Audit Report

OIG-25-009

FINANCIAL MANAGEMENT

Audit of the Department of the Treasury's Consolidated Financial Statements for Fiscal Years 2024 and 2023

November 15, 2024

Office of Inspector General
Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D. C. 20220

November 15, 2024

OFFICE OF
INSPECTOR GENERAL

INFORMATION MEMORANDUM FOR SECRETARY YELLEN

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

SUBJECT: Audit of the Department of the Treasury's Consolidated Financial Statements for Fiscal Years 2024 and 2023

INTRODUCTION

The Chief Financial Officer's Act, as amended, requires the Department of the Treasury's (Treasury) Inspector General or an independent auditor, as determined by the Inspector General, to audit Treasury's consolidated financial statements. We contracted with the certified independent public accounting firm KPMG LLP (KPMG) to audit the consolidated financial statements of Treasury as of September 30, 2024 and 2023, and for the years then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*.

RESULTS OF INDEPENDENT AUDIT

In its audit of Treasury, KPMG reported

- the consolidated financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- a significant deficiency in internal control over financial reporting at the Internal Revenue Service representing a significant deficiency for Treasury as a whole;
- noncompliance with certain requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA) related to federal financial management systems requirements; and
- no instances of reportable noncompliance with laws, regulations, contracts and grant agreements tested.

EVALUATION OF AUDITORS' PERFORMANCE

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on Treasury's consolidated financial statements; conclusions about the effectiveness of internal control; whether Treasury's financial management systems substantially complied with FFMIA; and compliance with laws, regulations, contracts, and grant agreements. KPMG is responsible for the attached auditor's report dated November 15, 2024, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

I appreciate the courtesy and cooperation extended to KPMG and my staff during the audit. If you wish to discuss this report, please contact me at (202) 528-8997 or Deborah L. Harker, Assistant Inspector General for Audit, at (202) 486-1420.

Attachment

cc: Aditi S. Hardikar
Assistant Secretary for Management

Carole Y. Banks
Deputy Chief Financial Officer

SECTION I –

Independent Auditors' Report and Management's Response

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

Independent Auditors' Report

Acting Inspector General
Department of the Treasury

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Department of the Treasury (Department), which comprise the consolidated balance sheets as of September 30, 2024 and 2023, and the related consolidated statements of net costs, consolidated statements of changes in net position, statements of custodial activity, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, based on our audits and the reports of the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Department as of September 30, 2024 and 2023, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

We did not audit the financial statements of the Internal Revenue Service (IRS), a component entity of the Department, which statements reflect total assets constituting 0.53 percent and 0.74 percent, respectively, of the Department's consolidated total assets at September 30, 2024 and 2023; net costs of operations constituting 23.48 percent and 20.04 percent, respectively, of the Department's consolidated net costs of operations for the years then ended; budgetary resources constituting 4.32 percent and 6.86 percent, respectively, of the Department's combined budgetary resources for the years then ended; and custodial revenue constituting 99.38 percent and 99.34 percent, respectively, of the Department's total custodial revenue for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for IRS, is based solely on the report of the other auditors.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-02 are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 11, the Department is a participant in transactions with certain entities as part of significant legislation whose purpose is to assist in stabilizing the financial markets. Also as discussed in Note 1AB, the U.S. government's interventions with regards to these entities are not expected to be permanent. Furthermore, as discussed in Notes 1V and 11, the value of certain investments and commitments is based on estimates. These estimates are inherently subject to substantial uncertainty arising from the likelihood of future changes in general economic, regulatory, and market conditions. As such, there will likely be differences between the estimated value of these investments and commitments as of September 30, 2024 and 2023, and the amounts that may ultimately be realized from these investments or may be required to settle these commitments. Such differences may be material and will also affect the ultimate cost of these programs. Our opinion is not modified with respect to these matters.

Other Matter - Interactive Data

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

Responsibilities of Management for the Consolidated Financial Statements

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-02 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-02, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

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

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

Report on Internal Control Over Financial Reporting

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

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2024, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We, and the other auditors, did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Significant Deficiency in Internal Control Over Financial Reporting at the Internal Revenue Service

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

During fiscal year 2024, the systems IRS uses to account for federal taxes receivable and other unpaid assessment balances continued to have limitations. Because of these limitations, IRS's systems were unable to provide the timely, reliable, and complete transaction-level financial information necessary to enable IRS to appropriately classify and report unpaid assessment balances. As in prior years, IRS used a manually driven statistical estimation process to compensate for the effects of its system limitations and other deficiencies on a material portion of its federal taxes receivable balance to help ensure that this balance was free from material misstatement. During fiscal year 2024, IRS recorded adjustments totaling about $14.3 billion to correct the effects of continued errors in its underlying data that it identified during its estimation process.

While using this process to determine a material portion of taxes receivable has enabled IRS to produce reliable related balances for year-end reporting, it does not provide IRS management with readily available, reliable unpaid assessment information daily throughout the year for effectively managing unpaid assessment balances. Further, these limitations led to errors in taxpayer accounts, which create a burden for those taxpayers whose accounts were affected.

Recommendation

The other auditors separately provided IRS management a report detailing the conditions identified and their recommendations to address the above significant deficiency. We recommend that the Assistant Secretary for Management (ASM) and Deputy Chief Financial Officer (DCFO) ensure that IRS implements corrective actions to resolve the significant deficiency at IRS.

Report on Compliance and Other Matters

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

As part of obtaining reasonable assurance about whether the Department's consolidated financial statements as of and for the year ended September 30, 2024 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our and those of the other auditors' tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-02.

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

Noncompliance with Federal Financial Management Improvement Act of 1996

As a result of the significant deficiency in internal controls over unpaid assessments that existed during fiscal year 2024, the Department's financial management systems did not substantially comply with the federal financial management systems requirements. Specifically, the Department did not consistently design, implement, and operate information system controls in accordance with the federal financial management system requirements.

Recommendation

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

Department's Response to Findings

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

Purpose of the Other Reporting Required by *Government Auditing Standards*

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 15, 2024

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

November 15, 2024

KPMG LLP
1801 K Street, NW
Washington, DC 20006

To Whom This May Concern:

On behalf of Secretary Yellen, we are responding to your audit report on the Department of the Treasury's fiscal year 2024 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 25th consecutive year.

The high level of professionalism, technical expertise, and integrity demonstrated by KPMG LLP in conducting this year's audit contributed greatly to Treasury's successful fiscal year 2024 results. We also appreciate the expertise and commitment demonstrated by the other organizations involved in the audit process - the Office of Inspector General, Government Accountability Office, and the firms that audited several of our bureaus.

Overall, we have made significant progress in enhancing our internal control environment this year, successfully downgrading a major component of our long-standing significant deficiency related to the Internal Revenue Service (IRS)'s information system controls. We acknowledge the remaining component of the IRS's significant deficiency related to unpaid assessments, concur with your recommendations, and will maintain our focus on necessary corrective actions to address these issues.

We are very proud of our progress and remain committed to ensuring high standards of integrity and transparency in reporting our financial performance.

Aditi Hardikar	Carole Y. Banks
Assistant Secretary for Management	Deputy Chief Financial Officer

SECTION II –

Department of the Treasury
Agency Financial Report
Fiscal Year 2024

The Memorandum for the Secretary, the Independent Auditors' Report, and Management's Response are also included in the following Agency Financial Report on pages 53-61.

DEPARTMENT OF THE TREASURY

AGENCY FINANCIAL REPORT

FY2024

WEBSITE INFORMATION

Treasury .... www.treasury.gov

Alcohol and Tobacco Tax and Trade Bureau .... www.ttb.gov

Bureau of Engraving & Printing .... www.bep.gov

Bureau of the 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

Office of Inspector General .... www.treasury.gov/oig

Treasury Inspector General for Tax Administration .... www.tigta.gov

Special Inspector General for Pandemic Recovery .... www.sigpr.gov

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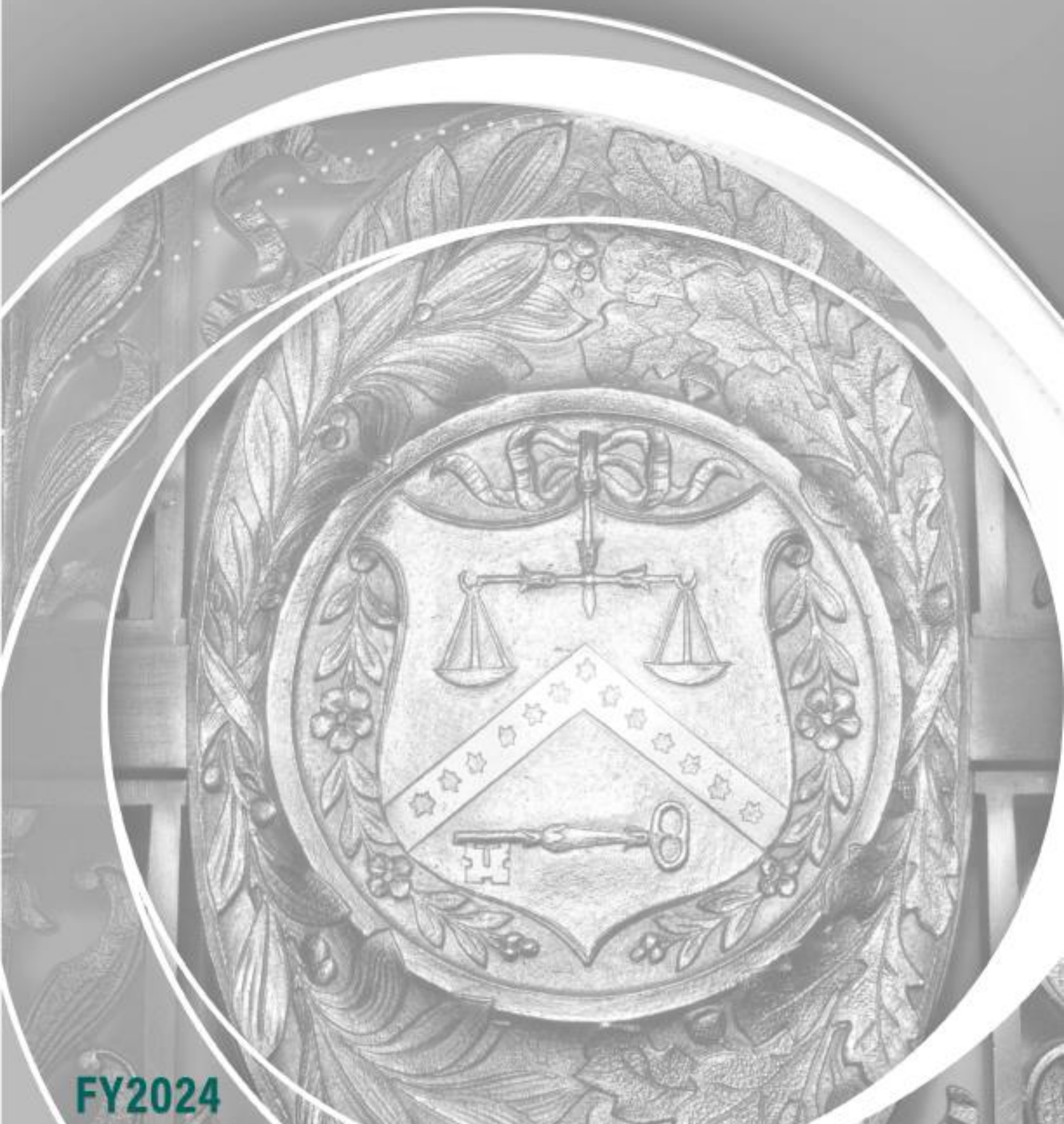
Instagram
www.instagram.com/treasurydept

YouTube
U.S. Department of the Treasury YouTube

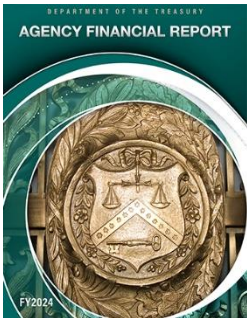
DEPARTMENT OF THE TREASURY

AGENCY FINANCIAL REPORT



FY2024

About This Report



Our *Agency Financial Report* (AFR) for Fiscal Year (FY) 2024 presents the Department of the Treasury's (Treasury, Department, or our) financial information in relation to our mission and the resources entrusted to us. The AFR also highlights our priorities, accomplishments, and challenges implementing programs that promote conditions for sustaining economic growth and stability at home and abroad, protecting the integrity of our nation's financial system, and effectively managing the United States (U.S.) government's finances and resources. In accordance with the Office of Management and Budget's (OMB) Circular A-136, *Financial Reporting Requirements,* we produce the following reports: *(i)* an *AFR* issued on November 15, 2024, and *(ii)* an *Annual Performance Report* (APR) submitted with our congressional budget justification, to be issued by February 1, 2025. The AFR will be available online at https://home.treasury.gov/about/budget-financial-reporting-planning-and-performance/agency-financial-report. The APR will be available online at https://www.treasury.gov/about/budget-performance/Pages/cj-index.aspx.

How This Report Is Organized

Our AFR provides financial and performance information for the FY beginning October 1, 2023, and ending on September 30, 2024, with comparative prior year data, where appropriate. The AFR demonstrates our commitment to our mission and accountability to Congress and the American people. This report presents Treasury's operations, accomplishments, and challenges. The AFR begins with a message from the Secretary of the Treasury, Janet L. Yellen. This introduction is followed by three main sections.

Part 1: Management's Discussion and Analysis

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

Part 2: Financial Section

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

Part 3: Other Information

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

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MESSAGE FROM THE SECRETARY OF THE TREASURY

MISSION STATEMENT

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

This year's Agency Financial Report provides an opportunity to reflect on the Treasury Department's progress in achieving our mission.

As detailed in recent Agency Financial Reports, the Treasury Department played a crucial role in helping drive a historic economic recovery from the COVID-19 pandemic. When President Biden and Vice President Harris took office, thousands of Americans were dying each day and the unemployment rate was above 6 percent. We knew we needed to act decisively to support American lives and livelihoods and to protect our economy. The *American Rescue Plan* did just that, providing direct financial support to households and fiscal relief to local, state, Tribal, and territorial governments. Treasury has played a key role in supporting its implementation, from allocating funds to providing technical assistance.

These actions contributed to an economic recovery that was both historically fast and historically equitable. The U.S. labor market recovered faster than in previous recessions. Economic growth significantly surpassed private sector predictions of a modest recovery. The Black unemployment rate reached a historic low last year. The gap between urban and rural unemployment rates has been eliminated. Americans in the lowest earning deciles have seen the largest percentage increases in wages.

As our recent Agency Financial Reports also showcase, Treasury has been equally key to crafting and implementing an economic strategy for the medium and long term. Building on our economic recovery, we have doubled down on a strategy I have called modern supply-side economics, focused on increasing our economy's long-run potential output. We have been tackling challenges that have been mounting for decades, including using all the tools at our disposal to increase the supply of housing. Through a trifecta of historic legislation—the *Bipartisan Infrastructure Law*, the *CHIPS and Science Act*, and the *Inflation Reduction Act*—we are fueling investments in infrastructure, clean energy, and advanced manufacturing, as well as in worker training so Americans are equipped for jobs in cutting-edge industries.

Investments are especially going to people and places that had not historically benefitted from investment, including counties with college graduation rates and median incomes below the U.S. national average rates. Thanks to the *Inflation Reduction Act*, we have also made significant progress transforming the Internal Revenue Service. We have seen drastic improvements in customer service and new tools such as Direct File—an easy, free, secure way to file your taxes online directly with the IRS—as well as successful enforcement actions against taxpayers who had not filed their taxes in years.

As detailed in this report, as we have laid the foundation for strong and inclusive growth, we have also recognized that a resilient financial system is key to a resilient economy. Treasury has pursued wide-ranging actions to strengthen the U.S. financial system, including in response to evolving risks, as well as broader actions to protect our national security.

We also continue to recognize that the strength of the U.S. economy and U.S. financial system depend not only on our actions at home, but on global engagement. U.S. economic leadership is essential to tackle global challenges from—climate change, to pandemics and other global health emergencies, to conflict and fragility—so Treasury has made deepening economic ties with countries around the world and working multilaterally, including through the international financial institutions, a top priority.

As for our financial performance, I am very pleased to report that Treasury has received an unmodified audit opinion of our consolidated financial statements for Fiscal Year 2024. Based on our internal evaluation, our financial and performance data have been validated as complete and reliable.

Janet L. Yellen

Janet L. Yellen
Secretary of the Treasury
November 15, 2024

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PART 1:

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

TREASURY AT A GLANCE

FOUNDATION

After the American Revolution, Congress realized that funding a war without proper infrastructure and financial discipline presented an enormous challenge to our country's economic stability. Out of the necessity to levy and collect taxes and manage the U.S. government's finances, Congress established the Department of the Treasury on September 2, 1789. President George Washington appointed Alexander Hamilton as Treasury's first Secretary. Since then, more than 70 Secretaries have led the Department.

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

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

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

TODAY'S TREASURY AND HOW WE SERVE THE NATION

Treasury is responsible for the nation's debt management, cash production, disbursement of Social Security benefit payments, tax collection, and federal agency financing. We are a trusted policy advisor to the President, formulating and recommending domestic and international financial, economic, and tax policies. Our contributions to policy development shape America's economic health and security.

We also perform a critical and far-reaching role in enhancing national security by targeting rogue regimes, terrorist networks, and other illicit actors. We do this by deploying our national security tools and authorities—including sanctions—to identify, disrupt, and dismantle national security and foreign policy threats, while also protecting the U.S. and international financial system from abuse by illicit actors.

We also leverage our relationships with our federal partners and work closely with the private sector to develop strategies to identify, detect, and prevent threats to our economic stability.

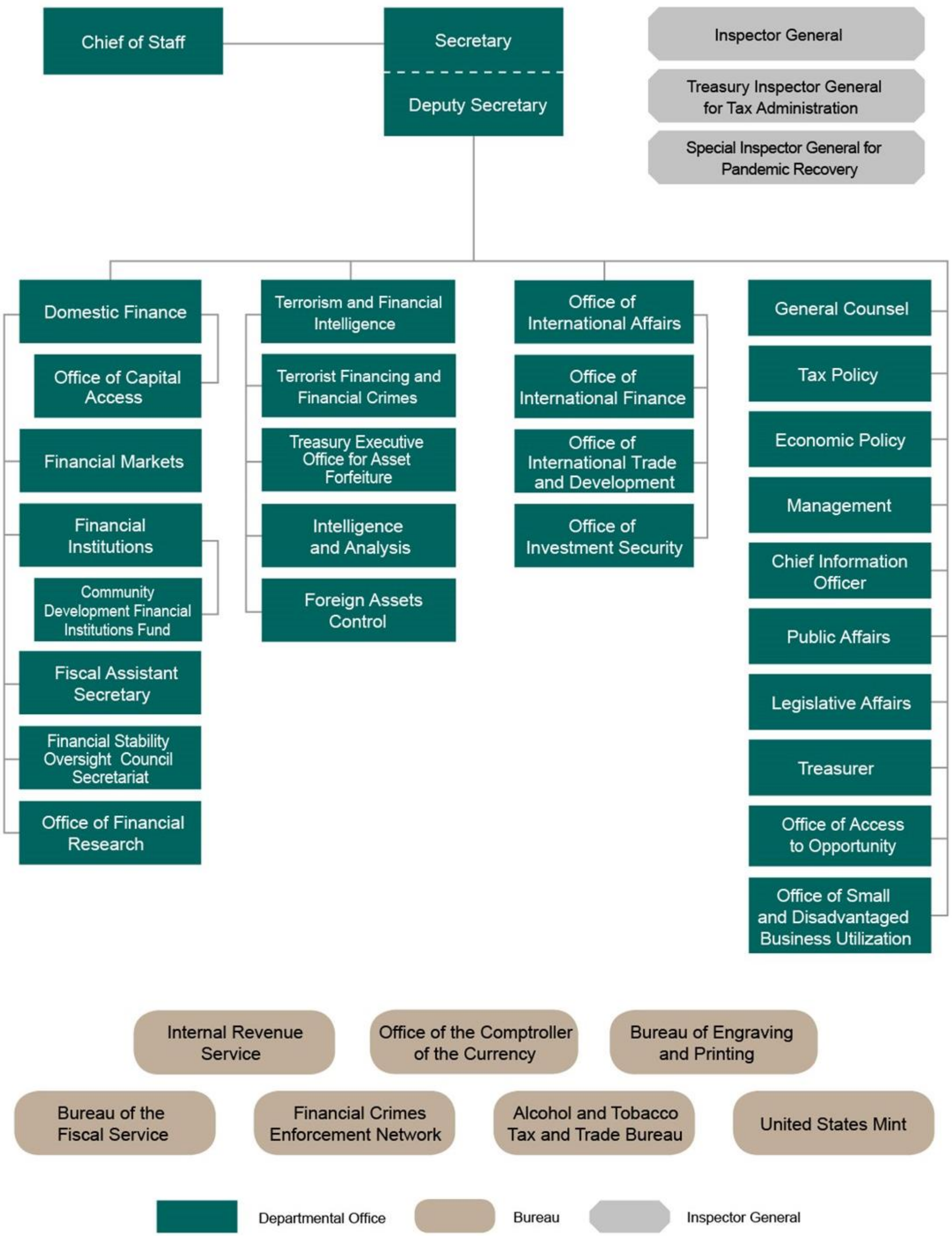
Furthermore, we work to increase opportunities for small businesses, which are the backbone of our economy. Through our efforts to enhance economic growth and promote access to credit, we support job creation to improve the well-being of U.S. citizens and to safeguard and grow our national economy. We also continue to play a key and influential role in the government's service to the American people, adapting to meet the nation's needs.

Globally, Treasury represents the U.S. in important economic forums and international financial institutions, including the Group of Seven (G7) and the Group of Twenty (G20), which hold annual summits with heads of state to discuss global economic and foreign policy issues. We hold significant responsibility promoting stability and growth in the global economy via our leadership roles in the International Monetary Fund, the World Bank, regional development banks, and other multilateral organizations, such as the Financial Stability Board and the Financial Action Task Force.

While Treasury adapts to meet the changing needs of our nation, our core mission remains unchanged since 1789. Today, with approximately 100,000 employees, we remain steadfast in our commitment to promote conditions that enable economic growth and stability at home and abroad, to protect the integrity of the financial system, and to effectively manage the U.S. government's finances and resources. We remain the principal steward of the U.S. economy by collecting revenue, meeting financial obligations, and financing government operations.

ORGANIZATION

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



DEPARTMENTAL OFFICES

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

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

International Affairs protects economic prosperity and national security by working to foster a most favorable external environment for sustained jobs and economic growth. It also supports open investment policies through the Committee on Foreign Investment in the United States.

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

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

The **Treasurer of the United States** serves as a principal advisor to the Secretary, including coordinating Tribal relations across the Department, directly overseeing the U.S. Mint and the Bureau of Engraving and Printing, and liaising with the Federal Reserve.

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

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

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

INSPECTORS GENERAL

Three Inspectors General—the Office of Inspector General (OIG), the Treasury Inspector General for Tax Administration (TIGTA), and the Special Inspector General for Pandemic Recovery—provide independent audits, investigations, and oversight of Treasury and our programs.

BUREAUS

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

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

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

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

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

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

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

TREASURY STRATEGIC MANAGEMENT

FRAMEWORK

The Government Performance and Results Act (GPRA) and the *GPRA Modernization Act of 2010* require agencies to identify goals, report progress against targets, and conduct data-driven reviews. These practices allow stakeholders within and outside the organization to assess the organization's health and impact, as well as promote effective decision-making and improve the execution of its strategies and resource allocations. In this spirit, we developed a framework using best-in-class organizational performance practices to help achieve our strategic goals and objectives.

ORGANIZATIONAL PERFORMANCE REVIEW CYCLE

Our organizational performance reviews provide a regular forum for open dialogue and coordination between the bureaus and the Departmental Offices' management and leadership. We bring together different perspectives to set and align priorities, identify and solve problems, review agency performance, and drive results. We review agency results quarterly to measure progress on our goals. Also, as required by the *Program Management Improvement Accountability Act*, we integrate portfolio reviews of programs within our performance review cycle activities. Through our Strategic Objective Annual Review (SOAR) process, we conduct an annual exercise to validate our supporting objectives as well as analyze performance results across Treasury components to identify a set of strategic objectives as priority focus areas for the following year. The *Foundation for Evidence-Based Policy Act* further advances the U.S. government's evidence-building functions. In this past fiscal year, we continued to implement the evidence-building requirements by leveraging our strategic management framework, including the SOAR, and to discuss our evidence-building efforts and learning agenda.

At designated points throughout the fiscal year, we assess annual priorities, evaluate progress against goals and objectives, discuss new strategies to improve program outcomes, and align our available funding to maximize results for the agency. We describe our process and framework for managing our strategic objectives and performance outcomes in Table 1 on the following page.

TABLE 1: TREASURY ANNUAL ORGANIZATIONAL PERFORMANCE REVIEW CYCLE

Sessions	Fall (October – November)	Winter (February – March)	Spring (April – May)	Summer (June – July)
Focus	**Bureau Organizational Health & Priorities**	**Strategic Objective Annual Review (SOAR)**	**Cross-cutting Risks/Challenges; Critical Programs and Projects**	**Budget; Check-In for Critical Program and Projects**
Chair	Deputy Secretary, Assistant Secretary for Management/Performance Improvement Officer (ASM/PIO); Strategic Goal Leads	Strategic Goal Leads	ASM/PIO	ASM/PIO and Budget Officer, Strategic Goal Leads
Goals/Outcomes	• Review prior year's performance at the bureau level • Recognize successes • Set priorities for year ahead • Identify shortfalls and risks; accountability • Assess organizational health	• Evaluate cross-agency progress toward strategic objectives (including progress of critical programs and projects) • Identify/validate Treasury priorities and/or strategic shifts • Outline potential topics for annual review with OMB	• Issue-based sessions: Dive deep on cross-cutting issues identified in the SOAR, identify near-term improvement strategies • Program-based sessions: check in on critical programs identified in the SOAR that need Treasury leadership attention	• Align funding to performance impacts and risk mitigation • Strengthen IT acquisition, budgeting, and accountability • Check-in on critical program and project health and review list of critical programs and projects

FY 2022 – 2026 Strategic Framework

The strategic framework provides the foundation for our FY 2022 – 2026 strategic goals and objectives and our FY 2023 – 2024 Agency Priority Goals (APGs), which align to specific objectives. All bureaus and offices align their programs and performance within this framework. Our updated goals and objectives are reflected below.

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

PERFORMANCE OVERVIEW

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

Goal 1: Promote Equitable Economic Growth and Recovery

Treasury plays a central role in addressing systemic issues in the financial system and strengthening economic resiliency for all Americans, while partnering with foreign countries to promote global recovery and sustainable growth.

Our first strategic objective under this goal—identified as an area of noteworthy progress and focus area for improvement in our FY 2024 SOAR process—focuses on developing a more efficient tax system that ensures we administer the tax code fairly and impartially for all Americans. Our second strategic objective under this goal—identified as a focus area for improvement in our FY 2024 SOAR process—relates to global economic leadership, which aims to restore confidence in U.S. economic policy leadership and promote inclusive global economic growth. Our third strategic objective focuses on addressing systemic inequities in the economy and encouraging equitable growth through increased access to capital and resources for small businesses, households, and underserved communities. Our fourth strategic objective under this goal relates to promoting the long-term stability of the U.S. housing market in collaboration with the Department of Housing and Urban Development and other federal agencies.

Source: Adobe Stock

2024 Tax Filing

During the 2024 filing season, the IRS conducted a limited-scope pilot of a system that allowed eligible taxpayers in 12 states to prepare and file a free, online tax return directly with the IRS to significantly improve taxpayer services.

TAX ADMINISTRATION AND POLICY

We made significant progress toward developing a more efficient tax system by using *Inflation Reduction Act* (IRA) funds to improve taxpayer service and advance enforcement goals.

During the 2024 filing season, the IRS answered more than one million additional phone calls than the prior year and achieved a nearly 88 percent level of service (the percentage of callers who speak to a Customer Service Representative) while maintaining an average call wait time of three minutes. The IRS introduced new voicebot technology, which helped taxpayers with a wide range of issues, including securing account transcripts, getting answers to questions about balances due, and getting help from the Taxpayer Advocate Service. The IRS also expanded and enhanced popular and convenient online tools that save taxpayers time and money, while also reducing phone calls, paper processes, and other burdens.

During the 2024 filing season, the IRS also conducted a limited-scope pilot of a system that allowed eligible taxpayers in 12 states to prepare and file a free, online tax return directly with the IRS to significantly improve taxpayer services. This pilot, called Direct File, is an important tool in the ongoing efforts to lead the IRS into a digital, taxpayer-focused future. Based on the operational success and positive feedback, the IRS announced in May 2024 that it would expand and make Direct File a permanent offering.

IRS also developed an overall strategy to increase credit uptake in underserved communities, with a goal of implementing specific actions for the next filing season. The credit uptake strategy includes supporting taxpayers who are eligible to receive Earned Income Tax Credits and other refundable tax credits.

As part of continuing compliance efforts under the IRA, the IRS has stepped up activity specifically on 1,600 individuals whose incomes were more than $1 million per year and who each owed the IRS more than $250,000 in recognized tax debt. Since fall 2023, this IRS compliance effort has generated more than $1 billion in collections from this group, with work continuing in this area. In FY 2024, the IRS sent more than 25,000 compliance letters to large corporations, complex partnerships, high-income, and high-wealth individual filers with more than $1 million in income, and more than 100,000 letters to non-filers with incomes between $400,000 and $1 million between tax years 2017 and 2021.

The Office of Tax Policy (OTP), working in coordination with the IRS, issued more than 70 final and proposed regulations and 125 items of sub-regulatory guidance to implement key statutes, including the IRA and *CHIPS and Science Act*, as well as enhance the effective administration of the tax system. For example, this year OTP and the IRS released proposed regulations on the new Corporate Alternative Minimum Tax to increase tax fairness and address significant corporate tax avoidance. In addition, OTP and the IRS released guidance addressing abusive partnership basis-shifting transactions, homeless veterans' access to affordable housing that is subsidized by tax incentives, and the tax-free treatment of certain lead pipe service line replacement programs for residential property owners.

Global Economic Leadership

International Affairs' global economic engagements are guided by three strategic priorities: maintain U.S. leadership in the multilateral order, address key global challenges, and secure sustainable, inclusive, and resilient global growth. We made significant progress engaging with allies and competitors on tax policy, trade policy, and development. We built on these successes while increasing our focus on multilateral bank evolution, economic diplomacy, climate finance, and global debt. We are developing plans to execute the Finance Track of the 2026 G20 meetings when the United States holds the presidency.

Economically Resilient Communities

The Office of Capital Access (OCA), formerly known as the Office of Recovery Programs, made significant progress increasing capital access and investment in underserved communities. OCA expanded access to capital for small businesses and communities through the State Small Business Credit Initiative and Emergency Capital Investment Program. Additionally, OCA supported equitable economic recovery through implementation of pandemic recovery programs. We have obligated all of our program funds and are working with recipients to ensure they meet congressionally mandated obligation deadlines. For example, to date, recipients of the State and Local Fiscal Recovery Fund (SLFRF) have obligated 85 percent of available funding, while recipients of the Homeowner Assistance Fund (HAF) and the Emergency Rental Assistance (ERA) program have obligated 87 percent and 90 percent, respectively. OCA continues to focus on monitoring program compliance, close-outs, and enhancing the impact of its programs through public engagements. In FY 2024, OCA completed the closeout activities for recipients that received financial assistance under the Payroll Assistance Program, Payroll Support Program Extension, and Payroll Support Program 3.

The Community Development Financial Institutions Fund (CDFI Fund) also made significant progress generating economic growth and opportunity in some of our nation's most distressed communities. By offering tailored resources and innovative programs that invest federal dollars alongside private sector capital, the CDFI Fund serves mission-driven financial institutions that take a market-based approach to supporting economically disadvantaged communities. These mission-driven organizations, known as Community Development Financial Institutions (CDFIs), are encouraged to apply for CDFI Certification and participate in CDFI Fund programs that inject new sources of capital into neighborhoods that lack access to financing. Since inception, the CDFI Fund has allocated $81 billion in tax credit allocation authority to Community Development Entities through the New Markets Tax Credit Program, and guaranteed bonds for nearly $3 billion through the CDFI Bond Guarantee Program.

In FY 2024, the CDFI Fund awarded more than $780 million, allocated $5 billion in New Markets Tax Credits, and guaranteed nearly $500 million in bonds.

To increase the recovery, growth, and launch of small and disadvantaged businesses, the Office of Small and Disadvantaged Business Utilization (OSDBU) worked with our bureaus and the Office of the Procurement Executive to develop outcome measures for small business engagement. The OSDBU instituted our "50 State Initiative" platform to identify underserved and under-resourced communities across the U.S. and its territories that received zero to low Treasury contractual dollars. OSDBU led focused outreach events to promote our procurement opportunities, increase awareness of capital programs, and educate these underserved and under-resourced communities on how to do business with us. In FY 2024, OSDBU partnered with the IRS in over 40 vendor outreach events. OSDBU spearheaded Centers of Excellence, identifying colleges and universities, such as historically Black colleges and universities (HBCUs), and minority serving institutions that provide research and development (R&D) programs and exceptional entrepreneurship education for economic growth. In FY 2024, OSDBU recognized multiple institutions for their contributions: one for its Hub for Innovation, Veterans, and Entrepreneurs; an HBCU for its R&D and contracting programs; and a regional consortium of universities for their commitment to entrepreneur stewardship. In May 2024, OSDBU held a focused women-owned small business outreach event "OpportuniTEA", which provided procurement opportunities for new, emerging, and disadvantaged women-owned small businesses.

To further support the enhancement of resilient communities, the Alcohol and Tobacco and Trade Bureau (TTB) improved services to catalyze equitable economic growth. TTB continued to prioritize timely federal permit approvals for new producers, wholesalers, and importers to facilitate economic growth, particularly in new small businesses. Over the past 15 years, alcohol industry growth, driven by both new entrants and existing businesses seeking to expand, has led to a significant increase in applications to obtain or amend TTB permits. The current application process is complex and requires extensive information, making it prone to errors and delays. For these businesses, delays can prevent them from starting or expanding their operations after making significant capital investments.

Source: Adobe Stock

Community Development

These mission-driven organizations, known as Community Development Financial Institutions (CDFIs), are encouraged to apply for CDFI Certification and participate in CDFI Fund programs that inject new sources of capital into neighborhoods that lack access to financing.

TTB is addressing these challenges through a multi-year permit modernization effort, which aims to enhance the quality, consistency, and speed of our permitting services. This effort includes simplifying regulatory requirements and replacing legacy IT systems to transform the customer experience. The new permitting system and updated regulations will reduce burdens on businesses, streamline the approval process, and help TTB provide faster, more reliable service. TTB issued proposed regulatory changes to modernize and simplify the permit application process for wineries, breweries, and distilleries, with final rules expected next year. The new permitting system will roll out in phases beginning in late 2025.

