets for inventory, configuration, and vulnerability management
  - Routed 99 percent of required network traffic through a Trusted Internet Connection
- Secured 100 percent of external Internet domains by implementing the Domain Name System Security Extensions, enhancing confidence in Treasury websites
- Enhanced cybersecurity threat awareness among senior leadership to address susceptibility to social engineering attacks with:
  - High-level briefings on the Government Security Operation Center's mission and capabilities to the Secretary, the Chief of Staff, two Under Secretaries, multiple Assistant Secretaries and other senior Department officials
  - Targeted threat briefings for Assistant Secretaries
  - Quarterly threat reports detailing the pervasiveness of targeted cyber threats, their nature, and individuals targeted
- Provided guidance on protecting personal email accounts against surreptitious compromise at the request of the Secretary and an Assistant Secretary
- Provided cybersecurity awareness materials to help users protect their personal accounts following reports of possible password thefts hacked from social media accounts
- Informed users on how to determine whether email systems on personally-owned computers have been compromised; provided instructions on how to do this for various commercial email systems
- Launched the Treasury Federal Information Security Management Act (FISMA) Inventory Management System (TFIMS) on schedule; TFIMS manages cybersecurity activities for the Department's approximately 360 FISMA reportable information systems
- Ensured Treasury's key public-facing systems were 100 percent protected against the HeartBleed Open SSL Vulnerability before the Department of Homeland Security conducted its first scan

- Enhanced the Treasury's Information Technology Security Program policy to address the increasing sophistication of cyber attacks and the operations tempo of adversaries by integrating state-of-the-practice security controls and control enhancements into the policy to address multiple threat areas
- Completed the Department's strategy for Information Security Continuous Monitoring (ISCM) in accordance with the schedule mandated by OMB-M-14-03, "Enhancing the Security of Federal Information and Information Systems"

Actions Planned or Underway

- Enhance ISCM through the DHS's Continuous Diagnostics and Mitigation (CDM) program; the DHS CDM is designed to strengthen the security posture of the federal civilian Executive Branch (".gov") data networks
- Implement a Wireless Intrusion Prevention System for the Main Treasury campus
- Institutionalize fiscal year 2015 expected levels of performance for the administration's Cross-Agency Priority goals for cybersecurity, including:
    - Information Security Continuous Monitoring
    - Identity Credential and Access Management
    - Anti-phishing and Malware Defense
- Continue to improve performance on key FISMA metrics to ensure the organization's systems and applications operate effectively and provide appropriate confidentiality, integrity, and availability through cost-effective management, personnel, operational, and technical controls
- Launch a three-month cybersecurity campaign to enhance awareness of password security, phishing and the use of Personal Identity Verification cards for authentication

OCC

Fiscal Year 2014 Major Accomplishments

- OCC (as the Chair of the Federal Financial Institutions Examination Council (FFIEC)) spearheaded the formation of an interagency working group charged with coordinating with intelligence, law enforcement, and homeland security officials to fight existing and emerging threats; the working group considers ways to improve coordination of supervisory policies relating to cybersecurity and infrastructure resilience and whether additional legislative authority is needed to stop security threats
- In June 2014, the FFIEC launched a Web page on cybersecurity (www.ffiec.gov/cybersecurity.htm); as the web page is a central repository for current and future FFIEC-related materials on cybersecurity
- FFEIC members, both federal and state, piloted new cybersecurity exam procedures at community institutions during regularly scheduled examinations and completed a questionnaire assessing the maturity of certain Technology Service Providers; the FFEIC engaged an outside contractor to develop a cyber-threat and vulnerability assessment by September 22, 2014
- Worked with the FFIEC, issued joint alerts notifying financial institutions of cybersecurity attacks, vulnerabilities, denial of service attacks and discontinuation of support for Windows XP

Actions Planned or Underway

- Continue to assess the ability of the institutions under its supervision to respond to cyber attacks
- With the information from the cybersecurity examination pilot effort initiated in fiscal year 2014, assist regulators in assessing how community financial institutions manage cybersecurity and their preparedness to mitigate increasing cyber risks; banks participating in the pilot will receive letters that will highlight key insights into areas where institutions can strengthen their cybersecurity preparedness
- Publish an updated Information Security handbook which will include a section entitled the IT Management and Business Continuity Planning
- With the FFIEC Cybersecurity and Critical Infrastructure Working Group (CCIWG), develop joint statements addressing credential breaches and cyber resilience; additionally, the CCIWG is developing a Risk Tip addressing Cybersecurity Resilience and a brochure titled ***Improving Your Cybersecurity and Resilience to Defend Against Cyber Attacks*** to address cyber threats, incident response, and provide direction to key cybersecurity resources

- Conduct a variety of outreach activities to industry trade groups to raise awareness around cybersecurity preparedness

OIG CHALLENGE NO. 2	SUMMARY OF MAJOR ISSUES
Continued Implementation of Dodd-Frank	• Maintain an effective Financial Stability Oversight Council process supported by the Office of Financial Research and Federal Insurance Office within Treasury

Financial Stability Oversight Council (FSOC)

Fiscal Year 2014 Major Accomplishments

- Held 10 meetings of the FSOC to discuss and analyze emerging market developments and financial regulatory issues
- Convened a meeting led by the President of the United States and attended by the leadership of federal financial regulators
- Continued work to identify non-bank financial companies for designation for supervision by the Federal Reserve and enhanced prudential standards
- Completed annual reevaluations of two non-bank financial companies designated in 2013
- Monitored the eight financial market utilities designated in 2012 for enhanced risk-management standards and supervision
- Published its 2014 annual report to Congress, which addressed the FSOC's activities, identified potential emerging threats to U.S. financial stability, and made recommendations to mitigate such threats
- Continued to implement operational improvements related to the work of the FSOC, including adopting bylaws for its Deputies Committee and adopting enhancements to its existing Transparency Policy

Actions Planned or Underway

- Continue to consult with the Federal Reserve on developing rules establishing enhanced risk management standards for designated financial market utilities
- Continue identification of nonbank financial companies for designation for supervision by the Federal Reserve and enhanced prudential standards
- Continue monitoring for potential risks to U.S. financial stability, with a focus on significant financial market developments and structural vulnerabilities affecting the financial system
- Continue to implement operational improvements to existing processes and procedures related to the work of the FSOC

Office of Financial Research (OFR)

Fiscal Year 2014 Major Accomplishments

Monitoring Threats to Financial Stability

- Published a prototype Financial Stability Monitor – a dashboard of improved financial stability metrics and indicators – in the 2013 OFR Annual Report
- Regularly produced and updated its Financial Markets Monitor for the FSOC's Systemic Risk Committee and for the FSOC members
- Hosted third OFR/FSOC conference in January 2014 on "Mapping and Monitoring the Financial System: Liquidity, Funding, and Plumbing"
- Co-sponsored the Conference on Systemic Risk in Cambridge, Massachusetts with the Consortium for Systemic Risk Analytics and the Massachusetts Institute of Technology's Laboratory for Financial Engineering

Improving the Quality and Scope of Financial Data

- Organized and held the fourth Regulatory Data Workshop on August 5-6, 2014 with 300 participants from the federal sector
- Created data visualization tools for OFR researchers and the FSOC Secretariat
- Expanded data available to researchers by 20 percent
- Developed metadata management tools and enhanced internal data management processes to improve onboarding efficiency and effectiveness
- Completed onboarding automation of 88 percent of known data sets
- Partnered with the U.S. Commodity Futures Trading Commission to improve the quality and usability of data in swap data repositories
- Made major enhancements to the OFR Knowledge Catalog suite of applications, aimed at cataloging, tracking, and accessing data in an efficient and effective manner

Financial Data Standards

- Chaired the Global Legal Entity Identifier (GLEI) Regulatory Oversight Committee which included creating a GLEI Foundation in Switzerland and appointing the Board of Directors; currently over 300,000 identifiers have been issued to organizations in 186 countries
- Participated in and conducted research regarding the standards necessary for the international swap data (aka trade repository) markets; included work on the product identification, transaction identification, and data harmonization and reporting standards
- Worked with housing agencies on mortgage industry reporting standards and on researching and developing the standard for a universal loan identifier (ULI)
- Chaired a working group for the Financial Stability Board (FSB) aggregation feasibility study group pertaining to international trade repositories
- Presented speeches on the importance of data standards and data standards' conferences including GS1 Global Forum, XBRL, Object Management Group, and Mortgage Industry Standards Maintenance Organization

Research on Financial Stability

- Released seven working papers to the public
- Created two new OFR Research Products— the OFR Staff Discussion Paper Series and the OFR Brief Series (to maximize the impact of OFR's research in the public discourse)
- Released three Staff Discussion Papers to the public
- Issued three OFR Early-concept Grants for Exploratory Research (EAGER) grants in conjunction with the National Science Foundation to promote and support research related to financial stability

Financial Stability Oversight Council Support

- Provided analytical and data-related support to the FSOC and its member agencies to continue analysis related to non-bank financial company designations and to support the FSOC's annual report
- Published the FSOC interagency data collections inventory on the OFR website
- Enhanced FSOC data sharing through implementation of the information categorization framework

Reports

- Issued fiscal year 2013 Annual Report to Congress, containing improved analysis and tools for monitoring threats to U.S. financial stability
- Submitted third Annual Report to Congress on Human Capital Planning

Institution Building and Improvement

- Held two Financial Research Advisory Committee (FRAC) meetings
- Increased staff from 180 to approximately 224 by the end of fiscal year 2014

- Reported on organizational performance measures and published them in the fiscal year 2015 budget
- Rolled out and made major enhancements to the Analytic Environment and build out of Alternate Computing Center
- Reached agreement with the Office of Chief Information Officer/Assistant Secretary of Management with respect to non-analytic applications

Speeches and Testimony

- The OFR Director testified before the House Financial Services Subcommittee on Oversight and Investigations on "The Annual Report of the Office of Financial Research" on February 5, 2014
- The OFR Director testified before the Senate Banking Subcommittee on Economic Policy on "Monitoring Systemic Risk: The Annual Report and Oversight of the Office of Financial Research" on January 29, 2014

Actions Planned or Underway

Monitoring Threats to Financial Stability

- Develop and publish additional monitoring products to stakeholders
- Automate OFR monitoring products, such as the Financial Markets Monitor

Improving the Quality and Scope of Financial Data

- Develop reference databases
- Develop general purpose data onboarding engine that can automate ingestion of data sets, from a wide type of sources and formats, in a much simpler and efficient manner than current techniques
- Work with the Federal Reserve Bank of New York and the Federal Reserve Board to gather data about the repurchase (repo) market
- Conduct research into identifier mapping to facilitate the use of data
- Conduct research into avoiding potential overlaps in domestic and international data reporting

Financial Data Standards

- Drive efforts to support the global issuance and acceptance of Legal Entity Identifiers
- Provide leadership and consultation for standards related to swap (trade) repositories including product and transaction identification and data harmonization and reporting standards
- Provide technical assistance in improving mortgage data standards and implementing the ULI

Research on Financial Stability

- Publish first OFR Brief
- Publish additional OFR working papers, staff discussion papers, and reports, including a methodology paper describing construction of the Financial Stability Monitor
- Issue more EAGER grants

Financial Stability Oversight Council Support

- Provide support for the FSOC for its annual report
- Provide support for the FSOC for its non-bank designation process
- Provide support for the FSOC by collecting and managing data as appropriate
- Provide support for the FSOC's monitoring of threats by developing and enhanced Financial Stability Monitor

Reports

- Issue fiscal year 2014 Annual Report to Congress, containing improved analysis and tools for monitoring threats to U.S. financial stability
- Complete the fourth OFR Annual Report to Congress on Human Capital Planning

Institution Building and Improvement

- Host the next two FRAC meetings in fiscal year 2015
- Continue to build staff toward steady-state level
- Complete the revised OFR Strategic Plan
- Construct new OFR website
- Enhance remote computing capabilities to support a fully functional virtual research community
- Enhance internet access in order to efficiently obtain all the data needed when the OFR needs it
- Implement the systems necessary to further enhance computing effectiveness

Conferences

- Host second joint conference with the Federal Reserve Bank of Cleveland in December 2014 in Washington, D.C.
- Host fourth annual OFR/FSOC Conference in January 2015

Federal Insurance Office (FIO)

Fiscal Year 2014 Major Accomplishments

- Contributed expertise, policy support, and leadership in the FSOC
- Led work at the International Association of Insurance Supervisors (IAIS) through chairmanship of the Technical Committee, participation in the development and application of the IAIS's methodology to identify Global Systemically Important Insurers and in other work streams; leadership on technical and substantive work streams that are leading to a Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame); the Basic Capital Requirement; Higher Loss Absorbency Requirement; and, Global Insurance Capital Standards
- Issued the Modernization Report required by Dodd-Frank, which makes recommendations in the areas of insurance sector solvency and marketplace regulation
- Led U.S. efforts on the first round of ComFrame field testing
- Initiated, participated in, and assumed leadership and technical engagement with the European Union (EU) - U.S. Project
- Led federal engagement on insurance issues in both the U.S.-China Strategic and Economic Dialogue and the U.S.-EU Financial Markets Regulatory Dialogue
- Released several reports: "*How to Modernize the System of Insurance in the United States*" (Modernization Report, Dec. 2013), "*Annual Report on the Insurance Industry, 2014*" (September 2014), "*2014 Preemption Report*" (September 2014), and served as the lead contributor to the report by the President's Working Group on Financial Markets titled "*The Long-Term Affordability and Availability of Insurance for Terrorism Risk*" (April 2014)
- Finalized negotiations on bilateral memoranda of understanding (MOUs) with insurance supervisors in China, India, and Brazil
- Enhanced bilateral relationships with U.S. regulatory agencies in matters concerning insurance oversight and supervision and provided government-wide, interagency leadership on such issues
- Assisted the Secretary of the Treasury in administering the Terrorism Risk Insurance Program
- Reconstituted and convened the Federal Advisory Committee on Insurance to discuss contemporary insurance issues
- Contributed to the Hurricane Sandy Task Force and help effectuate recommendations offered by the Task Force
- Coordinated the U.S. review of the IMF's Financial Sector Assessment Program
- Hosted, jointly with the Organization for Economic Co-operation and Development, the third international Terrorism Risk Insurance Conference

- Began collecting data and monitoring affordability of automobile insurance, including publishing a notice in the Federal Register soliciting comment
- Established dialogue with the U.S. Trade Representative (USTR) respecting the covered agreement process

Actions Planned or Underway

- Release the Reinsurance Report and the Natural Catastrophe Report
- Continue to build on FIO's current international leadership role and expand opportunities for FIO's involvement in relevant international supervisory bodies
- Establish processes for implementing recommendations for FIO's Modernization Report
- Begin negotiations, jointly with USTR, in pursuit of a covered agreement for reinsurance collateral
- Coordinate federal efforts to insurance matters related to new and emerging risks such as extreme weather or cyber attacks
- Enter into the aforementioned bilateral MOUs and establish processes and protocols for information sharing with respective foreign insurance supervisory authorities
- Build resources and staff capacity

Office of the Comptroller of the Currency (OCC)

Fiscal Year 2014 Major Accomplishments

- Approved a final rule to implement the Basel Committee's liquidity coverage ratio in the U.S.
- Issued a rule comprehensively revising U.S. capital standards
- Issued the supplementary leverage ratio final rule
- Issued proposed rulemaking to amend the annual stress test rule
- Issued a final rule on heighted expectations for large OCC-supervised institutions
- Adopted the enhanced supplementary leverage ratio final rule
- Adopted the final rule implementing Section 619 of Dodd-Frank known as the Volcker rule
- Reproposed a rule to implement Sections 731 and 764 of Dodd-Frank requiring covered swap entities to collect margin for their non-cleared swaps and non-cleared security-based swaps
- Issued a final rule that sets forth a standardized minimum liquidity requirement for large and internationally active banking organizations
- Continued participation in FSOC and its various operating committees
- Issued Semi-annual Risk Perspectives Reports highlighting to the industry and other interested parties the OCC's perspectives on issues that pose threats to the safety and soundness of financial institutions