Resilient Housing Market

Throughout FY 2024, we monitored the health of the housing and real estate markets. We continued to work with Fannie Mae and Freddie Mac to meet their affordable housing goals and to press Congress to take action on its longstanding proposals to expand housing tax credits. We met goals to bolster the resilience of the housing market and continue to take steps to increase the housing supply.

GOAL 1: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 21	FY 22	FY 23	FY 24	FY 24 Target	Result vs Target
Customer Service Representative Level of Service (CSR LOS) (IRS)[1]	18.5%	17.4%	51.8%	65.1%	60.0%	Exceeded
Timeliness of Critical Individual Filing Season Tax Products (IRS)[2]	92%	96.4%	96.4%	96.6%	89.0%	Exceeded
Percentage of Permit Applications Processed within Service Standards (TTB)[3]	92%	91%	86%	85%	85%	Met
Engagement of Partner Countries in Programs – 5 point scale (International Affairs) [4]	3.6	3.5	3.5	N/A	3.6	N/A
Enterprise Self-Assistance Participation Rate (IRS)[5]	92.3%	93.9%	94.2%	95.8%	94.0%	Exceeded
Percent of Procurement Dollars Spent on Small Business (Management)[6]	39.9%	37.6%	36.2%	39.0%	37.0%	Exceeded

Explanation of Results
[1]CSR LOS was 65.1 percent, which exceeded the target of 60 percent and was an increase of around 26 percent over the prior year actual level of service of 51.8 percent. The level of service for the 2024 filing season was 87.6 percent. Customer service representatives answered around 19.9 million calls in FY 2024. CSR phone demand was around 34.5 million, which was an 11 percent decrease from last year's demand of 38.8 million. In FY 2024, around 17.2 million taxpayers were offered a callback and 66.1 percent accepted. This resulted in around 5.3 million hours saved for the taxpayer, providing a better experience.
[2]Timeliness of Critical Individual Filing Season (CIFS) Tax Products to the Public was 96.6 percent and exceeded plan of 89 percent. 84 of 87 CIFS tax products were available to the public seven calendar days before the official IRS start of the (individual) filing season. In most years, the Tuesday after the Martin Luther King Jr. holiday is the official IRS tax season start date. This year, the official IRS tax season start date was pushed to January 29, allowing an additional week to complete and release tax products to the public. Actions taken to achieve this success were increased staffing levels, granting overtime, credit, and compensatory time during workdays, weekends, and holidays. Employees prioritized work on the release of critical products, such as forms and instructions.
[3]This measure represents the overall rate at which the TTB is meeting its annual service standard (75 days for FYs 2021 – 2024) for all original permit applications and registrations. The measure reflects the efficiency and consistency of the TTB's permitting process and supports effective communication with industry members regarding the TTB's level of service. In FY 2024, TTB issued 85 percent of applications within its 75-day service standard, meeting its target. With sustained high application volume, to maintain performance at target, TTB is undertaking a major initiative to simplify permit application requirements, streamline internal processes, and modernize IT systems.
[4]Measures the degree to which foreign counterparts are engaging proactively and constructively with Office of Technical Assistance (OTA) advisors, at the working and policy levels. Counterpart engagement is both a key outcome of OTA efforts to structure and execute effective technical assistance projects that support host country ownership. The result for FY 2023 is 3.5, which is level with the FY 2022 result.
[5]The Enterprise Taxpayer Self-Assistance Participation Rate of 95.8 percent exceeded the fiscal year plan of 94 percent. In FY 2024 total self-assisted services were 2.3 billion, which is 43 percent higher than 1.6 billion in FY 2023, assisted services were 100.8 million, which is 1.4 percent higher than 99.4 million in FY 2023, and total FY 2024 services rose to 2.4 billion, which is almost 41 percent higher than 1.7 billion in FY 2023. The increase in self-assisted services was due to growth in taxpayer's use of Where's My Refund and the Interactive Tax Assistance tools, and third-party transcript requests. Using the self-assistance services, taxpayers made almost 234.8 million electronic payments, and set up nearly 2.8 million online payment agreements.
[6]This goal measures the percentage of procurement dollars obligated toward small businesses (or our overall small business goal) and highlights our efforts to ensure that small businesses have the maximum practicable opportunity to provide goods and services to the federal government. We exceeded meeting our FY 2024 small business goal of 37 percent. We overperformed and exceeded the socio-economic small business goals.

Goal 2: Enhance National Security

An expanding array of transnational threats, continued instability in weak states, and adversaries' malicious use of critical and emerging technologies present security concerns that may impact the integrity of the U.S. financial system, which is foundational to our national security. As foreign and domestic actors threaten American economic and national security, we must apply our tools and strengthen bilateral and multilateral partnerships to defeat these threats and take a leading role in protecting the U.S. and international financial systems from abuse.

To that end, our first strategic objective—identified as a focus area for improvement in our FY 2024 SOAR—centers on ensuring that we harden the U.S. and global financial systems against cyber incidents and counter malicious cyber actions. Our second strategic objective—identified as an area of noteworthy progress and focus area for improvement in our FY 2024 SOAR—is to address threats that foreign adversaries, criminals, and other bad actors, as well as certain foreign investments pose to U.S. national security and strategic interests using our policies, intelligence, regulatory and enforcement authorities, and tools. Our third strategic objective focuses on improving our sanctions framework to more effectively deploy sanctions against emerging challenges. Our fourth strategic objective focuses on strengthening transparency in the domestic and international financial systems to aid in the detection of illicit financial activity to protect the integrity of markets and the global financial framework.

Cyber Resiliency of Financial Systems and Institutions

Our work in this area ensures our ability to effectively harden and protect our assets and the broader financial system. In 2024, we launched "Project Fortress," a new public-private partnership that seeks to provide a more comprehensive approach to defending the financial system from cyberattacks. Project Fortress stemmed from Executive Order 14028, *Improving the Nation's Cybersecurity*, directing agencies to take steps to improve the nation's cybersecurity across a range of industries.

Source: Adobe Stock

Cyber Resiliency

In 2024, we launched "Project Fortress," a new public-private partnership that seeks to provide a more comprehensive approach to defending the financial system from cyberattacks.

Through this partnership, we offer two free tools to financial institutions. The first is the Cybersecurity and Infrastructure Security Agency (CISA) Cyber Hygiene tool, which scans an organization's internet-facing systems to identify known exploited vulnerabilities and provide actionable feedback. The second is our new Automated Threat Information Feed, which provides financial institutions access to a tailored list of cyberthreats that government agencies, international partners, and participating financial institutions have identified.

We also pledged to prioritize our national security tools and law enforcement to go after actors targeting cyber vulnerabilities. As an example, earlier this year, we sanctioned Dmitry Yuryevich Khoroshev, a Russian national and a leader of the Russia-based LockBit group, for his role in developing and distributing LockBit ransomware.

In FY 2024, we responded to Office of Management and Budget's (OMB) memorandum to agencies on implementing Executive Order 14110, *Executive Order on Safe, Secure, and Trustworthy Development and Use of Artificial Intelligence,* by establishing a governance regime that covers both the financial sector and Treasury assets.

Economic Measures to Advance National Security

We continue to apply our tools and authorities against illicit actors, including Russia, Iran, North Korea, among others, while also targeting financiers and other bad actors, which advance the Administration's foreign policy and national security priorities.

This includes applying the strength of our economic tools against Hamas, who on October 7, 2023, massacred innocent Israeli civilians and continue to hold others hostage. Terrorism and Financial Intelligence (TFI) has taken swift and decisive action to target Hamas's financiers and facilitators as part of a continuous effort to root out Hamas's sources of revenue in Gaza, the West Bank, and across the region. We work in close coordination with regional partners and allies. These actions have included designating key Hamas terrorist group members, operatives, and financial facilitators in Gaza and elsewhere, including Sudan, Turkey, Algeria, and Qatar. This includes, but is not limited to, high-level Hamas officials, those associated with Hamas's secret investment portfolio, virtual currency exchange, Hamas-affiliated companies facilitating sanctions evasion, and others serving as a conduit for illicit Iranian funds, including additional members of Iran's Islamic Revolutionary Guard Corps. Our senior leadership has also engaged with the private sector on their perspectives, as well as best ways to facilitate legitimate humanitarian aid to innocent civilians.

In addition, since Russia's full-scale invasion of Ukraine in February 2022, the U.S. has worked with its international partners to provide Ukraine military, economic, and humanitarian assistance to aid its defense against Russia's illegal war. We took unprecedented action to isolate Russia from the global financial system.

Since February 2022, we coordinated with a global coalition of more than 30 countries and implemented a historic economic pressure campaign to deprive Russia of the revenue it uses to wage war. TFI issued more than 2,500 Russia-related sanctions designations and, together with international partners, immobilized at least $280 billion of Russian sovereign assets. The combined effects of these measures contributed to significant economic difficulties for Russia's financial, energy, and manufacturing sectors, including Russia's military supply chain. Additionally, in collaboration with the Department of Commerce and other international partners, TFI worked to maintain the pressure on Russia by monitoring for and countering Russia's attempts to evade sanctions and other economic controls.

Source: Adobe Stock

Targeting National Security Threats

Since Russia's full-scale invasion of Ukraine in February 2022, the U.S. has worked with its international partners to provide Ukraine military, economic, and humanitarian assistance to aid its defense against Russia's illegal war. We took unprecedented action to isolate Russia from the global financial system.

In our role as Chair of the Committee on Foreign Investment in the United States (CFIUS), we continue to address increasingly complex cases in our protection of U.S. national security, operating within the broader U.S. open investment policy. We are also working to implement the Outbound Investment Security Program, established under the auspices of Executive Order 14105, *Addressing U.S. Investments in Certain National Security Technologies and Products in Countries of Concern*, to address the national security threat to the U.S. posed by countries of concern that seek to develop and exploit sensitive or advanced technologies and products.

Finally, regarding our international engagement efforts with China, we laid out three principal objectives for our economic approach to the People's Republic of China (PRC): securing U.S. national security interests and protecting human rights; seeking a healthy economic relationship with a level playing field; and cooperating in areas where we can and must, such as climate change. We continue to engage regularly with the PRC in our work to address various economic and national security issues.

Modernize Sanctions Regime

TFI has made considerable progress toward modernizing the sanctions regime by implementing recommendations from the Treasury 2021 Sanctions Review, executing the Sanctions Modernization Action Plan, and working with interagency partners to re-evaluate the interagency sanctions framework. This includes creating the Sanctions Economic Analysis Unit in 2023, which is led by a chief sanctions economist, to serve as a center of excellence for analyses on the effectiveness of sanctions. The unit provides economic and financial policy analyses that better informs the design and implementation of sanctions policy and targeting options under existing or proposed authorities. The unit is also responsible for standardizing a consistent approach to economic and financial policy analyses that better informs policy decisions. This includes analyses of potential collateral effects of proposed sanctions to identify issues that may be mitigated.

Transparency in the Financial System

We made significant progress on key initiatives to enhance transparency and prevent illicit actors from exploiting the U.S. and international financial systems. These initiatives include implementing the *Corporate Transparency Act* (CTA), strengthening transparency in the real estate market and investment advisor sector, understanding illicit finance risks and trends, and enhancing international Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) efforts.

Regarding the CTA, TFI and FinCEN have dramatically increased corporate transparency through improved Beneficial Ownership Information (BOI) Reporting. On January 1, 2024, FinCEN began accepting beneficial ownership information reports that will help law enforcement and national security officials untangle opaque corporate structures, hold criminals to account, and protect our national security. This required a robust nationwide outreach and education campaign, as well as a multimedia campaign to inform stakeholders and the public. In addition, in December 2023, we finalized a regulation to identify who can access BOI, for which purposes, and how they may use it.

We issued proposed rules regarding the residential real estate market and investment advisor sector. In both cases, the proposed rule would increase transparency to the U.S. financial system and assist law enforcement in identifying illicit proceeds entering the U.S. economy.

We also provided the public and private sectors with critical information on the complex illicit finance risk environment necessary for detecting and disrupting illicit proceeds entering the U.S economy, including issuing the National Illicit Finance Strategy. The National Illicit Finance Strategy addresses overall threats to the U.S. financial system, including, but not limited to, AML/CFT, fraud, ransomware attacks, and releasing key risk assessments, including the *National Money Laundering Risk Assessment*, *National Terrorist Financing Risk Assessment*, and *National Proliferation Financing Risk Assessment*. These reports highlight the most significant risks to the financial sector while also addressing how large-scale threats to global peace and security, including Russia's 2022 invasion of Ukraine and Hamas's October 2023 attack on Israel, have affected the global risk landscape.

In FY 2024, we continued working with international partners on these efforts through the Financial Action Task Force (FATF), the international standard-setting body for AML/CFT, as well as the United Nations, G7, and other key stakeholders. Successes include new risk-based guidance for the beneficial ownership and transparency of legal arrangements and monitoring implementation of the FATF Standards relating to virtual asset service providers.

GOAL 2: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 21	FY 22	FY 23	FY 24	FY 24 Target	Result vs Target
Percentage of CFIUS Cases Reviewed within Statutory Timeframes, reported by calendar year (International Affairs)[1]	100%	100%	100%	TBD%	100%	N/A
Number of New or Modified Sanctions Programs Established by Executive Order or Congressional Mandate (TFI)[2]	8	11	2	3	N/A	N/A

Explanation of Results

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

[2]This indicator tracks the number of new or modified sanctions programs that we must implement and enforce. However, the indicator does not capture the levels of relative complexity for each sanction program or the complexity of individual national security objectives that sanctions attempt to achieve. We do not set targets for new or modified sanctions programs since the existence of a sanctions program is not itself a measure of success.

Goal 3: Protect Financial Stability and Resiliency

To improve financial resiliency ahead of the next crisis and reduce associated costs to the economy, we must address vulnerabilities in core financial markets through responsible regulatory reforms. These reforms include improved liquidity risk management and adjustments to financial market infrastructure, considering changes in technology and investor demand.

To address these concerns, our first strategic objective focuses on monitoring and coordinating responses to threats to domestic and global financial stability. Our second objective—identified as a focus area for improvement in our FY 2024 SOAR process—is to mitigate vulnerabilities in Treasury and municipal securities markets, while keeping pace with changes in the industry, regulatory environment, trading practices, and investor demands. Our third strategic objective—identified as a focus area for improvement in our FY 2024 SOAR process—focuses on encouraging the responsible use of innovative financial technology, both across the financial sector and within our department.

Source: Adobe Stock

Hedge Fund Monitoring

OFR unveiled the new Hedge Fund Monitor, an interactive data visualization tool that makes aggregated data on hedge fund activities from several sources more accessible through one tool.

Financial System Vulnerabilities

We made progress in promoting financial system resilience through our continued work to rebuild the Financial Stability Oversight Council's (FSOC) capacity, which will strengthen our ability to coordinate and improve collective actions to mitigate threats to financial stability. In FY 2024, we reorganized the Systemic Risk Committee to enhance the committee's ability to meet its purpose, which is to support FSOC in identifying risks to, and in responding to emerging threats to, the stability of the U.S. financial system. In December 2023, FSOC published its 2023 Annual Report that outlines key vulnerabilities in the financial system and recommendations to address those vulnerabilities.

We made additional progress in closing a critical financial stability data gap. In May 2024, the Office of Financial Research (OFR) adopted a final rule to establish a data collection of non-centrally cleared bilateral repurchase (NCCBR) agreement transactions. This collection will require daily reporting to the OFR by U.S. covered reporters with large NCCBR exposures and will close a critical financial stability data gap. Reporting will begin in early FY 2025, and we will use the data to support the work of the FSOC, its member agencies, and the OFR to identify and monitor risks to financial stability. The OFR also launched a data collection tool, which allows financial companies and other data owners to securely and efficiently submit data directly to the OFR on an ongoing or as-needed basis. We will use the tool for the new NCCBR data collection and for future FSOC needs.

Additionally, OFR completed several enhancements to the Joint Analysis Data Environment (JADE), which is designed to enhance FSOC member agencies' access to data, high-performance computing, and tools for research and analysis on financial stability and vulnerabilities. OFR onboarded more users from several FSOC member agencies and made additional datasets available in support of the FSOC-approved research projects. OFR also unveiled the new Hedge Fund Monitor, an interactive data visualization tool that makes aggregated data on hedge fund activities from several sources more accessible through one tool. It provides policymakers and the public, comprehensive, reliable, and accessible data about segments of the financial system.

Finally, on November 3, 2023, the FSOC approved its new Analytic Framework for Financial Stability Risk Identification, Assessment, and Response, which offers a detailed public explanation of how the Council monitors, assesses, and responds to potential risks to financial stability, whether they come from widely conducted activities or from individual firms. At the same time, the Council updated its interpretive guidance on its authority to designate nonbank financial companies for Federal Reserve supervision and prudential standards.

Resilient Treasury and Municipal Securities Markets

We increased resilience and transparency in government securities markets and advanced cross-government priorities through the Inter-Agency Working Group on Treasury Market Surveillance. Steps we took to increase the resilience of the Treasury market included expanding the availability of data on Treasury market activity and launching a buyback program for Treasury securities.

As of March 2024, transaction data for activity in on-the-run Treasury securities—those that are newly issued and the most recently auctioned—is released at the end of each trading day. This data, which represents approximately half of transactions in the Treasury market, provides valuable insights into the current market dynamics. Increased transparency in on-the-run activity may improve investor confidence, support greater price discovery, facilitate research and evaluation of execution costs, and promote competition.

Launched in May 2024, Treasury's buyback program provides regular opportunities for dealers to sell off-the-run Treasury securities—those issued in previous auction cycles, which are now less actively traded—back to Treasury. These buybacks aim to support Treasury's cash management by reducing volatility in bill issuance. Although still in the early stages, these efforts are steering us toward a safer and more liquid Treasury market.

Financial Innovation

We made progress in encouraging responsible financial sector innovation, addressing risks of digital assets-related platforms, and promoting innovations that advance financial inclusion. In FY 2024, we continued to focus on the Agency Priority Goal - Improving the Payment Experience. We promoted Direct Express, an electronic card payment program, and Go Direct with agency and industry partners. For example, Fiscal Service worked with the Veterans Benefit Administration to develop campaigns and mailed letters to check recipients who also received EFT for other federal benefits to encourage recipients to convert all their payments to EFT. In FY 2024, Fiscal Service continued to improve its electronic disbursement rate, disbursing 96.9 percent of federal payments electronically. Fiscal Service continues to partner with agencies and industry on outreach and public-reaching promotions to increase use of digital wallets for collections and disbursements.

In FY 2024, Fiscal Service advanced its Payment Integrity vision to be a trusted partner in the delivery of solutions to combat fraud and improper payments through strong collaboration and transformative use of data and analytics. Its collective efforts combatting improper payments and fraud yielded over $4 billion in prevention and recovery, representing a seven-fold increase compared to FY 2023 ($652 million). We accomplished this through dedicated efforts to enhance fraud prevention capabilities and expand offerings to new and existing customers, such as Account Verification Service and Full Death Master File access through Do Not Pay.

A final example of financial innovation and specifically currency circulation, includes the Mint engaging with those on Capitol Hill who co-sponsored the Alternative Metals legislative proposal. The legislation proposes authorizing the Director of the U.S. Mint to act on study and analysis results regarding a change to the composition of circulating coins. Our next step is to then engage with committee members and others who support the proposal. We are specifically informing some and reminding others what the proposal entails, the goal of the authority, and how a seamless alternative metal may produce cost savings. With the reduction in circulating coin demand, receiving authority to use an alternative metal is critical to the efficiency of our production process. The Mint will continue to impress upon Congress the importance and necessity of this essential legislation.

GOAL 3: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 21	FY 22	FY 23	FY 24	FY 24 Target	Result vs Target
Percentage of Treasury Payments Made Electronically (Fiscal Service)[1]	96.2%	96.4%	96.5%	96.9%	96.9%	Met
Percentage of Total Federal Government Receipts Initiated Electronically (Fiscal Service)[2]	83.0%	83.2%	84.8%	88.4%	84.0%	Exceeded
Explanation of Results						
[1]This measure provides the percentage of the total volume of electronic payments that are disbursed electronically. FY 2021, and FY 2022 data does not include pandemic-related relief payments, such as economic impact payments and advance child tax credit payments.						
[2]This measure provides the percentage of total federal government revenue collection dollars initiated electronically.						

Goal 4: Combat Climate Change

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

To address these challenges, our first strategic objective focuses on using U.S. leadership to re-engage with international partners to enhance global action and mobilize and align financial flows to combat climate change. Our second strategic objective—identified as an area of noteworthy progress and a focus area of improvement in our FY 2024 SOAR process—aims to promote incentives and policies to encourage the private sector's investment in climate-friendly projects. Our third strategic objective focuses on developing and executing approaches to measure and monitor climate risks to the financial sector, government, businesses, and households. Our fourth strategic objective focuses on our efforts to invest in adaptation and resiliency efforts to address climate change impacts on our operations and services.

Source: Adobe Stock

Climate Change

The U.S. federal government must work alongside our domestic and international partners to respond ambitiously to tackle the challenges of climate change, adapt to an already changing climate, mitigate the risks, and position the global economy for clean and sustainable growth.

Global Climate Commitment and Leadership

We oversee U.S. shareholding in a range of international financial institutions (IFI), engage in multilateral forums—such as the Conference of the Parties to the United Nations Framework Convention on Climate Change, G20, and G7—and lead several key multilateral climate initiatives. These aim to scale policy responses and finance for climate mitigation, adaptation, and resilience to meet the narrowing window for action to avoid the worst impacts of climate change. We have pursued a private capital mobilization agenda to help mobilize the trillions in financing needed to fund the climate transition, including via blended finance or public-enabled transactions. For example, the World Bank's Streamlined Guarantee Platform, launched in April 2024, will enable a tripling of guarantees by 2030. We have also engaged private asset owners and allocators to facilitate greater exposure to emerging markets investments, which included supporting the launch of a new $400 million Emerging Markets Transition Debt Fund by emerging market investors in July 2024.

Climate Incentives and Investment

We made significant strides implementing the IRA. In FY 2024 we issued 34 guidance items, including ten proposed rules, and four final rules. Through the IRS administering the IRA incentives, we are able to support the objective to accelerate clean energy deployment.

In FY 2024, we explored the ways in which Americans and their communities can benefit from the IRA, and accelerated a broad-based and equitable clean energy transition through a range of tools, engagements, and partnerships. This included issuing additional guidance to expand the reach of the IRA's bonus incentives for low-income communities and for energy communities—areas with local economies historically reliant on fossil fuel industries and those affected by pollution. We also released analysis on Treasury.gov in November 2023, March 2024, and September 2024 showing how these and other incentives are already contributing to broad-based investment and growth.

Climate-Related Financial Risks

Climate risk presents significant challenges to families and businesses, particularly those in vulnerable communities. Through this objective we aim to improve our collective understanding of these risks through analysis and tools that help address them.

In FY 2024, we completed work to improve the collection and use of data to assess climate-related financial risks. In March 2024, we announced a first-of-its kind collaboration with a national regulatory association to begin collecting ZIP Code level data on homeowners insurance (with the data collection and initial analysis targeted for completion in early FY 2025). FSOC also developed a set of climate-related financial risk metrics to better monitor and evaluate the vulnerabilities and risk transmission channels through which climate change affects the financial system.

Sustainable Treasury Operations

In FY 2024, we achieved our goal to develop and disseminate a climate literacy program by offering monthly climate literacy webinars featuring subject-matter experts, organizing the Department's first Earth Week in April, distributing a monthly Sustainability Newsletter, and organizing an Employee Resource Group focused on sustainability.

We continue to face challenges with Electric Vehicle (EV) leasing and acquiring the necessary infrastructure, as well as balancing space needs with clean energy and sustainability goals, which is affecting our ability to achieve our desired outcome of reduced greenhouse gas emissions from government operations. Our bureaus continue to assess EV and Electric Vehicle Suitability Assessment capabilities with their respective missions for opportunities to implement EVs and supporting infrastructure. We continue to work with the White House Council on Environmental Quality and several interagency working groups to share best practices and develop policy, including Treasury's 2024-2027 Climate Adaptation Plan (released July 2024) and Environmental Justice Strategic Plan (not yet finalized).

GOAL 4: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 21	FY 22	FY 23	FY 24	FY 24 Target	Result vs Target
Treasury-wide Footprint (Thousands of Square Feet) (Management)[1]	32,006	31,691	31,540	TBD	31,230	TBD
Explanation of Results						
[1]The actual FY 2024 square footage of Treasury-wide real property is not available until December 2024, at which time the comparison can be made of actual results versus target.						

Goal 5: Modernize Treasury Operations

Modernizing our operations is critical to achieving our mission and strategic priorities. In particular, we are focused on a narrow set of enterprise-level enhancements to improve the delivery of our mission across all organizations and strategic objectives. These include building and retaining a workforce that represents the diverse people and communities we serve, capitalizing on the lessons learned from the pandemic work environment, strengthening decision-making through improved use of data, and increasing trust in government by building consistent customer experiences.

Source: Adobe Stock

Diverse and Inclusive Workforce

To reach previously inaccessible talent, especially in under-represented communities, OMWI transitioned to an active outreach and recruitment process in which job vacancies are delivered directly to diverse pools of job seekers daily through a partnership with Talent Ally (formerly Professional Diversity Network).

To meet these challenges, our first strategic objective—identified as an area of noteworthy progress and a focus area of improvement in our FY 2024 SOAR process—focuses on developing a diverse pipeline for hiring and promotions, investing in training and development opportunities to improve retention and inclusion in our workforce. Our second strategic objective focuses on modernizing our workplace infrastructure and work routines to enable an engaged and inclusive workforce of the future. Our third strategic objective centers on strengthening our data infrastructure, data governance, and analytic capabilities within the workforce. Our fourth strategic objective is to improve customer experience practices across the Department, while increasing American's trust in government.

Recruit and Retain a Diverse and Inclusive Workforce

We have increased demographic representation, exceeded the relevant civilian labor force markers in diversity of employee base, and have invested strategically in improving our recruitment and workforce planning capabilities. We must enhance our ability to use the workforce data available to decision-makers and get ahead of anticipated retention and recruitment challenges as we implement our work environment plans.

To reach previously inaccessible talent, especially in under-represented communities, the Office of Minority and Women Inclusion (OMWI) transitioned to an active outreach and recruitment approach, partnering with organizations specializing in connecting diverse pools of job seekers to deliver job opportunities directly to those networks. OMWI established a Diversity Talent Sourcing Analyst position to support greater outreach to diverse populations, as well as execute veteran recruitment programs.

To help increase equity in employment patterns, OMWI developed and implemented a Diversity, Equity, and Inclusion (DEI) Data Map, an automated DEI performance management tool. The tool provides an overview of workforce trends throughout Treasury, providing an efficient means of DEI accountability by identifying potential barriers to workforce representation, stratification, employment patterns, and perceptions of inclusion. To support retention efforts, OMWI has partnered with the Office of Personnel Management to administer an Inclusion Survey to a large representation of the Treasury-wide workforce to assess employee perceptions of the workplace environment. In FY 2025, we will continue to prioritize investments of limited resources in building a recruitment capability at the cost of under-investing in employee learning and development strategies. We focused on increasing workforce planning capabilities, by creating updated policies and tools to include data visualization.

FUTURE WORK ROUTINES

In FY 2024, we prioritized workplace flexibility and developed a framework to achieve a seamless hybrid work environment that best balances efficiency and flexibility. We issued new policy guidance and improved tracking of our level of onsite presence. Additionally, we continue to implement processes to ensure data quality. We are considering strategies outlined in the *Surgeon General's Framework for Workplace Mental Health and Well-Being* to further support the delivery of human resource programs and the impact to our workforce. The framework highlights the essential role that workplaces play in promoting and supporting the mental health and well-being of workers.

Source: Adobe Stock

Workplace Flexibility

In FY 2024, we prioritized workplace flexibility and developed a framework to achieve a seamless hybrid work environment that best balances efficiency and flexibility. We issued new policy guidance and improved tracking of our level of onsite presence.

BETTER USE OF DATA

We improved data literacy and analytical capabilities across our workforce, and developed enterprise data governance and standards while increasing the visibility of Treasury data, including equity data. In FY 2024, our Chief Data Officer successfully piloted a Data Upskilling effort, in addition to data literacy efforts at the bureau level, to improve data literacy for staff.

CUSTOMER EXPERIENCE PRACTICES

We continue to mature customer experience practices across the Department and strengthen our reputation for providing consistently positive experiences. In FY 2024, we made significant progress on implementing the *21st Century Integrated Digital Experience Act* and providing a digital-first public experience, including identifying the most used Treasury websites and improving design consistency, use of plain language, and search and discoverability. We also improved non-digital experiences. For example, the IRS Simple Notice Initiative is redesigning 200 notices for the 2025 filing season that represent about 90 percent of total notice volume sent (150 million in 2022) to individual taxpayers, with more than half completed as of July 2024. Through our Customer Experience Community of Practice we share best practices and foster cross-bureau collaboration, including fostering the partnership between IRS and FinCEN to educate businesses and tax practitioners about the new Beneficial Ownership reporting requirements that impacts over 30 million individuals and small businesses.

GOAL 5: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 21	FY 22	FY 23	FY 24	FY 24 Target	Result vs Target
Percent of Aged Hardware (IRS)[1]	9.3%	7.1%	19.9%	17.6%	20.0%	Exceeded
Treasury-wide EVS Satisfaction Index (Management)[2]	67%	65%	65%	65%	66%	Unmet

Explanation of Results

[1]The percent of aged hardware was 17.6 percent which met the 20 percent target for FY 2024. The major driver in meeting this goal was the focus on hardware selections and timely refresh implementations. For FY 2025, IRS will continue with risk-based management to prioritize funding of assets with highest risk values.

[2]The Federal Employee Viewpoint Survey (FEVS) is the primary tool that agencies use to measure employee sentiment. Each year, we track and report on the FEVS Overall Satisfaction Index which comprises three FEVS satisfaction questions.

Enterprise Risk Management

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

The CRO meets regularly with senior leaders to discuss top risks to critical programs, systems, projects, and priorities, including response strategies. This includes the Bureau Deputies Council which serves as the Department's Enterprise Risk Management (ERM) Committee. The ERM Council, chaired by the Deputy CRO, brings together risk managers from each of our bureaus on a bimonthly basis to share best practices and discuss risks. The Enterprise Strategy, Performance and Risk team in the Office of Strategy, Planning, and Performance Improvement works with our bureaus and policy offices to monitor and annually update our risk profile and helps ensure our risk profile is well integrated with Treasury's strategic direction.

The Deputy CRO also leads an interagency ERM community of practice including officials from more than 50 federal agencies. This group originated from our efforts to support agencies' implementation of ERM. This government-wide working group meets bimonthly to discuss common risks and various methods of implementing the guidelines of the circular.

Risks and Challenges

Through the FY 2024 SOAR and enterprise risk management process, we identified the following cross-cutting risks.

Eroding Mission Capability: Human capital challenges related to knowledge management, workforce planning, and talent acquisition, if not adequately addressed, will erode our mission capability.

Evolving Cyber Risks: We and financial sector partners face increasing attacks from cyber criminals and state actors attempting to disrupt operations, extort, or steal data from sensitive systems. The tactics, techniques, and procedures these threat actors employ are constantly evolving.

Data and Evidence: If we are not able to leverage data as a strategic asset, then poor data quality may deteriorate our decision-making and impede our ability to generate evidence for effective use. Insufficient technology infrastructure, poor data governance, lack of accessibility and reliability of data, and the inability to interpret data compounded by process inefficiencies may hinder our ability to use and share data and evidence to support decision-making.

Procurement, Acquisition, and Vendor Management: If our offices and bureaus are unable to timely acquire necessary products and services, initiate work under contracts, and effectively monitor contract execution and budget, we may fail to execute our mission, lose funding, and lose the public's confidence in us.

Organizational Change Management: If we are unable to build a resilient leadership and culture, we may be unable to respond to significant change without affecting core mission delivery. Given budget constraints and the rapid pace of change, both predictable and unexpected changes could significantly impact critical projects and priorities.

Climate-Related Risks and Challenges

Climate change is already impacting or is anticipated to impact our national infrastructure, operations, agriculture, human health and labor productivity, and household financial security. The likelihood of extreme weather events that could threaten our ability to fulfill time-sensitive tasks is increasing. Highly visible disruptions to our operations may reduce public confidence in government and financial markets.

We issue broad guidelines rather than overly restrictive instructions for conducting climate risk assessments as we have diverse missions and operations. These guidelines included, but were not limited to, key factors such as flooding, heat, and extreme weather (*e.g.,* hurricanes). Currently, we use our climate action plan to guide investments toward enhancing the resilience of our buildings. Additionally, we are working to improve our access to and the quality of climate data and analytical tools to better inform how the FSOC and member agencies identify and assess climate-related financial risk. FSOC continues to work with the OFR to further develop JADE, which supports the FSOC and its member agencies researching a wide array of financial stability topics including climate-related financial risks. In addition, we continue to coordinate with regulators through the FSOC to facilitate information sharing, analysis, and capacity building on climate-related financial risks. The Climate-related Financial Risk Advisory Committee an external advisory committee for the FSOC, continues to share information and analysis on climate-related financial risks through regular meetings.

We released our updated 2024-2027 Climate Adaptation Plan (CAP) in accordance with guidance from Council on Environmental Quality. The CAP builds on a strong foundation from the 2021 Climate Action Plan. For the CAP, we assessed the exposure of our buildings and employees to five climate hazards—extreme heat, extreme precipitation, sea level rise, flooding, and wildfire risk— and wrote an implementation plan to address these hazards.

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

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

FY 2025 STRATEGIC OUTLOOK

Our FY 2022 – 2026 Strategic Plan, published in March 2022, describes the long-term goals and objectives we aim to achieve during this Administration. In September 2024, we updated our FY 2022 – 2026 Strategic Plan to reflect our progress, including updating our goals and objectives to reflect the most relevant initiatives, as well as further specifying our desired outcomes and indicators of success.

The updated strategic plan includes language that better describes our work on supply chain issues and increasing housing supply, as well as our completed work in the areas of climate-related financial risks and climate literacy within the Department.

Our FY 2024 SOAR outlined several critical leadership actions in the following priority areas for the coming year: (1) tax administration and policy; (2) global economic leadership; (3) cyber resiliency; (4) economic measures to advance national security; (5) financial innovation; and (6) recruiting and retaining a diverse and inclusive workforce.

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

- identify a specific set of tax administration actions and develop an overall strategy to increase credit uptake in underserved communities, and implement specific actions for the next filing season (Goal 1: Equitable Economic Growth and Recovery); and
- establish an AI governance process, as well as build and maintain effective defensive postures to comply with OMB's guidance on implementing the AI memo.

FINANCIAL HIGHLIGHTS – FINANCIAL OVERVIEW

The financial highlights below are an analysis of the information included in our consolidated financial statements that appear within Part 2, "Financial Section" of this report. Our principal financial statements have been prepared to report the agency's financial position, and results of operations, pursuant to the requirements of 31 USC 3515(b). These consolidated financial statements have been prepared from the books and our records in accordance with federal generally accepted accounting principles (GAAP) and the formats prescribed by OMB.

The consolidated financial statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The financial statements are for a component of the U.S. government, a sovereign entity.