Actions Planned or Underway

- Continue to conduct on-site supervisory assessments of national banks and federal savings associations, focusing on the quality of corporate governance, risk management practices, adequacy of loan-loss reserves, capital, and liquidity
- Continue to perform individual bank examinations on a variety of other activities aimed at identifying and responding to systemic trends and emerging risks that could adversely affect asset quality or the availability of credit at national banks and federal savings associations and the banking system, and fair access to financial services
- Continue to integrate OCC national bank and Office of Thrift Supervision federal savings association rules under OCC regulations
- Monitor and assess the effectiveness of national bank and federal savings association mortgage servicers' loan modification and foreclosure actions, including compliance with outstanding enforcement actions and agreements
- Complete a final rule on credit risk retention along with other participating agencies

- Complete a final rule on incentive-based compensation arrangements
- Finalize an amended final rule on retail foreign exchange transactions
- Continue to work on an interagency basis to draft a proposal to implement section 616(d) of Dodd-Frank to require bank and savings and loan holding companies to serve as a source of strength for their subsidiary depository institutions
- Work closely with Treasury and other federal financial regulatory agencies to implement the remaining Dodd-Frank Act reforms, and to monitor and respond to emerging risks to the stability of the U.S. financial system
- Continue to issue the OCC's Semi-annual Risk Perspectives Report

OIG CHALLENGE NO. 3	SUMMARY OF MAJOR ISSUES
Management of Treasury's Authorities Intended to Support and Improve the Economy	• Protect the taxpayer from unnecessary risk associated with the implementation and administration of programs intended to support and improve the economy, including the provisions of the: - *Small Business Jobs Act of 2010* - *American Recovery and Reinvestment Act of 2009* - *Housing and Economic Recovery Act of 2008* - *Emergency Economic Stabilization Act of 2008*

Small Business Lending Fund (SBLF)

Fiscal Year 2014 Major Accomplishments

- In total, the SBLF invested $4.03 billion in 332 community banks and Community Development Loan Funds
- In the fiscal year 2014, the SBLF program office continued its focus on investment management, operations, compliance and controls, and reporting and outreach activities
- Specifically, the SBLF program office focused on the following activities:
    - Investment Management: SBLF monitored the SBLF investment portfolio and made recommendations to senior Treasury officials on decisions related to investment performance and activities
    - Operations: SBLF managed the program's data and information in connection with participant reporting, dividend and interest payments, and capital repayments
    - Compliance and Controls: SBLF monitored participant conformance with program terms, including lending data, certification requirements, and other requirements provided for by the SBLF Securities Purchase Agreement; SBLF also developed and executed internal control procedures for processes across SBLF program office functions
    - Reporting and Outreach: SBLF continued its outreach and reporting efforts; these activities included reporting to Congress on the program's transactions, costs, and the participants' lending growth, correspondence, and publishing the results of the program's second annual lending survey; as of June 30, 2014, SBLF participants have increased small business lending by $13.5 billion over a $33 billion baseline

Actions Planned or Underway

- For fiscal year 2015 and forward, the SBLF program office plans to continue its focus on investment management, operations, compliance and controls, and reporting and outreach:
    - Investment Management: SBLF plans to continue to monitor the SBLF investment portfolio and make recommendations to senior Treasury officials on decisions related to investment performance and activities and begin preparation for the 2016 rate step up
    - Operations: SBLF plans to continue to manage the program's data and information in connection with participant reporting, dividend and interest payments, and capital repayments

- Compliance and Controls: SBLF plans to continue to execute a compliance program to monitor participant conformance with program terms, including lending data, certification requirements, and other requirements provided for by the SBLF Securities Purchase Agreement; SBLF also plans to continue executing internal control procedures for processes across SBLF program office functions
- Reporting and Outreach: SBLF plans to continue its outreach and reporting efforts; these activities include reporting to Congress on the program's transactions, costs, and the participants' lending growth, correspondence, and publishing the results of the program's third annual lending survey

State Small Business Credit Initiative (SSBCI)

Fiscal Year 2014 Major Accomplishments

- Received, tested, and transferred a cumulative $1,146,367,069 to states as they qualified for subsequent disbursements on their allocations ($234,585,668 in fiscal year 2014)
- Conducted on-site compliance reviews or training sessions with 9 states
- Evaluated and approved 21 formal modifications to states' approved SSBCI programs
- Organized one national conference of state SSBCI officials hosted by the OCC
- Convened a working groups of state SSBCI Officials to discuss strategies for using SSBCI funds to reach underserved small business customers
- Published Summary of States' Quarterly Reports (Quarters ending September 2013, December 2013, March 2014, June 2014)
- Published Summary of States' 2013 Annual Reports
- Published consultants' study of SSBCI loan programs
- Coordinated responses to eleven audits of states from the Office of Special Inspector General for the SBLF, as well as an overall program audit by the Government Accountability Office

Actions Planned or Underway

- Continue to receive, test, and process requests for subsequent disbursements
- Continue to evaluate and respond to requests for modifications to approved SSBCI Programs
- Organize a national conference of state officials
- Convene two working groups of state SSBCI officials to discuss and publish best practices
- Continue to publish Quarterly and Annual Reports
- Continue to coordinate responses to audits of states conducted by the OIG

Bond Guarantee Program

CDFI

Fiscal Year 2014 Major Accomplishments

- Conducted three outreach sessions to educate the CDFI industry on the CDFI Bond Guarantee Program
- Closed $525 million in bonds under the CDFI Bond Guarantee Program
- Developed the Portfolio Analysis and Performance Reporting System (PAPRS) to monitor performance of all outstanding bond loans for the CDFI Bond Guarantee Program
- Determined final compliance status on 59 of the 69 Recovery Act awardees based on the receipt and review of submitted compliance reports

Actions Planned or Underway

- Test PAPRS to verify that the system requirements satisfy the original contractual obligations
- Develop fiscal year 2015 Notice of Guarantee Availability for the CDFI Bond Guarantee Program contingent upon fiscal year 2015 Guarantee Authority

- Implement Annual Assessment Evaluation of Qualified Issuers and Eligible CDFIs for the CDFI Bond Guarantee Program
- Perform additional due diligence on 10 of the 69 Recovery Act awardees to resolve reporting errors and issues related to Single Audit A-133 Circular Compliance so that final compliance status can be determined
- Close out all 69 Recovery Act awards

OCC

Fiscal Year 2014 Major Accomplishments

- Issued *Community Development Investments* electronic newsletters to support and improve the economy
- Jointly hosted a National Interagency Community Reinvestment Conference
- Participated in Community Reinvestment outreach activities in various locations across the country
- Issued a request for comment on reducing regulatory burden through the Economic Growth and Regulatory Paperwork Reduction Act (EGRPRA) process

Actions Planned or Underway

- Continue to participate in Community Reinvestment outreach activities during the year
- Continue to issue Community Development Investments newsletters
- Continue interagency EGRPRA review of regulations

Management of Recovery Act Programs

Fiscal Year 2014 Major Accomplishments

Office of the Fiscal Assistant Secretary

- Managed the low-income housing and specified energy property programs, including the extension of the specified energy property program by one year under Section 707 of the Job Creation Act, by supplementing a small core staff in Departmental Offices with support from other Treasury offices
- Continued to review incoming applications for the energy program and make timely awards
- Continued an interagency agreement for the energy program with the Department of Energy to assist with the technical aspects of the energy program
- Continued an annual reporting process for the low-income housing program to help ensure projects funded under the program remain qualified

Actions Planned or Underway

- Continue the compliance monitoring programs related to the low-income housing and specified energy property programs
- Continue to coordinate with IRS's compliance initiative project regarding the energy program
- Continue assessment of staffing needs

Management of the Housing and Economic Recovery Act and the Emergency Economic Stabilization Act (HERA and EESA)

Domestic Finance

Fiscal Year 2014 Major Accomplishments

- New Issue Bond Program (NIBP) – Collected and analyzed data to assess changes in risk and verify accuracy of receipts, as the portfolio decreased from $9.3 billion to $8.6 billion
- Temporary Credit and Liquidity Program (TCLP) – Assessed risks to Treasury and monitored reductions of balances of bonds covered by TCLP from $2.0 billion to $.9 billion

Actions Planned or Underway

- Manage the wind down of the State and local Housing Financing Agencies (HFAs) Initiative

- NIBP – Continue to collect data on the performance of the collateral underlying NIBP bonds, and to use this data to monitor and manage Treasury's risks
- TCLP – Continue to monitor performance of two remaining HFAs in implementing approved plans for reducing TCLP balances, and
- to encourage HFAs to achieve faster reductions as market conditions permit

Office of Financial Stability

Fiscal Year 2014 Major Accomplishments

- Continue to manage the wind-down of the remaining TARP investments in a manner that balances the desire to exit as soon as practicable with maximizing returns for the taxpayers:
    - Cumulatively collected 99.3 percent of the $425.9 billion in program funds disbursed under TARP (103.4 percent when non-TARP AIG shares are included)
    - Continue to wind down our remaining Capital Purchase Program (CPP) investments through repurchases by banks, asset sales, and restructurings
    - Made extensive progress in the wind down of the Automotive Industry Financing Program (AIFP) with the sale of all remaining common stock in General Motors and the monetization of OFS's Ally Financial common stock investment through a private offering, participation in Ally's initial public offering, and pre-arranged written trading plans
- EESA Housing Programs – Continue to implement the housing programs funded under the TARP, which have helped 1.4 million people avoid foreclosure and indirectly helped millions more by setting new standards throughout the mortgage servicing industry

Actions Planned or Underway

- Continue to wind down our remaining CPP investments through repurchases by banks, asset sales, and restructurings
- Continue to sell Ally Financial stock through pre-arranged written trading plans and underwritten offerings, subject to market conditions
- Continue to manage EESA housing programs to assist in preventing avoidable foreclosures

OIG CHALLENGE NO. 4	SUMMARY OF MAJOR ISSUES
Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act (BSA) Enforcement	• Prevent and detect money laundering and terrorist financing • Promote U.S. and international financial systems that are safe and transparent • Ensure continued cooperation and coordination of all organizations involved in anti-money laundering and combatting terrorist financial efforts • Create safeguards over the use of BSA information

FinCEN

Fiscal Year 2014 Major Accomplishments

- Completed development of the $120 million, multi-year BSA Information Technology Modernization Program and transitioned to an operations and maintenance environment
- Used new advanced analytics capabilities to apply business rules to BSA data and prepare timely, high-value reports for law enforcement and intelligence communities on topics
- Used new advanced analytics capabilities to apply predictive models to BSA data and identify high-value targets suspected of laundering proceeds of health care fraud, tax fraud by identity theft, and securities fraud
- Issued advisories to U.S. financial institutions to assist them in reporting suspicious activity related to the evasion of Iran sanctions, Ukrainian asset recovery, human trafficking, and drug trafficking

- Coordinated the application of multiple FinCEN tools and authorities to bring a concentrated, multidisciplinary approach to disrupting the financing of Mexican drug cartels, resulting in significant investigative gains and international recognition
- Used the BSA Advisory Group to pilot new initiatives to share information by and between industry and government, provide government feedback to industry, and discuss the most sensitive and difficult problems facing organizations involved in anti-money laundering and combatting the financing of terrorism
- Served as a leader on the topic of virtual currency from both a regulatory and investigative perspective, providing training and guidance to regulatory and investigative partners domestically and abroad, as well as engaging in outreach to the nascent Bitcoin industry
- Executed a multi-pronged regulatory and outreach initiative to increase the transparency of cash moved via armored car services and cash couriers
- Executed an enforcement and outreach initiative to increase compliance by casinos with the BSA and improve reporting on source of funds
- Issued 11 administrative rulings that expanded upon guidance to clarify applicability of BSA to various financial institutions
- Issued marijuana banking guidance providing law enforcement information they need, and clarity to financial institutions providing banking services
- Initiated ground-breaking use of authorities to permanently bar egregious anti-money laundering (AML) offenders from working within a financial institution
- Issued six civil money penalties against financial institutions and/or owners for willful violations of the BSA, while instituting new efforts to hold individuals accountable and require institutions to admit wrongdoing
- Issued one action under Section 311 of the USA PATRIOT Act against a foreign financial institution of primary money laundering concern that sought to attract illicit finance business
- Implemented the first year of mandatory electronic filing of the Report of Foreign Bank and Financial Accounts, increasing electronic filing from 5 percent to 95 percent in one year, while simplifying the process for filers and making data available to law enforcement more quickly

Actions Planned or Underway

- Continue cooperative efforts with Federal and State regulatory agencies to exchange compliance information and leverage examination resources
- Finalize existing rulemaking proposals and develop new regulations, as warranted, to address money laundering risks or gaps in the regulatory framework, including as it relates to the customer due diligence
- Continue to issue guidance and actionable advisories to financial institutions, regulators, and law enforcement on compliance and emerging money laundering trends and risks
- Publish advanced analytic products identifying illicit finance networks/schemes, and failed institutions or jurisdictions involved in illicit financial activities
- Continue to exercise enforcement authorities where appropriate to ensure compliance with the BSA and combat money laundering in all sectors of the financial services industry

OCC

Fiscal Year 2014 Accomplishments

- Issued a $350 million civil money penalty against JPMorgan Chase, N.A.; JPMorgan Bank and Trust Company, N.A.; and Chase Bank USA, N.A., for BSA violations; the penalty followed a January 2013 cease and desist order in which the OCC directed the three affiliated banks to correct deficiencies in their compliance programs; the penalty was based in part on JPMorgan Chase's failure to report suspicions about Bernard L. Madoff Investment Securities, LLC, to U.S. law enforcement and regulators; and the banks also failed to detect and report other cases of suspicious activity

- Issued OCC Supervisory Memorandum 2014-4 providing supplemental guidance to examiners on the ***Interagency Statement on Enforcement of Banks Secrecy Act/Anti-Money Laundering Requirements*** on how examiners can identify, evaluate, and if appropriate, cite violations of the components (pillars) of the BSA Compliance Program Rule

Actions Planned or Underway

- Continue examination, enforcement activities, and cooperative efforts with FinCEN and other federal banking agencies
- Update the Federal Financial Institutions Examination Council's BSA/AML Handbook
- Continue to monitor risk levels within banks that may be increasing because of bank portfolio de-risking
- Host a knowledge sharing call in the fourth quarter of 2014 with OCC examiners to provide additional guidance and insight on how to evaluate whether a BSA/AML "pillar" and/or "program" violation has occurred

OIG CHALLENGE NO. 5	SUMMARY OF MAJOR ISSUES
Efforts to Promote Spending Transparency and to Prevent and Detect Improper Payments	• Spending Transparency • Detect Improper Payments

Fiscal Year 2014 Major Accomplishments

- Assumed program responsibility over USAspending.gov and began transitioning program management functions from the General Services Administration
- Began work to improve the usability of USAspending.gov by leveraging the Recovery.gov platform, including improving the presentation layer and search functionality
- Developed federal financial management data transparency vision and strategy
- Established Digital Accountability and Transparency Act of 2014 (DATA Act) governance and implementation structure, in collaboration with the OMB
- Developed data transparency stakeholder outreach strategy and plan
- Successfully piloted prototype to map U.S. Standard General Ledger to an industry exchange standard, and began pilot to further test this concept with three federal agencies
- Conducted visualization pilot to model future data publication of information required by the DATA Act
- Published Federal Register Notice for public input on the establishment of financial data standards
- Conducted stakeholder outreach, including the Data Transparency Town Hall
- Informed agencies of the delinquent debt referral requirement and received feedback from agencies on their ability to report on delinquent debts over 120 days
- Began work with Recovery Accountability and Transparency Board to understand synergies, capability gaps, and needs in planning for possible data analysis expansion

Actions Planned or Underway

- Launch improved USAspending.gov website and financial assistance Award Submission Portal
- Develop and issue government-wide financial data standards (data element definitions and data exchange standards), in collaboration with OMB
- Develop blueprint to link financial and management (i.e., grants and procurement) data
- Develop a transition plan for the Recovery Operations Center (ROC) transfer
- Develop data exchange standards to access data and standard reporting taxonomy
- Develop data visualization model for future data publication on USAspending.gov (or successor system)
- Assess platform options for accessing and collecting data required by the DATA Act
- Complete assessment and transition plan of ROC asset transfer

OIG CHALLENGE NO. 6	SUMMARY OF MAJOR ISSUES
Gulf Coast Restoration Trust Fund Administration	• Monitor regulations and associated policies and procedures that need to be established • Coordinate with many entities/councils that are to receive and further allocate funding, and need to establish policies and procedures • Use Treasury's existing resources to administer its responsibilities for the Trust Fund

Domestic Finance

Fiscal Year 2014 Major Accomplishments

- Published the Resources and Ecosystems Sustainability, Tourist Opportunities and Revived Economies of the Gulf Coast States Act (RESTORE Act) Interim Final Rule on August 15, 2014, to be effective October 14, 2014
- Established the Office of Gulf Coast Restoration and increased its staff to four full-time and two detailed employees to administer the program and coordinate activities with Gulf Coast Ecosystem Restoration Council and Council members
- Entered into an interagency agreement with the Fiscal Service in July 2014 to utilize the Department of Health and Human Services' Grantsolutions.Gov grants application, review, and management system
- Released Direct Component and Centers of Excellence guidance and application forms on August 15, 2014
- Posted Funding Opportunity Announcements on Grants.gov for Gulf Coast states, Florida counties, and Louisiana parishes to apply for Direct Component and Centers of Excellence Research grants on September 15, 2014
- Enrolled applicants in Grantsolutions.Gov
- Engaged contractor to assist in establishing compliance oversight functions

  Published notice of proposed rulemaking for Louisiana parish formula allocations on July 31, with a 30-day comment period; plan to publish an interim final rule with the same October 14, 2014 effective date as the RESTORE Act interim final rule

Actions Planned or Underway

- Complete Gulf Coast region on-site programmatic training in fiscal year 2015 first quarter
- Complete program recipient risk assessments in fiscal year 2015 first quarter
- Begin to receive grant applications in fiscal year 2015 first quarter, followed by timely issuance of grant awards
- Execute interagency agreements or procurement in fiscal year 2015 second quarter to engage subject matter experts, on an as-needed basis, to assist in grant application reviews
- Establish a RESTORE Act transparency reporting architecture in fiscal year 2015 second quarter
- Complete program office staff hiring in fiscal year 2015 second quarter

Matters of Concern No. 1	**SUMMARY OF MAJOR ISSUES**
Currency and Coin Production	• Oversee issues related to the Bureau of Engraving and Printing's (BEP) redesign of NexGen $100 note while engaging in sound and comprehensive project management • Oversee the U.S. Mint's costs associated of producing penny, nickel coins, and the suspended production of the dollar coins

Fiscal Year 2014 Major Accomplishments

Coin Production

- The costs to produce the penny and nickel have exceeded their face value since fiscal year 2006. In fiscal year 2014, the cost of the penny and nickel were 1.66 cents and 8.09 cents, respectively, which is down from fiscal year 2013; this is largely due to significant increases in shipment volumes as well as lower costs of metal; the Mint also increased productivity, reduced overhead costs despite a 21.9 percent increase in total circulating coinage shipments; and the cost of metal for pennies decreased by 3.1 percent, while the cost of metal for nickels decreased by 13.7 percent during fiscal year 2014
- As part of its alternative metals study, the Mint conducted extensive research related to stakeholders' perceptions to develop a more in-depth outreach effort to understand how circulating coin produced with alternative metal compositions may affect commerce; the process included, but was not limited to, face-to-face meetings with industry groups, conference calls, webinars, conference presentations, electronic outreach utilizing e-newsletters and e-magazines; the Mint also conducted an industry-wide stakeholder outreach meeting at its headquarters in the spring of 2014; and these outreach efforts have enabled the Mint to foster communication and create and sustain a continuous feedback loop between industry stakeholders and the Mint
- Senior-level Mint officials have been invited to participate and speak at a number of national association meetings and to also conduct webinars to industries dependent on circulating coin for their business operations; as these associations include the International Parking Institute, American Public Transit Association, National Automatic Merchandising Association, Amusement and Machine Operators Association, American Amusement Machine Association and the American Banking Association
- Following the heightened outreach program, the Mint published a Federal Register Notice (FRN) for comment by industry stakeholders; the FRN noticed generated 962 comments, of which 99 percent received were directly responsive to the request for comment
- Since the last biennial report in December 2012, the Mint has conducted extensive testing of six different metal compositions, as well as initial testing of materials that show potential to duplicate the existing weights and electro-magnetic signature of current U.S. coinage

Currency Production

- The NexGen $100 note was successfully issued on October 8, 2013; in December 2013, the Federal Reserve Board indicated that the order for NexGen $100's was going to be reduced based on lower forecasted demand for the NexGen $100; thus, BEP went down to one production line and completed the overprinting of NexGen $100 on September 4, 2014; the rest of the yearly currency order for 2014 was realigned through pro-active collaboration between the plants, quality, and the new Technology Directorate to ensure the yearly order requirements were met; the bureau will complete a production validation for each production line utilized for NexGen $100 in fiscal year 2015
- The increasing complexity of U.S. currency note design demands the highest degree of cutting edge research and development, state-of-the-art production technology, and best-in-class quality and process control; the production challenges associated with the NexGen $100 note highlighted the need for a fundamental re-engineering of process control and quality assurance at BEP; and the BEP continues to implement a Currency Quality Assurance Program which is intended to be a strategic re-alignment that will position BEP for more efficient currency production and provide long-term cost reductions related to spoilage and reduced currency redesign cycle time
- Increased focus on BEP's project management and oversight, including standardized templates and procedures, formalized project manager training (internal and external), certification to Federal Acquisition Institute requirements, and increased project management transparency
- Executing a rigorous qualification test of substrate manufacturing and BEP manufacturing to support the start of series 2013 NexGen $100; the Interagency Currency Design (ICD) committee reviews and approves all plans and steps leading up to the start of the production of the new series

Actions Planned or Underway

Coin Production

- Deliver the Mint's next biennial report to Congress on alternative coinage materials in December 2014
- Continue the Mint's R&D testing for a specific alloy before confirming the use of the material as a potential option for circulating coins (excluding the penny)
- Engage industry stakeholders in discussions regarding the Mint's R&D efforts as well as further discussions to understand the timeframes required for the industry to accommodate alternative metal coins with seamless and co-circulate characteristics and to understand current and future business trends affecting the use of coins

Currency Production

- BEP will hire a Chief of Quality which will further emphasize an organizational alignment to the Currency Quality Assurance initiative
- Increase focus on data-driven product management for each of BEP's currency denominations; as product dashboards are now a regular part of management review for senior management and the ICD
- Make enhancements to BEP's Technology Development Process and the Banknote Development Process as BEP gains more experience with these processes and adapt them to the design and development of U.S.

Matters of Concern No. 2	SUMMARY OF MAJOR ISSUES
Documenting Key Activities and Decisions	Promote an effective records management program to ensure Treasury management personnel remain aware and vigilant

Management

Fiscal Year 2014 Major Accomplishments

- In coordination with the Fiscal Service, the Treasury Office of Privacy, Transparency, and Records (PTR) published a new system of records notice and a revised privacy impact assessment for Do Not Pay; both can be found at found at www.donotpay.treas.gov
- Continued support for Treasury program offices in configuring and utilizing the Enterprise Content Management Records Center program, to ensure consistent and efficient management of unstructured electronic records
- Reviewed and overhauled the Department's Orders and Directives Process—the primary method by which Treasury-wide policy is codified; as a result of process improvements and proactive engagement, more than 50 Treasury Orders and Directives were reaffirmed, updated, or cancelled during fiscal year 2014
- Implemented proactive accessible records and digitization strategy, to prioritize digitization of high-value and high-demand records, reduce paper records stores in accordance with National Archives and Records Administration (NARA) guidance, and ensure digitized record stores are properly maintained
- Continued to update the Department's policy for records management, in conformance with new guidance from NARA, to address the retention and disposition of electronic media (email) and use and retention of social media communications and web 2.0 technologies

Actions Planned or Underway

- Revise Treasury Directive 25-06, "The Data Integrity Board," to comply with new requirements included in OMB Memorandum 13-20, "Protecting Privacy while Reducing Improper Payments with the Do Not Pay Initiative"
- Expansion of proactive accessible records and digitization strategy to include user training in electronic document management best practices

- Development of a maturity model for evaluating records management practices of Treasury offices and bureaus
- Issuance of Treasury-wide guidance for implementing the NARA's Capstone approach to email management, and implementing user training on email management best practices for all Departmental Offices employees
- Continue the review of Treasury Orders and Directives that have not been reviewed or updated in the last five years

RESPONSE TO TIGTA

TIGTA CHALLENGE NO. 1	SUMMARY OF MAJOR ISSUES
Security for Taxpayer Data and Employees	Promote measures for appropriate physical security and protection of financial, personal, and other information

Fiscal Year 2014 Major Accomplishments

- Issued a memorandum to all business functions emphasizing the new Internal Revenue Manual 1.4.30, *Monitoring Internal Control Planned Corrective Actions*, which strengthens existing policies and procedures on internal controls, to ensure that all adhere to the requirements governing the internal control process for the Department's Audit Follow-up System (JAMES)
- Closed four enterprise-wide IT security vulnerabilities related to auditing, penetration testing, security of shared services, and procurements of Commercial-Off-The-Shelf (COTS) products
- Completed all of the Computer Security Plan corrective actions resulting in the closure of the plan and significant improvements to IRS's IT security posture
- Developed a detailed corrective action plan to address 23 specific actions to address newly identified control weaknesses over key financial and tax processing systems
- Worked with the appropriate business units and the Department to reopen seven previously closed corrective actions to establish new corrective actions that fulfill the original audit recommendations; the new corrective actions will remain open until fully implemented
- Added the two-dimensional (2D) barcode to four installment agreement notices affecting an estimated 33 million notices annually; the 2D barcode provides IRS with information needed to process the notice and mask the full display of the Social Security Number (SSN) in the body of the notice by exposing only the last four digits of the SSN
- Embedded the taxpayer SSN and other processing data in the 2D barcode on installment payment notices
- Initiated appropriate outreach to ensure that frontline employees are aware of current Potentially Dangerous Taxpayer (PDT) and Caution Upon Contact (CAU) designation processes as well as any changes that are made to the process in the future

Actions Planned or Underway

- Establish clear policies and procedures to assure service contracts have the appropriate security provisions included in the related solicitation and contract, and that associated contractor personnel have appropriate interim access approval or final background investigation prior to beginning work on the contract
- Continue to mask SSNs on notices by adding the 2D barcode to 35 individual non-payment notices and 23 Automated Collection System notices
- Enhance authentication to use the Individual/Information Returns Transaction File (IRTF) and the Masterfile address of record to enable mailing of out opt-in notices
- Develop a proposal to give IRS the authority to require truncated SSNs on Forms W-2, *Wage and Tax Statement*

TIGTA CHALLENGE NO. 2	SUMMARY OF MAJOR ISSUES
Implementing the Affordable Care Act and Other Tax Law Changes	Effectively implement new tax provisions, including tax-related health care provisions of the *Patient Protection and Affordable Care Act* (ACA), and the *American Recovery and Reinvestment Act* (Recovery Act)

Affordable Care Act (ACA)

Fiscal Year 2014 Major Accomplishments

- Placed the following Individual Shared Responsibility Payment (ISRP) (IRC 5000A) materials on IRS.gov:
  - ISRP and ISRP Questions & Answers (Q&As) page
  - Electronic publications
  - Health care tax tips
  - Videos

- Developed 157 Marketplace and 330 non-Marketplace products including: Web content in both English and Spanish on IRS.gov, Q&As, presentations, Talking Points, eNews items, articles, health care tax tips, electronic flyers and brochures, and training materials
- Conducted over 180 outreach events, reaching over 70,000 participants from over 100 organizations
- Created a series of releases to organize IT work needed to deliver ACA Services and placed ACA Release 3.0 into production, which delivered capabilities to support Health Insurance Marketplaces
- Successfully responded, via the federal data services hub, to tens of millions of requests from Marketplaces for federal tax information, including income and family size of applicants, and requests to calculate the maximum advance premium tax credit payment. A report issued by TIGTA in July 2014 noted that IRS provided accurate responses to income and family size verification 99.97% of the time and calculation requests 100% of the time.
- Responded to requests to calculate the Advance Premium Tax Credit to verify income and family size
- Coordinated IT business requirements to support 2015 IRS implementation of exchange provision
- Delivered six employee training modules and provided "ACA acronym awareness" training to customer-facing managers and employees
- Implemented programming modifications so that variables in the Coverage Data Repository are consistent with those in the Individual Master File
- Collaborated with federal partners and the National Taxpayer Advocate on more than a dozen implementation communications products

Actions Planned or Underway

- Create additional Individual Shared Responsibility Payment materials: IRS.gov updates; additional Health Care tax tips; tax forms and instructions; customer service assistance and account services
- Consider alternative strategies for identifying noncompliant medical device manufacturers; IRS may issue notices to potential non-filers if there appears to be a benefit to future tax administration
- Require agencies to submit an initial independent security assessment and signed system security authorization
- Complete Brand Prescription Drug revisions of Form 8947 and its instructions for clarity to reduce taxpayer burden
- While it is the responsibility of the marketplaces to determine the amount of advance payments of the Premium Tax Credit, as well as to verify related documentation, the IRS will implement compliance checks before, during, and after processing of Premium Tax Credits that are claimed on individuals' tax returns
- Collaborate with other government agencies to develop and deliver shared messages, customer assistance tools, and training materials on tax and non-tax provisions for individuals and employers
- Communicate impacts of the Marketplace Provisions for individuals, employers, and insurers, in an effort to ensure compliance when filing 2014 tax returns
- Expand outreach resources to provide education and assistance in advance of the 2015 Filing Season
- Gear-up for the 2015 filing season by preparing IT systems to integrate the administration and reconciliation of the Premium Tax Credit into the individual tax filing process

TIGTA CHALLENGE NO. 3	SUMMARY OF MAJOR ISSUES
Tax Compliance Initiatives	Improve compliance and fairness in the application of the tax laws

Businesses and Individuals

Fiscal Year 2014 Major Accomplishments

- Provided Virtual Small Business Tax Workshops (VSBTW) to organizations that represent small business owners for use in direct and leveraged outreach that explained key tax elements in starting and maintaining a compliant small business
- Established partnerships with over 150 new small business industry organizations to increase business owner compliance and to encourage owners to educate employees to bring them into compliance

- Completed translation of the VSBTW into Spanish and Chinese to broaden outreach to emerging customer
- Developed a preparer strategy to identify preparers that file egregious ITIN returns including preparer Client Analysis Referrals based on an evaluation of prior client examinations
- Added new screening criteria when it was discovered that ITIN filers were filing amended returns to increase dependents and claiming additional Child Tax Credits