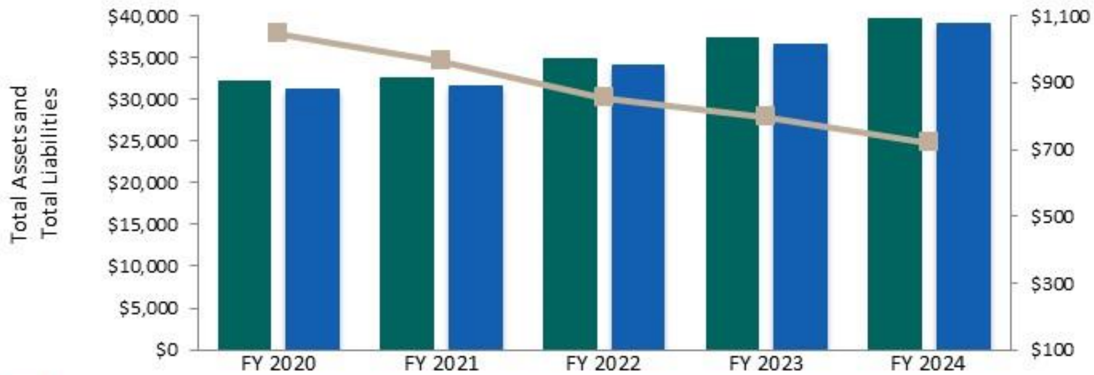
The chart below presents changes in key financial statement line items as of and for the fiscal year ended September 30, 2024, compared to September 30, 2023.

TABLE 2: SUMMARY FINANCIAL INFORMATION (*dollars in billions*)

	2024	2023	$ Change	% Change
Total Assets	$ **39,697.5**	$ 37,288.0	$ 2,409.5	6.5 %
Total Liabilities	$ **38,976.5**	$ 36,491.9	$ 2,484.6	6.8 %
Total Net Position	$ **721.0**	$ 796.1	$ (75.1)	(9.4) %
Total Net Cost of Treasury Operations	$ **74.0**	$ 78.5	$ (4.5)	(5.7) %
Federal Debt Interest Costs, Net	$ **1,075.0**	$ 826.6	$ 248.4	30.1 %
Other Federal Costs, Net	$ **14.4**	$ 15.9	$ (1.5)	(9.4) %
GSEs Non-Entity Cost (Revenue), Net	$ **(65.4)**	$ (16.7)	$ (48.7)	291.6 %
Total Net Cost of Treasury Operations and Non-Entity Costs	$ **1,092.5**	$ 902.1	$ 190.4	21.1 %
Total Budgetary Resources	$ **1,596.0**	$ 1,349.0	$ 247.0	18.3 %
Agency Outlays, Net	$ **1,109.2**	$ 871.1	$ 238.1	27.3 %
Net Revenue Received (Custodial)	$ **4,574.9**	$ 4,061.5	$ 513.4	12.6 %

Financial Overview. Our financial performance as of and for the fiscal year ended September 30, 2024, reflects several major trends. Most significantly, the outstanding federal debt, including interest, rose by $2.3 trillion, to $35.5 trillion, to finance the U.S. government's operations.

Additionally, our "Total Net Cost of Treasury Operations and Non-Entity Costs" for FY 2024 increased by $190.4 billion due to $254.1 billion of higher federal debt interest costs, corresponding to the increase in federal debt as mentioned above, partially offset by a $48.7 billion of higher revenue from our investments in two Government-Sponsored Enterprises (GSEs) – the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) – pursuant to our Senior Preferred Stock Purchase Agreements (SPSPAs), as amended (refer to Note 11 of the Consolidated Financial Statements).



	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Total Assets	$32,200.1	$32,591.1	$34,846.9	$37,288.0	$39,697.5
Total Liabilities	$31,152.8	$31,626.2	$33,991.1	$36,491.9	$38,976.5
Net Position	$1,047.3	$964.9	$855.8	$796.1	$721.0

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

Total Assets of $39.7 trillion at September 30, 2024, consist of a receivable due from the General Fund of the U.S. government (General Fund) of $35.5 trillion, intra-governmental loans and interest receivable of $1.9 trillion, and fund balance and various other assets totaling $2.3 trillion (Figure 2).

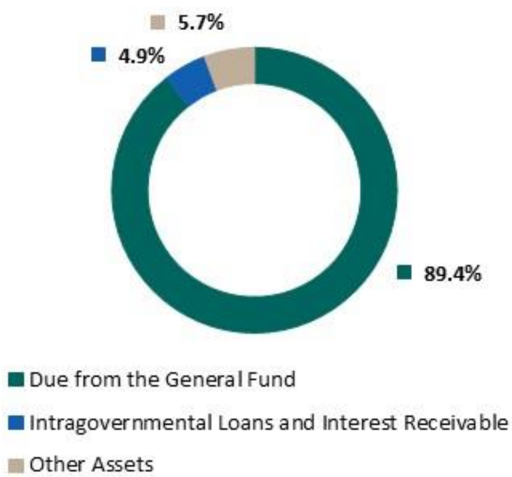


Figure 2: FY 2024 Total Assets (Composition)

The $2.4 trillion (or 6.5 percent) increase in total assets at the end of FY 2024 over the prior year is primarily due to a $2.3 trillion increase in our receivable, "*Due From the General Fund,*" which corresponds to a $2.3 trillion increase in federal debt and interest payable. The "*Due From the General Fund*" asset represents future funds required from the General Fund to pay borrowings from the public and other federal agencies.

Intra-governmental *"Loans and Interest Receivable"* represents loans issued primarily by the Fiscal Service to other federal agencies for their own use or for the agencies to loan to private sector borrowers whose loans are guaranteed by the federal agencies. This receivable decreased by $25.0 billion (or 1.3 percent) during FY 2024 due to lower borrowings from the Small Business Administration and Department of the Education, partially offset by higher borrowing from the Federal Deposit Insurance Corporation (acting in its capacity as Receiver) and Department of Housing and Urban Development —to fund their programs.

Other assets primarily include *"Fund Balance," "Cash, Foreign Currency, and Other Monetary Assets," "Taxes Interest, and Other Receivables, Net," "Advances and Prepayments,"* and "*Investments in Government Sponsored Enterprises*." Other assets totaling $2.3 trillion increased by $183.5 billion or (8.8 percent), largely reflecting an increase in our "*Cash, Foreign Currency, and Other Monetary Assets*" and "*Investments in Government Sponsored Enterprises,*" partially offset by a decrease in our "*Advances and Prepayments"* and "*Taxes, Interest, and Other Receivables, Net*".

The *Cash, Foreign Currency, and Other Monetary Assets,"* primarily comprised of operating cash of the U.S. government, increased by $244.7 billion principally driven by our one-week prudent cash policy. The prudent policy requirement in the last week of September 2024 was significantly higher than in September 2023 due to differences in net outlays and maturing marketable debt. The "*Investments in Government Sponsored Enterprises*" increased by $65.4 billion primarily driven by fair value valuation gains and growth in the liquidation preference of the senior preferred stock (discussed below).

The "*Advances and Prepayments,*" decreased by $55.6 billion driven by additional liquidation of advances primarily paid to state, local, territorial, and Tribal governments pursuant to the COVID-19 related legislation enacted during FY 2021 and FY 2020 (refer to Note 10 within the Consolidated Financial Statements).

The *"Taxes, Interest, and Other Receivables, Net,"* primarily comprised of federal taxes receivable, decreased by 43.0 billion principally due to decreased unpaid transition taxes on foreign earnings pursuant to Internal Revenue Code Section 965(h) (refer to Note 8 to the Consolidated Financial Statements entitled *Taxes, Interest, and Other Receivables, Net*).

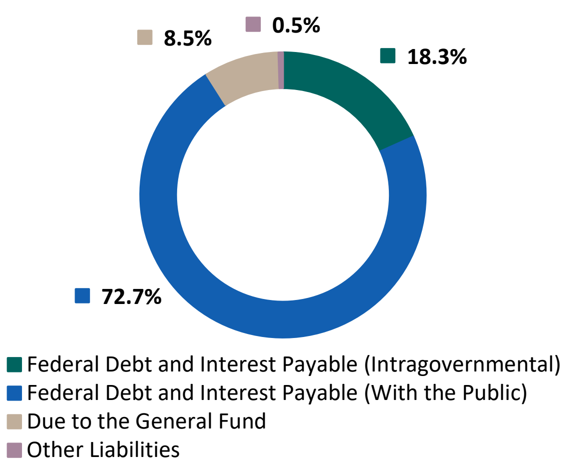
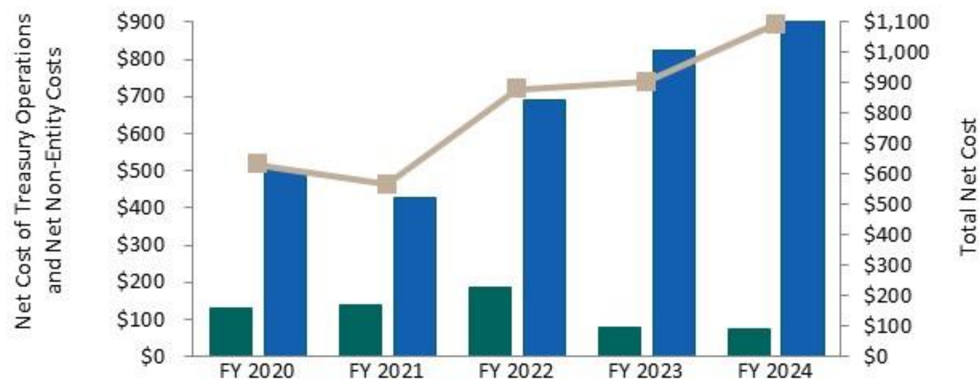


Figure 3: FY 2024 Total Liabilities (Composition)

Total Liabilities of $39.0 trillion at September 30, 2024, principally consist of the federal debt held by the public, including interest, of $28.3 trillion (Figure 3), which was mainly issued as Treasury Notes, Bonds, and Bills. Liabilities also include intra-governmental liabilities totaling $10.5 trillion (of which $7.1 trillion represent principal and interest of federal debt in the form of Treasury securities held by other federal agencies), and various other liabilities totaling $203.0 billion. Federal debt, including interest, held by the public and other federal agencies together totaled $35.5 trillion at the end of FY 2024, an increase of $2.3 trillion over the prior year. This increase in the federal debt accounts for the majority of the $2.5 trillion (or 6.8 percent) increase in total liabilities over the prior year. Federal debt is needed to finance the U.S. government's operations.

Total Net Position of $721.0 billion at September 30, 2024, represents the combined total of our cumulative results of operations and unexpended appropriations at the end of the fiscal year. The $75.1 billion decrease in the net position at the end of FY 2024 was principally attributable to a decrease in unexpended appropriations remaining available to support pandemic relief programs authorized through the *American Rescue Plan Act of 2021* (ARP), *Consolidated Appropriations Act, 2021* (CAA), and the CARES Act, along with a rescission of *Inflation Reduction Act* (IRA) funding imposed by Congress pursuant to the *Further Consolidated Appropriations Act, 2024*.



	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024
Net Cost of Treasury Operations	$128.5	$137.0	$186.8	$78.5	$74.0
Net Non-Entity Costs	$502.7	$428.3	$691.3	$823.6	$1,018.5
Total Net Cost	$631.2	$565.3	$878.1	$902.1	$1,092.5

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

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

"*Total Net Cost of Treasury Operations and Non-Entity Costs"* totaled $1,092.5 billion and $902.1 billion for FY 2024 and FY 2023, respectively, an increase of $190.4 billion (or 21.1 percent) over the prior year. Net costs associated with our entity operations (*"Net Cost of Treasury Operations"*) decreased $4.5 billion year-over-year primarily as a result of decreased costs associated with our pandemic relief programs and Special Drawing Rights (SDR) valuation adjustment. Net costs associated with our non-entity operations ("*Net Non-Entity Costs*") increased by $194.9 billion year-over-year, primarily driven by a combination of $254.1 billion of higher federal debt interest costs, partially offset by $48.7 billion of increased revenue from our GSE investments.

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

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

Table 3: Program Segments by Treasury Mission

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

Our *"Net Cost of Treasury Operations"* totaled $74.0 billion for FY 2024 compared to $78.5 billion for FY 2023, a decrease of $4.5 billion (or 5.7 percent). This decrease primarily stems from the year-over-year $5.6 billion net decrease in pandemic relief costs.

Federal Debt Interest Costs, Net (*a non-entity cost*) totaling $1.1 trillion for FY 2024 primarily reflect interest expense on the federal debt, net of interest income on loans. This net cost increased $248.4 billion (or 30.1 percent) from the prior year, primarily resulted from higher interest rates on newly issued and refinanced debt, and to a lesser extent, from an increase in outstanding debt held by the public.

Other Federal Costs, Net (*a non-entity cost*) of $14.4 billion in FY 2024 decreased by $1.5 billion from the prior year primarily due to a decrease in interest expense incurred on uninvested credit program funds held on behalf of other federal agencies.

GSEs Non-Entity Revenue, Net (*a non-entity revenue*) is reported as a net revenue totaling $65.4 billion and $16.7 billion for FY 2024 and FY 2023, respectively. GSE non-entity revenue is driven by fair value changes to our GSE investments and changes to the liquidation preference of our GSE senior preferred stock. The asset value of our GSE investments grew by $65.4 billion in FY 2024 compared to FY 2023, reflecting a fair value valuation gain in our senior preferred stock and warrants of $36.7 billion in FY 2024, coupled with a $28.7 billion growth in the liquidation preference of the senior preferred stock. The FY 2024 $36.7 billion fair value valuation gain when compared to the $3.8 billion fair value loss in the prior year, resulted in a year-over-year gain of $40.5 billion as reflected in the current fiscal year's net costs of non-entity operations. The $40.5 billion year-over-year fair value gain, coupled with a $8.2 billion year-over-year increase in our senior preferred stock liquidation preference (discussed below), resulted in a total $48.7 billion year-over-year change in this line.

Pursuant to amendments to the SPSPAs that, among other things, increased the GSEs' capital reserve amounts, the GSEs will not pay a quarterly dividend until they achieve their regulatory minimum capital requirement. We received no cash dividends for the fiscal years ended September 30, 2024 and 2023 as the GSEs' had not achieved their capital requirement as of the fiscal years ended (refer to Note 11 to the Consolidated Financial Statements). As compensation to Treasury for the replacement of the dividend, the SPSPA amendments call for the liquidation preference of the GSEs' senior preferred stock to increase by a specified amount until each GSE has achieved its capital reserve requirement. The liquidation preference of our senior preferred stock increased in value by $28.7 billion in FY 2024 compared to $20.5 billion in FY 2023, pursuant to the amended SPSPA, which had the effect of decreasing the year-over-year net costs of non-entity operations by $8.2 billion. The GSEs agreed that, at the end of each fiscal quarter, through and including the capital reserve end date, our liquidation preference will be increased by an amount equal to the increase in the GSEs' net worth amount, if any, during the immediately prior fiscal quarter.

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

Total Budgetary Resources of $1.6 trillion in FY 2024 (Figure 6) increased by $247.0 billion (or 18.3 percent), primarily due to a $231.6 billion increase in appropriations.

The $231.6 billion increase in appropriations stems primarily from a $248.8 billion year-over-year increase in new resources required to finance the public debt discussed above, partially offset by $20.2 billion of rescinded IRA IRS Enforcement funding. The rescission was imposed by Congress pursuant to the *Further Consolidated Appropriations Act, 2024*.

Agency Outlays, Net of $1,109.2 billion were higher in FY 2024 (Figure 6) by $238.1 billion (or 27.3 percent) primarily due to an increase in interest payments on public debt as discussed above, partially offset by a decrease in outlays in the form of financial assistance payments primarily in connection with pandemic relief programs.

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

Net Revenue Received (Custodial), representing the net revenue we collect on behalf of the U.S. government, includes various taxes, primarily income taxes, as well as user fees, fines and penalties, and other revenue (Figure 7). Over 90 percent of these revenues (before refunds) are related to income and social security taxes. Net revenue received was $4.6 trillion for FY 2024, a increase of $0.5 billion (or 12.6 percent) over the prior fiscal year. This increase is attributable mainly to an overall growth in income tax collections, primarily from individuals and corporations.

MANAGEMENT ASSURANCES

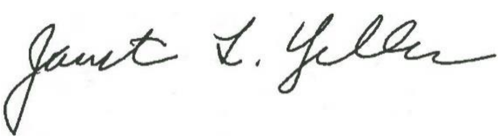
THE SECRETARY'S ASSURANCE STATEMENT

The Department of the Treasury's management is responsible for managing risks and maintaining effective internal control and financial management systems to meet the objectives of the *Federal Managers' Financial Integrity Act* (FMFIA). We conducted our assessment of risk and internal controls in accordance with OMB Circular A-123, *Management's Responsibility for Enterprise Risk Management and Internal Control*.

Based on our assessment, we can provide reasonable assurance that, in accordance with Section 2 of the FMFIA, Treasury's internal control over operations, reporting, and compliance with laws and regulations were operating effectively as of September 30, 2024. In addition, we can provide reasonable assurance that, as of September 30, 2024, we are in substantial conformance with the federal financial management systems requirements of Section 4 of the FMFIA, with the exception of the significant deficiency related to the financial management systems that support the IRS's accounting for unpaid assessments. However, as a result of this significant deficiency, we have assessed that our financial management systems were not in substantial compliance with the *Federal Financial Management Improvement Act* (FFMIA) as of September 30, 2024.

Prior to FY 2024, we had reported a significant deficiency in the IRS's internal control over both its unpaid assessments and information system controls. During FY 2024, we were successful in downgrading that component of this significant deficiency related to the IRS's information system controls.

We continue to make progress in remediating the remaining component of the IRS's significant deficiency related to unpaid assessments and are committed to focusing management's attention and resources on appropriate corrective actions. Overall, we continue our efforts to ensure high standards, minimize internal control weaknesses, and meet federal financial management systems requirements. Additional information on the lack of compliance can be found in Part 3, Section A, of this report.



Janet L. Yellen
Secretary of the Treasury
November 15, 2024

Analysis of Systems, Controls, and Legal Compliance

FMFIA

Background

The FMFIA requires executive branch agencies to establish and maintain internal control and financial systems to provide reasonable assurance that:

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

OMB Circular A-123 provides the implementing guidance for FMFIA and defines management's responsibility to establish and assess internal controls. The Circular also requires federal agencies to adhere to the U.S. Government Accountability Office's (GAO) *Standards for Internal Control in the Federal Government*, and to evaluate and report on the effectiveness of the organization's internal controls to achieve: (1) the objectives of effective and efficient operations, (2) reliable reporting for internal and external use, and (3) compliance with applicable laws and regulations (FMFIA Section 2). Additionally, agencies are required to assess whether financial management systems comply with federal financial management systems requirements (FMFIA Section 4).

Analysis of Controls

The Secretary relies on the annual assurances of our principal bureaus and offices (components), which are supported in part by a comprehensive risk-based internal control evaluation plan. This plan includes a methodology that identifies and documents key controls and provides for the assessment and testing of those controls to provide reasonable assurance that the controls are designed, implemented, and operating effectively. As part of the evaluation process, we considered results of this extensive testing and assessment across the Department, various other internal reviews, and independent audits conducted by the OIG and GAO.

Internal Control over Financial Reporting

In accordance with OMB Circular A-123, Appendix A, *Management of Reporting and Data Integrity Risk*, we also conducted an assessment of our internal controls over financial reporting. Our components assessed the effectiveness of their internal controls to support reliable financial reporting through testing the design and operating effectiveness of key internal controls for material transactions. Based on the results of this assessment we can provide reasonable assurance regarding the effectiveness of our internal control over financial reporting as of September 30, 2024.

FFMIA and Financial Management Systems

FFMIA

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

FFMIA Section 803(c)(1) requires us to make an annual determination of the agency's substantial compliance with Section 803(a) of the Act based on a review of relevant factors. We assess our financial management systems annually for conformance with the requirements of the OMB Circular A-123, Appendix D, *Management of Financial Management Systems – Risk and Compliance*, and other federal financial management system requirements. Our assessment process includes the use of the FFMIA Compliance Determination Framework, (the "Compliance Framework") in OMB Circular A-123,

Appendix D, which is a risk- and evidence-based assessment model that leverages existing audits, evaluations, and reviews that auditors and agency management already perform. The Compliance Framework is an outcome-based approach to assessing FFMIA compliance through a series of financial management goals that are common to all agencies.

In applying the Compliance Framework, we assess available information from audit reports and other relevant and appropriate sources, such as the *Federal Information Security Modernization Act* (FISMA) compliance activities, to determine whether our financial management systems substantially comply with FFMIA. We also assess improvements and ongoing efforts to strengthen financial management systems and the impact of instances of noncompliance on overall financial management system performance. Based on the results of our overall assessment, we concluded that our financial management systems were not substantially compliant with federal financial management system requirements as of September 30, 2024, due to a significant deficiency at the IRS.

Prior to FY 2024, the IRS had a significant deficiency in internal control over financial reporting related to both its unpaid assessments and information system controls. During FY 2024, we were successful in downgrading that component of this significant deficiency related to the IRS's information system controls. The remaining component of the IRS's significant deficiency related to unpaid assessments is due to limitations in the ability of its financial management systems to classify unpaid assessments and report tax receivable in accordance with federal accounting standards. The IRS is fully committed to enhancing its financial systems and focusing its efforts to meet federal financial management system requirements.

Financial Management Systems

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

The FARS includes the following financial applications:

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

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

Nineteen of our bureaus and offices use centralized financial management, budget formulation and performance management, and IT hosting provided by the Fiscal Service's Administrative Resource Center (ARC). Additionally, the Treasury Executive Office for Asset Forfeiture (TEOAF) made steady progress and migrated to ARC's shared services as of October 2024. This effort will modernize and update TEOAF's core financial management system, procurement system, and related support services. The shared service approach enables bureaus and offices to access core financial systems without maintaining separate technical and system architectures. ARC also provides administrative services in the areas of financial management reporting and transaction processing, human resources, procurement, and travel to our bureaus and offices as well as to other federal entities to support core business activities. Using shared services reduces the need for Treasury to maintain duplicative financial management systems, thereby promoting efficiency and cost savings while enhancing the quality, timeliness, and accuracy of financial management processes.

Goals and Supporting Strategies

Our financial system goals and supporting strategies focus on improving, streamlining, and integrating current bureau financial management systems, as well as the current FARS applications, to support new financial management requirements and to support management's data-driven financial decision making. In FY 2024 we successfully migrated our FARS applications to the Microsoft Azure cloud hosting platform. The cloud adoption has allowed for a more cost effective and secure alternative that supports rapid deployment of new information technology (IT) assets.

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

We address security using a proactive, risk-based approach that ensures there are controls in place to identify, protect, detect, respond, and recover should our systems become compromised. If attacks are successful, our goal is to contain the incident while still accomplishing the organization's mission and protecting the data for which our organization has been entrusted. We maintain an information security program for our financial systems consistent with applicable FISMA requirements, OMB policy and guidance, and NIST standards and guidelines.

Our systems undergo annual security assessments, and we remediate security weaknesses we identify through those assessments by developing and implementing plans of action and milestones. Between assessments we utilize dashboards and workflows within our governance, risk, and compliance tool to evaluate and disposition any new risks as they are identified. We monitor bureau conformance with government-wide information technology security targets and provide roll-up reports quarterly to OMB. Representatives of the OIG evaluate our compliance with FISMA annually.

We continue to focus on financial innovation and transformation. In FY 2024, we have observed increased adoption of the Government Invoicing (G-Invoicing) solution across government, with $23.4 billion of Intragovernmental Buy/Sell Transactions processed in FY 2024, exceeding the overall FY 2023 total of $13.6 billion. Fiscal Service continues to partner closely with federal agencies and system vendors to enhance G-Invoicing. To underscore the importance of this initiative, Fiscal Service partnered with the OMB to issue an OMB Controller Alert in July, directing federal agencies to continue expediting their transition away from legacy processes and into G-Invoicing. OMB also issued a data call to better understand Chief Financial Officer's Act Agencies current and future use of G-Invoicing.

In FY 2024, Fiscal Service implemented data encryption to strengthen our cybersecurity posture. Many systems continued to meet milestones associated with the Platform Evolution Program (PEP) which is a Fiscal Service-wide technology transformation initiative that includes migrating applications to a cloud infrastructure and modernizing legacy systems. This enterprise priority is in response to Section 3 of Executive Order 14028 *Improving the Nation's Cybersecurity*. We successfully migrated the Governmentwide Treasury Account Symbol Adjusted Trial Balance System in June 2024. Additionally, ARC implemented five new Robotic Process Automation systems to improve efficiency, timeliness, and quality in its service operations and business processes.

IMPROPER PAYMENTS

Background

The Payment Integrity Information Act of *2019* (PIIA) requires agencies to annually report on all programs and activities, identify those that may be susceptible to significant improper payments, estimate annual improper payments in the susceptible programs and activities, and report the results of their improper payment activities. An improper payment is any payment that should not have been made or that was made in an incorrect amount (including both overpayments and underpayments).

Risk Assessments and Results

In FY 2024, we completed a full program inventory and performed risk assessments to identify programs that have a significant risk of improper payments. We perform our assessment of each program on a three-year rotational schedule, excluding the Earned Income Tax Credit (EITC), the American Opportunity Tax Credit (AOTC), the Additional Child Tax Credit (ACTC), and the net Premium Tax Credit (PTC), using the eleven qualitative risk factors identified in OMB Circular A-123, Appendix C, *Requirements for Payment integrity Improvement*. We assessed risks related to the amounts of payments we processed relative to the OMB specified threshold amounts which define programs susceptible to significant improper payments. As a result of prior risk assessments, we determined that the EITC, the AOTC, the ACTC, and the net PTC are susceptible to significant improper payments.

The EITC, AOTC, ACTC, and net PTC are refundable tax credits that offset the income tax taxpayers owe. If the credit exceeds the amount of taxes due, the IRS provides a refund payment to those who qualify. The IRS estimates that for FY 2024, 27.3 percent ($15.9 billion) of the total EITC payments of $58.4 billion were improper. For the AOTC, the IRS estimates that for FY 2024, 27.7 percent ($1.4 billion) of the total payments of $5.2 billion were improper. For the ACTC, the IRS estimates that for FY 2024, 10.7 percent ($3.4 billion) of the total payments of $32.1 billion were improper. For net PTC, the IRS estimates that for FY 2024, 28.5 percent ($0.7 billion) of the total payments of $2.3 billion were improper. The IRS has a robust enforcement program for its refundable tax credits, which consist of examinations and audits, math error notices, and document matching.

We are reporting improper payment estimates for these four refundable tax credits in accordance with OMB Circular A-123, Appendix C. However, it is our position that refundable tax credits are more appropriately addressed in the Tax Gap (see Part 3, Section B: *Tax Gap and Tax Burden*, of this report), which is how we manage noncompliance.

Certain COVID-19 pandemic relief programs were determined to be susceptible to significant improper payments. Because of their short-term nature, we did not report estimates of improper payments for these programs. However, these programs continue to conduct risk assessments in accordance with OMB guidelines. In addition, we are actively identifying and attempting to recover those payments deemed to be improper under these programs.

Additional information on refundable tax credits, COVID-19 pandemic relief programs, and improper payment reporting can be found in Part 3, Section D: *Payment Integrity*.

Payment Recapture Audits

The PIIA requires agencies to conduct payment recapture audits (also known as recovery audits) for each program and activity that expends $1 million or more annually, if conducting such audits would be cost-effective. We performed the payment recapture activities in accordance with OMB Circular A-123, Appendix C. Details on our improper payments and results can be found at https://paymentaccuracy.gov/.

PART 2:

FINANCIAL SECTION

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

Aditi Hardikar
Assistant Secretary
for Management

Carole Y. Banks
Deputy Chief Financial
Officer

In fiscal year 2024, Treasury continued to pursue an aggressive set of initiatives to manage the Department more efficiently and implement the priorities set by the Secretary of the Treasury and the President.

In fiscal year 2024, we also demonstrated effective fiscal and management leadership by:

- Maturing our ability to assess, measure, and improve the health of Treasury's organizations and work environment through examination of organizational performance, resiliency, and capacity;
- Continuing to further efforts on diversity, equity, inclusion, and accessibility;
- Addressing department-wide and financial sector cybersecurity risks, continuing our efforts on Treasury's enterprise IT and Cyber strategy, modernizing information technology, and leveraging data as a strategic asset; and
- Developing Treasury's fiscal year 2024 Climate Adaptation Plan, which builds on a strong foundation from our 2021 Climate Action Plan and includes assessing our financial investments in property and ensuring the integrations of new technologies, best practices, and designs into operations, construction, planning, and maintenance.

We received an unmodified audit opinion on our consolidated financial statements for the 25th consecutive year. We were also successful this past year in downgrading a major component of our long-standing significant deficiency related to the Internal Revenue Service's information system controls. We are proud of this progress. Despite the complexity of Treasury's financial systems, we remain committed to making steady progress toward fully resolving all remaining deficiencies associated with our systems.

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

Aditi Hardikar
Assistant Secretary for Management
November 15, 2024

Carole Y. Banks
Deputy Chief Financial Officer
November 15, 2024

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INSPECTOR GENERAL'S TRANSMITTAL LETTER

DEPARTMENT OF THE TREASURY
WASHINGTON, D. C. 20220

OFFICE OF
INSPECTOR GENERAL

November 15, 2024

INFORMATION MEMORANDUM FOR SECRETARY YELLEN

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

SUBJECT: Audit of the Department of the Treasury's Consolidated Financial Statements for Fiscal Years 2024 and 2023

INTRODUCTION

The Chief Financial Officer's Act, as amended, requires the Department of the Treasury's (Treasury) Inspector General or an independent auditor, as determined by the Inspector General, to audit Treasury's consolidated financial statements. We contracted with the certified independent public accounting firm KPMG LLP (KPMG) to audit the consolidated financial statements of Treasury as of September 30, 2024 and 2023, and for the years then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*.

RESULTS OF INDEPENDENT AUDIT

In its audit of Treasury, KPMG reported

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

- a significant deficiency in internal control over financial reporting at the Internal Revenue Service representing a significant deficiency for Treasury as a whole;

- noncompliance with certain requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA) related to federal financial management systems requirements; and

- no instances of reportable noncompliance with laws, regulations, contracts and grant agreements tested.

EVALUATION OF AUDITORS' PERFORMANCE

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on Treasury's consolidated financial statements; conclusions about the effectiveness of internal control; whether Treasury's financial management systems substantially complied with FFMIA; and compliance with laws, regulations, contracts, and grant agreements. KPMG is responsible for the attached auditor's report dated November 15, 2024, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

I appreciate the courtesy and cooperation extended to KPMG and my staff during the audit. If you wish to discuss this report, please contact me at (202) 528-8997 or Deborah L. Harker, Assistant Inspector General for Audit, at (202) 486-1420.

Attachment

cc: Aditi S. Hardikar
Assistant Secretary for Management

Carole Y. Banks
Deputy Chief Financial Officer

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

Independent Auditors' Report

Acting Inspector General
Department of the Treasury

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Department of the Treasury (Department), which comprise the consolidated balance sheets as of September 30, 2024 and 2023, and the related consolidated statements of net costs, consolidated statements of changes in net position, statements of custodial activity, and combined statements of budgetary resources for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, based on our audits and the reports of the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Department as of September 30, 2024 and 2023, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

We did not audit the financial statements of the Internal Revenue Service (IRS), a component entity of the Department, which statements reflect total assets constituting 0.53 percent and 0.74 percent, respectively, of the Department's consolidated total assets at September 30, 2024 and 2023; net costs of operations constituting 23.48 percent and 20.04 percent, respectively, of the Department's consolidated net costs of operations for the years then ended; budgetary resources constituting 4.32 percent and 6.86 percent, respectively, of the Department's combined budgetary resources for the years then ended; and custodial revenue constituting 99.38 percent and 99.34 percent, respectively, of the Department's total custodial revenue for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for IRS, is based solely on the report of the other auditors.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 24-02, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-02 are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Department and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 11, the Department is a participant in transactions with certain entities as part of significant legislation whose purpose is to assist in stabilizing the financial markets. Also as discussed in Note 1AB, the U.S. government's interventions with regards to these entities are not expected to be permanent. Furthermore, as discussed in Notes 1V and 11, the value of certain investments and commitments is based on estimates. These estimates are inherently subject to substantial uncertainty arising from the likelihood of future changes in general economic, regulatory, and market conditions. As such, there will likely be differences between the estimated value of these investments and commitments as of September 30, 2024 and 2023, and the amounts that may ultimately be realized from these investments or may be required to settle these commitments. Such differences may be material and will also affect the ultimate cost of these programs. Our opinion is not modified with respect to these matters.

Other Matter - Interactive Data

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

Responsibilities of Management for the Consolidated Financial Statements

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-02 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and OMB Bulletin No. 24-02, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

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

Required Supplementary Information

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

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

Report on Internal Control Over Financial Reporting

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

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2024, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We, and the other auditors, did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

Significant Deficiency in Internal Control Over Financial Reporting at the Internal Revenue Service

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

During fiscal year 2024, the systems IRS uses to account for federal taxes receivable and other unpaid assessment balances continued to have limitations. Because of these limitations, IRS's systems were unable to provide the timely, reliable, and complete transaction-level financial information necessary to enable IRS to appropriately classify and report unpaid assessment balances. As in prior years, IRS used a manually driven statistical estimation process to compensate for the effects of its system limitations and other deficiencies on a material portion of its federal taxes receivable balance to help ensure that this balance was free from material misstatement. During fiscal year 2024, IRS recorded adjustments totaling about $14.3 billion to correct the effects of continued errors in its underlying data that it identified during its estimation process.

While using this process to determine a material portion of taxes receivable has enabled IRS to produce reliable related balances for year-end reporting, it does not provide IRS management with readily available, reliable unpaid assessment information daily throughout the year for effectively managing unpaid assessment balances. Further, these limitations led to errors in taxpayer accounts, which create a burden for those taxpayers whose accounts were affected.

Recommendation

The other auditors separately provided IRS management a report detailing the conditions identified and their recommendations to address the above significant deficiency. We recommend that the Assistant Secretary for Management (ASM) and Deputy Chief Financial Officer (DCFO) ensure that IRS implements corrective actions to resolve the significant deficiency at IRS.

Report on Compliance and Other Matters

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

As part of obtaining reasonable assurance about whether the Department's consolidated financial statements as of and for the year ended September 30, 2024 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our and those of the other auditors' tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-02.

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

Noncompliance with Federal Financial Management Improvement Act of 1996

As a result of the significant deficiency in internal controls over unpaid assessments that existed during fiscal year 2024, the Department's financial management systems did not substantially comply with the federal financial management systems requirements. Specifically, the Department did not consistently design, implement, and operate information system controls in accordance with the federal financial management system requirements.