Actions Planned or Underway

- Explore the development of performance measures for the Delinquent Return Refund Hold Program, with implementation dependent on the availability of resources and the usefulness of the measures as a predictive tool in determining the effectiveness of the program
- Expand efforts to reach emerging small business segments, stressing the use of technology and partnerships at the national and local level to reach stakeholders
- Develop a preparer compliance strategy to enhance compliance activity by using historical data to determine the best approach in dealing with ITIN preparers who appear to file non-compliant tax returns
- Develop a proposal to extend paid preparer Earned Income Tax Credit (EITC) due diligence requirements to the Child Tax Credit

Tax-Exempt Entities

Fiscal Year 2014 Major Accomplishments

- Initiated the Unrelated Business Income (UBI) compliance project, examined a statistical sample of 100 exempt organizations; closed 54 examinations, which included 163 returns, and identified and analyzed the results for trends
- The IRS and the Department of the Treasury released a Notice of Proposed Rulemaking (NPRM) to clarify the rules governing social welfare organizations, consistent with TIGTA recommendations
- Collaborated with the National Taxpayer Advocate (NTA) to develop, publish, and post new guidance for stakeholders and customers;
    - Developed new guidance on foster care payments, which now excludes qualified foster care payments from the gross income of a foster care provider
    - Published Revenue Procedure (Rev. Proc.) 2014-11, which outlines procedures for taxpayers seeking reinstatement after automatic revocation for failure to file required annual returns or notices for three consecutive years
    - Posted Notice 2014-7 to the IRS website to notify customers that qualified Medicaid waiver payments to care providers who are related or unrelated to the eligible individual are excludable from gross income
- Completed two pilots to reduce delays the determination application case process by applying the Lean Six Sigma (LSS) methodology resulting in implementing streamlined processing on exempt organization determination cases
- Development of Form 1023-EZ, ***Streamlined Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code***, which reduces the burden on smaller organizations by making the application process quicker and easier and helps reduce processing delays for all applications
- Updated IRS.gov and an educational site, StayExempt.IRS.gov, to include newly issued Form 1023-EZ, Streamlined Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code; the new application and an announcement about the release were issued to stakeholders
- Initiated a review of the employee plans determination letter process using the LSS method to identify inefficiencies in case processing as well as other needed improvements to the overall program to alleviate the current backlog and reduce processing times
- Completed risk assessments, stakeholder analyses, and other LSS project tools to evaluate and prioritize improvement opportunities for the determination letter process for employee retirement plans; the result was the development and implementation of a pilot to reduce bottlenecks and improve processing efficiencies to reduce case processing time
- Developed a training course, ***Identification of Possible Political Campaign Intervention Activity***, including official training materials and breakout interactions among participants
- Reduced the inventory of section 501(c)(4) applications, including the group of 145 cases in the "priority

backlog," of which 134 cases, or 92 percent, have been closed; of those closed, 102 cases were approved and 43 organizations took advantage of the optional, expedited processing

- Completed 92 percent of the 330 examinations of retirement plans detected through an advanced data mining application which compared past audit analytics to current return information in the Risk Modeling II project

Actions Planned or Underway

- Complete the remaining action plan items to address gaps in the Exempt Organizations (EO) Examination program by documenting processes related to the development of EO examinations' project cases, work plan, and the identification and process of working emerging issues
- Analyze examination results in the Risk Modeling II project of Employee Plans to determine the effectiveness of the selection methodology once examinations are complete
- Initiate a pre- and post-determination compliance process that will select a statistically valid sample of Form 1023-EZ filings for review to mitigate potential compliance risks created by the new form
- Implement recommendations developed through a LSS review of Employee Plans Determinations processing
- Initiate a LSS review of the process for calculating and administering the Direct Pay Bonds (DPB) payment program
- Implement a knowledge management strategy to further employee development through sharing and transferring skills, to enhance collaboration, and to ensure correct and consistent positions are in use
- Implement a data and information strategy resulting from recommendations received from the TE/GE data strategy team to improve risk identification, program management, resource allocation, and service delivery

TIGTA CHALLENGE NO. 4	**SUMMARY OF MAJOR ISSUES**
Fraudulent Claims and Improper Payments	Effective use of taxpayer funds

Fiscal Year 2014 Major Accomplishments

- Developed and submitted legislative proposals for supplemental authority that would provide for correctable error authority, similar to math error authority, in situations when information provided by taxpayers does not match the information contained in government database; the IRS also requested acceleration of the filing dates of information returns to make the information available to the IRS earlier
- Issued approximately 1.2 million Identity Protection Personal Identification Numbers (IP PINs) to taxpayers with identity theft markers on their accounts
- Launched an online application process so that taxpayers who were victimized by identity theft can retrieve their lost or misplaced IP PIN
- Created an IP PIN e-Authentication service for taxpayers from high-risk areas identity theft areas to use an Electronic Filing PIN (EFP) as an option to request an IP PIN
- Analyzed the 2013 Automated Questionable Credit (AQC) case results which showed that cases with multiple issues were being pulled into the filtered case selection; these types of cases are accounts where the refundable and non-refundable portions of the American Opportunity Tax Credit (AOTC) are in question; multiple issue cases change the tax, the non-refundable credit, the refundable portion of the credit and other refundable and non-refundable credits, such as Child Tax Credit and Additional Child Tax Credit
    - Updated the AOTC non-compliant filters to include cases where only the refundable portion of the credit is in question
    - Implemented a process to run all AOTC non-compliant filter selections against current year Information Return Processing data to identify Forms 1098T, *Tuition Statement,* which had been filed by accredited higher education institutions, which resulted in returns with valid AOTC credits refunds being released without delay
    - Revised the referral process for fraud returns without a refundable credit claimed
- Built upon a successful fiscal year 2013 EITC Return Preparer Strategy in its fiscal year 2014 strategy to address paid preparers' due diligence in preparing EITC returns; for fiscal year 2014, new treatments tested to determine optimal effectiveness included expanded phone calls, updated and expanded letters addressing specific areas of EITC noncompliance, and compliance emails

- Sent several thousand letters (Warning to EITC Return Preparers – Missing Form 8867) and e-file alerts to preparers who submitted one or more tax year 2013 returns claiming EITC without the required Form 8867 attached
- Implemented a pilot process to reduce labor intensive research and created coding requirements for false information documents:
  - Mailed letters to the home address of the individuals listed as business owners of suspected fabricated entities
  - Communicated new requirements and established an internal Entity Fabrication SharePoint Site to facilitate information sharing
- Utilized a variety of research tools and processes to analyze and mark Employer Identification Numbers (EINs) selected by filters, such as:
  - Used markers to update the Electronic Fraud Detection System and protect refunds on returns using false information documents
  - Marked information documents submitted by Fabricated Entities as fraudulent and fabricated EINs that were sent to Verification were marked as false to stop refunds
- Completed Phase 1 of the Entity Fabrication Pilot
- Analyzed Master File data and developed filters for detection of employers that have a high likelihood of being a fabricated entity; entity fabrication occurs when Employee Identification Numbers are acquired for the purpose of submitting falsified W-2s to the Social Security Administration and filing fraudulent tax returns with the intent of receiving unwarranted refunds

Actions Planned or Underway

- Develop a long-term strategy to expand e-Authentication to reduce identity theft and refund fraud Increase the success rate of IP PIN requests and replacements by reducing address mismatch
- Revise IRS notice CP01A, *We've Assigned You an Identity Protection Personal Identification Number*, to explain the effect IP PINS have on recipient tax return processing, and will include information relating to the use of IP PINS for dependents, secondary filers, and taxpayers without a filing requirement
- Conduct further analysis to evaluate persistence over time in preparer due diligence improvement from various treatments in its EITC Preparer Strategy that addresses paid preparer's influence on EITC improper payments
- Develop operational metrics for Premium Tax Credits for Filing Season 2015; these metrics will help assess risk level and allow us to complete the risk scoring model for the credit as required by the Improper Payments Elimination and Recovery Act (IPERA)
- Develop a method for sharing falsified information documents with the Social Security Administration
- Develop a proposal to add the tax-related offenses in Title 18 and the criminal tax offenses in Title 26 to the list of predicate offenses contained in the Aggravated Identity Theft Statute
- Develop a proposal to add a civil penalty to the Internal Revenue Code to be imposed in tax identity theft cases on the individual who filed the fraudulent return
- Develop proposal to expand IRS access to information in the National Directory of New Hires for tax administration purposes

TIGTA CHALLENGE NO. 5	SUMMARY OF MAJOR ISSUES
Achieving Program Efficiencies and Cost Savings	Use resources to focus on producing the best value for stakeholders

Fiscal Year 2014 Major Accomplishments

- Implemented procedures to improve tracking and reconciliation of Form NA-13001, *Notice of Eligibility for Disposal*, issued to the Area Records Managers (ARMs) for records with upcoming disposal dates
- Collaborated with all enforcement divisions to identify and update some of the cost-based performance measures for enforcement activities, such as the marginal cost per enforcement program and cost per full-time equivalent (FTE) for correspondence and field examination
- Completed the development of the cost of collection processes by activity and developed baseline measures

- Provided the average (cost by series, grade and year) of employees handling cases in the examination and appeals stages for the marginal revenue/cost model

  Provided the average cost of collection activities (notice, ACS, field Collection, etc.), that was applied to any audit that went through one of those activities
- Provided IRS-wide access to cost/benefit analyses by publishing cost-based performance measures reports on the CFO IRWeb
- Established and provided the structure and foundational elements necessary for an effective Enterprise Risk Management (ERM) program
- Completed a review of more than 355 examination programs and compliance initiative projects and found that the IRS maintains sound internal controls throughout its examination programs; the risk of partiality in the programs was very low based on the documentary evidence of business rules, procedures, criteria, and internal controls reviewed
- Used new software capabilities to research missing prisoner information to ensure the accuracy of prisoner social security number (SSN) records for the 2014 prisoner file; the result was identifying approximately 25,000 missing SSNs
- Formed a team to develop a service-wide strategy for increasing the volume of electronic returns filed by business taxpayers

Actions Planned or Underway

- Ensure established procedures, or approved alternative procedures, are followed when certifying invoiced record storage charges for payment
- Develop an enterprise-wide repeatable method to manage and track the deployment of licenses that can be uniformly used by all organizational entities responsible for managing licenses
- Expand availability and use of decision-making information, including information on at least one new area, in particular Return on Investment (ROI) data, to ensure IRS is spending its resources where it will get the maximum return
- Expand the use of timekeeping data in cost analysis and oversee cost accounting and performance metrics for all IRS programs
- Complete the revenue/cost model for the non-filer and Earned Income Tax Credit (EITC) programs
- Provide additional training and communications for continued deployment of the Enterprise Risk Management program and support integration of risk management practices into day-to-day operational activities
- Enhance and roll out the Return Review Program (RRP) system to facilitate faster and more accurate data exchanges with our state and federal prison partners and internal users
- Develop a Technology Road Map to use the Social Security Administration's Prisoner Update Processing System Data to improve IRS prisoner data
- Developing a communications outreach plan to promote e-filing for business returns during the 2015 Filing Season

TIGTA CHALLENGE NO. 6	SUMMARY OF MAJOR ISSUES
Modernization	Improve taxpayer service and efficiency of operations

Fiscal Year 2014 Major Accomplishments

- Integrated testing of the Customer Account Data Engine 2 (CADE2) Database Implementation into the Annual Filing Season test, successfully integrating CADE2 into filing season operations
- Distributed data to 16 systems from the CADE2 database, which allowed more than 50,000 IRS customer service representatives and business users to view taxpayer account data on the new CADE2 database
- Completed all close out activities for CADE2 Transition State 1.5 and officially closed action after it demonstrated sustainable system performance, data assurance maturity, and operational and organizational readiness

- Updated the CADE2 data validation plan to reflect the frequency and process of manually validating data not fed to downstream systems
- Released several new digital applications to improve taxpayers' interaction with the IRS, including IRS Direct Pay, which provides taxpayers with an online option for making tax payments, and Get Transcript, a secure online system that allows taxpayers to view and print a record of their IRS account
- Completed the implementation of CADE2 Transition State 2, which provided taxpayers the benefit of calculated penalty and interest on individual and business accounts for taxes that were not received by the due date Enhanced the Affordable Care Act e-Authentication capabilities to provide multiple levels of assurance and flexibility for the non-tax filing requirement and Spanish-speaking population
- Provided standards for a benchmarking data center performance and purchased and installed equipment at the Martinsburg and Memphis Computing Centers
- Developed a timeline to support the Detroit Computing Center's infrastructure and equipment relocation plan

Actions Planned or Underway

- Re-write core tax processing applications using modern programming languages and tools to better accommodate changes in tax laws and more fully populate the new database so that downstream applications can access data on the CADE2 database and it becomes the authoritative data source for all individual taxpayers' accounts
- Incorporate ACA requirements into the e-Authentication Release 3
- Provide the capability to handle business entities for e-authorization
- Continue to implement benchmarking performance standards within the Martinsburg and Memphis Computing Centers
- Complete migration of systems out of the Detroit Computing Center and implement a data backup infrastructure at the gaining sites to ensure capacity is allocated for the Detroit systems

TIGTA CHALLENGE NO. 7	SUMMARY OF MAJOR ISSUES
Providing Quality Taxpayer Service Operations	Improve taxpayer service

Fiscal Year 2014 Major Accomplishments

- Implemented several initiatives for the 2014 filing season that leveraged automated self-service applications available to taxpayers through IRS.gov; these applications gave taxpayers the ability to use online options for needs such as obtaining transcripts, determining the status of their refunds, and researching tax questions
- Implemented Virtual Service Delivery (VSD) technology as a permanent part of campus operations
- Leveraged partners to provide taxpayers expanded access via alternative filing methods
- Expanded the number of VSD sites from 34 locations in fiscal year 2013 to 39 locations in fiscal year 2014 by repurposing five support sites to taxpayer facing sites which reduced the number of Taxpayer Assistance Centers (TACs) providing assistor support from 38 TACs in 2013 to 33 TACs in 2014

Actions Planned or Underway

- Conduct outreach efforts to market the availability of Virtual Service Delivery technology in the nine taxpayer-facing locations and the benefits of its use by taxpayers and/or representatives
- Leverage partner resources to prepare Amended and Prior Year returns by using Virtual VITA for directing taxpayers to sites offering year round tax return preparation
- Analyze options to expand VSD to taxpayer-facing and support site locations

TIGTA CHALLENGE NO. 8	SUMMARY OF MAJOR ISSUES
Globalization	Increase the outreach efforts to foreign governments on cross-border transactions

Fiscal Year 2014 Major Accomplishments

- Conducted a feasibility study on embedding IRS investigative analysts at the Department's Office of Terrorist Financing and Financial Crimes (TFFC) and determined to assign IRS Tax Law Specialists to another U.S. Government working group dedicated to identifying terrorist financing
- Presented a counterterrorism program and current IRS initiatives to the Department's Working Group on Terrorist Financing (TFWG)
- Collaborated with the Department's working group on Terrorist Financing (TFWG), and the Canada Revenue Agency to discuss Canada's process for detecting, examining, sanctioning and/or revoking the tax exempt status of Canadian non-profit organizations suspected of illicit terrorist financing
- Enhanced the case management system by creating and implementing special purpose codes to facilitate the identification of new and existing investigations that meet the definition of third-party money launderers
- Deployed the Foreign Account Tax Compliance Act (FATCA) Foreign Financial Registration website for both internal and external stakeholder access, resulting in over 103,000 financial institutions around the world registering and receiving a Global Intermediary Identification Number (GIIN)
- Conducted FATCA data safeguarding reviews of Model 1A IGA (Intergovernmental Agreement) countries to ensure that appropriate safeguards and infrastructure are in place and an appropriate culture of care exists to maintain confidentiality of exchanged information
- Developed a data safeguards workbook for completion by both the U.S. and FATCA partner jurisdictions prior to the reciprocal exchange of information
- Initiated the International Compliance Management Model (ICMM) Integrated Project and completed high-level business requirements for the first deployment of ICMM, which focused on receipt, processing, validation, management and storage of incoming FATCA data, and creation of notifications to send to the filer

Actions Planned or Underway

- Establish an initiative throughout the IRS to further improve the Fraud Referral Program
- Create reports using the new case management coding system on third-party money laundering cases that can be provided to the Treasury Executive Office of Asset Forfeiture in order to help identify case methodologies
- Develop a formal International Collection training plan that uses cross functional subject matter experts to develop and teach international specific courses
- Add additional capability to the Foreign Account Tax Compliance Act (FATCA) registration website
- Deploy additional International Compliance Management Model (ICMM) functionality to fully process and manage data and provide back end reporting capabilities, and gather business requirements for ICMM Release 2 for preparation of outgoing files for reciprocal exchange
- Revise the Form 1099-S, ***Proceeds From Real Estate Transactions***, to include information that is necessary to identify transactions subject to the Foreign Investment in Real Property Tax Act of 1980 (FIRPTA) along with the pertinent buyer identifying information that would allow the IRS to effectively enforce compliance with the current law
- Conduct International Data Exchange Service (IDES) testing with foreign partners to enable them to complete work on their own projects to conduct FATCA third-party reporting, and reciprocal exchanges in conjunction with the ICMM project
- Deploy Release 2 of the FATCA registration to provide the financial institution (FI) sponsoring entity the ability to add all their sponsored entities and their FI type
- Deploy Release 3 of the FATCA registration that will add the Qualified Intermediary application and supporting documents and the Financial Institution certification process

TIGTA CHALLENGE NO. 9	**SUMMARY OF MAJOR ISSUES**
Taxpayer Protection and Rights	Apply the tax laws fairly

Fiscal Year 2014 Major Accomplishments

- Engaged federal and state agencies to exchange data through the Criminal Investigation Memorandum of Understanding (MOU) that implemented aggressive actions to address identity theft and refund fraud; Secured 23 CI MOUs that established reciprocal information sharing opportunities and cooperative compliance efforts between the IRS and states
- Created a data exchange MOU with the Federal Bureau of Prisons to allow for disclosures of returns and return information to states Departments of Correction and the Federal Bureau of Prisons for fraudulent returns filed by inmates
- Established effective processes to handle the large volume of complaints made against paid tax preparers; Through increased staffing, enhanced processes, including using a centralized database to manage complaints, written guidance, and trained Return Preparer Office employees, the inventory backlog was reduced significantly
- Piloted the State Suspicious Filers Group to share fraudulent refund information that resulted in eight states submitting over 5,000 suspicious filers; stopped fraudulent refunds of over $3.3M associated with these referrals

Actions Planned or Underway

- Update IRM 1.5.3, *Manager's Self-Certification and the Independent Review Process*, to instruct Section 1204 managers to review and update employees' HR Connect profiles as part of the Quarterly Certification process; Guidance is currently being provided to the Section 1204 program managers as part of the quarterly certification process until the IRM updates are published
- Collaborate with Federal, state and local agencies on best practices for authentication and identity protection
- Expand participation by the state departments of corrections to deter inmate tax fraud by signing agreements to exchange

TIGTA CHALLENGE NO. 10	**SUMMARY OF MAJOR ISSUES**
Human Capital	Enable the IRS to achieve its mission

Fiscal Year 2014 Major Accomplishments

- Developed and completed service-wide training for executives, managers, and employees to support the Back to Basics training and incorporated the training in the IRS core values portion of the onboarding process, as well as the annual ethics briefings
- Implemented the Vets-to-Feds program sponsored by the Office of Personnel Management (OPM) and the Department of Veterans Affairs
- Exceeded the Office of the Personnel Management and the Department's hiring cycle time requirement of 80 days by 9 days
- Continued the Leadership Succession Review (LSR) program to ensure a strong, cohesive leadership development and succession planning approach from frontline to executive development
- Implemented an enhanced Employee Recognition Program website, which celebrated the successes of employees and teams that made a difference

Actions Planned or Underway

- Realign the compliance operations within the Small Business/Self-Employed and Wage & Investment divisions with the intent of reducing redundancies, improving taxpayer services and better identifying emerging compliance issues; as part of the work on the concept of operations for the new Collection organization, the Automated Collection System (ACS) program will be reviewed to determine whether the Collection responsibilities and authorities currently assigned to ACS employees need to be enhanced
- Develop, publish, and issue an Employee Recognition Handbook

Section D: Summary of Financial Statement Audit and Management Assurances

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	0	0	1

Summary of Management Assurances

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Qualified					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
IRS – Unpaid Tax Assessments	1	0	0	0	0	1

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Qualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Bureau of the Fiscal Service – Control Deficiencies in the Processes used to Prepare the Consolidated Government-wide Financial Statements	1	0	0	0	0	1
Total Material Weaknesses (FMFIA § 2)	2	0	0	0	0	2

Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems conform to financial management system requirements					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-conformances	0	0	0	0	0	0

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. System Requirements	Lack of substantial compliance noted	
2. Accounting Standards	Lack of substantial compliance noted	
3. USSGL at the Transaction Level	No lack of substantial compliance noted	

SECTION E: IMPROPER PAYMENTS DETAILED REPORT

The Department's Fiscal Year 2014 Improper Payments Information Act Report includes information required by ***the Improper Payments Information Act of 2002*** (IPIA) as amended by the ***Improper Payments Elimination and Recovery Act of 2010*** (IPERA), ***the Improper Payments Elimination and Recovery Improvement Act of 2012*** (IPERIA), ***Reducing Improper Payments and Eliminating Waste in the Federal Government***, Office of Management and Budget (OMB) Circular No. A-123, ***Management's Responsibility for Internal Control***, Appendix C, ***Requirements for Effective Estimation and Remediation of Improper Payments*** (A-123, Appendix C) and OMB Circular A-136.

I. RISK ASSESSMENT

Each year, the Department develops a comprehensive inventory of the funding sources for all programs and activities and distributes it to the Treasury bureaus and offices. The bureaus and offices must perform risk assessments at the payment type level (e.g., payroll, contracts, vendors, travel, etc.). The Department's risk assessment process follows the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Integrated Framework. The framework includes:

- Internal Control Environment
- Risk Assessment
- Internal Control Activities
- Information and Communication
- Monitoring

The factors considered in the determination of risk levels include:

Operating Environment – Existence of factors which necessitate or allow for loosening of financial controls; any known instances of fraud

Payment Processing Controls – Management's implementation of internal controls over payment processes including existence of current documentation, the assessment of design and operating effectiveness of internal controls over payments, the identification of deficiencies related to payment processes, and whether or not effective compensating controls are present

Internal Monitoring Activities – Periodic internal program reviews to determine if payments are made properly; strength of documentation requirements and standards to support testing of design and operating effectiveness for key payment controls

Human Capital – Experience, training, and size of payment staff; ability of staff to handle peak payment requirements; level of management oversight, and monitoring against fraudulent activity

During fiscal year 2014, Treasury continued the use of its robust assessment process.

For those payment types resulting in high-risk assessments that comprise at least 1.5 percent and $10 million in total program outlays or $100 million at any rate, (1) statistical sampling must be performed to determine the improper payment rate, and (2) a corrective action plan must be developed and submitted to the Department and OMB for approval. Responses to the risk assessments produce a score that falls into pre-determined categories of risk. The following table describes the actions required at each risk level:

Risk Level	Required Action(s)
High Risk > 1.5% Error Rate & > $10 Million or $100,000,000 at any error rate	Corrective Action Plan
Medium Risk	Review Payment Controls for Improvement
Low Risk	No Further Action Required

The risk assessments performed across the Department in fiscal year 2014 resulted in all programs and activities being of low or medium risk susceptibility for improper payments, except for the IRS's Earned Income Tax Credit (EITC) program. The EITC's high-risk status is well-documented, having been identified previously in the former Section 57 of OMB Circular No. A-11, Preparation, Submission, and Execution of the Budget, deemed by OMB a complex program for the purposes of the IPIA and as a high priority program for Executive Order 13520, ***Reducing Improper Payments***. OMB's guidance requires additional reporting on programs deemed high-risk; that information, for the EITC program only, follows.

II. Statistical Sampling

EITC Program

The EITC is a refundable federal tax credit that offsets income taxes owed by low-income workers and, if the credit exceeds the amount of taxes owed, provides a refund to those who qualify. The most recent projection is based on a tax year 2010 reporting compliance study that estimated the rate of improper overclaims for fiscal year 2014 to range between 24.9 percent (lower bound) and 29.4 percent (upper bound). This amounts to between $16.2 and $19.1 billion of approximately $65.2 billion in total program payments.

In keeping with the requirements of IPERIA, Treasury updates the estimate of improper payments annually. The EITC improper payment rate is estimated using a statistically valid sample of returns audited through the IRS's National Research Program (NRP). The methodology employed compares the value of all improper payments to the total value of EITC claims, yielding an annual projection for the program error rate. The most recent calculation indicated a program error rate that was consistent in magnitude with the five-year average 25 percent error rate.

General Methodology

The complexity of the EITC program, the nature of tax processing, and the expense of compliance studies preclude producing error rates in a timely enough manner to be usefully compared with reduction targets. The estimates are primarily based on information from the NRP reporting compliance study of individual income tax returns for tax year 2010—the most recent year for which compliance information from a statistically valid, random sample of individual tax returns is available.

Under the tax year 2010 NRP reporting compliance study, which audited individual income tax returns filed during calendar year 2011 for tax year 2010, approximately 2,600 of the returns in the regular NRP sample were EITC claimants randomly selected for examination.

The NRP conducts annual studies on the reporting compliance of Form 1040 taxpayers. Imbedded in these annual studies is a sample of EITC claimants large enough to estimate the improper payment percentage with plus or minus 2.5 percentage point precision and 90 percent confidence, or approximately 2,600 tax returns. This is the data source used to estimate the amount of EITC overclaims and underpayments. EITC overclaims are defined as the difference between the EITC amount claimed by the taxpayer on his or her return, as adjusted by the IRS math error processing, and the amount the taxpayer should have claimed, as determined by the NRP examination. EITC underpayments are defined as the amount of EITC disallowed by the IRS in processing that should have been allowed, as determined by the NRP examination. For tax year 2010, the sum of overclaims and the absolute value of underpayments is estimated to be $18.6 billion. Some of these EITC overclaims are prevented from being paid or are recovered through enforcement activities. It is estimated that a total of $2.2 billion of EITC overclaims were

prevented or recovered for tax year 2010. These amounts are subtracted from the sum of overclaims and underpayments to obtain a net amount of unrecovered overclaims and underpayments.

The IRS also uses the NRP sample to estimate the total amount of EITC claims. For tax year 2010, approximately $59.7 billion was claimed for EITC. The improper payment rate is calculated by dividing the unrecovered overclaims and underpayments by total EITC claims.

To obtain projections of total EITC claims, upward adjustments were made to estimates of EITC tax expenditures and outlays in the fiscal year 2015 federal budget. The adjustment reflects that these amounts likely understate the amount of EITC initially claimed on filed tax returns. This is because some of the original claims are never actually disbursed to taxpayers, being disallowed through math-error processing or revenue protected by pre-refund examinations, although these are offset to some extent by new EITC claims made on amended returns. The relationship between estimates of EITC claims and estimates of expenditures and outlays in prior years was used to determine the appropriate adjustment factor.

The final step of estimating EITC improper payments for fiscal year 2014 involves multiplying the improper payment rate by the estimate of total claims for that year. This yields the estimate for EITC improper payments for fiscal year 2014. In order to provide projections through fiscal year 2017, the same improper payment rate is applied to future year projections of total claims.

III. Corrective Actions

This section describes the ongoing and planned corrective actions to reduce the improper payment rate for Treasury's only high-risk susceptible program, the EITC.

Root Causes

The root causes of EITC improper payments are from the following sources:

Authentication –It is estimated that 70 percent or $12.4 billion in improper payments are from authentication errors. They include errors associated with the inability to authenticate qualifying child eligibility requirements, mainly relationship and residency requirements, filing status, when married couples file as single or head of household, and eligibility in complex living situations. Authentication is completed on a portion of this error category during pre-refund examinations.

Verification – It is estimated that 30 percent or $5.3 billion in improper payments are from verification errors. These errors relate to improper income reporting which allows claimants to fall within the EITC income limitations and qualify for EITC. The errors include both underreporting and overreporting of income by both wage earners and taxpayers who report that they are self-employed.

Income reported through information returns such as Forms W-2, Forms 1099, etc., which can be used for verification of some income, becomes available only after tax returns are processed. Under law, the IRS must process income tax returns within 45 days of the return due date or pay interest to taxpayers.

Base Program

In fiscal year 2014, the IRS protected revenue of almost $3.5 billion related to its EITC compliance activities. The activities primarily focused on three areas:

- **Examinations** – The IRS identifies tax returns for examination and, in the majority of cases, holds the EITC portion of the refund until an audit can be conducted. The IRS also holds the Additional Child Tax Credit portion of the refund on these EITC examinations. This is the only ongoing IRS audit program where exams are conducted before a refund is released.

- **Math Error** – Refers to an automated process in which the IRS identifies math or other irregularities and automatically prepares an adjusted return for a taxpayer.
- **Document Matching** – Involves comparing income information provided by the taxpayer with matching information (e.g., W-2s, 1099s) from employers and other third parties to identify discrepancies

The chart below shows significant results from almost 435,700 EITC-related examinations, approximately 210,000 math error notices, and over 1,050,000 document matching reviews.

Compliance Activities

	FY09	FY10	FY11	FY12	FY13*	FY14**	FY15***	FY09-FY15 Total
Examination Closures	508,180	473,999	483,574	487,408	483,070	435,679	436,000	3,307,910
Math Error Notices	355,416	341,824	293,450	270,492	241,975	210,000	180,000	1,893,157
Document Matching	688,087	904,920	1,178,129	985,172	906,994	1,053,304	1,050,000	6,766,606
Amended Returns1	25,395	19,347	14,317	13,284	8,130	17,725	17,700	115,898

* Restated actual.
** Preliminary data.
*** Estimate based on fiscal year 2014 preliminary data.
[1] Amended returns are a subset of Examination Closures.

These compliance activities had a significant effect. Treasury projects that continued enforcement efforts will protect a total of approximately $26 billion in revenue through fiscal year 2015, as shown below.

	FY09	FY10	FY11	FY12	FY13*	FY14**	FY15***	FY09-FY15 Total
Examination Closures	$ 2.15	$ 1.97	$ 2.04	$ 2.05	$ 2.11	$ 1.75	$ 1.75	$ 13.82
Math Error Notices	$ 0.40	$ 0.41	$ 0.35	$ 0.31	$ 0.30	$ 0.25	$ 0.22	$ 2.24
Document Matching	$ 1.17	$ 1.43	$ 1.32	$ 1.55	$ 1.42	$ 1.39	$ 1.39	$ 9.67
Amended Returns	$ 0.07	$ 0.06	$ 0.04	$ 0.04	$ 0.03	$ 0.05	$ 0.05	$ 0.34
TOTAL	$ 3.79	$ 3.87	$ 3.75	$ 3.95	$ 3.86	$ 3.44	$ 3.41	$ 26.07

* Restated actual.
** Preliminary data.
*** Estimate based on fiscal year 2015 preliminary data.