Recommendation

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

Department's Response to Findings

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

Purpose of the Other Reporting Required by *Government Auditing Standards*

The purpose of the communication described in the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters sections is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Department's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
November 15, 2024

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MANAGEMENT'S RESPONSE TO INDEPENDENT AUDITORS' REPORT

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

November 15, 2024

KPMG LLP
1801 K Street, NW
Washington, DC 20006

To Whom This May Concern:

On behalf of Secretary Yellen, we are responding to your audit report on the Department of the Treasury's fiscal year 2024 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 25th consecutive year.

The high level of professionalism, technical expertise, and integrity demonstrated by KPMG LLP in conducting this year's audit contributed greatly to Treasury's successful fiscal year 2024 results. We also appreciate the expertise and commitment demonstrated by the other organizations involved in the audit process - the Office of Inspector General, Government Accountability Office, and the firms that audited several of our bureaus.

Overall, we have made significant progress in enhancing our internal control environment this year, successfully downgrading a major component of our long-standing significant deficiency related to the Internal Revenue Service (IRS)'s information system controls. We acknowledge the remaining component of the IRS's significant deficiency related to unpaid assessments, concur with your recommendations, and will maintain our focus on necessary corrective actions to address these issues.

We are very proud of our progress and remain committed to ensuring high standards of integrity and transparency in reporting our financial performance.

Aditi Hardikar	Carole Y. Banks
Assistant Secretary for Management	Deputy Chief Financial Officer

Consolidated Balance Sheets
As of September 30, 2024 and 2023

(in millions)	2024	2023
ASSETS		
Intra-Governmental		
Fund Balance (Note 2)	$ **530,829**	$ 543,532
Loans Receivable:		
Loans and Interest Receivable (Note 3)	**1,928,528**	1,953,567
Advances to Trust Funds (Note 3)	**32,170**	37,269
Other Assets:		
Due From the General Fund (Note 4)	**35,493,300**	33,242,246
Other (Note 15)	**1,508**	1,501
Total Intra-Governmental	**37,986,335**	35,778,115
Other Than Intra-Governmental		
Cash and Other Monetary Assets:		
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	**1,061,270**	816,530
Gold and Silver Reserves (Note 6)	**11,062**	11,062
Reserve Position in the International Monetary Fund (Note 7)	**28,733**	31,970
Accounts Receivable, Net:		
Taxes, Interest, and Other Receivables, Net (Note 8)	**142,002**	185,003
Loans Receivable, Net:		
Loans and Interest Receivable, Net (Notes 7 and 9)	**13,387**	12,481
Credit Program Receivables, Net (Note 9)	**2,864**	3,386
Advances and Prepayments (Note 10)	**116,304**	171,890
Investments in Government Sponsored Enterprises (GSEs) (Note 11)	**305,800**	240,410
Other Investments:		
Investments in Multilateral Development Banks (Note 12)	**9,249**	9,105
Investments in Special Purpose Vehicles (Note 13)	**5,985**	15,114
Other, Net (Note 13)	**6,013**	6,674
Property, Plant, and Equipment, Net (Note 14)	**4,677**	3,256
Other Assets (Note 15)	**3,776**	2,968
Total Other Than Intra-Governmental	**1,711,122**	1,509,849
Total Assets	$ **39,697,457**	$ 37,287,964

Stewardship Property, Plant, and Equipment (Note 14)

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

Consolidated Balance Sheets
As of September 30, 2024 and 2023

(in millions)	2024	2023
LIABILITIES		
Intra-Governmental		
Federal Debt and Interest Payable:		
Federal Debt and Interest Payable (Notes 4 and 16)	$ **7,140,460**	$ 6,878,998
Other Federal Debt and Interest Payable (Note 17)	**4,542**	5,527
Other Liabilities:		
Due To the General Fund (Note 4)	**3,307,489**	3,080,791
Other (Note 19)	**2,647**	2,872
Total Intra-Governmental	**10,455,138**	9,968,188
Other Than Intra-Governmental		
Federal Debt and Interest Payable (Notes 4 and 16)	**28,318,278**	26,328,135
Accounts Payable:		
Refunds Payable (Note 4)	**4,446**	6,662
Other Payables	**1,862**	1,945
Other Liabilities:		
Special Drawing Right Certificates Issued to the Federal Reserve (Note 5)	**10,200**	5,200
Allocation of Special Drawing Rights (Note 5)	**155,795**	151,041
Gold Certificates Issued to the Federal Reserve Banks (Note 6)	**11,037**	11,037
D.C. Federal Pension and Judicial Retirement Actuarial Liability (Note 18)	**8,541**	8,780
Other (Note 19)	**11,158**	10,941
Total Other Than Intra-Governmental	**28,521,317**	26,523,741
Total Liabilities (Note 19)	**38,976,455**	36,491,929
Commitments and Contingencies (Note 27)		
NET POSITION		
Unexpended Appropriations		
Funds from Dedicated Collections (Note 24)	**200**	200
Funds from Other than Dedicated Collections	**637,911**	718,186
Total Unexpended Appropriations	**638,111**	718,386
Cumulative Results of Operations		
Funds from Dedicated Collections (Note 24)	**53,316**	49,066
Funds from Other than Dedicated Collections	**29,575**	28,583
Total Cumulative Results of Operations	**82,891**	77,649
Total Net Position (Note 20)	**721,002**	796,035
Total Liabilities and Net Position	$ **39,697,457**	$ 37,287,964

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

Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2024 and 2023

(in millions)	2024	2023
COST OF TREASURY OPERATIONS:		
Economic Program		
Gross Cost	**$ 81,778**	$ 90,462
Less Earned Revenue	**(23,798)**	(29,512)
Net Program Cost	**57,980**	60,950
Financial Program		
Gross Cost	**28,517**	27,337
Less Earned Revenue	**(13,230)**	(10,700)
Net Program Cost	**15,287**	16,637
Security Program		
Gross Cost	**603**	518
Less Earned Revenue	**(11)**	(13)
Net Program Cost	**592**	505
Total Program Gross Costs	**110,898**	118,317
Total Program Earned Revenues	**(37,039)**	(40,225)
Total Net Program Cost before Changes in Actuarial Assumptions	**73,859**	78,092
Loss on Pension, ORB, or OPEB Assumption Changes	**172**	443
Total Net Cost of Treasury Operations (Note 21)	**74,031**	78,535
NON-ENTITY COSTS:		
Federal Debt Interest	**1,125,154**	871,019
Restoration of Foregone Federal Debt Interest (Note 16)	**-**	3,292
Less Interest Revenue from Loans	**(50,137)**	(47,745)
Federal Debt Interest Costs, Net	**1,075,017**	826,566
Other Federal Costs, Net (Note 21)	**14,375**	15,856
GSEs Non-Entity Revenue, Net (Note 11)	**(65,390)**	(16,690)
Federal Debt Buyback Gain (Note 16)	**(3,457)**	(2)
COVID-19 Non-Entity Revenue, Net (Note 20)	**(1,214)**	(1,263)
Other, Net	**(882)**	(918)
Total Net Non-Entity Costs	**1,018,449**	823,549
Total Net Cost of Treasury Operations and Non-Entity Costs	**1,092,480**	$ 902,084

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

Consolidated Statement of Changes in Net Position
For the Fiscal Year Ended September 30, 2024

(in millions)	Consolidated Funds from Dedicated Collections	Consolidated Funds from Other than Dedicated Collections	Eliminations	2024 Total
UNEXPENDED APPROPRIATIONS (Notes 20 and 24)				
Beginning Balance	$ 200	$ 718,186	$ -	$ 718,386
Appropriations Received	-	1,131,509	-	1,131,509
Other Adjustments	-	(24,835)	-	(24,835)
Appropriations Used	-	(1,186,949)	-	(1,186,949)
Net Change in Unexpended Appropriations	-	(80,275)	-	(80,275)
Total Unexpended Appropriations	200	637,911	-	638,111
CUMULATIVE RESULTS OF OPERATIONS (Notes 20 and 24)				
Beginning Balance	49,066	28,583	-	77,649
Appropriations Used	-	1,186,949	-	1,186,949
Non-Exchange Revenue	1,152	7	(402)	757
Donations and Forfeitures of Cash/Equivalent	719	-	-	719
Transfers In/(Out) Without Reimbursement	(2,708)	2,119	-	(589)
Donation/Forfeiture of Property	779	-	-	779
Accrued Interest and Discount on Debt	-	33,819	-	33,819
Imputed Financing Sources (Note 21)	137	1,286	-	1,423
Transfers to the General Fund and Other	1,835	(127,970)	-	(126,135)
Net Cost of Treasury Operations and Non-Entity Costs	2,336	(1,095,218)	402	(1,092,480)
Net Change in Cumulative Results of Operations	4,250	992	-	5,242
Total Cumulative Results of Operations	53,316	29,575	-	82,891
Net Position	$ 53,516	$ 667,486	$ -	$ 721,002

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

Consolidated Statement of Changes in Net Position
For the Fiscal Year Ended September 30, 2023

(in millions)	Consolidated Funds from Dedicated Collections	Consolidated Funds from Other than Dedicated Collections	Eliminations	2023 Total
UNEXPENDED APPROPRIATIONS (Notes 20 and 24)				
Beginning Balance	$ 200	$ 785,761	$ -	$ 785,961
Appropriations Received	-	845,087	-	845,087
Appropriations Transferred In/Out	-	(21)	-	(21)
Other Adjustments	-	(5,301)	-	(5,301)
Appropriations Used	-	(907,340)	-	(907,340)
Net Change in Unexpended Appropriations	-	(67,575)	-	(67,575)
Total Unexpended Appropriations	200	718,186	-	718,386
CUMULATIVE RESULTS OF OPERATIONS (Notes 20 and 24)				
Beginning Balance	45,259	24,562	-	69,821
Appropriations Used	-	907,340	-	907,340
Non-Exchange Revenue	834	1	(285)	550
Donations and Forfeitures of Cash/Equivalent	28	-	-	28
Transfers In/(Out) Without Reimbursement	(1,376)	254	-	(1,122)
Donation/Forfeiture of Property	714	-	-	714
Accrued Interest and Discount on Debt	-	70,342	-	70,342
Imputed Financing Sources (Note 21)	99	1,005	-	1,104
Transfers to the General Fund and Other	1,498	(70,542)	-	(69,044)
Net Cost of Treasury Operations and Non-Entity Costs	2,010	(904,379)	285	(902,084)
Net Change in Cumulative Results of Operations	3,807	4,021	-	7,828
Total Cumulative Results of Operations	49,066	28,583	-	77,649
Net Position	$ 49,266	$ 746,769	$ -	$ 796,035

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

Combined Statement of Budgetary Resources
For the Fiscal Year Ended September 30, 2024

(in millions)	Budgetary	Non Budgetary Financing	2024 Total
BUDGETARY RESOURCES			
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 22)	$ 406,935	$ 23	$ 406,958
Appropriations (discretionary and mandatory) (Note 20)	1,150,421	-	1,150,421
Borrowing authority (discretionary and mandatory)	-	21,792	21,792
Spending authority from offsetting collections (discretionary and mandatory)	16,150	665	16,815
Total Budgetary Resources	$ 1,573,506	$ 22,480	$ 1,595,986
STATUS OF BUDGETARY RESOURCES			
New obligations and upward adjustments	$ 1,201,659	$ 22,095	$ 1,223,754
Unobligated balance, end of year:			
Apportioned, unexpired accounts	314,373	294	314,667
Exempt from apportionment, unexpired accounts	1,888	-	1,888
Unapportioned, unexpired accounts	54,113	91	54,204
Unexpired unobligated balance, end of year	370,374	385	370,759
Expired unobligated balance, end of year	1,473	-	1,473
Unobligated balance, end of year	371,847	385	372,232
Total Status of Budgetary Resources	$ 1,573,506	$ 22,480	$ 1,595,986
OUTLAYS, NET, AND DISBURSEMENTS, NET			
Outlays, net (discretionary and mandatory)	$ 1,174,866	$ -	$ 1,174,866
Distributed offsetting receipts	(65,685)	-	(65,685)
Agency Outlays, Net (Discretionary and Mandatory)	$ 1,109,181	$ -	$ 1,109,181
Disbursements, net (mandatory)		$ (9,364)	$ (9,364)

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

Combined Statement of Budgetary Resources
For the Fiscal Year Ended September 30, 2023

(in millions)	Budgetary	Non Budgetary Financing	2023 Total
BUDGETARY RESOURCES			
Unobligated balance from prior year budget authority, net (discretionary and mandatory) (Note 22)	$ 415,578	$ 206	$ 415,784
Appropriations (discretionary and mandatory) (Note 20)	918,840	-	918,840
Borrowing authority (discretionary and mandatory)	-	1,000	1,000
Spending authority from offsetting collections (discretionary and mandatory)	13,143	250	13,393
Total Budgetary Resources	$ 1,347,561	$ 1,456	$ 1,349,017
STATUS OF BUDGETARY RESOURCES			
New obligations and upward adjustments	$ 953,089	$ 1,407	$ 954,496
Unobligated balance, end of year:			
Apportioned, unexpired accounts	340,770	29	340,799
Exempt from apportionment, unexpired accounts	1,929	-	1,929
Unapportioned, unexpired accounts	50,838	20	50,858
Unexpired unobligated balance, end of year	393,537	49	393,586
Expired unobligated balance, end of year	935	-	935
Unobligated balance, end of year	394,472	49	394,521
Total Status of Budgetary Resources	$ 1,347,561	$ 1,456	$ 1,349,017
OUTLAYS, NET, AND DISBURSEMENTS, NET			
Outlays, net (discretionary and mandatory)	$ 930,832	$ -	$ 930,832
Distributed offsetting receipts	(59,773)	-	(59,773)
Agency Outlays, Net (Discretionary and Mandatory)	$ 871,059	$ -	$ 871,059
Disbursements, net (mandatory)		$ (4,228)	$ (4,228)

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

Statements of Custodial Activity
For the Fiscal Years Ended September 30, 2024 and 2023

(in millions)	2024	2023
SOURCES OF CUSTODIAL REVENUE (Note 23)		
Individual Income and FICA Taxes	$ **4,409,322**	$ 4,111,955
Corporate Income Taxes	**565,086**	456,941
Estate and Gift Taxes	**32,868**	35,434
Excise Taxes	**94,720**	92,344
Railroad Retirement Taxes	**6,929**	7,218
Unemployment Taxes	**8,130**	7,947
Deposit of Earnings, Federal Reserve System	**3,131**	581
Fines, Penalties, Interest and Other Revenue	**8,197**	8,680
Total Revenue Received	**5,128,383**	4,721,100
Less Refunds and Other Payments	**(553,442)**	(659,569)
Net Revenue Received	**4,574,941**	4,061,531
Non-Cash Accrual Adjustment	**(39,789)**	(53,696)
Total Custodial Revenue	**4,535,152**	4,007,835
DISPOSITION OF CUSTODIAL REVENUE (Note 23)		
Amounts Provided to Fund Non-Federal Entities	**399**	369
Amounts Provided to Fund the Federal Government	**4,574,542**	4,061,162
Non-Cash Accrual Adjustment	**(39,789)**	(53,696)
Total Disposition of Custodial Revenue	**4,535,152**	4,007,835
Custodial Revenue Less Disposition of Collections	$ **-**	$ -

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

NOTES TO THE FINANCIAL STATEMENTS

TABLE OF CONTENTS

1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

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

Our seven operating bureaus are: Bureau of Engraving and Printing (BEP), Bureau of the Fiscal Service (Fiscal Service), Financial Crimes Enforcement Network (FinCEN), Internal Revenue Service (IRS), U.S. Mint (Mint), Office of the Comptroller of the Currency (OCC), and Alcohol and Tobacco Tax and Trade Bureau (TTB). Our consolidated financial statements reflect the reporting of our entity activities, comprising both our operating bureaus and DO. This includes appropriations received to conduct our operations and revenue generated from those operations. They also reflect the reporting of certain non-entity (custodial) functions we perform on behalf of the U.S. government and others. Non-entity activities include collecting certain federal revenue, servicing the federal debt, disbursing certain federal funds, and maintaining certain assets and liabilities for the U.S. government (refer to Notes 4 and 15), as well as for other federal entities. Our reporting entity does not include the General Fund of the U.S. Government (General Fund), which maintains receipt, disbursement, and appropriation accounts for all federal agencies.

Following U.S. Generally Accepted Accounting Principles (GAAP) for federal entities, we do not consolidate into our financial statements the assets, liabilities, or results of operations of any financial organization or commercial entity in which we hold either a direct or indirect majority equity investment, unless they meet the criteria for consolidation as described in Statement of Federal Financial Accounting Standards (SFFAS) 47, *Reporting Entity*. We have determined that none of our significant equity investments meet such criteria for consolidation. SFFAS 47 also provides criteria for reporting "disclosure entities" and "related party" relationships of such significance that it would be misleading to exclude information about them. Refer to the accounting policy below entitled "*Disclosure Entities and Related Parties*" for additional information on Treasury's "disclosure entities" and "related parties", which are material to our consolidated financial statements, of significance to the public, or required by SFFAS 47.

B. Basis of Accounting and Presentation

The financial statements have been prepared from our accounting records in conformity with GAAP, and Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements,* as revised. Accounting principles generally accepted for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). The American Institute of Certified Public Accountants recognizes FASAB as the official accounting standards-setting body for the U.S. government. Certain presentations and disclosures may be modified, if needed, to prevent the disclosure of classified information.

These financial statements consist of the Consolidated Balance Sheets, the Consolidated Statements of Net Cost, the Consolidated Statements of Changes in Net Position, the Combined Statements of Budgetary Resources, and the Statements of Custodial Activity. The statements and the related notes are prepared in a comparative form to present both fiscal year (FY) 2024 and 2023 information.

We have eliminated transactions and balances among our entities from the Consolidated Balance Sheets, Consolidated Statements of Net Cost, and Consolidated Statements of Changes in Net Position. We present the Statements of Budgetary Resources on a combined basis; therefore, intra-departmental transactions and balances have not been eliminated from these statements.

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

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

The financial statements should be read with the recognition that we are a component of the U.S. government, a sovereign entity and, accordingly, our liabilities not covered by budgetary resources cannot be liquidated without the legislative enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity. Liabilities represent the probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities covered by budgetary resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due. Liabilities not covered by budgetary resources represent amounts owed in excess of available, congressionally appropriated funds or other amounts, and there is no certainty that the appropriations will be enacted. Liabilities not requiring budgetary resources are liabilities that have not in the past required, nor will in the future, require budgetary resources, *e.g.*, liabilities for clearing accounts, non-fiduciary deposit funds, custodial collections, and unearned revenue.

We have reclassified certain FY 2023 activity and balances presented in the notes to the financial statements to conform to the presentation in the current year.

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

C. Fund Balance

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

D. Loans Receivable – Intra-Governmental

Loans and Interest Receivable

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

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

Advances to the Unemployment Trust Fund

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

Advances to the Federal Supplementary Medical Insurance Trust Fund

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

Advances to the Agricultural Disaster Relief Trust Fund

The General Fund issues advances to the U.S. Department of Agriculture's (USDA) Agricultural Disaster Relief Trust Fund to make payments to farmers and ranchers under disaster relief programs established in accordance with the *Food, Conservation, and Energy Act of 2008,* Public Law (P.L.) 110-246. The Fiscal Service accounts for the advances issued on behalf of the General Fund. As outlined in 19 USC 2497a, *Agricultural Disaster Relief Trust Fund*, interest on advances is at a rate determined by the Secretary to be equal to the current average market yield of comparable marketable obligations with similar maturity dates, compounded annually. These advances are recorded within the *"Advances to Trust Funds"* line of the Consolidated Balance Sheets.

E. CASH, FOREIGN CURRENCY, AND OTHER MONETARY ASSETS

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

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

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

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

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

F. TAXES, INTEREST, AND OTHER RECEIVABLES, NET

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

Taxes receivable consist of unpaid assessments (taxes and associated penalties and interest) due from taxpayers. The existence of a receivable is supported by a taxpayer agreement, such as filing of a tax return without sufficient payment, or a court ruling in favor of the IRS. We record an allowance for doubtful accounts to reflect an estimate of the portion of total taxes receivable deemed to be uncollectible. Taxes receivable also consist of unpaid taxes related to Internal Revenue Code (IRC) section 965, which requires taxpayers who are shareholders of certain specified foreign corporations to pay a transition tax on foreign earnings as if those earnings had been repatriated to the U.S. IRC 965(h) allows taxpayers to elect to pay their 965(h) tax on an eight-year installment schedule.

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

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

Loans and Interest Receivable, Net

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

The Coronavirus Disease 2019 (COVID-19) notes and interest receivable represent the principal and related interest receivable on promissory notes received in connection with providing financial assistance to air carriers, cargo air carriers, and airline contractors to support ongoing employment of their aviation workers under the *Coronavirus Aid, Relief, and Economic Security Act*, P.L. 116-136 (CARES Act), *Consolidated Appropriations Act, 2021*, P.L. 116-260 (CAA), and *American Rescue Plan Act of 2021*, P.L. 117-2 (ARP) (refer to Note 9). Interest revenue on the promissory notes is accrued as earned over the life of the notes. The notes include a Payment-In-Kind (PIK) option in which borrowers may elect to pay the interest in-kind, capitalizing the interest due to the principal amount of the note, instead of paying the interest in cash. We increase the principal balance of the note and reduce interest receivable by the amount of unpaid interest when borrowers make this PIK election.

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

Credit Program Receivables, Net

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

To account for our credit program receivables, we apply the accounting provisions of SFFAS 2, *Accounting for Direct Loans and Loan Guarantees*, as amended. SFFAS 2 requires measurement of the asset or liability at the net present value of the estimated future cash flows. The cash flow estimates for each credit program transaction reflect the actual structure of the instruments. For each of these instruments, we estimate cash inflows and outflows related to the program over the estimated term of the instrument. Further, each cash-flow estimate reflects the specific terms and conditions of the program, technical assumptions regarding the underlying assets, risk of default or other losses, and other factors as appropriate. The measurement of assets within these programs is primarily derived from inputs, which generally represent market data and, when such data is not available, management's best estimate of how a market participant would assess the asset's inherent risk.

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

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

- security characteristics such as unpaid principal balance, coupon rate, weighted-average loan age, issued bond balance, credit rating, maturity date, sinking fund schedules, principal and interest payment schedules, and performance of underlying collateral;
- discount rate;
- observed market prices;
- department actions, as well as changes in legislation;
- forecast dividend payments, late payments, prepayment rates and default rates;
- forward interest rates;
- historical prepayments;
- option adjusted spread;
- default and recovery reports Moody's and Standard and Poor's publish;
- modeled asset prices from third-party market sources; and

- forecast and historical Special Purpose Vehicles (SPVs) preferred equity repayments.

The recorded subsidy cost associated with each of our credit programs represents the difference between disbursed amounts and the net present value of future cash flows we anticipate receiving. The subsidy allowance, as initially established by the subsidy cost, takes into consideration projected repayments and defaults, and the projected cost of borrowings. We amortize the allowance to reflect the difference between projected and actual financing costs.

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

H. Advances and Prepayments

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

I. Investments

Investments in GSEs

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

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

The annual valuation as of September 30 of the senior preferred stock and warrants incorporates various forecasts, projections and cash flow analyses to develop an estimate of the assets' fair value. We estimate the value of the senior preferred stock by first estimating the fair value of the total equity of each GSE (which, in addition to the senior preferred stock, is comprised of other equity instruments including common stock, common stock warrants, and junior preferred stock). We base the fair value of the total equity on a discounted cash flow valuation methodology, whereby the primary input is the present value of the projected cash flows to equity holders. The fair value of the GSEs' other equity instruments is then deducted from its total equity, with the remainder representing the fair value of the senior preferred stock. The primary input into the warrants valuation is the market value of the shares of common stock of the GSEs which, along with the junior preferred stock, are traded on the over-the-counter (OTC) market. We evaluate the need for adjusting our OTC market-based valuation of the warrants for the effects, if any, of significant events occurring after the close of the market but before the end of the measurement date (refer to Note 11).

Investments in Multilateral Development Banks

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

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

Investments in Special Purpose Vehicles

Pursuant to the CARES Act enacted in FY 2020 in response to the COVID-19 pandemic, we hold preferred equity investments in SPVs the Board of Governors of the Federal Reserve System (Federal Reserve Board or Board) established through the Federal Reserve Bank of New York (FRBNY) and Federal Reserve Bank of Boston (FRBB) to enhance the liquidity of the U.S. financial system (refer to Note 13). We present these non-federal investment holdings at their fair value (see the discussion below on *"Fair Value Measurement")*. We record changes in the valuation of these investments as entity exchange transactions on the Consolidated Statements of Net Cost.

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

Other Investments, Net

In connection with our Emergency Capital Investment Program established pursuant to the FY 2021 enactment of the CAA, we hold preferred stock and subordinated debt we received in exchange for our capital disbursed to low- and moderate-income community financial institutions to augment their efforts to support small businesses and consumers in their communities (refer to Note 13). We present these non-federal investment holdings at their fair value (see the discussion below on "*Fair Value Measurement*"). We record changes in the valuation of these investments as entity exchange transactions on the Consolidated Statements of Net Cost. We recognize preferred stock dividend income when declared and interest income on subordinated debt when earned.

In connection with other emergency relief programs established in response to the COVID-19 pandemic, we also hold a limited number of warrants for the purchase of common stock we received as compensation from recipients of financial assistance provided to support ongoing employment of aviation workers during the pandemic (refer to Note 13). The warrants are assets of the U.S. government and we are precluded from using the cash proceeds realized from the financial instruments we received. We present these non-entity, non-federal investment holdings at their fair value (see the discussion below on *"Fair Value Measurement")*. These investments and related fair valuation changes also result in a corresponding "*Due To the General Fund*" liability, as we hold these investments on behalf of the General Fund. We report the investment revenue, as well as changes in valuation, as non-entity, exchange transactions within the "*COVID-19 Non-Entity Revenue, Net*" line of the Consolidated Statements of Net Cost.

The annual valuation as of September 30 of the preferred stock, subordinated debt, and common stock warrants incorporates various forecasts, projections and cash flow analyses to develop an estimate of the assets' fair value. We estimate the fair value of our preferred stock, and subordinated debt based on a discounted cash flow valuation methodology which calculates the present value of the projected annual cash flows associated with these investments. The primary input into our preferred stock is dividend rates; our subordinated debt primarily incorporates interest rates and percentage of deferred interest payments (interest deferral rates). Both our preferred stock and subordinated debt inputs include redemption rates, annual qualified lending growth rates, issuer credit scores, and market yield discount rates.

We estimate the fair value of our common stock warrants that are closely held using a Black-Scholes valuation methodology. We evaluate the need for adjusting our market-based valuation of these warrants for the effects, if any, of significant events occurring after the close of the market but before the end of the measurement date.

The ESF holds most of our foreign currency investments (refer to Note 13). We present the ESF's foreign currency denominated assets and investment securities at fair value (see the discussion below on *"Fair Value Measurement")*. These holdings are normally invested in interest-bearing securities issued or held through foreign governments or monetary authorities. We recognize interest on investments, amortization of premiums, and accretion of discounts on an accrual basis, and amortize or accrete premiums and discounts over the life of the related investment security as an adjustment to yield using the effective interest method.

Fair Value Measurement

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

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

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

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

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

J. Property, Plant, and Equipment, Net

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

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

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

Our bureaus are diverse both in size and in operating environment. Accordingly, our capitalization policy provides minimum capitalization thresholds, which generally range from $25,000 to $50,000 for all property categories except for internal-use software and right-to-use lease assets. Minimum capitalization thresholds for internal-use software generally range from $50,000 to $250,000 (except for the IRS, for which the minimum capitalization threshold is $10 million). Minimum capitalization thresholds for right-to-use lease assets generally range from $50,000 to $1.7 million. We also use a capitalization threshold for bulk purchases, which generally ranges from $50,000 to $500,000. Bureaus determine the individual items that comprise bulk purchases based on our guidance.

We expense depreciation and amortization on a straight-line basis over the estimated useful life of the asset except for leasehold improvements and right-to-use lease assets, which we amortize over the term of the lease or the useful life of the improvement or asset, whichever is shorter. Service life ranges (two to 50 years) are wide due to the diversity of our PP&E. We do not depreciate land, construction-in-progress, and internal-use software in development. We record impairment costs related to a significant and permanent decline in the service utility of PP&E and construction-in-progress in the period incurred.

Stewardship Property, Plant, and Equipment

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

K. FEDERAL DEBT AND INTEREST PAYABLE

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

L. REFUNDS PAYABLE

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

M. SPECIAL DRAWING RIGHTS

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

Allocations and Holdings

We record the SDR holdings that are permanent resources to the U.S. as part of "*Cash, Foreign Currency, and Other Monetary Assets*," and we record the SDR allocations as a liability entitled "*Allocation of Special Drawing Rights*" when the IMF allocates SDRs to the U.S. The SDR allocations are a liability because the U.S. is obligated to repay the allocation amount to the IMF under specified circumstances. Except for the payment of interest and charges on SDR allocations to the U.S., the payment of the U.S. commitment related to SDR allocations is conditional on the following events in which the U.S. has a substantial or controlling voice: *(i)* withdrawal by the U.S. from IMF membership or termination of its position in the SDR Department of the IMF, *(ii)* cancellation of the SDRs by the Board of Governors (pursuant to an 85 percent majority decision of the voting power of IMF members), *(iii)* liquidation of the IMF, or *(iv)* liquidation of the SDR Department of the IMF.

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

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

Certificates Issued to the Federal Reserve

The *Special Drawing Rights Act of 1968*, as amended, authorizes the Secretary to issue certificates, not to exceed the value of SDRs held against the certificates, to the FRBs in return for dollar amounts equal to the face value of certificates issued. We issue certificates to finance the acquisition of SDRs from other countries or to provide U.S. dollar resources to finance other ESF operations. We redeem certificates issued at such times and in such amounts as the Secretary may determine. The certificates do not bear interest. We report certificates issued to the FRBs at their face value, which approximates their carrying value since, under the terms of the arrangements with the Federal Reserve Board, there is no set repayment date and no interest accrued while certificates remain outstanding.

N. Federal Employee Benefits Payable – FECA Actuarial Liability

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

O. Annual, Sick, and Other Leave

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

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

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

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

Most of our employees hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), and employees hired between January 1, 1984, and December 31, 1986, are covered under the CSRS Offset System, to which we contribute 7.0 percent and 7.5 percent of pay for regular and law enforcement employees, respectively. On January 1, 1987, the Federal Employees' Retirement System (FERS) went into effect pursuant to the *Federal Employees' Retirement System Act of 1986,* P.L. 99-335. FERS is a three-tiered retirement system consisting of a Basic Benefit Plan, Thrift Savings Plan (TSP), and Social Security benefits. For the FERS Basic Benefit Plan, we contribute between 16.5 percent and 18.4 percent for regular employees, and between 36.4 percent and 38.2 percent for law enforcement officers. The TSP under FERS is a 401(k)-type savings plan in which we automatically contribute one percent of base pay and match any employee contributions up to an additional four percent of base pay. For most employees hired after December 31, 1983, we also contribute the employer's matching share for Social Security.

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

District of Columbia Federal Pension and Judicial Retirement Funds

Pursuant to Title XI of the *Balanced Budget Act of 1997*, as amended, we became responsible for the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund) and the District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund (the D.C. Federal Pension Fund) retirement plans (refer to Note 18). The actuarial cost method we use to determine costs and actuarial liability for the Judicial Retirement Fund is the Individual Entry Age Normal Cost Method, which approximates the methodology specified by the Aggregate Entry Age Normal Actuarial Cost Method. The actuarial cost method we use to determine the cost and actuarial liability for the D.C. Federal Pension Fund is the Projected Unit Credit Cost Method, which recognizes that participants have fully accrued all service and does not generate a normal cost. These methodologies base actuarial liabilities on long-term economic assumptions. The pension benefit costs the plans incur are included on the Consolidated Statements of Net Cost.

Q. COMMITMENTS AND CONTINGENCIES

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

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

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

In accordance with SFFAS 5, *Accounting for Liabilities of the Federal Government*, we recognize material contingent liabilities meeting the following criteria:

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

The estimated liability we record is either a specific amount or within a range of amounts. If some amount within the range is a better estimate than any other amount within the range, we recognize that amount. If no amount within the range is a better estimate than any other amount, we recognize the minimum amount in the range, and we disclose the range and a description of the nature of the contingency. We follow this policy in recording a contingent liability, if any, related to the GSE SPSPA program (refer to Note 11), and loss contingencies that may arise from claims, assessments, litigations, fines, penalties, and other sources (refer to Note 27).

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

R. Revenue and Financing Sources

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

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

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

S. Custodial Revenues

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

T. Appropriations and Other Budgetary Activity

Combined Statement of Budgetary Resources Activity

We record appropriations when authorized by legislation. We record incurred obligations of appropriations when we place orders or sign contracts for goods and services, award a grant, or take other actions that require us to make payments to the public or another federal entity. We record outlays when we make disbursements.

Permanent and Indefinite Appropriations

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

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

We also have permanent and indefinite appropriations to fund increases in the projected subsidy costs of credit programs as determined by the re-estimation process the FCRA requires.

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

U. Income Taxes

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

V. USE OF ESTIMATES

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

Estimation of such complex and long-duration receivables, investments, and contingencies is subject to uncertainty. It is possible that new developments will adversely impact the value of receivables, investments, and contingencies, as well as ultimate amounts we are required to fund. Except as expressly noted herein, we have not revalued or included in our estimates as of September 30, 2024, the effects of any new developments that may have occurred subsequent to September 30, 2024.

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

We estimate our non-federal investment holdings based on fair value and changes in these asset valuations, including impairment. Since the valuation is an annual process, we deem changes in valuation of our equity investments as usual and recurring. Refer to the accounting policy above entitled "*Investments*" and Notes 11 and 13 for additional discussion related to fair value estimations.

For certain of our liabilities, we perform annual calculations, as of September 30, to assess our need for recording an estimated liability in accordance with SFFAS 5 related to certain liabilities of our CARES Act programs, as well as liabilities related to our funding commitment to the GSEs under the SPSPAs.

As stipulated by the CARES Act, we must remit excess residual proceeds we realize from our SPV capital contributions and direct loans to air carriers and other related businesses to the Federal Old-Age and Survivors Insurance Trust Fund (refer to Note 13). We estimate and record the net present value of this potential liability, if any, based on the probable future occurrence of excess cash flows received above the full recovery of our costs associated with these programs. This calculation is subject to the same sensitivities as those related to our credit reform modeling we discuss above.

Liability to the GSEs recognition is predicated on the probable future occurrence of an excess of liabilities and minimum capital reserve amounts, as defined, over the assets of either GSE at the end of any reporting quarter. The occurrence of future GSE deficits, which ultimately determines our liability to the GSEs, is most sensitive to future changes in the housing price index and, to a lesser extent, future changes in guarantee fees the GSEs receive on single-family mortgages and interest rates (refer to Note 11).

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

W. Other-Than-Temporary Impairments

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

X. Credit, Market and Foreign Currency Risk

Credit risk is the potential, no matter how remote, for financial loss from a failure of a borrower or counterparty to perform in accordance with underlying contractual obligations. We take on possible credit risk when we make direct loans or guarantees to non-federal entities, provide credits to foreign entities, or become exposed to institutions that engage in financial transactions with foreign countries (refer to Note 13). The following programs entail credit risk: monetary assets held; investments, direct loans and other receivables related to our COVID-19, CDFI, ESF, HFA initiative (the New Issue Bond Program), IAP, and SBLF programs, as well as committed but undisbursed direct loans and funding commitments related to our CDFI, IAP, and GSE programs.

Our activities generally focus on the underlying problems in the credit markets. We developed these programs, or provided credit support to the pandemic emergency relief programs of the Federal Reserve Board, to provide credit where borrowers are not able to get access to credit with reasonable terms and conditions. Because these programs attempt to correct for a market imperfection, it can expose us to potential costs and losses. Additional risk of costs and losses could result from terrorist attacks under the Terrorism Risk Insurance Program. We describe the extent of the risk we assumed in more detail in the notes to the financial statements and, where applicable, we factor it into credit reform models and reflect it in fair value measurements (refer to Notes 9, 11, 13, and 27).

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

Y. Funds from Dedicated Collections

We account for revenues and other financing sources for funds from dedicated collections (FDC) separately from other funds. Such funds are financed by specifically identified revenues provided to the U.S. government by non-federal sources, often supplemented by federal and other financing sources, which remain available over time. Statute requires that we use these specifically identified revenues and other financing sources for designated activities, benefits, or purposes. We apply the following criteria for purposes of designating funds as dedicated collections: *(i)* a statute committing the U.S. government to use specifically identified revenues and/or other financing sources that are originally provided to the U.S. government by a non-federal source only for designated activities, benefits, or purposes; *(ii)* explicit authority for the fund to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; *(iii)* a requirement to account for and report on the receipt, use, and retention of the revenues and/or other financing sources that distinguishes the fund from the U.S. government's general revenues; and *(iv)* for funds comprised of both federal and non-federal sources, such funding is predominantly non-federal, or the non-federal funding is material to our financial statements.

Z. Allocation Transfers

We are a party to allocation transfers with other federal agencies as both a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in Treasury as a subset of the parent fund account for tracking and reporting purposes. We credit all allocation transfers of balances to this account, and charge subsequent obligations and outlays the child entity incurs to this allocation account as they execute the delegated activity on behalf of the parent. Parent federal agencies report both the proprietary and budgetary activity and the child agency does not report any financial activity related to budget authority allocated from the parent federal agency to the child federal agency. However, OMB guidance requires Treasury to report the activity when we receive allocation transfers, as the child, from the Executive Office of the President (see Circular No. A-136, II.3.1, *Parent-Child Reporting* for two exceptions).

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

AA. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the U.S. government of cash or other assets in which non-federal individuals or entities have an ownership interest that the U.S. government must uphold. Fiduciary cash and other assets are not assets of the U.S. government. We do not report these activities in our consolidated financial statements, but instead report them in Note 26.

AB. Disclosure Entities and Related Parties

SFFAS 47, *Reporting Entity*, requires that our consolidated financial statements reflect the balances and activities of consolidation entities, including Treasury bureaus and other reporting entities, meeting the following "principles for inclusion" when considered as a whole: *(i)* the entity is included in the Budget of the United States (also known as the President's Budget); *(ii)* the U.S. government holds "majority ownership interest"; *(iii)* the U.S. government has "control with risk of loss or expectation of benefit"; or *(iv)* it would be misleading to exclude such entity. SFFAS 47 also provides guidance for assessing whether we report an organization meeting the inclusion principles as a disclosure entity or related party.

A disclosure entity exists when we determine that an entity meets any of the following SFFAS 47 "inclusion principles" with respect to the U.S. government but does not meet the characteristics of a "consolidation entity." Based on SFFAS 47 criteria, the Federal Reserve System is considered to be a disclosure entity. Additionally, entities the U.S. government owns and/or controls as a result of regulatory actions—such as organizations in receivership or conservatorship—or other U.S. government intervention actions are generally classified as disclosure entities if the relationship with such entities is not expected to be permanent.

A related party exists when one party to an established relationship has the ability to exercise significant influence over another party in making policy decisions. Related parties generally do not meet the SFFAS 47 inclusion principles; however, we report on a relationship that is of such significance that it would be misleading to exclude information about that entity. Disclosure entities and related parties are not considered components of the consolidated Treasury reporting entity and, thus, are only disclosed in the notes to our consolidated financial statements. Using the principles prescribed in SFFAS 47, we identified the following disclosure entities and related parties as of September 30, 2024.

Disclosure Entities

Federal Reserve System

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

While we consult with the FR System on matters affecting the economy and certain financial stabilization activities it is considered an independent central bank, and the executive branch of the U.S. government does not ratify its decisions. In accordance with SFFAS 47 criteria, the FR Systems' assets, liabilities, and operations are not consolidated into our consolidated financial statements; however, we account for and disclose our financial activities with the FR System within our consolidated financial statements.

Federal Reserve System Structure

Federal Reserve Board of Governors

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

Federal Reserve Banks

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

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

- The FRBs serve as our fiscal agent and depositary, executing banking and other financial transactions on our behalf (refer to Note 5). We reimburse the FRBs for these services, the cost of which is included on the Consolidated Statements of Net Costs.
- The FRBs hold Treasury and other federal securities in the FRBs' System Open Market Account (SOMA) for the purpose of conducting monetary policy.
- The FRBs hold gold certificates we issue in which the certificates are collateralized by gold (refer to Note 6).
- The FRBs hold SDR certificates we issue which are collateralized by SDRs (refer to Notes 5 and 7).
- The FRBs are required by Board policy to transfer their excess earnings to us on behalf of the U.S. government (refer to Notes 8 and 23).

Federal Open Market Committee

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

Federal Reserve System Assets and Liabilities

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

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

FRB Residual Earnings Transferred to the Department

FRBs generate income from interest earned on securities, reimbursable services provided to federal agencies, and by providing priced services to depository institutions as specified by the *Monetary Control Act of 1980*. Although the FRBs generate earnings from carrying out open market operations, via the earnings on securities held in the SOMA account, their execution of these operations is for the purpose of accomplishing monetary policy rather than generating earnings. Each FRB is required by Board policy to transfer to us its residual (or excess) earnings after providing for the cost of operations, payment of dividends, and surplus funds not to exceed an FRB's allocated portion of an aggregate of $6.8 billion for all FRBs, in accordance with the provisions of the *William M. (Mac) Thornberry National Defense Authorization Act for Fiscal Year 2021* (P.L. 116-283).

FRBs' residual earnings may vary due to, among other things, changes in the SOMA balance levels that may occur in conducting monetary policy. Under P.L. 116-283, if an FRB's earnings for the year are not sufficient to provide for the cost of operations, dividend payments, or allocated portion of the $6.8 billion aggregate surplus funds limitation, an FRB will suspend its payments to us until such earnings become sufficient. The FRB's residual earnings of $3.1 billion and $0.6 billion for fiscal years ended September 30, 2024 and 2023, respectively, are reported as custodial revenues on our Statements of Custodial Activity. They constituted 0.06 percent and 0.01 percent of our total custodial revenues collected in FY 2024 and 2023, respectively. "*Taxes, Interest and Other Receivables, Net*" includes a receivable for FRB's residual earnings which represents the earnings due to us as of September 30, but not collected by us until after the end of the month (refer to Note 8).

FRB-Managed Special Purpose Vehicles – Liquidity Lending Facilities

We hold equity investments in SPVs the Federal Reserve Board established through the FRBNY and FRBB to enhance the liquidity of the U.S. financial system. Our involvement in these programs represents non-permanent intervention activities designed to help mitigate the economic impacts of the pandemic. Accordingly, our equity interests in these SPVs meet the SFFAS 47 criteria for classifying our SPV investments as disclosure entities. These entities are not consolidated as part of our consolidated financial statements; however, the value of our investments in these entities is presented as equity investments on our Consolidated Balance Sheets (refer to Note 13).

Government Sponsored Enterprises – Fannie Mae and Freddie Mac

During the FY 2008 financial crisis, the U.S. government placed Fannie Mae and Freddie Mac under conservatorship to help ensure their financial stability. These entities meet the SFFAS 47 criteria for disclosure entities as organizations owned or controlled by the U.S. government as the result of regulatory actions (such as conservatorship). Additionally, the U.S. government's intervention actions with regards to these GSEs are not expected to be permanent. Accordingly, these entities are not consolidated as part of our consolidated financial statements; however, the value of our investments in these entities is presented as equity investments on our Consolidated Balance Sheets (refer to Note 11).

Related Parties

In accordance with SFFAS 47 determination principles, we currently maintain related party relationships with the IMF and the MDBs. The IMF is an international organization of 190 member countries that works to foster global monetary cooperation, secure financial stability, sustain economic growth, and reduce poverty around the world. The U.S. government holds the largest quota subscription of any member. The U.S. quota subscription serves as the key determinant for our 16.5 percent share of voting rights in various IMF decisions for which the U.S. government has a substantial voice. The Secretary serves as the U.S. Governor to the IMF, and the U.S. Governor nominates and elects the U.S. Executive Director of the IMF, who is one of 24 directors responsible for exercising voting rights over the strategic direction of the institution.

The U.S. commitment to the IMF is in the form of cash and interest-bearing instruments. Historically, the U.S. has not experienced a loss to its commitment in the IMF (refer to accounting policies above entitled "*Loans Receivable, Net – Other Than Intra-Governmental*," "*Commitments and Contingencies*," "*Special Drawing Rights*," and Notes 5 and 7 for a further description of our relationship, financial risk, and activities with the IMF).

Additionally, on behalf of the U.S., we invest in and provide funding to the MDBs to support poverty reduction and promote sustainable economic growth in developing countries. The MDBs provide financial and technical support by means of strengthening institutions, providing assistance that addresses the root causes of instability in fragile and conflict-affected states, responding to global crises, and fostering economic growth and entrepreneurship. U.S. participation in the MDBs is in the form of financial contributions used to ensure the effectiveness and impact of the MDBs' global development agenda. The U.S. has voting power in each of the MDBs to which we contribute, ranging from approximately six percent to 50 percent (refer to accounting policies above entitled "*Investments*," "*Commitments and Contingencies*," and Notes 12 and 27 for a further description of our relationship, financial risk, and activities with the MDBs).

AC. CHANGE IN ACCOUNTING PRINCIPLE

We adopted the provisions of the new accounting pronouncement SFFAS 54, *Leases*. SFFAS 54 is effective as of October 1, 2023, and is prospective. Starting in FY 2024, we are required to report a right-to-use lease asset and a lease liability for non-intra-governmental, non-short-term contracts or agreements, when we have the right to obtain or control access to economic benefits or services from an underlying property, plant, and equipment asset for a period of time in exchange for consideration under the terms of the contract or agreement. We have no material non-intra-governmental leases.

In accordance with SFFAS 62, *Transitional Amendment to SFFAS 54*, we have elected the accommodation period through the fiscal year ending September 30, 2026, to prospectively apply the provisions of SFFAS 54, *Leases*, to lease components of new or modified contracts or agreements meeting the embedded lease eligibility criteria.

2. Fund Balance

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

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

Status of Fund Balance

As of September 30, 2024 and 2023, the status of the fund balance consisted of the following:

(in millions)	2024	2023
Unobligated Balance - Available	**$ 316,555**	$ 342,728
Unobligated Balance - Not Available	**55,677**	51,793
Obligated Balance Not Yet Disbursed	**214,472**	183,665
Subtotal	**586,704**	578,186
Adjustment for ESF	**(206,994)**	(194,109)
Adjustment for Borrowing Authority	**(29,009)**	(7,678)
Adjustment for Intra-Treasury Investments	**(12,403)**	(11,183)
Adjustment for IMF	**157,718**	152,768
Adjustment for Authority Unavailable for Obligations	**18,473**	18,274
Other Adjustments	**16,340**	7,274
Total Status of Fund Balance	**$ 530,829**	$ 543,532

Portions of the Unobligated Balance Not Available, as shown on the Combined Statement of Budgetary Resources, include amounts appropriated in prior fiscal years that are not available to fund new obligations. However, we may use such amounts for upward and downward adjustments for existing obligations in future years. The Obligated Balance Not Yet Disbursed represents amounts designated for payment of goods and services we ordered but have not received, or goods and services we received but for which payment has not yet been made. The changes in Obligated Balance Not Yet Disbursed are primarily attributable to new budget authority issued for the recently established IMF Poverty Reduction and Growth Trust (PRGT) lending facility. This facility is the IMF's primary vehicle for providing concessional financing to low-income countries. We may support PRGT through grants, loans, or other contributions, in alignment with U.S. commitments to support low-income countries as they work to stabilize their economies, boost growth, and improve debt sustainability. The changes in Other Adjustments are primarily related to unpaid funding for grants and claims in the State Innovation Waiver Program, in which the IRS acts as the custodian for HHS.

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

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

As of September 30, 2024 and 2023, we had no budgetary authority in the Fund Balance that was specifically withheld from apportionment by the OMB. We hold balances in non-entity funds, such as certain deposit funds (*e.g.*, seized cash), for the public or for another federal entity, such as the General Fund. Such funds have an offsetting liability equal to the Fund Balance. Refer to Note 7 regarding restrictions related to the letter of credit held for a portion of the U.S. quota in the IMF.

3. LOANS AND INTEREST RECEIVABLE – INTRA-GOVERNMENTAL

ENTITY INTRA-GOVERNMENTAL

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

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

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

As of September 30, 2024 and 2023, entity intra-governmental loans (issued by FFB) and interest receivable consisted of the following:

	2024			2023		
(in millions)	**Loans Receivable**	**Interest Receivable**	**Total**	Loans Receivable	Interest Receivable	Total
Federal Deposit Insurance Corporation[(1)]	**$ 94,540**	**$ 982**	**$ 95,522**	$ 50,000	$ 91	$ 50,091
Department of Agriculture	**54,332**	**40**	**54,372**	54,548	373	54,921
Department of Energy	**17,088**	**82**	**17,170**	16,614	81	16,695
United States Postal Service[(2)]	**15,000**	**102**	**15,102**	13,000	81	13,081
Department of Housing & Urban Development	**2,823**	**8**	**2,831**	2,800	8	2,808
Other Agencies	**875**	**5**	**880**	709	4	713
Total Entity Intra-Governmental	**$ 184,658**	**$ 1,219**	**$ 185,877**	$ 137,671	$ 638	$ 138,309

(1) In September 2023, FFB executed a transaction in support of the Federal Deposit Insurance Corporation (FDIC), acting in its capacity as Receiver, wherein FFB purchased a $50 billion note issued by a trust created by an FDIC receivership. In January 2024, FFB purchased four additional notes totaling $43.3 billion issued by a trust created by a different FDIC receivership. These notes are backed by a guarantee from the FDIC in its corporate capacity. Interest accrued for both notes during the year is included as part of earned revenue on the Consolidated Statements of Net Cost. Interest is paid semiannually for the first note and interest is capitalized for the four notes executed in 2024.

(2) Given the operating deficit experienced by the United States Postal Service (USPS) in prior fiscal years, we will continue to monitor their progress toward a sound financial position.

NON-ENTITY INTRA-GOVERNMENTAL

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

As of September 30, 2024 and 2023, non-entity intra-governmental loans (issued by the Fiscal Service) and interest receivable that were due to the General Fund consisted of the following:

	2024			2023		
(in millions)	**Loans Receivable**	**Interest Receivable**	**Total**	Loans Receivable	Interest Receivable	Total
Department of Education	**$ 1,155,327**	**$ -**	**$ 1,155,327**	$ 1,188,589	$ -	$ 1,188,589
Small Business Administration	**264,663**	**-**	**264,663**	334,320	-	334,320
Department of Housing and Urban Development	**127,610**	**-**	**127,610**	107,104	-	107,104
Department of Agriculture	**97,338**	**-**	**97,338**	94,315	3	94,318
Department of Transportation	**22,273**	**-**	**22,273**	22,220	-	22,220
Department of Homeland Security	**20,532**	**-**	**20,532**	20,529	-	20,529
US International Development Finance Corporation	**12,314**	**-**	**12,314**	10,498	-	10,498
Export Import Bank of the U.S.	**11,200**	**-**	**11,200**	12,804	-	12,804
Environmental Protection Agency	**6,882**	**-**	**6,882**	2,953	-	2,953
Department of Labor	**6,878**	**-**	**6,878**	6,658	-	6,658
Department of Energy	**6,761**	**32**	**6,793**	6,513	32	6,545
Railroad Retirement Board	**4,605**	**74**	**4,679**	4,627	60	4,687
Department of Defense	**1,999**	**-**	**1,999**	1,910	-	1,910
Executive Office of the President/ Security Assistance Accounts	**1,986**	**-**	**1,986**	544	-	544
Other Agencies	**2,177**	**-**	**2,177**	1,579	-	1,579
Total Non-Entity Intra-Governmental	**$ 1,742,545**	**$ 106**	**$ 1,742,651**	$ 1,815,163	$ 95	$ 1,815,258
Total Intra-Governmental Loans and Interest Receivable (Entity and Non-Entity)	**$ 1,927,203**	**$ 1,325**	**$ 1,928,528**	$ 1,952,834	$ 733	$ 1,953,567

ADVANCES TO TRUST FUNDS

Advances to Trust Funds consists of Advances to the Unemployment Trust Fund, Advances to the Agricultural Disaster Relief Trust Fund, and Advances to the Federal Supplementary Medical Insurance Trust Fund. The General Fund issues advances to the DOL's Unemployment Trust Fund to disburse to states for unemployment benefits. The General Fund also issues advances to USDA's Agricultural Disaster Relief Trust Fund to make crop and livestock feed disaster assistance payments to farmers and ranchers. The *Bipartisan Budget Act of 2015*, P.L. 114-74, authorized a transfer from the General Fund to HHS' Federal Supplementary Medical Insurance Trust Fund to temporarily replace the reduction in Medicare Part B participants' premiums. We transfer DOL's and HHS's repayment of these advances to the General Fund.

As of September 30, 2024 and 2023, Advances to Trust Funds consisted of the following:

	2024			2023		
(in millions)	**Loans Receivable**	**Interest Receivable**	**Total**	Loans Receivable	Interest Receivable	Total
Advances to the Unemployment Trust Fund	**$ 28,500**	**$ 30**	**$ 28,530**	$ 31,499	$ 35	$ 31,534
Advances to the Agricultural Disaster Relief Trust Fund	**3,036**	**-**	**3,036**	2,881	-	2,881
Advances to the Federal Supplementary Medical Insurance Trust Fund	**604**	**-**	**604**	2,854	-	2,854
Total Advances to Trust Funds	**$ 32,140**	**$ 30**	**$ 32,170**	$ 37,234	$ 35	$ 37,269

Advances to the Unemployment Trust Fund and Federal Supplementary Medical Insurance Trust Fund decreased by $3.0 billion and $2.3 billion, respectively, from the end of the prior fiscal year, largely due to DOL and HHS repaying their outstanding borrowings from the respective Trust Funds to the General Fund.

4. Due From the General Fund and Due To the General Fund

The General Fund consists of assets and liabilities used to finance the daily and long-term operations of the U.S. government, as a whole. It also includes accounts used in the management of the Budget of the U.S. Government.

We hold and manage General Fund assets, such as loans and interest receivable, cash, and investments in the GSEs on behalf of the U.S. government. General Fund assets constitute resources available to meet the operating needs of the U.S. government. We report these managed assets separately on the Consolidated Balance Sheets, with a corresponding amount reported as *"Due To the General Fund"* that represents a liability to reflect assets we owed to the General Fund.

General Fund liabilities, primarily federal debt and interest payable and liability for restoration of federal debt principal and interest, are obligations of the U.S. government. We report these Department-managed liabilities separately on the Consolidated Balance Sheets, with a corresponding amount reported as *"Due From the General Fund"* that represents a receivable, or future funds required of the General Fund to repay borrowings from the public and other federal agencies.

As of September 30, 2024 and 2023, the General Fund liabilities we owed exceeded the assets we hold on behalf of the General Fund by $32.2 trillion and $30.2 trillion, respectively. This represents the amount the U.S. government needs, through a combination of future tax collections or continued borrowing from the public and federal agencies to meet its obligations.

As of September 30, 2024 and 2023, Due From the General Fund included the following non-entity liabilities:

Liabilities Requiring Funding from the General Fund (in millions)		2024		2023
Federal Debt and Interest Payable - Held by the Public (Note 16)	**$**	**28,318,278**	$	26,328,135
Federal Debt and Interest Payable - Intra-Governmental (Note 16)		**7,140,460**		6,878,998
Refunds Payable		**4,446**		6,662
Adjustment for Eliminated Liabilities		**30,116**		28,451
Total Due From the General Fund	**$**	**35,493,300**	$	33,242,246

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

As of September 30, 2024 and 2023, Due To the General Fund included the following non-entity assets:

Assets to be Distributed to the General Fund (in millions)	2024	2023
Fund Balance	**$ 12,519**	$ 3,891
Loans and Interest Receivable - Intra-Governmental (Note 3)	**1,742,651**	1,815,258
Advances to Trust Funds (Note 3)	**32,170**	37,269
Cash Due To the General Fund (Held by the Department) (Note 5)	**870,878**	638,923
Taxes and Other Non-Entity Receivables Due To the General Fund	**141,813**	183,759
Loans and Interest Receivable, Net (Note 9)	**13,387**	12,406
Investments in Government Sponsored Enterprises (Note 11)	**305,800**	240,410
Adjustment for Eliminated Assets	**186,663**	146,779
Other	**1,608**	2,096
Total Due To the General Fund	**$ 3,307,489**	$ 3,080,791

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

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

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

The Adjustment for Eliminated Assets principally represents loans and interest payable our Treasury reporting entities owe, which were eliminated against Loans and Interest Receivable Intra-governmental the Fiscal Service holds. The increase in the Adjustment for Eliminated Assets balance is primarily due to increased borrowings from FFB.

5. Cash, Foreign Currency, and Other Monetary Assets

Cash, Foreign Currency, and Other Monetary Assets held as of September 30, 2024 and 2023 were as follows:

(in millions)	2024	2023
Entity:		
Cash	**$ 34**	$ 95
Foreign Currency and Foreign Currency Denominated Assets	**15,687**	13,682
Other Monetary Assets:		
Special Drawing Right Holdings	**173,984**	163,157
U.S. Dollars Held in Cash by the IMF	**280**	370
Total Entity	**189,985**	177,304
Non-Entity:		
Operating Cash of the U.S. government	**870,876**	638,923
Foreign Currency	**114**	174
Miscellaneous Cash Held by All Treasury Reporting Entities	**295**	129
Total Non-Entity	**871,285**	639,226
Total Cash, Foreign Currency, and Other Monetary Assets	**$ 1,061,270**	$ 816,530

We hold non-entity operating and other miscellaneous cash due to the General Fund which consisted of the following as of September 30, 2024 and 2023:

(in millions)	2024	2023
Operating Cash - FRB Account	**$ 885,725**	$ 656,889
Outstanding Checks	**(14,849)**	(17,966)
Total Operating Cash of the U.S. government	**870,876**	638,923
Miscellaneous Cash	**29**	50
Subtotal	**870,905**	638,973
Amounts Due to the Public	**(27)**	(50)
Total Cash Due to the General Fund (Note 4)	**$ 870,878**	$ 638,923

Entity

Entity cash, foreign currency, and other monetary assets principally include foreign currency, foreign currency denominated assets (FCDAs), and SDRs. These assets were valued as of September 30, 2024 and 2023 using current exchange rates plus accrued interest.

Special Drawing Rights

The SDR is an international reserve asset the IMF created to supplement existing reserve assets (refer to Note 1M). The SDR derives its value as a reserve asset from the commitments of participants to hold and accept SDRs and to honor various obligations connected with their proper functioning as a reserve asset. The IMF has allocated new SDRs on several occasions to members participating in the IMF's SDR department typically in response to the global financial crisis. During FY 2024 and 2023, we purchased an additional 2.9 billion SDRs (valued at $3.9 billion) and 2.6 billion SDRs (valued at $3.5 billion), respectively, from other IMF participants. Our increased commitment to hold and accept SDRs helps to provide liquidity to the global economic system and supplement member countries' official reserves.

As of September 30, 2024 and 2023, the total amount of SDR holdings of the U.S. (including interest receivable) was the equivalent of $174.0 billion and $163.2 billion, respectively. As of September 30, 2024 and 2023, the total value of SDR allocations to the U.S. was the equivalent of $155.8 billion and $151.0 billion, respectively. The outstanding SDR certificates issued to the Federal Reserve were valued at $10.2 billion and $5.2 billion as of September 30, 2024 and 2023, respectively, which we reported as a liability on the Consolidated Balance Sheets. The increase in the SDR certificates issued to the Federal Reserve is to maintain sufficient ESF dollar holdings for SDR purchases or potential emergencies.

NON-ENTITY

We manage the non-entity cash, foreign currency, and other monetary assets which principally included Operating Cash of the U.S. government. Also included is foreign currency maintained by various U.S. disbursing offices, miscellaneous cash such as seized monetary instruments, undistributed cash, and offers in compromises which are maintained as a result of our tax collecting responsibilities. The Operating Cash of the U.S. government increased by $232.0 billion as of September 30, 2024, compared to the end of the prior fiscal year, driven by our one-week prudent cash balance policy. Under this policy, we hold a cash level generally sufficient to cover one week of outflows in the Treasury General Account. The prudent policy requirement in the last week of September 2024 was significantly higher than in September 2023 due to differences in net outlays and maturing marketable debt.

6. Gold and Silver Reserves, and Gold Certificates Issued to the Federal Reserve Banks

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

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

The U.S. Mint and the FRBs hold the gold and silver bullion reserves. We report these reserves on the consolidated financial statements at the values stated in 31 USC 5116 – 5117 (statutory rates) which are $42.2222 per FTO of gold and no less than $1.292929292 per FTO of silver. Accordingly, the silver is valued at $1.292929292 per FTO. The market values of the gold and silver reserves we disclose below are based on the London Gold Fixing. As of September 30, 2024 and 2023, the values of gold and silver reserves consisted of the following:

	FTOs	Statutory Rate	2024 Statutory Carrying Value (in millions)	Market Rate Per FTO	2024 Market Value (in millions)
Gold Held by U.S. Mint	**248,046,116**	**$ 42.2222**	**$ 10,473**	**$ 2,629.95**	**$ 652,349**
Gold Held by Federal Reserve Banks	**13,452,811**	**$ 42.2222**	**568**	**$ 2,629.95**	**35,380**
Total Gold	**261,498,927**		**11,041**		**687,729**
Silver	**16,000,000**	**$ 1.2929**	**21**	**$ 31.08**	**497**
Total Gold and Silver Reserves			**$ 11,062**		**$ 688,226**

	FTOs	Statutory Rate	2023 Statutory Carrying Value (in millions)	Market Rate Per FTO	2023 Market Value (in millions)
Gold Held by U.S. Mint	248,046,116	$ 42.2222	$ 10,473	$ 1,870.50	$ 463,970
Gold Held by Federal Reserve Banks	13,452,811	$ 42.2222	568	$ 1,870.50	25,164
Total Gold	261,498,927		11,041		489,134
Silver	16,000,000	$ 1.2929	21	$ 23.08	369
Total Gold and Silver Reserves			$ 11,062		$ 489,503

7. Reserve Position in the International Monetary Fund and Related Borrowing Arrangements

The U.S. participates in the IMF through a quota subscription and a separate borrowing arrangement—the New Arrangements to Borrow (NAB)—that supplements IMF resources.

As a result of the *Consolidated Appropriations Act, 2016*, P.L. 114-113, we obtained appropriation warrants to cover the full amount of the commitment made to the IMF and received current indefinite authority to maintain the U.S. dollar equivalent of the SDR funding commitment levels. The IMF transactions—other than related interest earnings and cost estimates for U.S. quota and NAB adjustments—are not reported as budgetary resources and uses on our Combined Statement of Budgetary Resources.

Reserve Position in the International Monetary Fund

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

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

The U.S. quota is denominated in SDRs. As of September 30, 2024 and 2023, the U.S. quota in the IMF was SDR 83.0 billion. The equivalent U.S. dollar value of the U.S. quota consisted of the following:

(in millions)	2024	2023
Letter of Credit (1)	**$ 83,692**	$ 76,932
Reserve Position (2)	**28,733**	31,970
Total U.S. Quota in the IMF	**$ 112,425**	$ 108,902

(1) We include Letter of Credit amounts as part of the "Fund Balance" as reported on the Consolidated Balance Sheets. Amounts also include approximately 0.25 percent of the U.S. quota held in cash in an IMF account at the FRBNY.
(2) We report the Reserve Position amounts as "Reserve Position in the IMF" on the Consolidated Balance Sheets.

Fluctuations in the value of the U.S. dollar with respect to the SDR result in valuation changes in dollar terms for the U.S. quota. We periodically adjust this balance to maintain the SDR value of the U.S. quota as required by the IMF Articles of Agreement. The U.S. quota reflects a net upward adjustment in value of $3.5 billion as of September 30, 2024, when compared to 2023, and a net upward adjustment in value of $2.9 billion as of September 30, 2023, when compared to 2022, due to the depreciation of the U.S. dollar against the SDR.

IMF Borrowing Arrangements

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

The U.S. participation in the NAB as of September 30, 2024 and 2023 was SDR 56.4 billion, which was equivalent to $76.5 billion and $74.2 billion, respectively. There were no loans outstanding under the U.S. NAB arrangement with the IMF as of September 30, 2024, and $0.1 billion was outstanding as of 2023, which we reported as "*Loans and Interest Receivable, Net*" on the Consolidated Balance Sheets.

8. Taxes, Interest, and Other Receivables, Net

As of September 30, 2024 and 2023, Taxes, Interest, and Other Receivables, Net consisted of the following:

(in millions)	2024	2023
Non-Entity		
Federal Taxes Receivable, Gross	**$ 390,142**	$ 404,280
Less Allowance on Taxes Receivable	**(250,863)**	(222,215)
Receivable on FRB Deposits of Earnings	**24**	-
Other Receivables	**2,697**	1,926
Less Allowance on Other Receivables	**(167)**	(119)
Total Non-Entity (Note 15)	**141,833**	183,872
Entity		
Miscellaneous Entity Receivables and Related Interest	**169**	1,131
Total Taxes, Interest, and Other Receivables, Net	**$ 142,002**	$ 185,003

Federal taxes receivable constitutes the largest portion of these receivables, with IRS-related federal taxes receivable representing the majority of the balance. IRS federal taxes receivable consists of delinquent tax assessments, penalties, and interest, which were not paid or abated, and which were agreed to by either the taxpayer and IRS, or the courts. These receivables also include non-delinquent IRC 965(h) amounts. The change in the net federal taxes receivable amount is largely due to payments that reduced non-delinquent IRC 965(h) amounts, partially offset by an increase in delinquent federal taxes receivable.

The portion of taxes receivable estimated to be collectible and the allowance for doubtful accounts are based on projections of collectability from a statistical sample of taxes receivable (refer to the section entitled *Required Supplementary Information (unaudited)* for additional discussion on IRS Federal Taxes Receivable, Net).

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

9. Loans Receivable, Net

Loans and Interest Receivable, Net

Disruption to economic activity caused by the spread of COVID-19 in the early spring of 2020 placed significant pressure on U.S. airlines and the aviation industry as a whole. In FY 2020 and 2021, Congress took steps to limit the damage caused by the pandemic in the U.S. by passing several key statutes, including the *Coronavirus Aid, Relief, and Economic Security Act,* P.L. 116-136 (CARES Act), the *Consolidated Appropriations Act, 2021,* P.L. 116-260 (CAA), and the *American Rescue Plan Act of 2021,* P.L. 117-2 (ARP). Authorized by these statutes, we established three payroll support programs (PSPs) to provide relief to this industry by helping to preserve aviation jobs and compensate air carrier industry workers. Specifically, the PSPs provided financial assistance to passenger air carriers, cargo air carriers, and certain contractors to be used exclusively for the continuation of payment of employee salaries, wages, and benefits.

These statutes further authorized the Secretary to receive from PSP recipients, among other things, debt securities and other financial instruments to provide appropriate compensation to the federal government for providing financial assistance. We specifically received both promissory notes and common stock warrants (refer to Note 13 for further discussion on the common stock warrants). We received no promissory notes during the fiscal years ended September 30, 2024 and 2023. The recipients made no repayments during fiscal year ended September 30, 2024, and repaid an aggregate total of $346 million of principal on the promissory notes during the fiscal year ended September 30, 2023. We report the promissory notes we received as compensation within "*Loans and Interest Receivable, Net,*" on the Consolidated Balance Sheets.

Our promissory notes totaling $13.4 billion and 12.4 billion as of September 30, 2024 and 2023, respectively, are presented net of an allowance for doubtful accounts estimated at $1.1 billion and $2.0 billion, respectively. Interest on the notes is payable semi-annually on March 31 and September 30 of each year. For the fiscal years ended September 30, 2024 and 2023, we recognized interest revenue of $153 million and $155 million, respectively.

Credit Program Receivables, Net

We administer a number of programs designed to stabilize the nation's financial system and restore the flow of credit to consumers, businesses, and homeowners. As of September 30, 2024 and 2023, Credit Program Receivables, Net consisted of the following:

(in millions)	2024	2023
CDFI Fund's Bond Guarantee Program (BGP)	**$ 1,386**	$ 1,302
State and Local Housing Finance Agency Program (GSE sponsored)	**924**	1,019
Other(1)	**554**	1,065
Total Credit Program Receivables, Net	**$ 2,864**	$ 3,386

(1) Includes IAP, ESF, SBLF, and other CDFI credit program receivables valued at $275 million, $198 million, $36 million, and $45 million, respectively, as of September 30, 2024, and ESF, IAP, SBLF, and other CDFI credit program receivables valued at $901 million, $84 million, $32 million, and $48 million, respectively, as of September 30, 2023.

CDFI Fund's Bond Guarantee Program (BGP)

The *Small Business Jobs Act of 2010*, P.L. 111-240, created the CDFI-BGP. The CDFI Fund issues guarantees for the full amount of bonds issued to support CDFIs that make investments for eligible community or economic development purposes. The bonds support CDFI lending and investment by providing a source of long-term capital to CDFIs. As of September 30, 2024 and 2023, the CDFI-BGP net credit program receivable of $1.4 billion and $1.3 billion, respectively, included a negative subsidy allowance of $57 million and $59 million, respectively, which reflects our projection that the program will result in a net revenue to us after accounting for repayments, interest, and fees.

We performed a financial statement re-estimate of the program's cost as of September 30, 2024 and 2023. These re-estimates resulted in a downward re-estimate, or a decrease in the cost of the program, of $3 million and $2 million as of September 30, 2024 and 2023, respectively. The downward re-estimates in FY 2024 and FY 2023 were driven by changes in performance assumptions, actual performance to-date, and actual program funding cost.