Maximizing Current Business Processes

- As a part of the fiscal year 2014 EITC Return Preparer Strategy, the IRS completed activities associated with a suite of progressive EITC preparer treatments, addressing over 18,000 preparers selected through a risk-based scoring model, before and during the filing season
- The IRS completed 431 pre-filing season Due Diligence Visits (DDVs) with a penalty rate of 84 percent and over $22 million in proposed penalties. Revenue and criminal investigation agents completed 96 educational Knock-and-Talk Visits (KTV) visits. The IRS mailed nearly 17,000 educational notices and called almost 500 preparers before the fiscal year 2014 filing season.
- The IRS closed 296 filing season DDVs with a penalty rate of 81 percent and almost $3.5 million in proposed penalties. The IRS proposed penalties of nearly $300,000 on 21 DDVs completed as a follow-up for those preparers who received pre-filing season KTVs but did not improve their due diligence. The IRS mailed 3,000 educational notices and called over 2,000 preparers during the 2014 filing season. Additionally, the IRS obtained two civil injunctions protecting revenue of $14.5 million.
- The analysis of the fiscal year 2014 EITC Preparer Strategy revealed that, including the penalties and injunction revenue protected above, the preparer treatments protected over $550 million (EITC and Child Tax Credit)
- Proposed $13 million in penalties to almost 800 EITC return preparers for failure to exercise due diligence by attaching Form 8867, ***Paid Preparer's Earned Income Credit Checklist***, to taxpayer returns
- Imposed over 4,774 two-year bans and 102 10-year bans (as of September 2014) for cases where the IRS determined during an EITC audit that the taxpayer intentionally disregarded the rules and regulations or committed fraud
- Through September 2014, detected and stopped over 562,000 fraudulent returns through fraud detection filters from being processed, preventing nearly $1.5 billion in improper EITC payments Continued to stop fraudulent EITC refund claims through Criminal Investigation (CI) division indictments. Through September 2014, CI issued 285 EITC Questionable Refund Program (QRP) scheme indictments with 262 convictions as well as 108 EITC Return Preparer indictments with 83 convictions.
- Sent approximately 97,000 letters to alert taxpayers that a qualifying child for the EITC claimed on their returns had also been claimed by another person
- Continued partnership with members of key tax software associations to reduce EITC errors, assist preparers in meeting their EITC due diligence requirements, and improve software for taxpayers completing their own returns
- Focused outreach and education efforts on EITC returns preparers to educate them on EITC and due diligence requirements. Over 14,500 preparers received a certificate of completion for the English and Spanish interactive EITC Due Diligence Training module. Additionally, with almost 11,000 preparers attending IRS Tax Forums, 38 percent attended our seminar on EITC due diligence, and 50 percent attended our seminar on refundable credits that also covered EITC due diligence. IRS also made presentations on due diligence at several large tax preparation firms' conventions and the Latino Tax Professionals Association.
- Held annual EITC Awareness Day. The IRS and its partners held over 200 events in both English and Spanish to promote the EITC. This year's events focused on increasing awareness among underserved populations and included focused compliance messages.

IV. Improper Payments Reporting

Treasury's only high-risk susceptible program is the Earned Income Tax Credit (EITC). EITC is also Treasury's only high-priority program, as designated by OMB, for reducing improper payments. Although high-priority programs are generally required to report reduction targets, setting improper payment reduction targets for this program does not create meaningful goals for Treasury. This is due to the complexity of the tax law around EITC and the significant annual turnover within the participating population. As an alternative, Treasury and OMB have collaborated on the development of a series of supplemental measures. These measures should provide a more nuanced assessment of the EITC program and of Treasury's efforts to limit improper payments than would be provided by standard reduction targets. Treasury has provided the following supplemental measures to OMB:

- 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, or recovered, by Treasury
- The number of Preparer Due Diligence Penalties Proposed, reflecting the effectiveness of Treasury 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 and are posted to the PaymentAccuracy.gov web site. The table below shows estimated values for these measures:

EITC Improper Payment Supplemental Measures

Measure		FY 2014 Value	FY 2013 Value
Annual Error Rate	Total Payments (Outlays)	$65.2 Billion	$60.3 Billion
	Improper Payments	$17.7 Billion	$14.5 Billion
Revenue Protected	Dollars	$6.4 Billion	$5.6 Billion
	Returns	2.3 Million	2.0 Million
Revenue Protected from Paid Preparer Treatments	Dollars	$365 Million	$511 Million
	Preparers	18,105	14,485
Preparer Due Diligence Penalties Proposed	Dollars	$39.1 Million	$18 Million
	Preparers	1,372	725

To help further address improper payments compliance and reporting, several legislative changes have been proposed for EITC. In the Fiscal Year 2015 Budget transmitted to Congress by the President, the following legislative authorities were proposed:

- Providing Treasury with the authority to correct erroneous claims detected through reliable data sources at the time a tax return is filed, before a refund claim is paid
- Requiring third parties such as employers to report salary and other data earlier in the year in order to improve Treasury's ability to validate legitimate claims and detect erroneous or fraudulent ones
- Increasing penalties for the use of stolen identities in making fraudulent claims, and increasing IRS access to the New Hires Database to identify identity theft
- Improving Treasury's ability to regulate tax preparers and detect unscrupulous behavior

- Simplifying certain rules to make it easier for taxpayers to understand and claim the EITC credit and for the IRS to administer it

These legislative proposals are intended to reduce improper payments under EITC and improve taxpayer and paid preparer compliance while minimizing taxpayer burden.

The following table provides the improper payment reduction outlook for the EITC:

Improper Payment (IP) Reduction Outlook
(Dollars in Billions)

Program	2013 EITC Claims	2013 IP%	2013 IP$	2014 EITC Claims	2014 IP %	2014 IP$	2015 Est. EITC Claims	2015 IP %	2015 IP$	2016 Est. EITC Claims	2016 IP %	2016 IP$	2017 Est. EITC Claims	2017 IP %	2017 IP$
EITC Upper Bound Estimate EITC Lower Bound	$ 60.3	25.9%	$ 15.6	$ 65.2	29.4%	$ 19.1	$ 64.8	29.4%	$ 19.0	$ 65.2	29.4%	$ 19.1	$ 66.5	29.4%	$ 19.5
Estimate Lower Bound Estimate	$ 60.3	22.1%	$ 13.3	$ 65.2	24.9%	$ 16.2	$ 64.8	24.9%	$ 16.1	$ 65.2	24.9%	$ 16.2	$ 66.5	24.9%	$ 16.6

Estimated Claims: Estimated total claims for the EITC are based on projections of EITC tax expenditures plus outlays as estimated by the Office of Tax Analysis within the Department of the Treasury, adjusted to account for the difference between taxpayer claims and accounts received by taxpayers due to return processing and enforcement.
IP % and IP $: These estimates follow the prior approach which provided a range for the error rate (%) and improper payments amounts ($).

V. Recapture of Improper Payments Reporting

In accordance with IPERA and OMB Circular No. A-123, Appendix C, Treasury performs and reports annually on its payment recapture program. During fiscal year 2014, Treasury issued contracts and other reviewed payments totaling approximately $8 billion. The amended act expanded the payment types reviewed beyond just contracts to include grants, benefits, loans, and miscellaneous payments.

Treasury's annual risk assessment process includes a review of pre-payment controls that minimize the likelihood and occurrence of improper payments. Treasury requires each bureau and office to conduct post-award audits and report on payment recapture activities, contracts issued, improper payments made, and recoveries achieved. Bureaus and offices may use payment recapture audit contingency firms to perform many of the steps in their payment recapture auditing program and identify candidates for payment recapture action. However, no Treasury bureaus used contractors to perform recapture activities for fiscal year 2014. Treasury employees performed this work.

Treasury considers both pre- and post-reviews to identify payment errors a sound management practice that should be included among basic payment controls. All Treasury bureaus have a process in place to identify improper payments during pre- and post-reviews. At times, bureaus may use the results of the Treasury IGs and GAO reviews to help identify payment anomalies and target areas for improvement. However, Treasury applies extensive payment controls at the time each payment is processed, making recapture activity minimal.

Payment Recapture Audit Reporting

Type of Payment	Amount Subject to Review for 2014 Reporting	Actual Amount Reviewed and Reported (2014)	Amount Identified for Recovery (2014)	Amount Recovered (2014)	% of Amount Recovered out of Amount Identified (2014)	Amount Outstanding (2014)	% of Amount Outstanding out of Amount Identified (2014)
Contracts	$ 5,778,168,574	$ 5,492,469,802	$ 3,590,125	$ 3,545,219	98.7	$ 44,906	1.2
Grants	$ 193,672,412	$ 193,672,412	$ 50,264	$ 50,264	100	$ 0	0
Benefits	$ 689,124,342	$ 5,489,503	$ 1,112,746	$ 1,030,074	92.6	$ 82,672	7.4
Loans	$ 13,690,678	$ 13,690,678	$ 0	$ 0	0	$ 0	0
Other	$ 1,053,424,886	$ 1,053,424,886	$ 809,895	$ 605,033	74.7	$ 196,026	24.2

Type of Payment	Amount Determined Not to be Collectable (2014)	% of Amount Determined Not to be Collectable out of Amount Identified (2014)	Amounts Identified for Recovery (2004-2013)	Amounts Recovered (2004-2013)	Cumulative Amounts Identified for Recovery (2004-2014)	Cumulative Amounts Recovered (2004-2014)	Cumulative Amounts Outstanding (2004-2014)	Cumulative Amounts Determined Not to be Collectable (2004-2014)
Contracts	$ 0	0	9,253,726	$ 7,859,610	$ 12,843,851	$ 11,475,728	$ 46,207	$ 75,130
Grants	$ 0	0	18,732,161	$ 17,278,355	$ 18,782,425	$ 18,782,425	$ 0	$ 0
Benefits	$ 0	0	1,669,073	$ 1,132,587	$ 2,781,819	$ 2,214,650	$ 504,587	$ 303,788
Loans	$ 0	0	0	$ 0	$ 0	$ 0	$ 0	$ 0
Other	$ 8,836	1.0	3,142,525	$ 2,999,430	$ 3,952,420	$ 3,623,662	$ 196,026	$ 10,439

During fiscal year 2014, Treasury determined that conducting a Payment Recapture Audit on the following six programs would not be cost-effective:

- Fiscal Service (FS) Debt Activity Programs
- FS Treasury Managed Accounts
- Treasury Executive Office for Asset Forfeiture
- Departmental Offices International Financial Institutions – International Assistance Programs
- Federal Financing Bank
- Office of Financial Stability

FS Debt Activity Programs continued to reflect a low level of risk in every group and payment type in fiscal year 2014.

FS - Treasury Managed Account disbursements are based on public law, adjudications, or payment certifications from federal agencies. Payments are made via the FS Secure Payment System (SPS).

The Treasury Executive Office for Asset Forfeiture's program payments to state and local law enforcement agencies are intergovernmental payments that represent a low risk of improper payment. In addition, the Treasury Executive Office of Asset Forfeiture staff reviews payments monthly for accuracy.

The Departmental Offices International Financial Institutions non-federal payments to the Multilateral Development Banks are submitted by either a voucher on a letter of credit administered by the Federal Reserve Bank of New York or through direct cash payments via the FS Secure Payment System. These payments present a low level of improper payment risk based on the number of payments annually and the quality of third party controls.

The FFB has an interagency agreement with the General Services Agency (GSA) to provide acquisition support. Invoices are paid through GSA's ITSS platform and are reviewed prior to payment by the task order COR. Contractor payments are paid through the GSA via the Intra-Governmental Payment and Collection Systems. The bureau's lone contractor bills FFB once a month. The effort required in performing the payment recapture audit would be significantly disproportionate to the low volume of invoices associated with a single vendor.

The OFS has in place extensive annual audit and testing procedures to monitor administrative and program payments for errors. These procedures have identified no significant erroneous payment issues or audit findings to date.

Based on the justifications submitted by the six Treasury programs, payment recapture audits for these programs were not deemed cost effective.

Payment Recapture Audit Targets

The payment recapture audit targets listed below are preliminary estimates developed by Treasury bureaus and offices based on historical performance and current payment recapture audit programs.

Type of Payment	2014 Amount Identified	2014 Amount Recovered	2014 Recovery Rate (%) (Amount Recovered/Amount Identified)	2015 Recovery Rate (%) Target	2016 Recovery Rate (%) Target	2017 Recovery Rate (%) Target
Contracts	$ 3,590,125	$ 3,545,219	98.7	85	85	85
Grants	$ 50,264	$ 50,264	100	85	85	85
Benefits	$ 1,112,746	$ 1,030,074	92.6	85	85	85
Loans	$ 0	$ 0	0	85	85	85
Other	$ 809,895	$ 605,033	74.7	85	85	85

Aging of Outstanding Overpayments

Type of Payment	CY* Amount Outstanding (0-6 months)	CY Amount Outstanding (6 months – 1 year)	CY Amount Outstanding (Over 1 year)
Contracts	$ 46,207	$ 0	$ 0
Grants	$ 0	$ 0	$ 0
Benefits	$ 63,565	$ 11,267	$ 429,755
Loans	$ 0	$ 0	$ 0
Other	$ 192,100	$ 3,926	$ 0

* CY = Current Year

Disposition of Recaptured Funds

Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of the Inspector General	Returned to Treasury
Contracts	$ 78,042	$ 0	$ 0	$ 3,538,080	$ 0	$ 0
Grants	$ 0	$ 0	$ 0	$ 1,504,070	$ 0	$ 0
Benefits	$ 0	$ 0	$ 0	$ 1,082,062	$ 0	$ 0
Loans	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Other	$ 61,712	$ 0	$ 0	$ 562,520	$ 0	$ 0

Overpayments Recaptured Outside of Payment Recapture Audit

Source of Recovery	Amount Identified CY	Amount Recovered CY	Amount Identified PY*	Amount Recovered PY	Cumulative Amount Identified (CY +PY)	Cumulative Amount Recovered (CY+PY)
Statistical Samples	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Do Not Pay Implementation	$ 30,824	$ 30,824	$ 12,149	$ 12,149	$ 42,973	$ 42,973
Post Payment Reviews or Audits	$ 75,475	$ 61,397	$ 84,417	$ 84,417	$ 159,892	$ 145,814
OIG Reviews	$ 0	$ 0	$ 7,331	$ 3,121	$ 7,331	$ 3,121
Single Audit Reports	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Self-Reported	$ 1,073,100	$ 984,810	$ 2,896,776	$ 2,896,776	$ 3,969,876	$ 3,881,586
Reports from Public	$ 133,341	$ 133,341	$ 40,200,764	$ 40,194,205	$ 40,334,105	$ 40,327,546

*PY = Prior Year

VI. Accountability

The Secretary of the Treasury 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 bureau's annual improper payment elimination and recovery review process, as required under A-123, Appendix C. Under Treasury Directive 40-04, ***Treasury Internal (Management) Control Program***, executives and other managers are required to have management control responsibilities as part of their annual performance plans. With oversight mechanisms such as the Treasury CFO Council and the Management Controls Executive Steering Committee, managerial responsibility and accountability in all management and internal control areas are visible and well-documented. Treasury has 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.

VII. Information Systems and other Infrastructure

Overall, Treasury has the internal controls, human capital, and information systems and other infrastructure it needs to reduce improper payments to the targeted levels.

VIII. Limiting Statutory and Regulatory Barriers

A number of factors continue to serve as barriers to reducing overclaims in the EITC program. These include:

- Complexity of the tax law (including the need for Congressional authorization of math error authority)
- Structure of the EITC
- Confusion among eligible claimants
- High turnover of eligible claimants
- Unscrupulous return preparers
- Fraud

No one of these factors can be considered the primary driver of program error. Furthermore, the interaction among the factors makes addressing the credit's erroneous claims rate, while balancing the need to ensure the credit makes its way to taxpayers who are eligible, extremely difficult.

Also, statutory requirements limit the IRS's ability to ensure that EITC claims are valid before they are paid. Since the EITC is administered through the Internal Revenue Code, it is claimed by taxpayers during the filing and processing of their tax returns. The Internal Revenue Code 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. For the majority of EITC returns, which tend to be filed early in the filing season, the IRS does not receive information to verify income reporting accuracy or other data needed to validate these EITC claims at the time of filing or within a reasonable period thereafter in which a taxpayer would expect their refund. The IRS faces further challenges when attempting to validate the EITC claims of filers with non-wage income. The requirements and expectations around the timely payment of refunds constrain the IRS' ability to conduct up-front verification of claims, which distinguishes 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.

IRS has worked with Treasury on the following proposals to help address EITC improper payments:

Fiscal Year 2014 Green Book Proposal

EITC 2 and 10 Year Bans: The proposal would allow IRS to use math error authority to disallow EITC claims for taxpayers that claim the credit during a period of disallowance under the two and ten year bans. In determining if math error authority is appropriate, the IRS considers administrative cost savings and efficiencies, compliance enhancements, taxpayer burden reduction, accuracy and consistency of third party data on which the proposal is based, simplicity and operational feasibility, and taxpayer rights.

Fiscal Year 2015 Green Book Proposal

Correctable Error Authority: The proposal would remove the existing specific grants of math error authority, and provide that "math error authority" will refer only to computational errors and the incorrect use of any table provided by the IRS. In addition, the proposal would add a new category of "correctable errors." Under this new category, Treasury would have regulatory authority to permit the IRS to correct errors in cases where (1) the information provided by the taxpayer does not match the information contained in government databases, (2) the taxpayer has exceeded the lifetime limit for claiming a deduction or credit, or (3) the taxpayer has failed to include with his or her return documentation that is required by statute. The proposal would be effective on the date of enactment. However, the IRS' current grant of math error authority would continue to apply until Treasury and the IRS issue final regulations addressing correctable errors.

This proposal will allow IRS to address more instances of improper claims with existing resources.

IX. Additional Comments

In fiscal year 2014, the OIG issued Report Number OIG-14-032, ***Treasury was Not in Compliance with IPERA for Fiscal Year 2013***, which covered the IPERA program as presented in Treasury's fiscal year 2013 Agency Financial Report. During fiscal year 2014, the Department continued to implement corrective actions to address the findings and recommendations in the OIG report.

X. Agency Reduction Of Improper Payments with the Do Not Pay Initiative

Treasury has mandated all bureaus use of the Do Not Pay system, with certain exemptions for particular payments within bureaus. Currently the Death Master File of the Social Security Administration (DMF) and System for Award Management (SAM) are the databases used for adjudication. Payments made by agency location codes are processed through the Do Not Pay system as part of normal processing to verify whether payments are proper. Certain bureaus within Treasury also have their own adjudication processes which help to verify Do Not Pay system generated results. Numerous bureaus within Treasury have

reported that they have not had to take any action as pre-screening requirements have also been implemented to eliminate expected findings via Do Not Pay. No corrections to original source agencies have been detected at this time.

	Number (#) of payments reviewed for Improper Payments	Dollars ($) of payments reviewed for Improper Payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of improper payments reviewed and not stopped	Dollars ($) of improper payments reviewed and not stopped
Reviews with DMF - Public	459,005	$ 6,081,475,060	NA	NA	0	$ 0
Reviews with SAM Exclusions - Public	2,021,530	$ 14,963,853,674	NA	NA	0	$ 0

- Payments reviewed for improper payments includes the total number of payments disbursed by the agency through the PACER payment system minus any payments that were excluded from matching due to (1) a missing or unmatchable TIN (DMF only) or (2) a missing name
- Payments stopped is currently not applicable since the Do Not Pay matching and adjudication process is based on post payment results
- Improper payments reviewed and not stopped includes the total number of matches identified by the Do Not Pay Initiative that were adjudicated as improper by the agency

During FY 2014, the Department of the Treasury continued to refine its use of the Do Not Pay system. Treasury expects the increasing use of Do Not Pay resources will help reduce or eliminate future improper payments.

Section F: Material Weaknesses and Audit Follow-Up

This section provides detailed descriptions of Treasury's material weakness inventory, including summaries of actions taken and planned to resolve the weaknesses; tracking and follow-up activities related to Treasury's GAO, OIG, TIGTA, and SIGTARP audit inventory; an analysis of potential monetary benefits arising from audits performed by Treasury's three IGs; and an update on Treasury's financial management systems framework.

Treasury's Material Weaknesses

Management may declare audit findings or internal situations as a material weakness whenever a condition exists that may jeopardize the Treasury mission or continued operations. The FMFIA requires agency reporting on material weaknesses.

FMFIA and FFMIA

The FMFIA requires agencies to establish and maintain internal controls. The Secretary must evaluate and report annually on the operational and financial reporting controls (FMFIA Section 2) and financial systems (FMFIA Section 4 and FFMIA) that protect the integrity of federal programs. 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, 2014, Treasury had two material weaknesses under Section 2 of the FMFIA, summarized as follows:

Summary of FMFIA Material Weaknesses	Section 2	Section 4	Total
Balance at the Beginning of Fiscal Year 2014	2	0	2
Closures/Downgrades during Fiscal Year 2014	0	0	0
Reassessed during Fiscal Year 2014	0	0	0
New Material Weakness Declared during Fiscal Year 2014	0	0	0
Balance at the End of Fiscal Year 2014	2	0	2

Below are detailed descriptions of Treasury's two material weaknesses:

Material Weakness Description	
Internal Revenue Service – Unpaid Tax Assessments The IRS needs to improve its internal control over Unpaid Assessments. Original key elements: • Subsidiary ledger does not track and report one Trust Fund Recovery Penalty (TFRP) balance • Untimely posting of TFRP assessments and untimely review of TFRP accounts • General ledger cannot accurately report the Taxes Receivable balance without a statistical estimation process An ongoing challenge is that the timely implementation of Customer Account Data Engine 2 (CADE2) Transition State 2 (TS2) and other Financial Material Weakness changes are dependent upon funding and resource availability.	
Actions Completed in FY 2014	**What Remains to be Done**
✓ Completed the fiscal year 2013 "After the Audit" report and issued the results to the Business Owners for follow-up and corrective action ✓ Completed the Automated Trust Fund Recovery (ATFR) Java conversion of transcripts for performing payment cross referencing from the PowerBuilder Server to the Web (Java) Application Servers. This change has increased the overall accuracy and timeliness of cross-referencing data resulting in CDDB being able to classify approximately 92 percent of the TFRP dollars correctly. GAO agrees that IRS has sufficiently addressed the two components of the material weakness related to the subsidiary ledger tracking and reporting on one TFRP balance, and timely posting of TFRP assessments and timely review of TFRP accounts in fiscal year 2014 ✓ The Project Management Office completed the CADE2 TS2 Release Plan ✓ Developed high-level milestones to leverage the CADE2 data	☐ Develop new action items to close the Material Weakness ☐ Implement CADE2 TS 2 Financial Material Weakness functionality by January 2018 ☐ Test for the downgrade of the Financial Material Weakness in fiscal year 2019 and request downgrade by GAO for fiscal year 2020 with a target completion date of November 30, 2020 ☐ Complete the downgrade and closure of the Material Weakness in fiscal year 2021

<table>
<tr><th colspan="2">Material Weakness Description</th></tr>
<tr><td colspan="2">Bureau of the Fiscal Service – Control Deficiencies in the Processes used to Prepare the Consolidated Government-wide Financial Statements

The government has control deficiencies in the processes used to prepare the Consolidated Government-wide Financial Statements. The control deficiencies contributed to the following material weaknesses:
• The federal government continues to be unable to adequately account for and reconcile intragovernmental activity and balances between federal entities
• The federal government continues to have inadequate systems, controls, and procedures to ensure that the consolidated financial statements are consistent with the underlying audited entity financial statements, properly balanced, and in accordance with U.S. generally accepted accounting principles
• Treasury and OMB continue to lack an effective process for ensuring the consistency of (1) information used by Treasury to compute the budget deficit reported in the consolidated financial statements, (2) Treasury's records of cash transactions, and (3) information reported in federal entity financial statements and underlying financial information and records</td></tr>
<tr><th></th><th></th></tr>
<tr><td>✓ Partially reconciled fiscal year 2013 operating revenues/expenses with budget receipts/outlays
✓ Developed analysis models for unreconciled transactions
✓ Identified intra-governmental differences and developed policies as well as procedures which included specific categories for the General Fund
✓ Identified reconciling categories for the General Fund
✓ Documented changes to identify material balances and activity from Reporting Entities as defined per the Financial Accounting Standards Advisory Board criteria</td><td>☐ Ensure all reconciling items are included on the Budget Statements and trace the data back to audited information
☐ Obtain auditable balances, processes, and underlying detail activity for the General Fund
☐ Implement additional controls to ensure data completeness in the preparation of the Consolidated Government-wide Financial Statements
☐ Targeted Downgrade/Closure: fiscal year 2016</td></tr>
</table>

II. Audit Follow-up Activities

During fiscal year 2014, Treasury continued to place emphasis on both the general administration of internal control issues throughout the Department and the timely resolution of findings and recommendations identified by GAO, OIG, TIGTA, SIGTARP, external auditors, and management. During the year, Treasury continued to implement enhancements to the tracking system called the "Joint Audit Management Enterprise System" (JAMES). JAMES is a Department-wide, interactive, web-based system accessible to management, OIG, TIGTA, SIGTARP, and others. The system tracks information on audit reports from issuance through completion of all corrective actions required to address findings and recommendations contained in an audit report. JAMES is the official system of record for Treasury's audit follow-up program.

Potential Monetary Benefits

The *Inspector General Act of* 1978, as amended, Public Law 95-452, requires the IGs and secretaries of executive agencies and departments to submit semiannual reports to the Congress on actions taken on audit reports issued that identify potential monetary benefits. The Department consolidates and analyzes all relevant information for inclusion in this report. The information contained in this section represents a consolidation of information provided separately by OIG, TIGTA, SIGTARP, and Treasury management.

In the course of their audits, the IGs periodically identify "questioned costs", recommend that funds be put to better use, enhancements to revenues of the federal government, and identify measures that demonstrate the value of audit recommendations to tax administration and business operations.

"Questioned costs" include a:

(1) Cost that is questioned because of an alleged violation of a provision of a law, regulation, contract, or other requirement governing the expenditure of funds

(2) Finding, at the time of the audit, that such costs are not supported by adequate documentation (i.e., an unsupported cost)

(3) Finding that expenditure of funds for the intended purpose is unnecessary or unreasonable

The phrase "disallowed cost" means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the federal government.

"Funds Put to Better Use" includes:

- Reductions in outlays
- Deobligations of funds from programs or operations
- Costs not incurred by implementing recommended improvements related to operations
- Avoidance of unnecessary expenditures noted in pre-award reviews of contract agreements
- Prevention of erroneous payment of refundable credits (e.g., the Earned Income Tax Credit)
- Any other savings that are specifically identified

"Revenue Enhancements" include opportunities to increase revenue to the federal government.

The Department regularly reviews progress made by the bureaus to realize potential monetary benefits identified in audit reports, and coordinates with the auditors as necessary to ensure the consistency and integrity of information on monetary benefit recommendations tracked in JAMES.

The statistical data in the following summary tables represent audit report activity for the period from October 1, 2013 through September 30, 2014. The data reflect information on OIG, TIGTA, and SIGTARP reports that identified potential monetary benefits.

Audit Report Activity With Potential Monetary Benefits for Which Management Has Identified Corrective Actions (OIG, TIGTA, and SIGTARP) October 1, 2013 through September 30, 2014 (Dollars in Millions)

	Disallowed Costs		Funds Put to Better Use		Revenue Enhancements		Total	
	Reports	Dollars	Reports	Dollars	Reports	Dollars	Report Total	Total Dollars
Beginning Balance	**11**	**$ 47.9**	**6**	**$ 5,888.4**	**10**	**$ 9,233.7**	**27**	**$ 15,170.0**
New Reports	6	6.6	12	8,735.5	6	494.2	24	9,236.3
Total	17	54.5	18	14,623.9	16	9,727.9	51	24,406.3
Reports Closed	6	2.0	10	8,681.6	11	1,471.3	27	10,154.9
a. Realized or Actual[1]	2	0.2	2	0.3	4	7.0	8	7.5
b. Unrealized or Written off[1]	4	1.8 [2]	8	8,681.3 [3]	11	1,464.3 [4]	23	10,147.4
Ending Balance	**11**	**$ 52.5**	**8**	**$ 5,942.3**	**5**	**$ 8,256.6**	**24**	**$ 14,251.4**

[1] *Report numbers in categories a and b may not equal the Reports Closed. One report can be included in one or both categories.*

[2] *This figure includes one TIGTA report, with $0.2 million written off, for which TIGTA disagreed that the benefit has not been realized because the IRS did not have a method available to quantify the monetary benefit.*

[3] *This figure includes five TIGTA reports, with $8.7 billion written off, for which IRS management disagreed with TIGTA's projected benefits; and one TIGTA report with $0.7 million written off, for which TIGTA disagreed with the write off. TIGTA disagreed with the write off because at the time the IRS completed the corrective action, not enough time had passed for the IRS to realize the potential monetary benefit.*

[4] *This figure includes six TIGTA reports, with $1.3 billion written off, for which IRS management disagreed with TIGTA's projected benefits or recommendation; and one TIGTA report, with $1.6 million written off, for which TIGTA disagreed with the write off. TIGTA disagreed with the write off because at the time the IRS completed the corrective action, not enough time had passed for the IRS to realize the potential monetary benefits.*

The following table presents a summary of OIG, TIGTA, and SIGTARP audit reports with potential monetary benefits that were open for more than one year as of the end of fiscal years 2012, 2013, and 2014.

Number of Reports with Potential Monetary Benefits Open for More than One Year (Dollars In Millions)

	AFR Report Year	9/30/2012	9/30/2013	9/30/2014
OIG	No. of Reports	0	0	0
	$ Projected Benefits	$ 0	$ 0	$ 0
TIGTA	No. of Reports	9	7	12
	$ Projected Benefits	$ 10,018.5	$ 39.2	$ 14,038.0
SIGTARP	No. of Reports	2	2	1
	$ Projected Benefits	$ 8.7	$ 8.7*	$ 8.1

*Ending balance adjusted for prior year

The following table presents a summary of the audit reports containing potential monetary benefits, broken out by year of report issuance, on which management decisions were made on or before September 30, 2013, but the final actions had not been taken as of September 30, 2014.