State and Local Housing Finance Agency Program (GSE sponsored)

Under the *Housing and Economic Recovery Act of 2008*, P.L. 110-289 (HERA), we, together with the FHFA, Fannie Mae, and Freddie Mac, created a program in October 2009 to provide support to HFAs. The HFA Program is comprised of the New Issue Bond Program (NIBP) that is designed to support low mortgage rates and expand resources for low- and middle-income borrowers to purchase or rent homes, making them more affordable over the long term. Under the terms of the NIBP, we purchased securities of Fannie Mae and Freddie Mac backed by new mortgage revenue bonds HFAs issued. As of September 30, 2024 and 2023, the HFA net credit program receivable of $924 million and $1.0 billion, respectively, included a positive subsidy allowance of $122 million and $137 million, respectively, which reflects our projection that the HFA program will result in a net cost to us after accounting for repayments, interest, and fees.

We performed a financial statement re-estimate of the NIBP program's cost as of September 30, 2024 and 2023. These re-estimates resulted in a downward re-estimate, or a decrease in the cost of the program, of $3 million and $38 million as of September 30, 2024 and 2023, respectively. The downward re-estimates in FY 2024 and 2023 were primarily driven by higher than estimated principal collections. A higher prepayment assumption was used in the projection of future years' cash flows for FY 2023, which contributed to the downward re-estimate.

10. ADVANCES AND PREPAYMENTS

The global spread of the COVID-19 resulted in a severe global health and economic crisis. The relief funding provided by the CARES Act, CAA, and ARP helped reduce the financial burden on individuals and their families, minimized business and employment losses, and enhanced the liquidity of the U.S. financial system. In addition to the FY 2022 and 2021 rescissions pursuant to the *Infrastructure Investment and Jobs Act*, P.L. 117-58 (IIJA) and the CAA, respectively, on June 3, 2023, Congress passed the *Fiscal Responsibility Act of 2023*, P.L. 118-5 (FRA), which rescinded certain unobligated funds that were provided by these legislative Acts. The remaining financial assistance support programs authorized by these statutes are described below.

CORONAVIRUS STATE AND LOCAL FISCAL RECOVERY FUNDS

The Coronavirus State and Local Fiscal Recovery Funds (SLFRF), established in FY 2021 in accordance with the ARP, provide a combined $350.0 billion, to remain available through December 31, 2024, to state, local, territorial, and Tribal governments to reduce the fiscal effects stemming from COVID-19, and lay the foundation for a strong and equitable recovery. Of the $350.0 billion appropriated in FY 2021 for this program, we disbursed an aggregate cumulative total of $349.9 billion as of September 30, 2024.

EMERGENCY RENTAL ASSISTANCE (HOUSING SUPPORT)

We established two Emergency Rental Assistance (ERA) programs in FY 2021, the first program created pursuant to the CAA (ERA 1) and a second round under the ARP (ERA 2). The ERA programs make funding available through state, local, territorial, and Tribal governments. Recipients must use up to 90 percent of the awarded funding to provide financial assistance to eligible households for rent (and arrears), utilities and home energy costs (and arrears), other housing costs and housing stability services. The ERA 1 funding expired on September 30, 2022, and the ERA 2 funding will generally remain available until September 30, 2025. Of the total $46.6 billion appropriated in FY 2021 for these programs, we disbursed an aggregate cumulative total of $46.4 billion as of September 30, 2024.

CDFI FUND'S RAPID RESPONSE AND EQUITABLE RECOVERY PROGRAMS

The CAA also provided $1.25 billion in appropriations to our CDFI Fund, which awarded CDFIs with grants to deliver immediate assistance to communities impacted by the COVID-19 pandemic. The CDFI Fund awarded these funds through its newly established CDFI Rapid Response Program (CDFI RRP), which was designed to quickly deploy capital to certified CDFIs through a streamlined application and review process for those specialized organizations that provide financial services to low-income communities and those that lack access to financing.

In addition to the funding provided for the CDFI RRP, the CAA also appropriated our CDFI Fund with $1.75 billion to deliver COVID-19 recovery resources to CDFIs to expand financial activity in low- or moderate-income minority communities and to minorities that have significant unmet capital or financial services needs. The CDFI Fund made these funds available to support lending in minority communities through its newly established Equitable Recovery Program that commenced in FY 2023. This funding will remain available for obligation until expended. Of the $3.0 billion appropriated in FY 2021 for these programs, we disbursed an aggregate cumulative total of $2.8 billion as of September 30, 2024.

As of September 30, 2024 and 2023, Advances and Prepayments consisted of the following:

(in millions)	2024	2023
Coronavirus State and Local Fiscal Recovery Funds	**$ 113,547**	$ 168,215
Emergency Rental Assistance	**1,934**	2,072
CDFI Rapid Response and Equitable Recovery Programs	**385**	1,200
Other	**438**	403
Total Advances and Prepayments	**$ 116,304**	**$** 171,890

The decrease in advances related to SLFRF and CDFI RRP and Equitable Recovery Programs is primarily due to advance drawdowns based on recipient reported expenditures which were recorded as *"Economic Program"* costs on the Consolidated Statements of Net Cost.

11. INVESTMENTS IN GOVERNMENT SPONSORED ENTERPRISES

Congress established Fannie Mae and Freddie Mac as GSEs to provide stability and increase liquidity in the secondary mortgage market and to promote access to mortgage credit throughout the nation. A key function of the GSEs is to purchase mortgages, package those mortgages into securities, which are subsequently sold to investors, and guarantee the timely payment of principal and interest on these securities.

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

In return for committing to maintain the GSEs' solvency by making a quarterly advance of funds to each GSE in an amount equal to any excess of the GSEs' total liabilities over its total assets as of the end of the previous quarter, we initially received from each GSE: *(i)* 1,000,000 shares of non-voting variable liquidation preference senior preferred stock with a liquidation preference value of $1,000 per share, and *(ii)* a non-transferable warrant for the purchase, at a nominal cost, of 79.9 percent of common stock on a fully-diluted basis. The warrants expire on September 7, 2028. We were entitled to distributions on our senior preferred stock equal to a 10.0 percent per annum fixed rate dividend on the total liquidation preference (as discussed below). In the third amendment to the SPSPAs in August 2012, this dividend structure was changed to a variable equivalent to the GSEs' positive net worth above a capital reserve amount. The capital reserve amount was initially set at $3.0 billion for calendar year 2013 and, upon nearing its scheduled decline to zero, was reset at $3.0 billion in calendar year 2017.

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

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

Additionally, the January 14 amendment, among other things, imposed restrictions on certain GSE business activities, including purchases of loans backed by investment properties, second homes, and multifamily properties, and on purchases of loans with multiple high-risk characteristics or for cash consideration. On September 14, 2021, Treasury and FHFA entered into letter agreements to suspend certain business activity restrictions added to the SPSPAs by the January 14 amendment while FHFA undertakes a review of the extent to which these requirements are redundant or inconsistent with existing FHFA standards, policies, and directives. Under the letter agreements, the suspension will terminate six months after Treasury notifies the GSEs. As of September 30, 2024, Treasury has not provided notice to the GSEs to terminate the suspension.

For the fiscal year ended September 30, 2024, Treasury's liquidation preference in Fannie Mae and Freddie Mac increased by $17.4 billion and $11.3 billion, respectively. For the fiscal year ended September 30, 2023, Treasury's liquidation preference in Fannie Mae and Freddie Mac increased by $12.6 billion and $7.9 billion, respectively. The GSEs will not pay a quarterly dividend until after the capital reserve end date. We received no cash dividends for the fiscal year ended September 30, 2024 and 2023, as the GSEs had not achieved their capital reserve end date as of September 30, 2024.

The SPSPAs, which have no expiration date, require us to disburse funds to either GSE if, at the end of any quarter, the FHFA determines that the liabilities of either GSE exceed its assets. Draws from the Department under the SPSPAs are designed to ensure that the GSEs maintain positive net worth, with a fixed maximum amount available to each GSE under this agreement, established as of December 31, 2012 (refer to the "*Contingent Liability to GSEs*" section below). Draws against the funding commitment of the SPSPAs do not result in the issuance of additional shares of senior preferred stock; instead, they increase the liquidation preference of the initial 1,000,000 shares by the amount of the draw. The combined cumulative liquidation preference totaled $334 billion and $305 billion as of September 30, 2024 and 2023, respectively. There were no payments to the GSEs for the fiscal years ended September 30, 2024 and 2023.

ACCOUNTING TREATMENT

Entity Transactions— If we estimate a probable and reasonably estimable contingent liability to the GSEs, we will accrue and report this liability on our Consolidated Balance Sheets and fund the liability through our direct appropriations. We will report the liability accrual, if any, at its gross amount as an "entity" cost on our Consolidated Statements of Net Cost, and within the line item, "*Cumulative Results of Operations*" on our Consolidated Balance Sheets, without considering the increase in senior preferred stock liquidation preference/fair value adjustments, and future dividend receipts from the GSEs.

Non-Entity Transactions— If we make actual payments to the GSEs, they will result in increases to the U.S. government's liquidation preference in the GSEs' senior preferred stock, and thus represent General Fund exchange revenue reported on our Consolidated Statements of Net Cost as "*GSEs Non-Entity Revenue, Net*." Changes in the fair valuation of the GSE preferred stock and common stock warrants, and related dividends received, are General Fund-related costs and revenues which we report as "*GSEs Non-Entity Revenue, Net*."

INVESTMENTS IN GSEs

As of September 30, 2024 and 2023, our investments in the GSEs consisted of the following:

GSEs Investments (in millions)		Gross Investments As of 9/30/24	Cumulative Valuation Gain/(Loss)	Fair Value As of 9/30/24
Fannie Mae Senior Preferred Stock	$	**207,821** $	**(43,721)** $	**164,100**
Freddie Mac Senior Preferred Stock		**125,695**	**8,105**	**133,800**
Fannie Mae Warrants Common Stock		**3,104**	**1,966**	**5,070**
Freddie Mac Warrants Common Stock		**2,264**	**566**	**2,830**
Total GSEs Investments	**$**	**338,884 $**	**(33,084) $**	**305,800**

GSEs Investments (in millions)		Gross Investments As of 9/30/23	Cumulative Valuation Gain/(Loss)	Fair Value As of 9/30/23
Fannie Mae Senior Preferred Stock	$	190,383 $	(55,883) $	134,500
Freddie Mac Senior Preferred Stock		114,429	(12,729)	101,700
Fannie Mae Warrants Common Stock		3,104	(374)	2,730
Freddie Mac Warrants Common Stock		2,264	(784)	1,480
Total GSEs Investments	$	310,180 $	(69,770) $	240,410

Senior Preferred Stock and Warrants for Common Stock

In determining the fair value of the senior preferred stock and warrants for common stock, we relied on the GSEs' public filings and press releases concerning their financial statements, as well as non-public, long-term financial forecasts, monthly summaries, quarterly credit supplements, independent research regarding preferred stock trading, independent research regarding the GSEs' common stock trading on the OTC Market, discussions with each of the GSEs and FHFA, and other information pertinent to the valuations. Because the senior preferred stock is not publicly traded, there is no comparable trading information available. The fair valuation of the senior preferred stock relies on significant Level 3 unobservable inputs that reflect assumptions about the expectations that market participants would use in pricing (refer to Notes 1I and 1V).

The fair value of the senior preferred stock considers forecasted cash flows to equity holders and the traded prices of the GSE's other equity securities, including the GSE's common stock and junior preferred stock. The fair value of the senior preferred stock—as measured by unobservable and observable inputs—increased as of September 30, 2024, when compared to September 30, 2023. The increase in the senior preferred stock was primarily driven by a decreased discount rate, higher projected cash flows and, for the Fannie Mae preferred stock, a decrease in credit-related expenses.

Factors impacting the fair value of the warrants include the nominal exercise price and the large number of potential exercise shares, the market prices and trading volumes of the underlying common stock as of September 30, the principal market, and the market participants. Other factors impacting the fair value include, among other things, the holding period risk related directly to the assumption of the amount of time that it will take to sell the exercised shares without depressing the market. The fair value of the warrants—as measured by observable inputs—increased at the end of FY 2024, when compared to 2023, primarily due to increases in the Level 1 fair value measurement of the market price of the underlying common stock of each GSE.

CONTINGENT LIABILITY TO GSES

As part of the annual process, we prepare a series of long-term financial forecasts to assess, as of September 30, the likelihood and magnitude of future draws to be required by the GSEs under the SPSPAs within the forecast time horizon. We used 25-year financial forecasts prepared through years 2049 and 2048 in assessing if a contingent liability was required as of September 30, 2024 and 2023, respectively. If future payments under the SPSPAs are deemed to be probable within the forecast horizon, and we can reasonably estimate such payment, we will accrue a contingent liability to the GSEs to reflect the forecasted equity deficits of the GSEs. We do not discount this accrued contingent liability, nor do we take into account any of the offsetting dividends that we could receive, as the dividends, if any, would be owed directly to the General Fund. We will adjust such recorded accruals in subsequent years as new information develops or circumstances change.

Based on our annual assessment, we estimated there was no probable future funding draws as of September 30, 2024 and 2023, and thereby accrued no contingent liability. However, it is reasonably possible that a period of sustained economic and housing market volatility could potentially cause the GSEs to generate quarterly losses of sufficient magnitude to result in future funding draws against our funding commitment. Due to challenges quantifying future market volatility or the timing, magnitude, and likelihood of such events, we could not estimate the total amount of this reasonably possible future funding liability as of September 30, 2024 and 2023. There were no payments to the GSEs for the fiscal year ended September 30, 2024 and 2023. At September 30, 2024 and 2023, the maximum remaining contractual commitment to the GSEs for the remaining life of the SPSPAs was $254.1 billion.

In assessing the need for an estimated contingent liability, we rely on the GSEs' public filings and press releases, including their financial statements, monthly business summaries, and quarterly credit supplements, as well as non-public, long-term financial forecasts, the FHFA House Price Index, discussions with each of the GSEs and FHFA, and other information pertinent to the liability estimates. The forecasts prepared in assessing the need for an estimated contingent liability as of September 30, 2024 and 2023, include two potential scenarios, with varying assumptions regarding the continuation of the GSEs new business activities, including purchasing mortgage loans and issuing new guaranteed mortgage-backed securities. The forecasts as of September 30, 2024 and 2023, also assumed the maintenance of the GSEs' retained mortgage portfolios below the maximum permitted under the amended SPSPAs.

ESTIMATION FACTORS

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

GSES NON-ENTITY REVENUE

For the fiscal years ended September 30, 2024 and 2023, GSEs Non-Entity Revenue, Net consisted of the following:

Summary of GSEs Non Entity Revenue (in millions)		2024	2023
General Fund Revenue from Increase in Liquidation Preference of GSEs Preferred Stock	$	**(28,704)**	$ (20,494)
Fair Value (Gain)/Loss on GSEs Warrants/Preferred Stock		**(36,686)**	3,804
Total GSEs Non-Entity Revenue, Net	$	**(65,390)**	$ (16,690)

REGULATORY ENVIRONMENT

To date, Congress has not passed legislation nor has FHFA taken action to end the GSEs' conservatorships. The GSEs continue to operate under the direction of FHFA as conservator.

The *Temporary Payroll Tax Cut Continuation Act of 2011* (P.L. 112-78) was funded by an increase of ten basis points in the GSEs' guarantee fees (referred to as "the incremental fees"), which began in April 2012 and was extended by the *Infrastructure Investment and Jobs Act of 2021* (P.L. 117-58) through September 30, 2032. The incremental fees are remitted to us and not retained by the GSEs and, thus, do not affect the profitability of the GSEs. For FY 2024 and 2023, the GSEs remitted to us the incremental fees totaling $6.3 billion and $6.2 billion, respectively, which are reported within the line item "*Fines, Penalties, Interest and Other Revenue*" on our Statements of Custodial Activity.

12. Investments in Multilateral Development Banks

As of September 30, 2024 and 2023, Investments in Multilateral Development Banks consisted of the following:

(in millions)	2024	2023
International Bank for Reconstruction and Development	**$ 3,883**	$ 3,677
Inter-American Development Bank (1)	**2,023**	2,023
Asian Development Bank	**991**	991
African Development Bank	**652**	714
European Bank for Reconstruction and Development	**636**	636
International Finance Corporation	**569**	569
North American Development Bank	**450**	450
Multilateral Investment Guarantee Agency	**45**	45
Total	**$ 9,249**	$ 9,105

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

13. Other Investments, Net

Investments in Special Purpose Vehicles

In FY 2020, pursuant to its emergency-lending authority under Section 13(3) of the *Federal Reserve Act*, the FRBNY and FRBB implemented certain emergency lending facilities through Special Purpose Vehicles (SPVs) governed by Limited Liability Company (LLC) agreements between Treasury and the applicable Federal Reserve Bank (FRB). The FRBNY and FRBB established these SPVs to make loans and purchase debt and other commercial paper of eligible entities affected by COVID-19. The SPVs purchased assets and offered loans collateralized by corporate bonds, commercial paper, asset-backed securities, and municipal debt and loans to certain eligible states, municipalities, businesses and non-profit organizations affected by COVID-19. The FRBNY and FRBB made loans to the SPVs, on a recourse basis, to fund the SPVs' purchase of assets from, or loans to, eligible U.S. issuers and businesses with certain assets as collateral. As the managing member of each SPV, FRBNY or FRBB, as applicable, has the exclusive right to manage the business of the SPV and has all powers and rights necessary to carry out the purposes and business of the SPV.

In FY 2020, we disbursed an aggregate total of $102.5 billion in exchange for a preferred equity interest in the SPVs. To the extent the FRBNY and FRBB experience losses from financing the facilities, our preferred equity accounts absorb such losses up to the maximum amounts per the terms of the LLC agreements. As a preferred equity member, we have no voting, consent, or control rights over the SPVs. The managing member and preferred equity member are the sole members of the SPVs.

Upon dissolution of the SPVs, we will be entitled to an amount equal to the cash balance of the preferred equity account plus 90 percent of the cash balance in all the other accounts of the SPV. The applicable FRB is entitled to 10 percent of the cash balance in all the other accounts of the SPV. We will use the final distribution amount we receive to repay all costs associated with our preferred equity investment in the SPV, including the initial subsidy amounts funded by appropriation and all amounts borrowed from the Fiscal Service. In accordance with the CARES Act, any excess amount of the final distribution after repayment of the appropriations and debt will be deposited into the Federal Old-Age and Survivors Insurance Trust Fund established under Section 201(a) of the *Social Security Act*.

The SPV LLC Agreements provide for interim distributions to Treasury in November and May of each fiscal year in accordance with the terms of the most recent amended agreements. During the fiscal years ended September 30, 2024 and

2023, we received $5.5 billion and $4.6 billion in interim distributions from the SPVs, respectively, which we used to repay outstanding debt to the Fiscal Service that we borrowed to finance the non-subsidized portion of these investment transactions. The interim distributions to Treasury represent the amounts by which funds that were contributed by Treasury to each facility (and earnings thereon) exceeded the purchase price of the assets, loans, and/or loan participations, as the case may be, within each facility at such time. We cannot use our funds remaining in the SPVs funded under the CARES Act for further lending, asset purchases, or extensions of credit.

(in millions)	Outstanding Equity Contribution 9/30/23	FY 2024 Interim Distribution	FY 2024 Final Dissolution [1]	Remaining Outstanding Equity Contribution 9/30/24 [2]
MS Facilities 2020 LLC	$ 9,685	$ (4,726)	$ -	$ 4,959
Municipal Liquidity Facility LLC	2,826	(51)	(2,775)	-
Term Asset-Backed Securities II LLC	848	(750)	(98)	-
Total 13(3) Facilities	**$ 13,359**	**$ (5,527)**	**$ (2,873)**	**$ 4,959**

(1) These amounts exclude residual amounts we received in connection with the dissolution of these facilities.
(2) These amounts exclude cumulative 9/30/24 fair valuations associated with these assets.

(in millions)	Outstanding Equity Contribution 9/30/22	FY 2023 Interim Distribution	FY 2023 Final Dissolution	Remaining Outstanding Equity Contribution 9/30/23 [1]
MS Facilities 2020 LLC	$ 13,891	$ (4,206)	$ -	$ 9,685
Municipal Liquidity Facility LLC	2,895	(69)	-	2,826
Term Asset-Backed Securities II LLC	1,154	(306)	-	848
Total 13(3) Facilities	$ 17,940	$ (4,581)	$ -	$ 13,359

(1) These amounts exclude cumulative 9/30/23 fair valuations associated with these assets.

- *MS Facilities 2020 LLC* (previously named MS Facilities LLC) (MSF) was established by the FRBB in May 2020 to support lending to small- and medium-sized businesses that were in sound financial condition before the onset of the COVID-19 pandemic and have good post-pandemic prospects. Loans issued under this program have a five-year maturity, principal payments are deferred for two years, and interest payments are deferred for one year. The SPV ceased purchasing loan participations in January 2021.
- *Municipal Liquidity Facility LLC* (MLF) was established by the FRBNY in May 2020 to help state and local governments manage cash flow pressures while continuing to serve households and businesses in their communities. The facility purchased short-term notes directly from eligible U.S. states (including the District of Columbia), counties and cities. The SPV ceased purchasing eligible notes in December 2020. This facility was closed in FY 2024 and the final distribution was made to Treasury in February 2024.
- *Term Asset-Backed Securities Loan Facility II LLC* (TALF) was established by the FRBNY in March 2020 to support the flow of credit to consumers and businesses to stabilize the U.S. financial system. This program facilitated the issuance of asset-backed securities backed by student loans, auto loans, credit card loans, commercial mortgages, and certain other assets. No new credit extensions were made after December 2020. This facility was closed in FY 2024 and the final distribution was made to Treasury in February 2024.

Budgetary vs. Proprietary Accounting Treatment of SPVs. The CARES Act stipulated that our SPV investment transactions, to the extent they involved the use of the CARES Act appropriation, be funded in accordance with the provisions of FCRA. For budgetary accounting purposes, we accounted for the initial investment financing and subsequent activity related to these investments pursuant to FCRA guidelines in accordance with Section 185 of OMB Circular A-11, *Preparation, Submission, and Execution of the Budget.*

For proprietary accounting purposes, we accounted for all SPV investments at fair value, rather than as direct loans, as these instruments do not meet the criteria of SFFAS 2, *Accounting for Direct Loans and Loan Guarantees*. Accordingly, we record changes in the fair value of these investments as realized or unrealized fair value gains or losses within the "*Economic Program"* on the Consolidated Statements of Net Cost. The budgetary subsidy cost allowance is based on cash flows discounted using a Treasury rate to determine the subsidy cost, and the proprietary fair value adjustment is based on market interest rates to discount projected cash flows.

In deriving the fair value of our SPV investments, we relied upon market observed prices for SPV purchased assets and collateral, market prices for comparable assets, asset valuations performed by third parties, historical asset data, discussions with subject matter experts within Treasury, and other information pertinent to the valuations. Because the instruments are not publicly traded, there is no comparable trading information available. The fair valuations rely on Level 3 inputs that reflect assumptions about the expectations that market participants would use in pricing.

Transfer of Proceeds Upon Dissolution of SPVs. For those SPVs that we funded through a combination of CARES Act appropriation and Fiscal Service borrowings in accordance with FCRA guidelines, all proceeds that we realize from these investments upon the dissolution of the SPVs are transferred to us to repay all borrowings and other funding costs incurred from these investments. In accordance with the CARES Act, we must transfer any remaining excess residual proceeds to the Federal Old-Age and Survivors Insurance Trust Fund. To the extent that the fair value of the SPV investment assets also incorporates anticipated realization of excess residual proceeds, we record a corresponding liability due to the Federal Old-Age and Survivors Insurance Trust Fund. We recorded a liability of $573 million and $952 million as of September 30, 2024 and 2023, respectively.

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

The following table provides a roll forward of our SPV preferred equity investment balances at fair value as of September 30, 2024 and 2023:

Investments in SPVs (in millions)		2024	2023
Beginning Balance	$	**15,114**	$ 17,835
Sale/Repayment of Investments [(1)]		**(8,400)**	(4,581)
(Loss)/Gain on Sales/Dispositions		**(424)**	-
Valuation Adjustments		**(374)**	1,726
Change in Accrued Dividend/Interest Income and Other		**69**	134
Ending Balance	**$**	**5,985**	$ 15,114

(1) Includes interim distributions and final dissolutions.

OTHER, NET

Other, Net includes foreign currency holdings and equity securities held pursuant to the Emergency Capital Investment Program which was established in response to the COVID-19 pandemic.

Foreign Currency Holdings

Foreign currency holdings are typically invested in interest-bearing securities issued or held through foreign governments or monetary authorities (refer to Note 5). The ESF holds most of our foreign currency investments. Of the total $3.0 billion fair value of foreign investments (excluding interest receivable) held at September 30, 2024, $0.4 billion will mature within one year, $2.4 billion will mature after one year but before five years, and $0.2 billion will mature after five years but before ten years. Of the total $3.7 billion fair value of foreign investments (excluding interest receivable) held at September 30, 2023, $0.4 billion will mature within one year, $2.6 billion will mature after one year but before five years, and $0.7 billion will mature after five years but before ten years.

Emergency Capital Investment Program

Established under the CAA, the Emergency Capital Investment Program encourages low- and moderate-income community financial institutions to augment their efforts to support small businesses and consumers in their communities. Under this program, we had authority to provide up to $9.0 billion in capital directly to depository institutions and holding companies through purchases of preferred stock or subordinated debt from certified CDFIs or minority depository institutions (MDIs). This funding is intended to be used to, among other things, provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers, especially in low-income and underserved communities, that may be disproportionately impacted by the economic effects of the COVID-19 pandemic. We set aside $2.0 billion for CDFIs and MDIs with less than $500 million in assets and an additional $2.0 billion for CDFIs and MDIs with less than $2.0 billion in assets. No further disbursements are expected after September 30, 2023.

With the permission or at the request of the institution once certain requirements have been met, we may transfer or sell the interest in the capital investment for no consideration or for a de minimis amount to a mission-aligned nonprofit affiliate of an applicant that is an insured community development financial institution. We will transfer all cash proceeds we receive in connection with these investments, including dividend and interest payments, and proceeds from the sale of these investments, to the CDFI Fund—a Treasury component—to be used to provide financial and technical assistance pursuant to the *Community Development Banking and Financial Institutions Act of 1994*. During FY 2024, we transferred cash proceeds of $46 million to the CDFI Fund. There were no cash proceeds transferred in FY 2023.

We account for the preferred stock and subordinated debt investments at fair value, with changes in the fair value of these investments recorded as realized or unrealized gains or losses within the *"Economic Program"* on the Consolidated Statements of Net Cost. As the incentives and other conditions of our capital investments result in more favorable terms than available to the CDFIs and MDIs from private investors and more favorable terms compared to investment pricing available in the conventional financial markets, their fair values are less than the amounts we paid at acquisition. As of September 30, 2024 and 2023, our preferred stock and subordinated debt investments were valued at $2.9 billion and $2.5 billion, respectively, which includes a fair value gain of $392 million and a fair value loss of $220 million recognized for the fiscal years ended September 30, 2024 and 2023, respectively.

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

	Fair Value Measurement of Other, Net as of September 30, 2024			
Investment Type (in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Foreign Investments	**$ 3,055**	**$ -**	**$ -**	**$ 3,055**
Emergency Capital Investment Program	**-**	**-**	**2,898**	**2,898**
Other Investments	**55**	**-**	**5**	**60**
Total Fair Value Measurements	**$ 3,110**	**$ -**	**$ 2,903**	**$ 6,013**

	Fair Value Measurement of Other, Net as of September 30, 2023			
Investment Type (in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Foreign Investments	$ 3,703	$ -	$ -	$ 3,703
Emergency Capital Investment Program	-	-	2,516	2,516
Other Investments	55	-	400	455
Total Fair Value Measurements	$ 3,758	$ -	$ 2,916	$ 6,674

The following table provides a roll forward of our investment balances as of September 30, 2024 and 2023:

(in millions)	**2024**	**2023**
Beginning Balance	**$ 6,674**	$ 6,799
Acquisition of Investments(1)	**11,259**	6,677
Valuation Adjustments	**1,260**	(10)
Sale/Repayment of Investments(2)	**(12,885)**	(6,598)
(Loss)/Gain on Sales/Dispositions	**(219)**	(143)
Change in Accrued Dividend/Interest Income and Other	**(76)**	(51)
Ending Balance	**$ 6,013**	$ 6,674

(1) The significant increase is primarily related to foreign investments activity.
(2) The significant increase is primarily related to foreign investments activity combined with the sale of the PSP common stock warrants previously held (refer to Note 9) with a fair value of $395 million in FY 2024.

14. PROPERTY, PLANT, AND EQUIPMENT, NET

As of September 30, 2024 and 2023, Property, Plant, and Equipment, Net consisted of the following:

(in millions)	Service Life		Cost		Accumulated Depreciation/ Amortization		2024 Net Book Value
Buildings, Structures and Facilities	**3 - 50 years**	**$**	**1,301**	**$**	**(673)**	**$**	**628**
Furniture, Fixtures and Equipment	**2 - 20 years**		**2,640**		**(1,824)**		**816**
Construction-in-Progress	**N/A**		**377**		**-**		**377**
Land	**N/A**		**12**		**-**		**12**
Internal-Use Software in Use	**2 - 15 years**		**4,496**		**(3,665)**		**831**
Internal-Use Software in Development	**N/A**		**1,238**		**-**		**1,238**
Right-To-Use Lease Assets	**2 - 20 years**		**599**		**(47)**		**552**
Leasehold Improvements	**2 - 20 years**		**487**		**(264)**		**223**
Total		**$**	**11,150**	**$**	**(6,473)**	**$**	**4,677**

(in millions)	Service Life		Cost		Accumulated Depreciation		2023 Net Book Value
Buildings, Structures and Facilities	3 - 50 years	$	1,234	$	(630)	$	604
Furniture, Fixtures and Equipment	2 - 20 years		2,591		(1,873)		718
Construction-in-Progress	N/A		351		-		351
Land	N/A		12		-		12
Internal-Use Software in Use	2 - 15 years		4,115		(3,479)		636
Internal-Use Software in Development	N/A		742		-		742
Assets Under Capital Lease	2 - 25 years		8		(5)		3
Leasehold Improvements	2 - 25 years		459		(269)		190
Total		$	9,512	$	(6,256)	$	3,256

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

The following table provides a reconciliation of changes in PP&E, Net for the fiscal years ended September 30, 2024 and 2023:

(in millions)		2024		2023
Balance Beginning of Year	**$**	**3,256**	$	3,072
Capitalized Acquisitions		**1,347**		669
Right-To-Use Lease Assets Activity [(1)]		**599**		-
Dispositions		**(18)**		(32)
Depreciation and Amortization Expense		**(504)**		(446)
Other		**(3)**		(7)
Balance at End of Year	**$**	**4,677**	$	3,256

(1) Represents the FY 2024 recognition of Right-To-Use Lease Assets in connection with the adoption of SFFAS 54, effective October 1, 2023 (refer to Note 1AC).

Stewardship Property, Plant, and Equipment

We have 15 heritage assets, of which five are considered multi-use, for FY 2024 and 2023. The Treasury Complex (Main Treasury Building and Annex), declared a national historical landmark in 1972, is treated as a multi-use heritage asset, along with the collection of artifacts within, and is expected to be preserved indefinitely. The buildings that house the Mint in Denver, San Francisco, Fort Knox, and West Point are also multi-use heritage assets and included on the National Register of Historic Places. Additionally, the Mint maintains heritage assets consisting of four coin collections and six collections of historical artifacts. They include various coins produced over the years, furniture and equipment used in Mint's facilities, and examples of the coin manufacturing process. These items are collection-type assets that are maintained for exhibition and are preserved indefinitely because of their historical, cultural, educational, or artistic importance.

15. NON-ENTITY VS. ENTITY ASSETS

Non-entity assets are those that we hold and manage on behalf of the General Fund but are not available for our use. The table below shows our total assets, segregated between non-entity and entity, as of September 30, 2024 and 2023:

	2024		
(in millions)	**Non-Entity**	**Entity**	**Total**
Intra-Governmental			
Fund Balance (Note 2) [a]	$ 16,360	$ 514,469	$ 530,829
Loans Receivable:			
Loans and Interest Receivable (Note 3)	1,742,651	185,877	1,928,528
Advances to Trust Funds (Note 3)	32,170	-	32,170
Other Assets:			
Due From the General Fund (Note 4)	35,493,300	-	35,493,300
Other [b]	1,450	58	1,508
Total Intra-Governmental	37,285,931	700,404	37,986,335
Other Than Intra-Governmental			
Cash and Other Monetary Assets:			
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	871,285	189,985	1,061,270
Gold and Silver Reserves (Note 6)	11,062	-	11,062
Reserve Position in the International Monetary Fund (Note 7)	-	28,733	28,733
Accounts Receivable, Net:			
Taxes, Interest, and Other Receivables, Net (Note 8)	141,833	169	142,002
Loans Receivable, Net:			
Loans and Interest Receivable, Net (Notes 7 and 9)	13,387	-	13,387
Credit Program Receivables, Net (Note 9)	-	2,864	2,864
Advances and Prepayments (Note 10)	-	116,304	116,304
Investments in GSEs (Note 11)	305,800	-	305,800
Other Investments:			
Investments in Multilateral Development Banks (Note 12)	-	9,249	9,249
Investments in Special Purpose Vehicles (Note 13)	-	5,985	5,985
Other, Net (Note 13)	2	6,011	6,013
Property, Plant, and Equipment, Net (Note 14)	-	4,677	4,677
Other Assets [c]	-	3,776	3,776
Total Other Than Intra-Governmental	1,343,369	367,753	1,711,122
Total Assets	$ 38,629,300	$ 1,068,157	$ 39,697,457

(a) *$12.5 billion of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*
(b) *Consists of accounts receivable, net and advances and prepayments totaling $1.5 billion and $37 million, respectively.*
(c) *Consists primarily of inventory and related property.*

	2023		
(in millions)	Non-Entity	Entity	Total
Intra-Governmental			
Fund Balance (Note 2) [d]	$ 7,740	$ 535,792	$ 543,532
Loans Receivable:			
Loans and Interest Receivable (Note 3)	1,815,258	138,309	1,953,567
Advances to Trust Funds (Note 3)	37,269	-	37,269
Other Assets:			
Due From the General Fund (Note 4)	33,242,246	-	33,242,246
Other [e]	1,406	95	1,501
Total Intra-Governmental	35,103,919	674,196	35,778,115
Other Than Intra-Governmental			
Cash and Other Monetary Assets:			
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	639,226	177,304	816,530
Gold and Silver Reserves (Note 6)	11,062	-	11,062
Reserve Position in the International Monetary Fund (Note 7)	-	31,970	31,970
Accounts Receivable, Net:			
Taxes, Interest, and Other Receivables, Net (Note 8)	183,872	1,131	185,003
Loans Receivable, Net:			
Loans and Interest Receivable, Net (Notes 7 and 9)	12,406	75	12,481
Credit Program Receivables, Net (Note 9)	-	3,386	3,386
Advances and Prepayments (Note 10)	-	171,890	171,890
Investments in GSEs (Note 11)	240,410	-	240,410
Other Investments:			
Investments in Multilateral Development Banks (Note 12)	-	9,105	9,105
Investments in Special Purpose Vehicles (Note 13)	-	15,114	15,114
Other, Net (Note 13)	397	6,277	6,674
Property, Plant, and Equipment, Net (Note 14)	-	3,256	3,256
Other Assets [f]	-	2,968	2,968
Total Other Than Intra-Governmental	1,087,373	422,476	1,509,849
Total Assets	$ 36,191,292	$ 1,096,672	$ 37,287,964

(d) *$3.9 billion of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*
(e) *Consists of accounts receivable, net and advances and prepayments totaling $1.4 billion and $56 million, respectively.*
(f) *Consists of inventory and related property.*

16. Federal Debt and Interest Payable and Related Liabilities

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

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

Federal Debt and Interest Payable as of September 30, 2024 and 2023 is as follows:

Held by Other Federal Agencies (Intra Governmental) (in millions)	2024	2023
Beginning Balance	$ **6,803,032**	$ 6,593,327
New Borrowings - Net of Repayments	**319,900**	209,705
Subtotal at Par Value	**7,122,932**	6,803,032
(Discount) Premium	**(22,290)**	39,179
Debt Principal Not Covered by Budgetary Resources (Note 19)	**7,100,642**	6,842,211
Interest Payable Covered by Budgetary Resources	**39,818**	36,787
Total	$ **7,140,460**	$ 6,878,998

Held by the Public (in millions)	2024	2023
Beginning Balance	$ **26,330,142**	$ 24,299,193
New Borrowings - Net of Repayments	**1,977,170**	2,030,949
Subtotal at Par Value	**28,307,312**	26,330,142
(Discount)	**(123,032)**	(118,729)
Debt Principal Not Covered by Budgetary Resources (Note 19)	**28,184,280**	26,211,413
Interest Payable Covered by Budgetary Resources	**133,998**	116,722
Total	$ **28,318,278**	$ 26,328,135

Federal Debt Held by Other Federal Agencies

Certain federal agencies are allowed to invest excess funds in debt securities we issue on behalf of the U.S. government. The terms and the conditions of debt securities we issue allow the U.S. government to meet its cash needs. The vast majority of debt securities are non-marketable securities issued at par value, but others are issued at market prices and interest rates that reflect market terms. The average intra-governmental interest rate for debt held by the federal entities, excluding Treasury Inflation-Protected Securities (TIPS) and Floating Rate Notes (FRNs), for FY 2024 and 2023 was 3.0 percent and 2.7 percent, respectively. The average intra-governmental interest rate on TIPS inflation-adjusted principal for FY 2024 and 2023 was 1.1 percent for both fiscal years. The average interest rate on FRNs for FY 2024 and 2023 was 4.4 percent and 5.4 percent, respectively. The average interest rate represents the original issue weighted effective yield on securities outstanding at the end of the fiscal year.

The federal debt also includes intra-governmental marketable debt securities that certain agencies are permitted to buy and sell on the open market. The debt federal agencies held at par value (not including premium/discount or interest payable) as of September 30, 2024 and 2023 is as follows:

(in millions)		2024		2023
Social Security Administration	$	**2,759,980**	$	2,816,655
Office of Personnel Management		**1,174,834**		1,141,290
Department of Defense Agencies		**1,998,427**		1,734,130
Department of Health and Human Services		**404,012**		358,353
All Other Federal Entities — Consolidated		**785,679**		752,604
Total Federal Debt Held by Other Federal Agencies	$	**7,122,932**	$	6,803,032

These amounts do not include intra-departmental debt and related interest that are eliminated from our financial statements.

FEDERAL DEBT HELD BY THE PUBLIC

Federal Debt Held by the Public at par value (not including premium/discount or interest payable) as of September 30, 2024 and 2023 consisted of the following:

(at par value in millions)	Term	Average Interest Rates		2024
Marketable:				
Treasury Bills	**1 Year or Less**	**5.2%**	**$**	**6,004,141**
Treasury Notes	**Over 1 Year - 10 Years**	**2.7%**		**14,338,035**
Treasury Bonds	**Over 10 Years**	**3.2%**		**4,701,363**
Treasury Inflation-Protected Securities (TIPS)	**5 Years or More**	**0.7%**		**2,051,110**
Treasury Floating Rate Notes (FRN)	**2 Years**	**4.7%**		**615,530**
Total Marketable				**27,710,179**
Non-Marketable	**On Demand to Over 40 Years**	**3.7%**		**597,133**
Total Federal Debt Held by the Public			**$**	**28,307,312**

(at par value in millions)	Term	Average Interest Rates		2023
Marketable:				
Treasury Bills	1 Year or Less	5.4%	$	5,259,329
Treasury Notes	Over 1 Year - 10 Years	2.1%		13,724,904
Treasury Bonds	Over 10 Years	3.1%		4,240,162
Treasury Inflation-Protected Securities (TIPS)	5 Years or More	0.6%		1,934,947
Treasury Floating Rate Notes (FRN)	2 Years	5.0%		575,539
Total Marketable				25,734,881
Non-Marketable	On Demand to Over 40 Years	3.7%		595,261
Total Federal Debt Held by the Public			$	26,330,142

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

We also issue TIPS that have interest and redemption payments tied to the Consumer Price Index (CPI) for all Urban Consumers, a widely used measurement of inflation. We adjust the principal for TIPS daily over the life of the security based on the CPI for all Urban Consumers. At maturity, TIPS are redeemed at the inflation-adjusted principal amount, or the original par value, whichever is greater. TIPS pay a semi-annual fixed rate of interest applied to the inflation-adjusted principal. The average interest rate on TIPS represents the stated interest rate on the inflation-adjusted principal, 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 $386.8 billion and $362.3 billion as of September 30, 2024 and 2023, respectively.

We also issue marketable FRNs which accrue interest daily and pay the aggregated interest on a quarterly basis. The interest rate is based on two components; the interest rate tied to the highest accepted discount rate of the most recent 13-week marketable bill auction and the spread rate, which is the highest accepted discount rate determined at auction when the FRN is first offered. Similar to marketable notes and bonds, we issue these securities at either par value or at an amount that reflects a discount or premium. The average interest rate on marketable FRNs represents the highest accepted discount rate of the most recent 13-week marketable auction as of September 30, adjusted by any discount or premium on securities outstanding as of that date.

In addition to issuing new securities, we are also authorized to redeem existing debt early. 31 USC 3111 authorizes us to use money received from the sale of an obligation and other money in the General Fund to "buy, redeem, or refund, at or before maturity, outstanding bonds, notes, certificates of indebtedness, Treasury bills, or savings certificates of the United States Government." The authority to buyback securities enables us to better achieve debt management objectives of liquidity support, bolstering market liquidity and cash management, reducing volatility in Treasury cash balance and bill issuance, minimizing bill supply disruptions, and reducing borrowing costs over time. A buyback occurs when we redeem outstanding marketable Treasury securities prior to their maturity dates. In a buyback, the owner of the security sells it to us on a voluntary basis at a price determined by a competitive auction process. Once the securities have been redeemed, the total public debt outstanding is reduced by the amount of the buyback operation.

The first of these buybacks occurred in FY 2000 and continued through FY 2002. We did not conduct buybacks again until FY 2015, when we conducted two small-value buybacks to ensure operational readiness of our buyback infrastructure. We continued to conduct regular small-value buyback operations periodically to ensure operational readiness through April 2024. In May 2024, we began regular buyback operations, which continued through the end of the fiscal year. The regular buybacks included liquidity support buybacks, from May 2024 through September 2024, and cash management buybacks in September 2024. Buybacks of Treasury securities are conducted by our fiscal agent, the FRBNY. During FY 2024, three operational readiness buybacks and 21 regular buybacks were conducted, leading to total purchases of $45.4 billion in debt principal at a total cost of $41.9 billion, excluding accrued interest, and resulting in gains of $3.5 billion. In comparison, FY 2023 included one operational readiness buyback, which involved purchasing $24 million in debt principal at a cost of $22 million, excluding accrued interest, resulting in a gain of $2 million.

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, 2024, the FRB's SOMA had total holdings of $3.6 trillion which: *(i)* excluded $735 billion in Treasury securities used in overnight reverse repurchase transactions, and *(ii)* includes $2 billion held by the Federal Reserve Bank as collateral for securities lending activities. As of September 30, 2023, the FRB's SOMA had total holdings of $2.8 trillion which: *(i)* excluded $2.1 trillion in Treasury securities used in overnight reverse repurchase transactions, and *(ii)* excludes $26.8 billion lent to dealers and not collateralized by other Treasury securities. For the years ended September 30, 2024 and 2023, we incurred interest expense of $102.5 billion and $105.1 billion, respectively, related to Treasury securities held by the FRBs.

We issue non-marketable securities at either par value or at an amount that reflects a discount or a premium. The average interest rate on the non-marketable securities represents the original issue weighted effective yield on securities outstanding as of September 30, 2024 and 2023. Non-marketable securities are issued with a term of on demand out to 40 years. In FY 2020, we expanded our non-marketable securities to include a new special non-marketable Treasury security, known as a Special Purpose Vehicle (SPV) security. We issued these securities to SPVs, which were established by the Federal Reserve to implement its emergency lending facilities under Section 13(3) of the *Federal Reserve Act* to respond to the COVID-19 pandemic. An SPV security is a demand deposit certificate of indebtedness for which interest accrues daily and is paid at redemption. The total amount of SPV securities redeemed in FY 2024 and 2023 was $7.6 billion and $4.0 billion, respectively, including $282 million and $477 million in capitalized interest, respectively. There were no issuances of SPV securities in FY 2024 and 2023. As of September 30, 2024 and 2023, the total amount of SPV securities outstanding was $4.6 billion and $11.9 billion, respectively.

Statutory Debt Limit

The statutory debt limit is the total amount of money that the U.S. government is authorized to borrow to meet its existing legal obligations, with certain adjustments. Outstanding debt obligations subject to the debt limit were $35.4 trillion and $33.1 trillion as of September 30, 2024 and 2023, respectively. Congress has provided us with statutory authority to take certain extraordinary measures in the event that the public debt nears the debt limit and a delay in raising the debt limit occurs. These measures authorize us to deviate from our normal debt management operations – which include the investment (or non-investment) of trust fund balances in Treasury securities – to avoid exceeding the debt limit. We undertake these measures to meet the U.S. government's obligations as they come due without exceeding the debt limit.

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

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

A delay in raising the debt limit commenced on January 19, 2023, at which time we departed from our normal debt management operations and undertook extraordinary measures to avoid exceeding the debt limit. On June 3, 2023, Congress enacted the *Fiscal Responsibility Act of 2023* (P.L. 118-5), which temporarily suspended the debt limit through January 1, 2025. On June 5, 2023, we discontinued the use of extraordinary measures and resumed normal debt management operations. On this date, we restored unissued securities totaling $310.5 billion, of which $289.1 billion was restored to the G Fund and $21.4 billion was restored to the OPM administered Civil Service Fund. We also restored foregone interest totaling $3.0 billion to the G Fund on June 6, 2023. We restored foregone interest totaling $282.3 million to the two OPM funds on the next semi-annual interest payment date on June 30, 2023.

17. OTHER FEDERAL DEBT AND INTEREST PAYABLE

Through FFB, we have outstanding borrowings and related accrued interest owed to the Civil Service Fund. At September 30, 2024 and 2023, FFB had outstanding borrowings of $4.5 billion and $5.5 billion, inclusive of $28 million and $35 million of accrued interest payable, respectively. The outstanding borrowings at September 30, 2024, had stated interest rates that ranged from 2.25 percent to 3.00 percent per annum, and an effective interest rate of 2.43 percent. The outstanding borrowings at September 30, 2023, had stated interest rates that ranged from 2.25 percent to 3.00 percent per annum, and an effective interest rate of 2.51 percent. Maturity dates ranged from June 30, 2025, to June 30, 2035, for outstanding borrowings at September 30, 2024, and from June 30, 2024, to June 30, 2035, for outstanding borrowings at September 30, 2023.

As an extraordinary measure undertaken during the January through June 2023 period of delay in raising the statutory debt limit (refer to Note 16), on May 25, 2023, through FFB, we exchanged $1.9 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 received from the Civil Service Fund to repay $1.9 billion of outstanding principal borrowings, including interest, owed to the Fiscal Service. The Fiscal Service then extinguished the Treasury debt securities it received from FFB, which thereby helped Treasury remain below the debt limit.

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

Title XI of the *Balanced Budget Act of 1997*, as amended, was intended to relieve the D.C. government of the burden of unfunded pension liabilities transferred to the District by the U.S. government in 1979. To fulfill our responsibility, we manage two funds — the District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund (the D.C. Federal Pension Fund) and the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund). We are required to make annual amortized payments from the General Fund to the D.C. Federal Pension Fund and the Judicial Retirement Fund. The D.C. Federal Pension Fund benefit payments relate to creditable service performed on or before June 30, 1997, while the Judicial Retirement Fund benefit payments relate to all creditable service.

A reconciliation of the combined actuarial pension liability for the D.C. Federal Pension Fund and the Judicial Retirement Fund as of September 30, 2024 and 2023 is as follows:

(in millions)	2024	2023
Beginning Liability Balance	**$ 8,780**	$ 8,461
Pension Expense:		
Normal Cost	**9**	7
Interest on Pension Liability During the Year	**116**	77
Actuarial (Gains) Losses During the Year:		
From Experience	**54**	359
From Discount Rate Assumption Change	**7**	27
From Other Economic Assumption Changes	**158**	420
Total Pension Expense	**344**	890
Less Amounts Paid	**(583)**	(571)
Ending Liability Balance	**$ 8,541**	$ 8,780

Additional Information ($ in millions):	D.C. Federal Pension Fund	Judicial Retirement Fund	2024 Total
Amount Received from the General Fund	$ 681	$ 27	$ 708
Annual Rate of Investment Return Assumption	1.8% - 3.30%	1.8% - 3.30%	
Future Annual Rate of Inflation and Cost-Of-Living Adjustment:			
Police Officers	2.82%	N/A	
Firefighters	2.82%	N/A	
Teachers	2.78%	N/A	
Judicial	N/A	2.75%	
Future Annual Rate of Salary Increases:			
Police Officers	2.75%	N/A	
Firefighters	2.45%	N/A	
Teachers	2.10%	N/A	
Judicial	N/A	2.03%	

Additional Information ($ in millions):	D.C. Federal Pension Fund	Judicial Retirement Fund	2023 Total
Amount Received from the General Fund	$ 609	$ 22	$ 631
Annual Rate of Investment Return Assumption	1.30% - 3.26%	1.30% - 3.26%	
Future Annual Rate of Inflation and Cost-Of-Living Adjustment:			
Police Officers	2.63%	N/A	
Firefighters	2.63%	N/A	
Teachers	2.60%	N/A	
Judicial	N/A	2.58%	
Future Annual Rate of Salary Increases:			
Police Officers	2.75%	N/A	
Firefighters	2.55%	N/A	
Teachers	2.10%	N/A	
Judicial	N/A	1.67%	

19. LIABILITIES

LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

As of September 30, 2024 and 2023, liabilities not covered by budgetary resources consisted of the following:

(in millions)	2024	2023
Intra-Governmental Liabilities Not Covered by Budgetary Resources		
Federal Debt Principal, Premium/Discount (Note 16)	**$ 7,100,642**	$ 6,842,211
Other Intra-Governmental Liabilities	**74**	73
Total Intra-Governmental Liabilities Not Covered by Budgetary Resources	**7,100,716**	6,842,284
Federal Debt Principal, Premium/Discount (Note 16)	**28,184,280**	26,211,413
Other Payables	**5**	5
Other Liabilities	**1,618**	1,083
Total Liabilities Not Covered by Budgetary Resources	**35,286,619**	33,054,785
Total Liabilities Covered by or Not Requiring Budgetary Resources	**3,689,836**	3,437,144
Total Liabilities	**$ 38,976,455**	$ 36,491,929

OTHER LIABILITIES

The "*Other*" line item within "*Other Liabilities*" displayed on the Consolidated Balance Sheets consists of liabilities that are covered by, not covered by, and not requiring budgetary resources. The "*Other*" line item within "*Other Liabilities*" at September 30, 2024 and 2023, consisted of the following:

	2024			2023		
(in millions)	Current	Non-Current	Total	Current	Non-Current	Total
Intra-Governmental						
Accounts Payable	**$ 1,045**	**$ -**	**$ 1,045**	$ 820	$ -	$ 820
Advances From Others and Deferred Revenue	**505**	**-**	**505**	627	-	627
Other Accrued Liabilities	**1,058**	**39**	**1,097**	1,366	59	1,425
Total Intra-Governmental	**$ 2,608**	**$ 39**	**$ 2,647**	$ 2,813	$ 59	$ 2,872
Other Than Intra-Governmental						
Federal Employee Salary, Leave and Benefits Payable	**$ 1,222**	**$ -**	**$ 1,222**	$ 1,462	$ -	$ 1,462
Pension and Post-Employment Benefits Payable	**1**	**575**	**576**	1	579	580
Advances From Others and Deferred Revenue	**2,683**	**-**	**2,683**	1,889	-	1,889
Other Liabilities Without Related Budgetary Obligations	**459**	**27**	**486**	370	28	398
Other Liabilities With Related Budgetary Obligations	**643**	**206**	**849**	870	206	1,076
Lease Liability	**118**	**454**	**572**	-	-	-
Unearned Lease Revenue	**3**	**-**	**3**	-	-	-
Liability for Non-Fiduciary Deposit Funds and Clearing Accounts	**4,766**	**-**	**4,766**	5,534	-	5,534
Other Accrued Liabilities	**1**	**-**	**1**	-	2	2
Total Other Than Intra-Governmental	**$ 9,896**	**$ 1,262**	**$ 11,158**	$ 10,126	$ 815	$ 10,941

20. Net Position

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

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

Appropriations Received

Congress appropriates the amount reported as "*Appropriations Received*" from the General Fund receipts, such as income taxes, which 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 7*, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, as amended.

Transfers to the General Fund and Other

The amount reported as "*Transfers to the General Fund and Other*" on the Consolidated Statements of Changes in Net Position includes the following for the years ended September 30, 2024 and 2023:

(in millions)	2024	2023
Categories of Transfers to the General Fund and Other		
Increase in Liquidation Preference of GSEs Preferred Stock and Valuation Changes (Note 11)	**$ (65,390)**	$ (16,690)
Interest Revenue	**(55,755)**	(50,957)
Federal Debt Buyback Gain (Note 16)	**(3,457)**	(2)
COVID-19 Non-Entity Revenue	**(1,214)**	(1,263)
U.S. Quota in the IMF - Valuation Upward Adjustment	**908**	942
Other	**(1,227)**	(1,074)
Total	**$ (126,135)**	$ (69,044)

Included in "*Transfers to the General Fund and Other*" is the increase in liquidation preference in the GSE Senior Preferred Stock investments and annual valuation adjustment. Also included is accrued interest revenue on inter-agency loans held on behalf of the U.S. government. We report a corresponding amount on the Consolidated Statements of Net Cost under "*Non-Entity Costs: Less Interest Revenue from Loans*." Eliminations between our bureaus reduce the amount reported on the Consolidated Statements of Net Cost. Our "*Federal Debt Buyback Gain*" is the resulting gains from buybacks that occur when we redeem outstanding marketable Treasury securities prior to their maturity dates. Our *"COVID-19 Non-Entity Revenue"* relates to notes receivable and common stock warrants received pursuant to the CARES Act, CAA, and ARP. Additionally, there are unrealized gains and losses recognized on the U.S. Quota in the IMF due to SDR exchange rate fluctuation.

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

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

The classification of sub-organizations has been determined in accordance with SFFAS 4, *Managerial Cost Accounting Standards and Concepts* which states that the predominant factor is the reporting entity's organization structure and existing responsibility components, such as bureaus, administrations, offices, and divisions within a department.

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

Intra-Departmental Costs/Revenues

We report intra-departmental costs/revenues from providing goods and/or services on a reimbursable basis among our sub-organizations as costs by providing sub-organizations and as revenues by receiving sub-organizations. We recognized intra-departmental imputed costs, such as un-reimbursed payments made from the Treasury Judgment Fund on our behalf, on the Consolidated Statements of Net Cost of $1.3 billion and $1.2 billion during FY 2024 and 2023, respectively. Accordingly, we eliminated such costs or revenues in the consolidation process.

Intra-governmental Costs

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

In certain cases, other federal agencies incur costs that are directly identifiable to our operations. In accordance with SFFAS 4, as amended, we recognize identified costs paid on our behalf by other agencies. The imputed intra-governmental financing sources we currently recognize include the actual cost of future benefits for the federal pension plans, and the Federal Employees Health Benefits Program that other federal entities pay on our behalf. We reflect the funding for these costs as costs on the Consolidated Statements of Net Cost, and as imputed financing sources on the Consolidated Statements of Changes in Net Position. Costs other agencies pay on our behalf were $1.4 billion and $1.1 billion for the fiscal years ended September 30, 2024 and 2023, respectively.

CONSOLIDATED STATEMENTS OF NET COST PRESENTATION

Basis of Presentation

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

Non-Entity Costs and Revenues

Our Consolidated Statements of Net Cost also present interest expense on the federal debt, other federal costs incurred, and non-entity exchange revenues earned on behalf of the U.S. government. We present these costs and revenues separately from the net cost of Treasury operations. We eliminate these costs in the consolidation process to the extent that they involve transactions with our sub-organizations.

Non-entity other federal costs shown on the Consolidated Statements of Net Cost for the fiscal years ended September 30, 2024 and 2023 consisted of the following:

(in millions)	2024	2023
Credit Reform Interest on Uninvested Funds (Intra-Governmental)	**$ 10,212**	$ 11,860
Judgment Claims and Contract Disputes	**1,723**	1,814
Resolution Funding Corporation	**920**	920
Corporation for Public Broadcasting	**585**	535
Legal Services Corporation	**560**	580
All Other Payments	**375**	147
Total	**$ 14,375**	$ 15,856

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

For Fiscal Year Ended September 30, 2024

Program Costs	Bureau of Engraving & Printing	Bureau of the Fiscal Service	Depart mental Offices[a]	Financial Crimes Enforcement Network	Internal Revenue Service	U.S. Mint
ECONOMIC PROGRAM						
Gross Cost	$ -	$ -	$ 81,914	$ -	$ -	$ -
Less Earned Revenue	-	-	(24,591)	-	-	-
Net Program Cost	-	-	57,323	-	-	-
FINANCIAL PROGRAM						
Gross Cost	952	3,013	8,855	-	19,792	3,258
Less Earned Revenue	(1,195)	(592)	(8,171)	-	(566)	(3,277)
Net Program Cost	(243)	2,421	684	-	19,226	(19)
SECURITY PROGRAM						
Gross Cost	-	-	546	196	-	-
Less Earned Revenue	-	-	(14)	(3)	-	-
Net Program Cost	-	-	532	193	-	-
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	(243)	2,421	58,539	193	19,226	(19)
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	-	-	165	-	-	-
Total Net Cost of (Revenue From) Treasury Operations	$ (243)	$ 2,421	$ 58,704	$ 193	$ 19,226	$ (19)

(a) The total $57.3 billion of the Economic Program net costs DO reported consisted of $56.2 billion of net costs from OCA with $54.6 billion for Coronavirus State and Local Fiscal Recovery Funds and $1.6 billion for other COVID-19 relief programs; $2.3 billion net costs from IAP, and $1.5 billion net costs from CDFI Fund; partially offset by $2.9 billion of net income from ESF. The remaining net costs consisted of net costs from other DO programs or offices.

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

For Fiscal Year Ended September 30, 2024

Program Costs	Office of the Comptroller of the Currency	Alcohol and Tobacco Tax and Trade Bureau	Combined Total	Eliminations	2024 Consolidated
ECONOMIC PROGRAM					
Gross Cost	$ -	$ 161	$ 82,075	$ 297	$ 81,778
Less Earned Revenue	-	(9)	(24,600)	(802)	(23,798)
Net Program Cost	-	152	57,475	(505)	57,980
FINANCIAL PROGRAM					
Gross Cost	1,336	-	37,206	8,689	28,517
Less Earned Revenue	(1,219)	-	(15,020)	(1,790)	(13,230)
Net Program Cost	117	-	22,186	6,899	15,287
SECURITY PROGRAM					
Gross Cost	-	-	742	139	603
Less Earned Revenue	-	-	(17)	(6)	(11)
Net Program Cost	-	-	725	133	592
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	117	152	80,386	6,527	73,859
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	7	-	172	-	172
Total Net Cost of (Revenue From) Treasury Operations	$ 124	$ 152	$ 80,558	$ 6,527	$ 74,031

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

For Fiscal Year Ended September 30, 2023

Program Costs	Bureau of Engraving & Printing	Bureau of the Fiscal Service	Departmental Offices[a]	Financial Crimes Enforcement Network	Internal Revenue Service	U.S. Mint
ECONOMIC PROGRAM						
Gross Cost	$ -	$ -	$ 90,662	$ -	$ -	$ -
Less Earned Revenue	-	-	(30,308)	-	-	-
Net Program Cost	-	-	60,354	-	-	-
FINANCIAL PROGRAM						
Gross Cost	878	2,699	5,021	-	17,809	4,336
Less Earned Revenue	(973)	(530)	(4,409)	-	(580)	(4,423)
Net Program Cost	(95)	2,169	612	-	17,229	(87)
SECURITY PROGRAM						
Gross Cost	-	-	475	168	-	-
Less Earned Revenue	-	-	(16)	(2)	-	-
Net Program Cost	-	-	459	166	-	-
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	(95)	2,169	61,425	166	17,229	(87)
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	-	-	447	-	-	-
Total Net Cost of (Revenue From) Treasury Operations	$ (95)	$ 2,169	$ 61,872	$ 166	$ 17,229	$ (87)

(a) The total $60.4 billion of the Economic Program net costs DO reported consisted of $61.8 billion of net costs from OCA: $49.4 billion for Coronavirus State and Local Fiscal Recovery Funds, $8.7 billion for Emergency Rental Assistance, $1.8 billion for Local Assistance and Tribal Consistency Fund, $1.3 billion for State Small Business Credit Initiative, and $0.6 billion for other COVID-19 relief programs; and $1.7 billion in net costs from IAP; partially offset by $3.7 billion of net income from ESF. The remaining net costs consisted of net costs from other DO programs or offices.

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

For Fiscal Year Ended September 30, 2023

Program Costs	Office of the Comptroller of the Currency	Alcohol and Tobacco Tax and Trade Bureau	Combined Total	Eliminations	2023 Consolidated
ECONOMIC PROGRAM					
Gross Cost	$ -	$ 150	$ 90,812	$ 350	$ 90,462
Less Earned Revenue	-	(7)	(30,315)	(803)	(29,512)
Net Program Cost	-	143	60,497	(453)	60,950
FINANCIAL PROGRAM					
Gross Cost	1,207	-	31,950	4,613	27,337
Less Earned Revenue	(1,185)	-	(12,100)	(1,400)	(10,700)
Net Program Cost	22	-	19,850	3,213	16,637
SECURITY PROGRAM					
Gross Cost	-	-	643	125	518
Less Earned Revenue	-	-	(18)	(5)	(13)
Net Program Cost	-	-	625	120	505
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	22	143	80,972	2,880	78,092
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	(4)	-	443	-	443
Total Net Cost of (Revenue From) Treasury Operations	$ 18	$ 143	$ 81,415	$ 2,880	$ 78,535

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

Net Adjustments to Unobligated Balance, Brought Forward, October 1

Net adjustments to unobligated balance, brought forward, October 1 as of September 30, 2024 and 2023 consisted of the following:

(in millions)	2024	2023
Unobligated Balance, Brought Forward From Prior Year	**$ 394,521**	$ 405,219
Adjustments to Budgetary Resources Made During Current Year		
Downward Adjustments of Prior Year Undelivered Orders	**521**	2,785
Downward Adjustments of Prior Year Delivered Orders	**633**	4,676
Other Adjustments	**11,283**	3,104
Unobligated Balance From Prior Year Budget Authority, Net (Discretionary and Mandatory)	**$ 406,958**	$ 415,784

Undelivered Orders

Undelivered orders represent goods and services ordered and obligated which have not been received. This includes any orders for which we have paid in advance, but for which delivery or performance has not yet occurred. The decrease in *Undelivered Orders - Paid* as of September 30, 2024, primarily reflects the drawdown of the SLFRF and ERA2 advances based on recipient reported expenditures. The increase in *Undelivered Orders - Unpaid* as of September 30, 2024, is primarily attributable to new budget authority issued for the recently established Poverty Reduction and Growth Trust (PRGT) lending facility (refer to Note 2). Undelivered orders as of September 30, 2024 and 2023 consisted of the following:

	2024			2023		
(in millions)	Federal	Non-Federal	Total	Federal	Non-Federal	Total
Paid	**$ 517**	**$ 128,060**	**$ 128,577**	$ 666	$ 189,195	$ 189,861
Unpaid	**1,226**	**46,636**	**47,862**	1,099	23,523	24,622
Undelivered Orders at the End of the Year	**$ 1,743**	**$ 174,696**	**$ 176,439**	$ 1,765	$ 212,718	$ 214,483

Contributed Capital

Contributed capital represents the current year authority and prior year balances of amounts actually transferred through non-expenditure transfers to miscellaneous receipt accounts of the General Fund to repay a portion of a capital investment or transfer seigniorage and numismatic profits. Contributed capital for the fiscal years ended September 30, 2024 and 2023 was $17 million and $0 million, respectively.

Terms of Borrowing Authority Used

Several of our programs have authority to borrow under the FCRA, as amended. The FCRA provides indefinite borrowing authority to financing accounts to fund the unsubsidized portion of direct loans and to satisfy obligations in the event the financing account's resources are insufficient. OMB Circular No. A-11 defines repayment requirements. We calculate interest expense due based on the beginning balance of borrowings outstanding and the borrowings/repayments activity that occurred during the fiscal year. Undisbursed Departmental borrowings earn interest at the same rate as the financing account pays on its debt owed to the Fiscal Service. In the event that principal and interest collections exceed the interest expense due, we receive the excess payment. If principal and interest do not exceed interest expense due, we will borrow the difference. We make periodic principal repayments based on the analysis of cash balances and future disbursement needs. All interest on borrowings is due on September 30. Interest rates on FCRA borrowings range from 0.54 percent to 5.50 percent.

AVAILABLE BORROWING

The available borrowing authority and related changes in available borrowing authority as of and for the fiscal years ended September 30, 2024 and 2023 are shown below:

(in millions)	2024	2023
Beginning Balance	**$ 7,678**	$ 7,180
Current Authority[1]	**21,795**	1,000
Borrowing Authority Converted to Cash	**(464)**	(502)
Ending Balance	**$ 29,009**	7,678

(1) The significant increase in borrowing authority is primarily related to increased borrowings for IMF's PRGT lending facility.

RECONCILIATION OF THE PRESIDENT'S BUDGET

The Budget of the United States (also known as the President's Budget), with actual numbers for FY 2024, was not published at the time that these financial statements were issued. We expect OMB to publish the FY 2026 President's Budget in February 2025, and will be available from the U.S. Government Publishing Office. The following chart displays the differences between the Combined Statement of Budgetary Resources (SBR) in the FY 2023 AFR and the actual FY 2023 balances included in the FY 2025 President's Budget.

Reconciliation of FY 2023 Combined Statement of Budgetary Resources to the FY 2025 President's Budget

(in millions)	Budgetary Resources	New Obligations and Upward Adjustments	Outlays (net of offsetting collections)	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources (SBR) Amounts	$ 1,349,017	$ 954,496	$ 930,832	$ (59,773)	$ 871,059
IRS non-entity tax credit payments and other outlays not in SBR [(1)]	257,914	257,914	239,760	-	239,760
Tax and Trade Bureau (TTB) non-entity collections for Puerto Rico not in SBR	362	362	362	-	362
Expired funds in SBR	(1,178)	-	-	-	-
Non-Treasury offsetting receipts	-	-	-	(34)	(34)
Difference from Distributed Offsetting Receipts report	-	-	-	(116)	(116)
Non-Budgetary Financing Disbursements, net [(2)]	-	-	(4,228)	-	(4,228)
Prior Year Adjustments on ORP not in President's Budget	(407)	(407)	-	-	-
Other	2	(4)	(5)	(1)	(6)
President's Budget Amounts	**$ 1,605,710**	**$ 1,212,361**	**$ 1,166,721**	**$ (59,924)**	**$ 1,106,797**

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

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

Legal Arrangements Affecting Use of Unobligated Balances

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

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

23. Sources and Disposition of Custodial Revenue

We collect the majority of federal revenue from income and excise taxes. The table below shows collection activity, by revenue type and tax year, for the fiscal years ended September 30, 2024 and 2023:

		Tax Year				
(in millions)		2024	2023	2022	2022	Collections
Individual Income and FICA Taxes	$	**2,760,534 $**	**1,517,808 $**	**89,085 $**	**41,895 $**	**4,409,322**
Corporate Income Taxes		**303,265**	**192,468**	**9,834**	**59,519**	**565,086**
Estate and Gift Taxes		**1,270**	**25,405**	**3,917**	**2,276**	**32,868**
Excise Taxes		**71,837**	**22,591**	**147**	**145**	**94,720**
Railroad Retirement Taxes		**5,366**	**1,524**	**11**	**28**	**6,929**
Unemployment Taxes		**5,025**	**2,979**	**30**	**96**	**8,130**
Fines, Penalties, Interest & Other Revenue - Tax Related		**210**	**3**	**-**	**2**	**215**
Tax Related Revenue Received		**3,147,507**	**1,762,778**	**103,024**	**103,961**	**5,117,270**
Deposit of Earnings, Federal Reserve System [(1)]		**2,588**	**543**	**-**	**-**	**3,131**
Fines, Penalties, Interest & Other Revenue - Non-Tax Related		**6,395**	**1,587**	**-**	**-**	**7,982**
Non-Tax Related Revenue Received		**8,983**	**2,130**	**-**	**-**	**11,113**
Total Revenue Received	**$**	**3,156,490 $**	**1,764,908 $**	**103,024 $**	**103,961 $**	**5,128,383**
Less Amounts Collected for Non-Federal Entities						**(399)**
Total					**$**	**5,127,984**

(1) The significant increase is primarily due to an increase in the Federal Reserve weekly deposit of excess earnings (refer to Note 1AB).