Details of the Audit Reports with Potential Monetary Benefits on Which Management Decisions Were Made On or Before September 30, 2013, But Final Actions Have Not Been Taken as of September 30, 2014 (Dollars In Millions)

Bureau	Report No.	Report Issue Date	Brief Description	Dis-allowed Costs	Funds Put to Better Use	Revenue Enhance-ment	Total	Due Date
IRS	2011-1c-080	8/23/2011	The IRS should use the Defense Contract Audit Agency (DCAA) report in the administration of the contract and determine whether the questioned costs should be recovered.	0.09	-	-	0.09	8/31/2016
IRS	2011-1c-122	9/28/2011	The IRS should use the DCAA report in the administration of the contract and determine whether the questioned costs should be recovered.	28.57	-	-	28.57	9/30/2016
OFS	SIG-AR-11-004	9/28/2011	OFS should determine whether the questioned, unsupported legal fees and expenses paid to specified law firms are allowable.	8.07	-	-	8.07	11/10/2014
FY 2011	**3**			**$36.73**	**$0**	**$0**	**$36.73**	
IRS	2012-1c-003	12/02/2011	The IRS should use the DCAA report in the administration of the contract and determine whether the questioned costs should be recovered.	0.02	-	-	0.02	12/02/2016
IRS	2012-1c-032	3/19/2012	The IRS should use the DCAA report in the administration of the contract to determine whether the questioned costs should be recovered.	7.42	-	-	7.42	3/31/2017
IRS	2012-1c-079	8/17/2012	The IRS should use the DCAA report in administering and closing out contracts.	1.48	-	-	1.48	8/07 /2017
FY 2012	**3**			**$8.92**	**$0**	**$0**	**$8.92**	

Bureau	Report No.	Report Issue Date	Brief Description	Dis-allowed Costs	Funds Put to Better Use	Revenue Enhance-ment	Total	Due Date
IRS	2013-1c-001	3/18/2013	The IRS should use the DCAA report in administering and closing out contracts.	0.33	-	-	0.33	3/18/2018
IRS	2013-20-013	6/10/2013	The IRS should ensure that the Enterprise Computing Center (ECC) – Detroit is consolidated into the Martinsburg and Memphis ECCs.	-	60.00	-	60.00	4/25/2015
IRS	2013-30-077	8/27/2013	The IRS should develop and implement procedures in the Internal Revenue Manual that instruct how current year correspondence audit results are to be used in deciding whether the prior and/or subsequent year tax warrant an audit.	-	-	69.40	69.40	6/15/2015
IRS	2013-40-122	9/20/2013	To reduce the potential for tax filing fraud, the IRS should implement a process to deactivate ITINs assigned to individuals prior to January 1, 2013, who no longer have a tax filing requirement.	-	1,883.24	-	1,883.24	6/15/2017
IRS	2013-40-120	9/23/2013	The IRS should update fraud filters to include use of business tax return filing and withholding payment data to identify potentially fraudulent tax returns that use a falsely obtained employee identification number to report income and withholding.	-	3,894.10	-	3,894.10	1/15/2016
IRS	2013-40-123	9/26/2013	The IRS should develop processes and procedures to enable Campus Operations to assess the erroneous refund penalty for disallowed credit claims that are excessive and do not have a reasonable basis.	-	-	7,550.48	7,550.48	9/15/2015

Bureau	Report No.	Report Issue Date	Brief Description	Dis-allowed Costs	Funds Put to Better Use	Revenue Enhance-ment	Total	Due Date
IRS	2013-40-130	9/26/2013	The IRS should develop a process to ensure that the amount of tax withheld is remitted and this process should also include the identification of withholding agents that are delinquent in filing Forms 1042.	-	-	542.89	542.89	4/15/2015
FY 2013	**7**			**$0.33**	**$5,837.34**	**$8,162.77**	**$14,000.44**	
Total	**13**			**$45.98**	**$5,837.34**	**$8,162.77**	**$14,046.09**	

The following table provides a snapshot of OIG and TIGTA audit reports with significant recommendations reported in previous semiannual reports for which corrective actions had not been completed as of September 30, 2013 and September 30, 2014, respectively. OIG and TIGTA define "significant" as any recommendation open for more than one year. There were no "Undecided Audit Recommendations" during the same periods.

Audit Reports with Significant Unimplemented Recommendations				
	9/30/2013		9/30/2014	
	OIG	TIGTA	OIG	TIGTA
No. of Reports	6	25	5	26

The following table provides a snapshot of the number of recommendations made in SIGTARP audit reports and quarterly reports for which corrective actions had not been completed as of September 30, 2013 and September 30, 2014, respectively. SIGTARP defines a recommendation as "unimplemented" if it is listed as "partially implemented," "in process," or "not implemented" in SIGTARP's quarterly report.

Unimplemented SIGTARP Recommendations		
	9/30/2013	9/30/2014
No. of Unimplemented Recommendations	15	19

SECTION G: FREEZE THE FOOTPRINT

One of the Department's key goals is the efficient and effective acquisition, utilization, management, and disposal of Departmental real property assets. Under the direction of the Treasury's Assistant Secretary for Management (ASM), the Department's Senior Real Property Officer (SRPO) is responsible for ensuring that appropriate Departmental procedures, reviews, and reporting requirements are developed and maintained in accordance with Departmental directives, and applicable OMB and GSA regulations that pertain to the acquisition, utilization and disposal of real property.

The SRPO is responsible for tracking the Department's real property square footage footprint, and developing the annual agency evaluation of the Department's compliance for the implementation of the Freeze the Footprint Policy. Under current Departmental directives, bureaus may not pursue any new lease space acquisitions without the approval of the ASM's office. To ensure the optimal utilization of the Department's existing space inventory and to achieve real property cost saving and footprint reductions, all bureaus are directed to pursue consolidation or co-location opportunities into existing inventory before pursuing any new space acquisitions.

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

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

The Department's total square footage and related operation and maintenance costs associated with real property assets subject to the "Freeze the Footprint" policy (from the latest available reporting year of 2013) compared to the Department's fiscal year 2012 "Freeze the Footprint" baseline (as assigned by GSA) were as follows (in millions):

	2012 (Baseline)	2013	Change
Square Footage (SF in millions)	30.0	29.0	(1.0)
Operation and Maintenance Costs ($ in millions)	$ 835.8	$ 827.5	$ (8.3)

APPENDIX:
GLOSSARY OF ACRONYMS

Glossary of Acronyms	
2D	Two Dimension
ACA	Affordable Care Act
ACTC	Additional Child Tax Credit
ACH	Automated Clearinghouse
ACS	Automated Collection System
AFR	Agency Financial Report
AGI	Adjusted Gross Income
AIFP	Automotive Industry Financing Program
AIG	American International Group, Inc.
AML	Anti-Money Laundering
AOTC	American Opportunity Tax Credit
APR	Annual Performance Report
AQC	Automated Questionable Credit
ARC	Administrative Resource Center
ARM	Area Records Manager
ASM/CFO	Assistant Secretary for Management & Chief Financial Officer
ATFR	Automated Trust Fund Recovery
BEP	Bureau of Engraving and Printing
BMF	Business Master File
BOLO	Be on the Lookout
BPD	Bureau of the Public Debt
BSA	Bank Secrecy Act
CADE2	Customer Account Data Engine
CAU	Caution Upon Contact
CCIWG	Cybersecurity and Critical Infrastructure Working Group
CCU	Campus Compliance Unit
CDCI	Community Development Capital Initiative
CDDB	Custodial Detail Database
CDFI	Community Development Financial Institutions
CDLF	Community Development Loan Fund
CDM	Continuous Diagnostics and Mitigation
CFIUS	Committee on Foreign Investment in the United States
CFO	Chief Financial Officer
CFOV	CFO Vision Software
CFS	Consolidated Financial Statements
CGAC	Common Government-wide Accounting Classification
CI	Criminal Investigation
CIG	Cyber Intelligence Group
CIGFO	Council of Inspectors General on Financial Oversight
COR	Contracting Officer's Representative
COSO	Committee of Sponsoring Organizations of the Treadway Commission
COTS	Commercial off-the-shelf

Glossary of Acronyms	
CPI	Consumer Price Index
CPP	Capital Purchase Program
CRG	Cyber Response Group
CSRS	Civil Service Retirement System
CY	Calendar Year
DATA	Digital Accountability and Transparency Act
DCAA	Defense Contract Audit Agency
DCFO	Deputy Chief Financial Officer
DDV	Due Diligence Visit
DHS	Department of Homeland Security
DISP	Debt Issuance Suspension Period
D.C.	District of Columbia
DMF	Death Master File of the Social Security Administration
DO	Departmental Offices
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOL	Department of Labor
DPB	Direct Pay Bonds
EAGER	Early-concept Grants for Exploratory Research
ECC	Enterprise Computing Center
EESA	Emergency Economic Stabilization Act of 2008
EF	Entity Fabrication
EFP	Electronic Filing PIN
EFT	Electronic Funds Transfer
EGRPRA	Economic Growth and Regulatory Paperwork Reduction Act
EITC	Earned Income Tax Credit
EO	Exempt Organization
ERM	Enterprise Risk Management
ESA	Exchange Stabilization Agreement
ESF	Exchange Stabilization Fund
EU	European Union
Fannie Mae	Federal National Mortgage Association
FAR	Federal Acquisition Regulation
FARS	Financial Analysis and Reporting System
FASAB	Federal Accounting Standards Advisory Board
FATCA	Foreign Account Tax Compliance Act
FCDA	Foreign Currency Denominated Assets
FCRA	Federal Credit Reform Act
FDC	Funds from Dedicated Collections
FDIC	Federal Deposit Insurance Corporation
FECA	Federal Employees' Compensation Act
FEHBP	Federal Employees Health Benefits Program
FEGLI	Federal Employees Group Life Insurance
FERS	Federal Employees' Retirement System
FEVS	Federal Employee Viewpoint Survey
FFB	Federal Financing Bank

Glossary of Acronyms	
FFIEC	Federal Financial Institutions Examination Council
FFMIA	Federal Financial Management Improvement Act of 1996
FHFA	Federal Housing Finance Agency
FinCEN	Financial Crimes Enforcement Network
FIO	Federal Insurance Office
FIRPTA	Foreign Investment in Real Property Tax Act of 1980
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management Service
FMU	Financial Market Utilities
FOMC	Federal Open Market Committee
FRAC	Financial Research Advisory Committee
FRB	Federal Reserve Bank
FRBNY	Federal Reserve Bank of New York
FRN	Floating Rate Note
FR System	Federal Reserve System
Freddie Mac	Federal Home Loan Mortgage Corporation
FS	Fiscal Service
FS-ISAC	Financial Services Information Sharing and Analysis Center
FSB	Financial Stability Board
FSOC	Financial Stability Oversight Council
FSSCC	Financial Services Sector Coordinating Council for Critical Infrastructure Protection
FTO	Fine Troy Ounce
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAB	General Arrangements to Borrow
GAO	U.S. Government Accountability Office
GIIN	Global Intermediary Identification Number
GLC	Geographic Leadership Community
GRC	Governance, Risk, and Compliance
GSA	General Services Administration
GSE	Government Sponsored Enterprise
GTAS	Government-wide Treasury Account Symbol Adjusted Trial Balance System
GTO	Geographic Targeting Order
HERA	Housing and Economic Recovery Act
HFA	Housing Finance Agency
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
IA	International Affairs
IAIS	International Association of Insurance Supervisors
IAP	International Assistance Program
IC	Intelligence Community
ICD	Interagency Currency Design
ICMM	International Compliance Management Model
IDES	International Data Exchange Service

Glossary of Acronyms	
IDRS	Integrated Data Retrieval System
IFI	International Financial Institution
IFR	Independent Foreclosure Review
IGA	Intergovernmental Agreement
IMF	International Monetary Fund
IP	Improper Payment
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act
IPO	Initial Public Offering
IPP	Invoice Processing Platform
IP PIN	Identity Protection Personal Identification Number
IRC	Internal Revenue Code
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
IRTF	Individual/Information Returns Transaction File
ISCM	Information Security Continuous Monitoring
ISIL	Islamic State of Islam and Levant
ISRP	Individual Shared Responsibility Payment
IT	Information Technology
ITIN	Individual Taxpayer Identification Number
ITSS	Information Technology Solutions Shop
JAMES	Joint Audit Management Enterprise System
KTV	Knock and Talk Educational Visits
LEI	Legal Entity Identifiers
LIBOR	London Interbank Offered Rate
LSR	Leadership Succession Review
LSS	Lean Six Sigma
MBS	Mortgage-Backed Security
MDB	Multilateral Development Bank
MOU	Memoranda of Understanding
MRADR	Market Risk Adjusted Discount Rate
MSB	Money Service Businesses
MSS	Manufacturing Support Suite
MTM	Mark- to- Market
NAB	New Arrangements to Borrow
NACA	Native American CDFI Assistance
NAFA	North American Framework Agreement
NARA	National Archives and Records Administration
NIBP	New Issue Bond Program
NIST	National Institute of Standards and Technology
NMTC	New Markets Tax Credit
NOAA	National Oceanic and Atmospheric Administration
NPRM	Notice of Proposed Rulemaking
NRP	National Research Program

Glossary of Acronyms	
NSC	National Security Council
NTA	National Taxpayer Advocate
NYSE	New York Stock Exchange
OAS	Office of International Affairs
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
OIA	Office of Intelligence and Analysis
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPEB	Other Post-Employment Benefits
OPM	Office of Personnel Management
ORB	Other Retirement Benefits
OTA	Office of Technical Assistance
OTC	Over-The-Counter
OTS	Office of Thrift Supervision
P&I	Penalty & Interest
PAPRS	Portfolio Analysis and Performance Reporting System
PB	President's Budget
PDBP	Pentegra Defined Benefit Plan
PDT	Potentially Dangerous Taxpayer
P.L.	Public Law
PP&E	Property, Plant, and Equipment
PPD	Presidential Policy Directive
PPIF	Public-Private Investment Fund
PPIP	Public-Private Investment Program
PSEP	Physical Security and Emergency Preparedness
PTIN	Preparer Tax Identification Number
PY	Processing Year
QFI	Qualified Financial Institution
QPR	Quarterly Performance Review
RESTORE Act	Resources and Ecosystems Sustainability, Tourist Opportunities and Revived Economies of the Gulf Coast States Act of 2012
ROI	Return on Investment
ROC	Recovery Operations Center
RRA 98	IRS Restructuring and Reform Act of 1998
RRP	Return Review Program
RTC	Resolution Trust Corporation
S&ED	Strategic and Economic Dialogue
SAM	System for Award Management
SAR	Suspicious Activity Report
SBA	Small Business Administration
SBLF	Small Business Lending Fund
SBR	Statement of Budgetary Resources

Glossary of Acronyms	
SDR	Special Drawing Rights
SEC	Securities and Exchange Commission
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
SIGTARP	Special Office of Inspector General for the Troubled Asset Relief Program
SOAR	Strategic Objective Annual Review
SOMA	System Open Market Account
SOS	Schedule of Spending
SPS	Secure Payment System
SPSPA	Senior Preferred Stock Purchase Agreements
SRPO	Senior Real Property Officer
SSBCI	State Small Business Credit Initiative
SSN	Social Security Number
STIF	Short – term Investment Fund
TAC	Taxpayer Assistance Center
TALF	Term Asset-Backed Securities Loan Facility
TARP	Troubled Asset Relief Program
TCLP	Temporary Credit and Liquidity Program
TFF	Treasury Forfeiture Fund
TFFC	Office of Terrorist Financing and Financial Crimes
TFI	Terrorism and Financial Intelligence
TFRP	Trust Fund Recovery Penalty
TFS	TIER Financial Statements
TFWG	Terrorist Financing Working Group
TGA	Treasury General Account
TIER	Treasury Information Executive Repository
TIGTA	Treasury Inspector General for Tax Administration
TIPS	Treasury Inflation-Protected Securities
TP	Tax Policy
TRIA	Terrorism Risk Insurance Act
TS1	Transition State 1
TS2	Transition State 2
TSP	Thrift Savings Plan
TTB	Alcohol and Tobacco Tax and Trade Bureau
TY	Tax Year
UA	Unpaid Tax Assessments
UBI	Unrelated Business Income
UIC	Unemployment Insurance Compensation
ULI	Universal Loan Identifier
USIS	US Investigation Services
USC	United States Code
USPS	United States Postal Service
USSGL	United States Standard General Ledger
USTR	U.S. Trade Representative
VRDO	Variable-Rate Demand Obligation

Glossary of Acronyms	
VSBTW	Virtual Small Business Tax Workshop
VSD	Virtual Service Delivery
WMD	Weapons of Mass Destruction

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Website Information

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