		Tax Year				
					Pre-	2023
(in millions)		2023	2022	2021	2021	Collections
Individual Income and FICA Taxes	$	2,546,749 $	1,414,071 $	69,626 $	81,509 $	4,111,955
Corporate Income Taxes		270,170	155,513	4,935	26,323	456,941
Estate and Gift Taxes		1,263	29,944	2,077	2,150	35,434
Excise Taxes		70,846	20,911	236	351	92,344
Railroad Retirement Taxes		5,423	1,579	2	214	7,218
Unemployment Taxes		4,983	2,737	24	203	7,947
Fines, Penalties, Interest & Other Revenue - Tax Related		596	2	1	7	606
Tax Related Revenue Received		2,900,030	1,624,757	76,901	110,757	4,712,445
Deposit of Earnings, Federal Reserve System		127	454	-	-	581
Fines, Penalties, Interest & Other Revenue - Non-Tax Related		6,525	1,549	-	-	8,074
Non-Tax Related Revenue Received		6,652	2,003	-	-	8,655
Total Revenue Received	$	2,906,682 $	1,626,760 $	76,901 $	110,757 $	4,721,100
Less Amounts Collected for Non-Federal Entities						(369)
Total					$	4,720,731

AMOUNTS PROVIDED TO FUND THE U.S. GOVERNMENT

For the fiscal years ended September 30, 2024 and 2023, collections of custodial revenue transferred to other federal entities were as follows:

(in millions)	2024	2023
General Fund	**$ 4,573,337**	$ 4,059,898
Other Federal Agencies	**1,205**	1,264
Total	**$ 4,574,542**	$ 4,061,162

FEDERAL TAX REFUNDS AND OTHER PAYMENTS

Federal tax refunds and other payments include amounts paid to taxpayers who have paid more than the actual taxes they owe, as well as payments for various refundable tax credits. Refunds and other payments, by revenue type and tax year, were as follows for the years ended September 30, 2024 and 2023:

	Tax Year				
(in millions)	2024	2023	2022	Pre 2022	2024 Refunds/ Payments
Individual Income and FICA Taxes	**$ 129,806**	**$ 303,781**	**$ 51,986**	**$ 23,066**	**$ 508,639**
Corporate Income Taxes	**2,723**	**8,744**	**9,987**	**15,264**	**36,718**
Estate and Gift Taxes	**-**	**438**	**534**	**327**	**1,299**
Excise Taxes	**3,002**	**2,739**	**404**	**471**	**6,616**
Railroad Retirement Taxes	**-**	**5**	**-**	**27**	**32**
Unemployment Taxes	**-**	**88**	**26**	**20**	**134**
Fines, Penalties, Interest & Other Revenue	**-**	**-**	**-**	**4**	**4**
Total	**$ 135,531**	**$ 315,795**	**$ 62,937**	**$ 39,179**	**$ 553,442**

	Tax Year				
(in millions)	2023	2022	2021	Pre 2021	2023 Refunds/ Payments
Individual Income and FICA Taxes	$ 100,011	$ 302,575	$ 160,572	$ 47,836	$ 610,994
Corporate Income Taxes	4,435	8,655	10,955	19,810	43,855
Estate and Gift Taxes	-	409	1,012	430	1,851
Excise Taxes	715	1,145	164	667	2,691
Railroad Retirement Taxes	-	24	(9)	-	15
Unemployment Taxes	-	79	22	61	162
Fines, Penalties, Interest & Other Revenue	-	-	-	1	1
Total	$ 105,161	$ 312,887	$ 172,716	$ 68,805	$ 659,569

24. Funds From Dedicated Collections

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

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

Bureau	Fund Code	Fund Title/Description
Exchange Stabilization Fund (ESF)		
ESF	020X4444	Exchange Stabilization Fund
Public Enterprise/Revolving/Trust Revolving		
BEP	020X4502	Bureau of Engraving and Printing Fund
Mint	020X4159	United States Mint Public Enterprise Fund
OCC	020X8413	Assessment Funds
IRS	020X4413	Federal Tax Lien Revolving Fund
FinCEN	020X4394	Financial Integrity 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	5805585001	Travel Promotion Fund, Corp for Travel Promotion
Fiscal Service	580X5585	Travel Promotion Fund, Corp for Travel Promotion
Fiscal Service	020X5581	HOPE Reserve Fund
Fiscal Service	0205445002	Debt Collection Special Fund
Fiscal Service	0205445003	Debt Collection Special Fund
Fiscal Service	020X5445	Debt Collection Special Fund
Fiscal Service	0208/95445	Debt Collection Special Fund
Fiscal Service	0209/05445	Debt Collection Special Fund
Fiscal Service	0200/15445	Debt Collection Special Fund
Fiscal Service	020X5680	Guam World War II Claims Fund
Fiscal Service	0205680001	Taxes, Duties and Fees, Guam World War II Claims Fund
DO	020X8790	Gifts and Bequests Trust Fund
IRS	020X5510	Private Collection Agent Program
IRS	020X5433	Informant Reimbursement
IRS	020X5622	Special Compliance Personnel Program Account
OFR	020X5590	Financial Research Fund
TEOAF	020X5697	Treasury Forfeiture Fund
CDFI	020X8524	Capital Magnet Fund

Pursuant to the legal authority found in Section 10 of the *Gold Reserve Act of 1934*, as amended, the Secretary, with the approval of the President, through the ESF, may deal in gold, foreign exchange, and other instruments of credit and securities the Secretary considers necessary, consistent with U.S. obligations in the IMF on orderly exchange arrangements and a stable system of exchange rates. The ESF accounts for and reports its holdings to the Fiscal Service on the Standard Form 224, "*Statement of Transactions*," and provides other reports to Congress. Interest on SDRs in the IMF, investments in Treasury securities, and investments in foreign currency assets are the ESF's primary sources of revenue. The ESF's interest and realized gains on foreign currency assets, along with the interest on SDRs in the IMF represent inflows of resources to the government, and the interest revenues earned from Treasury securities are the result of intra-departmental flows.

The BEP, FinCEN, Mint, OCC, and IRS operate "public enterprise/revolving funds" to account for all or some of their respective revenues and expenses. 31 USC 5142 established the Bureau of Engraving and Printing Fund for BEP to account for revenue and expenses related to the production of currency and other federal security documents. P.L. 104-52 (31 USC 5136) established the Public Enterprise Fund for the Mint to account for all revenue and expenses related to the production and sale of numismatic products and circulating coinage. Revenues and other financing sources at the Mint are mainly from the sale of numismatic and bullion products and the sale of circulating coins to the FRB system. These revenues represent inflows of resources to the government. 12 USC 16, 481 and 482 established the Assessment Funds for OCC. Revenue and financing sources are from the bank assessments for the oversight of the national banks, federal savings associations, and federal branches and agencies of foreign banks. These non-appropriated funds contribute to the inflows of resources to the government to specifically fund these entities' operations. 26 USC 7810 established the Federal Tax Lien Revolving Fund to account for revenue and expenses from the sale of property foreclosed upon by a holder of a lien. Such revenue represents inflows of resources to the U.S. government. The *Anti-Money Laundering Whistleblower Improvement Act*, which was enacted as part of the *Consolidated Appropriations Act, 2023* (P.L. 117-328), enhanced FinCEN's whistleblower program by establishing a $300 million revolving fund, the Financial Integrity Fund, to pay eligible whistleblowers. There are minimal transactions with other government agencies.

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

INTRA-GOVERNMENTAL INVESTMENTS IN TREASURY SECURITIES

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

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

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

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

Summary Information for Funds from Dedicated Collections as of and for the Fiscal Year Ended September 30, 2024

(in millions)	Exchange Stabilization Fund	Public Enterprise/ Revolving/ Trust Revolving Funds	Other FDC Funds	Combined FDC Funds	Eliminations between FDC Funds	2024 Consolidated FDC Funds
ASSETS						
Intra-Governmental:						
Fund Balance	$ -	$ 1,698	$ 1,621	$ 3,319	$ -	$ 3,319
Investments, Net	15,377	2,327	5,652	23,356	-	23,356
Other Assets	-	2	426	428	426	2
Total Intra-Governmental	15,377	4,027	7,699	27,103	426	26,677
Other Than Intra-Governmental						
Cash, Foreign Currency, and Other Monetary Assets	189,671	-	30	189,701	-	189,701
Taxes, Interest, and Other Receivables, Net	-	96	52	148	-	148
Advances and Prepayments	-	3	364	367	-	367
Other Investments, Net	3,055	22	-	3,077	-	3,077
Property, Plant, and Equipment, Net	-	1,878	24	1,902	-	1,902
Other Assets	-	1,415	2,362	3,777	-	3,777
Total Other Than Intra-Governmental	192,726	3,414	2,832	198,972	-	198,972
Total Assets	$ 208,103	$ 7,441	$ 10,531	$ 226,075	$ 426	$ 225,649
LIABILITIES						
Intra-Governmental						
Due To the General Fund	$ -	$ -	$ 115	$ 115	$ -	$ 115
Other	-	31	1,416	1,447	426	1,021
Total Intra-Governmental	-	31	1,531	1,562	426	1,136
Other Than Intra-Governmental						
Other Payables	983	58	87	1,128	-	1,128
Special Drawing Right Certificates Issued to the Federal Reserve	10,200	-	-	10,200	-	10,200
Allocation of Special Drawing Rights	155,795	-	-	155,795	-	155,795
Other	-	1,233	2,641	3,874	-	3,874
Total Other Than Intra-Governmental	166,978	1,291	2,728	170,997	-	170,997
Total Liabilities	166,978	1,322	4,259	172,559	426	172,133
Net Position						
Unexpended Appropriations	200	-	-	200	-	200
Cumulative Results of Operations	40,925	6,119	6,272	53,316	-	53,316
Total Liabilities and Net Position	$ 208,103	$ 7,441	$ 10,531	$ 226,075	$ 426	$ 225,649

Summary Information for Funds from Dedicated Collections as of and for the Fiscal Year Ended September 30, 2024

(in millions)	Exchange Stabilization Fund	Public Enterprise/ Revolving/ Trust Revolving Funds	Other FDC Funds	Combined FDC Funds	Eliminations between FDC Funds	2024 Consolidated FDC Funds
Statement of Net Cost						
Gross Cost	$ 20,587	$ 5,546	$ 1,240	$ 27,373	$ 1	$ 27,372
Less: Earned Revenue	(23,739)	(5,690)	(287)	(29,716)	(1)	(29,715)
(Gains)/Losses on Pension, ORB, or OPEB Assumption	-	7	-	7	-	7
Total Net Cost of (Revenue From) Operations	$ (3,152)	$ (137)	$ 953	$ (2,336)	$ -	$ (2,336)
Statement of Changes in Net Position						
Cumulative Results of Operations:						
Beginning Balance	$ 37,772	$ 5,731	$ 5,563	$ 49,066	$ -	$ 49,066
Individual Income Tax	-	-	21	21	-	21
Miscellaneous Taxes and Receipts	-	31	-	31	-	31
Intra-Governmental Non-Exchange Revenue	-	42	1,174	1,216	116	1,100
Donations and Forfeitures of Cash/Equivalent	-	-	719	719	-	719
Transfers In/(Out) Without Reimbursement	(1,168)	-	(1,540)	(2,708)	-	(2,708)
Donation/Forfeiture of Property	-	-	779	779	-	779
Imputed Financing Sources	-	120	17	137	-	137
Transfers to the General Fund and Other	1,169	58	492	1,719	(116)	1,835
Net Revenue (Cost) of Operations	3,152	137	(953)	2,336	-	2,336
Net Change in Cumulative Results of Operations	3,153	388	709	4,250	-	4,250
Ending Balance	$ 40,925	$ 6,119	$ 6,272	$ 53,316	$ -	$ 53,316

Summary Information for Funds from Dedicated Collections as of and for the Fiscal Year Ended September 30, 2023

(in millions)	Exchange Stabilization Fund	Public Enterprise/ Revolving/ Trust Revolving Funds	Other FDC Funds	Combined FDC Funds	Eliminations between FDC Funds	2023 Consolidated FDC Funds
ASSETS						
Intra-Governmental:						
Fund Balance	$ -	$ 1,475	$ 2,124	$ 3,599	$ -	$ 3,599
Investments, Net	14,700	2,235	4,730	21,665	-	21,665
Other Assets	-	3	309	312	309	3
Total Intra-Governmental	14,700	3,713	7,163	25,576	309	25,267
Other Than Intra-Governmental						
Cash, Foreign Currency, and Other Monetary Assets	176,839	-	91	176,930	-	176,930
Taxes, Interest, and Other Receivables, Net	-	198	53	251	-	251
Advances and Prepayments	-	14	289	303	-	303
Other Investments, Net	3,703	21	-	3,724	-	3,724
Property, Plant, and Equipment, Net	-	1,190	25	1,215	-	1,215
Other Assets	-	1,389	1,580	2,969	-	2,969
Total Other Than Intra-Governmental	180,542	2,812	2,038	185,392	-	185,392
Total Assets	$ 195,242	$ 6,525	$ 9,201	$ 210,968	$ 309	$ 210,659
LIABILITIES						
Due To the General Fund	$ -	$ -	$ 497	$ 497	$ -	$ 497
Other	-	36	1,129	1,165	309	856
Total Intra-Governmental	-	36	1,626	1,662	309	1,353
Other Than Intra-Governmental						
Other Payables	1,029	72	153	1,254	-	1,254
Special Drawing Right Certificates Issued to the Federal Reserve	5,200	-	-	5,200	-	5,200
Allocation of Special Drawing Rights	151,041	-	-	151,041	-	151,041
Other	-	686	1,859	2,545	-	2,545
Total Other Than Intra-Governmental	157,270	758	2,012	160,040	-	160,040
Total Liabilities	157,270	794	3,638	161,702	309	161,393
Net Position						
Unexpended Appropriations	200	-	-	200	-	200
Cumulative Results of Operations	37,772	5,731	5,563	49,066	-	49,066
Total Liabilities and Net Position	$ 195,242	$ 6,525	$ 9,201	$ 210,968	$ 309	$ 210,659

Summary Information for Funds from Dedicated Collections as of and for the Fiscal Year Ended September 30, 2023

(in millions)	Exchange Stabilization Fund	Public Enterprise/ Revolving/ Trust Revolving Funds	Other FDC Funds	Combined FDC Funds	Eliminations between FDC Funds	2023 Consolidated FDC Funds
Statement of Net Cost						
Gross Cost	$ 28,011	$ 6,422	$ 624	$ 35,057	$ -	$ 35,057
Less: Earned Revenue	(29,987)	(6,583)	(493)	(37,063)	-	(37,063)
(Gains)/Losses on Pension, ORB, or OPEB Assumption	-	(4)	-	(4)	-	(4)
Total Net Cost of (Revenue From) Operations	$ (1,976)	$ (165)	$ 131	$ (2,010)	$ -	$ (2,010)
Statement of Changes in Net Position						
Cumulative Results of Operations:						
Beginning Balance	$ 35,796	$ 5,126	$ 4,337	$ 45,259	$ -	$ 45,259
Individual Income Tax	-	-	23	23	-	23
Miscellaneous Taxes and Receipts	-	90	-	90	-	90
Intra-Governmental Non-Exchange Revenue	-	-	824	824	103	721
Donations and Forfeitures of Cash/Equivalent	-	-	28	28	-	28
Transfers In/(Out) Without Reimbursement	(971)	-	(405)	(1,376)	-	(1,376)
Donation/Forfeiture of Property	-	-	714	714	-	714
Imputed Financing Sources	-	92	7	99	-	99
Transfers to the General Fund and Other	971	258	166	1,395	(103)	1,498
Net Revenue (Cost) of Operations	1,976	165	(131)	2,010	-	2,010
Net Change in Cumulative Results of Operations	1,976	605	1,226	3,807	-	3,807
Ending Balance	$ 37,772	$ 5,731	$ 5,563	$ 49,066	$ -	$ 49,066

25. Reconciliation of Net Cost of Treasury Operations and Non-Entity Costs to Agency Outlays, Net

The Reconciliation of Net Cost of Treasury Operations and Non-Entity Costs (referred to as "Net Cost" for purposes of this note) to Agency Outlays, Net (referred to as "Net Outlays" for purposes of this note) depicts the difference between proprietary information and budgetary accounting information. Proprietary financial accounting information is intended to depict the U.S. government's financial operations and financial position presented on an accrual basis in accordance with GAAP. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. In contrast, we use budgetary accounting information for planning and control purposes, and it includes net outlays that reflect both the receipt and use of cash, as well as reporting of the federal deficit. "*Agency Outlays, Net*" also includes $134.0 billion and $116.7 billion of interest accrued on outstanding public debt as of September 30, 2024 and 2023, respectively; as well as $313.9 billion and $189.9 billion of net amortization of discounts on outstanding public debt as of September 30, 2024 and 2023, respectively. These amounts represent non-cash outlays that have not yet been disbursed. The reconciliation of Net Cost (presented on an accrual basis) and Net Outlays (presented on a budgetary basis) reflects the relationship between proprietary accounting and budgetary information. The reconciliation serves not only to identify costs paid in the past and those that will be paid in the future, but also to assure integrity between financial and budgetary accounting. The following is a description of principal transactions that result in differences between our proprietary net costs and budgetary net outlays:

- Non-Entity Activity – Represents activity related to assets that we hold and manage on behalf of the General Fund but are not available for our use. We removed this activity from Net Cost through inclusion of change in asset activity, however, it has no impact on either Net Cost or Net Outlays and must be included as an Other Reconciling Item.

For the fiscal years ended September 30, 2024 and 2023, the Reconciliation of Net Cost of Treasury Operations and Non-Entity Costs to Agency Outlays, Net consisted of the following:

(in millions)	Intra Governmental	Other Than Intra Governmental	2024 Total
Total Net Cost of Treasury Operations and Non-Entity Costs	**$ 174,498**	**$ 917,982**	**$ 1,092,480**
Components of Net Operating Cost Not Part of Budgetary Outlays:			
Liquidation Preference of GSEs Preferred Stock and Valuation Changes (Notes 11 and 20)	-	65,390	65,390
PP&E Depreciation and Amortization Expense and Dispositions (Note 14)	-	(522)	(522)
Unrealized Valuation Gain on Special Drawing Rights (Note 5)	-	482	482
Unrealized Net Gain on Valuation and Sales/Dispositions of Investments (Note 13)	-	1,041	1,041
Year-End Credit Reform Subsidy Accrual Re-Estimates	-	8	8
Adjustments to Prior Year Credit Reform Re-Estimates accrual	-	6	6
Increase/(Decrease) in Assets:			
Loans and Interest Receivable (Notes 3, 7 and 9)	(25,039)	906	(24,133)
Advances to Trust Funds (Note 3)	(5,099)	-	(5,099)
Due From the General Fund (Note 4)	2,251,054	-	2,251,054
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	-	239,504	239,504
Advances and Prepayments (Note 10)	-	(55,586)	(55,586)
Other Assets	7	(90)	(83)
(Increase)/Decrease in Liabilities:			
Federal Debt and Interest Payable (Notes 4 and 16)	(261,462)	(1,990,143)	(2,251,605)
Due To the General Fund - Excludes Custodial Liability Activity (Note 4)	(263,102)	-	(263,102)
Other Liabilities	1,210	(2,678)	(1,468)
Other Financing Sources:			
Imputed Costs	(1,423)	-	(1,423)
Total Components of Net Operating Cost Not Part of Budgetary Outlays	**1,696,146**	**(1,741,682)**	**(45,536)**
Components of Budgetary Outlays That Are Not Part of Net Cost:			
Acquisition of Property, Plant and Equipment (Note 14)	-	1,946	1,946
Acquisition of Other Investments, Net (Note 13)	-	11,259	11,259
Sale/Repayment of Other Investments, Net (Note 13)	-	(12,885)	(12,885)
Effect of Prior Year Credit Reform Subsidy Re-Estimates	7	-	7
Other Financing Sources:			
Transfers (In)/Out Without Reimbursement	589	-	589
Total Components of Budgetary Outlays That Are Not Part of Net Cost	**596**	**320**	**916**
Other Reconciling Items:			
Distributed Offsetting Receipts	-	(65,685)	(65,685)
Non-Entity Activity	126,666	-	126,666
Other	759	(419)	340
Total Other Reconciling Items	**127,425**	**(66,104)**	**61,321**
Agency Outlays, Net	**$ 1,998,665**	**$ (889,484)**	**$ 1,109,181**

(in millions)	Intra Governmental	Other Than Intra Governmental	2023 Total
Total Net Cost of Treasury Operations and Non-Entity Costs	$ 161,686	$ 740,398	$ 902,084
Components of Net Operating Cost Not Part of Budgetary Outlays:			
Liquidation Preference of GSEs Preferred Stock and Valuation Changes (Notes 11 and 20)	-	16,690	16,690
Property, Plant, and Equipment Depreciation Expense and Dispositions (Note 14)	-	(478)	(478)
Unrealized Valuation Gain on Special Drawing Rights (Note 5)	-	135	135
Unrealized Valuation (Loss) and Sales/Dispositions (Loss) on Investments (Note 13)	-	(153)	(153)
Year-End Credit Reform Subsidy Accrual Re-Estimates	-	72	72
Adjustments to Prior Year Credit Reform Re-Estimates accrual	-	748	748
Increase/(Decrease) in Assets:			
Loans and Interest Receivable (Notes 3, 7 and 9)	341,692	409	342,101
Advances to Trust Funds (Note 3)	(10,029)	-	(10,029)
Due From the General Fund (Note 4)	2,177,668	-	2,177,668
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	-	28,290	28,290
Advances and Prepayments (Note 10)	-	(53,290)	(53,290)
Other Assets	131	2,305	2,436
(Increase)/Decrease in Liabilities:			
Federal Debt and Interest Payable (Notes 4 and 16)	(161,637)	(2,019,440)	(2,181,077)
Due To the General Fund - Excludes Custodial Liability Activity (Note 4)	(365,037)	-	(365,037)
Other Liabilities	(1,970)	(1,728)	(3,698)
Other Financing Sources:			
Imputed Costs	(1,104)	-	(1,104)
Total Components of Net Operating Cost Not Part of Budgetary Outlays	1,979,714	(2,026,440)	(46,726)
Components of Budgetary Outlays That Are Not Part of Net Cost:			
Acquisition of Property, Plant and Equipment (Note 14)	-	669	669
Acquisition of Other Investments, Net (Note 13)	-	6,677	6,677
Sale/Repayment of Other Investments, Net (Note 13)	-	(6,598)	(6,598)
Effect of Prior Year Credit Reform Subsidy Re-Estimates	-	(59)	(59)
Other Financing Sources:			
Transfers (In)/Out Without Reimbursement	1,122	-	1,122
Total Components of Budgetary Outlays That Are Not Part of Net Cost	1,122	689	1,811
Other Reconciling Items:			
Distributed Offsetting Receipts	-	(59,773)	(59,773)
Non-Entity Activity	70,830	-	70,830
Other	5,525	(2,692)	2,833
Total Other Reconciling Items	76,355	(62,465)	13,890
Agency Outlays, Net	$ 2,218,877	$ (1,347,818)	$ 871,059

26. Schedule of Fiduciary Activity

We have identified the following 15 funds as meeting the criteria for fiduciary activity. Details of the funds are provided below.

Bureau	Fund Code	Authority	Fund Title/Description
Fiscal Service	020X6133	31 USC 1322	Payment of Unclaimed Monies
BEP	020X6513.013	31 USC 5119	Mutilated Currency Claims Funds
Fiscal Service	020X6045	31 USC 3328	Proceeds, Payments of Unpaid Checks
Fiscal Service	020X6048	31 USC 3329, 3330	Proceeds of Withheld Foreign Checks
Fiscal Service	020X6092	31 USC 1321	Debt Management Operations
Fiscal Service	020X6210	22 USC 1623	Iraq Claims Settlement Fund
Fiscal Service	020X6501.018	31 USC 3513	Small Escrow Amounts
Fiscal Service	020X6720	31 USC 3513	Small Difference Account for Deposit and Check Adjustments
Fiscal Service	020X6830	104 Stat. 1061	Net Interest Payments to/from State
Fiscal Service	020X6999	31 USC 3513	Accounts Payable, Check Issue Underdrafts
Fiscal Service	020X6317.001	22 USC 2431	Belize Escrow, Debt Reduction
IRS	020X6737	90 Stat. 269-270	Internal Revenue Collections for Northern Mariana Island
IRS	020X6738	31 USC 3513	Coverover Withholdings-U.S. Virgin Islands
IRS	020X6740	31 USC 3515	Coverover Withholdings-Guam
IRS	020X6741	31 USC 3513	Coverover Withholdings-American Samoa

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

Schedule of Fiduciary Activity

(in millions)	2024 Payment of Unclaimed Monies Fund	2024 All Other Fiduciary Funds	2024 Total Fiduciary Funds	2023 Payment of Unclaimed Monies Fund	2023 All Other Fiduciary Funds	2023 Total Fiduciary Funds
Fiduciary Net Assets, Beginning of the Year	**$ 1,029**	**$ 138**	**$ 1,167**	$ 974	$ 144	$ 1,118
Increases:						
Contributions to Fiduciary Net Assets	**237**	**1,318**	**1,555**	55	1,429	1,484
Total Increases	**237**	**1,318**	**1,555**	55	1,429	1,484
Decreases:						
Disbursements to and on behalf of beneficiaries	**-**	**(1,220)**	**(1,220)**	-	(1,435)	(1,435)
Total Decreases	**-**	**(1,220)**	**(1,220)**	-	(1,435)	(1,435)
Net Increase (Decrease) in Fiduciary Assets	**237**	**98**	**335**	55	(6)	49
Fiduciary Net Assets, End of Year	**$ 1,266**	**$ 236**	**$ 1,502**	$ 1,029	$ 138	$ 1,167

Schedule of Fiduciary Net Assets

(in millions)	2024 Payment of Unclaimed Monies Fund	2024 All Other Fiduciary Funds	2024 Total Fiduciary Funds	2023 Payment of Unclaimed Monies Fund	2023 All Other Fiduciary Funds	2023 Total Fiduciary Funds
Fiduciary Net Assets						
Fund Balance with Treasury	**$ 1,266**	**$ 235**	**$ 1,501**	$ 1,029	$ 137	$ 1,166
Investments in Treasury Securities	**-**	**1**	**1**	-	1	1
Total Fiduciary Assets	**1,266**	**236**	**1,502**	1,029	138	1,167
Total Fiduciary Net Assets	**$ 1,266**	**$ 236**	**$ 1,502**	$ 1,029	$ 138	$ 1,167

27. Commitments and Contingencies

Legal Contingencies

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

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

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

Pending Legal Actions

- *Tribal Trust Cases:* Numerous Native American tribes have filed cases in U.S. District Courts seeking a declaration that the U.S. has not provided the tribes with a full and complete accounting of their trust funds and non-monetary trust assets, and also seeking an order requiring the U.S. government to provide such an accounting. In addition, plaintiff tribes have filed a number of related cases seeking damages in the U.S. Court of Federal Claims, which do not name Treasury as a defendant. The majority of the Tribal Trust cases have been resolved through negotiated settlements, and the U.S. government is currently in discussion with counsel representing most of the remaining plaintiff tribes with pending cases about the feasibility of an out-of-court settlement. Plaintiff tribes in some of the pending cases have chosen to pursue active litigation, rather than settlement discussion, and the U.S. government is litigating those cases vigorously. We are unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

- *Steele et al. v. United States:* The plaintiffs filed a class claim in the U.S. District Court for the District of Columbia seeking refunds of all user fees paid, plus interest, to obtain a preparer tax identification number (PTIN). Additionally, the plaintiffs seek to force IRS to cease charging a user fee to obtain a PTIN and asking for more information than is necessary to issue a PTIN. On June 1, 2017, the U.S. District Court for the District of Columbia found for the plaintiffs in the previously mentioned matters, and the U.S. government appealed. In March 2019, the U.S. Court of Appeals for the District of Columbia Circuit reversed the lower court's opinion and determined that IRS is entitled to charge a PTIN user fee. The case was remanded back to the lower court to determine whether the amount of the fees previously charged was appropriate. As of September 30, 2024 and 2023, the Department has determined the likelihood of an unfavorable outcome as reasonably possible and estimated a potential loss within a range of $0 to $246 million, respectively.

- *American Recovery and Reinvestment Tax Act of 2009 (ARRA) Cases:* A number of cases were filed in the U.S. Court of Federal Claims alleging that the U.S. government violated statutory and regulatory mandates to make proper payments to plaintiffs under ARRA, Section 1603, for having placed certain energy properties into service. On October 28, 2016, the U.S. Court of Federal Claims entered judgment against the U. S. in the amount of $207 million in one of the cases. The U.S. government appealed the judgment, and on July 27, 2018, the Federal Circuit reversed the trial court's decision, vacated judgment, and remanded the case to the U.S. Court of Federal Claims for reassignment to a new judge. The case remains in litigation. As of September 30, 2024 and 2023, we have determined that there is a reasonably possible likelihood of an unfavorable outcome in some of the cases totaling approximately $265 million, respectively.

- *Treaty Claim:* A Notice of Arbitration was filed under the United Nations Commission of International Trade Law Arbitration Rules alleging that Treasury's Office of Foreign Assets Control acted in violation of U.S. obligations under a U.S. bilateral investment treaty. As of September 30, 2024 and 2023, the Department has determined the likelihood of an unfavorable outcome as reasonably possible and estimated a potential loss within a range of $0 to $170 million, respectively.

- *Anonymous Whistleblower v. United States*: A number of whistleblower cases were filed in the U.S. Tax Court under seal, appealing the denial of an award by the IRS Whistleblower Office. The anonymous claimants allegedly provided confidential information about tax fraud committed by a taxpayer to the IRS. As of September 30, 2024 and 2023, the Department has determined that there is a probable likelihood of an unfavorable outcome in these cases, with potential awards ranging from $51 million to $281 million, and $71 million, respectively.

- *e-Numerate Solutions, Inc. v. United States:* The plaintiff filed a claim in the Court of Federal Claims alleging that several federal agencies, including Treasury infringed on patents for the eXtensible Business Reporting Language (XBRL). More specifically, the plaintiff asserts that Treasury, along with OMB, requires all federal agencies to report spending and award data that is either: (i) in XBRL format; and/or (ii) converted by Treasury into XBRL format for further processing. The plaintiff contends that this use of XBRL violates three U.S. patents. We are unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss in this case at this time.

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

OTHER COMMITMENTS AND CONTINGENCIES

Loan Commitments

Through the FFB, we make loan commitments with federal agencies, or private sector borrowers with loans guaranteed by federal agencies, to extend them credit for their own use (refer to Notes 1Q and 3). As of September 30, 2024 and 2023, we had remaining loan commitments totaling $250.4 billion and $132.6 billion, respectively.

In addition to the loan commitments, the FFB has agreements with agencies that permit FFB to issue loans up to amounts authorized in those agencies' annual program appropriations.

Multilateral Development Banks

On behalf of the U.S., we have subscribed to shares of certain MDBs, of which some shares represent capital commitments that are callable under certain limited circumstances to meet the obligations of the respective MDB. There has never been, nor is there anticipated, a call on the U.S. commitment for these subscriptions. As of September 30, 2024 and 2023, U.S. callable capital in MDBs was as follows:

(in millions)	2024	2023
International Bank for Reconstruction and Development	**$ 50,628**	$ 49,206
Inter-American Development Bank	**49,181**	49,181
Asian Development Bank	**18,701**	18,701
African Development Bank	**9,033**	8,177
European Bank for Reconstruction and Development	**3,055**	3,055
North American Development Bank	**1,530**	1,530
Multilateral Investment Guarantee Agency (1)	**315**	315
Total	**$ 132,443**	$ 130,165

(1) Both FY 2024 and 2023 include commitments of $22 million for the undisbursed portion of the subscription to paid-in capital investments.

Terrorism Risk Insurance Program

Congress originally enacted the *Terrorism Risk Insurance Act* in November 2002, to address market disruptions resulting from terrorist attacks on September 11, 2001. Most recently, the *Terrorism Risk Insurance Program Reauthorization Act of 2019* (P.L. 116-94) extended the Terrorism Risk Insurance Program (TRIP) until December 31, 2027. The TRIP helps to ensure available and affordable commercial property and casualty insurance for terrorism risk, and simultaneously allows private markets to stabilize. The authority to pay claims under the TRIP is activated when the Secretary (in consultation with the Secretary of the Department of Homeland Security and the Attorney General of the United States) certifies an "act of terrorism." In the event of certification of an "act of terrorism," insurers may be eligible to receive reimbursement from the U.S. government for associated insured losses – assuming an aggregate insured loss threshold ("program trigger") has been reached – once a particular insurer has satisfied its designated deductible amount. For calendar years 2024 and 2023, the program trigger amount was $200 million. Insurance companies and the U.S. government will share insured losses above insurer deductibles. The TRIP includes both mandatory and discretionary authority for Treasury to recoup federal payments made under the TRIP through policyholder surcharges under certain circumstances, and contains provisions designed to manage litigation arising from or relating to a certified act of terrorism. There were no claims under the TRIP as of September 30, 2024 or 2023.

Exchange Stabilization Agreement

The North American Framework Agreement (NAFA), which we signed in 1994 and renew annually, is implemented by Treasury through the Exchange Stabilization Agreement (ESA) with Mexico. Treasury, through the ESF, offers Mexico a swap line with drawings contingent on certain conditions being met. Effective November 30, 2018, an amended and restated ESA increased the potential size of the swap line from $3.0 billion to $9.0 billion. The amounts and terms (including the assured source of repayment) of any swap arrangement under the NAFA and/or the ESA will have to be negotiated and agreed to before any actual drawing can occur. There were no drawings outstanding on the ESF swap line as of September 30, 2024 and 2023.

28. Reclassification of Agency Financial Statements to Financial Report of the U.S. Government Format

To prepare the *Financial Report of the U.S. Government* (Financial Report), federal agencies submit to Fiscal Service a trial balance containing financial statement account ending balances and activity. Fiscal Service uses this trial balance information to reclassify agencies' account balances and activity in a manner that conforms to the format of the financial statement presentation in the Financial Report. Our reclassified financial statements—including the Reclassified Statement of Net Cost and Reclassified Statement of Operations and Changes in Net Position—are accessed using the Government-wide Treasury Account Symbol Adjusted Trial Balance System. Fiscal Service eliminates all intragovernmental balances and activity between federal agencies in generating the Financial Report consolidated financial statements. This note depicts how our AFR Consolidated Statement of Net Cost and Consolidated Statement of Changes in Net Position are adjusted to derive the Financial Report reclassified financial statements prior to the elimination of intragovernmental balances and prior to the aggregation of repeated Financial Report line items. A copy of the FY 2023 Financial Report can be found on the Fiscal Service website and a copy of the FY 2024 Financial Report will be posted to the site as soon as it is released.

Consolidated Statement of Net Cost
For the Fiscal Year Ended September 30, 2024

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	Other than Dedicated Collections (with Eliminations)	Eliminations between Dedicated and Other than Dedicated	Total (in millions)	Reclassified Financial Statement Line
COST OF TREASURY OPERATIONS:							
Total Program Gross Costs	$ 110,898	$ 26,280	$ -	$ 77,499	$ -	$ 103,779	Non-Federal Gross Costs
							Intra-governmental Costs
		309	-	2,534	-	2,843	Benefit Program Costs
		137	-	1,286	-	1,423	Imputed Costs
		454	1	1,777	224	2,006	Buy/Sell Cost
		40	-	1	-	41	Purchase of Assets
		-	-	131	-	131	Federal Securities Interest Expense
		4	-	-	4	-	Borrowing and Other Interest Expenses
		-	-	12	-	12	Borrowing Losses
		21	-	683	-	704	Other Expenses (without Reciprocals)
		(40)	-	(1)	-	(41)	Purchase of Assets Offset
		925	1	6,423	228	7,119	*Total Intra-governmental Costs*
Total Program Gross Costs	**110,898**	**27,205**	**1**	**83,922**	**228**	**110,898**	**Total**
Total Program Earned Revenues	(37,039)	(28,783)	-	(580)	-	(29,363)	Non-Federal Earned Revenue
							Intra-governmental Revenue
		(63)	(1)	(967)	(222)	(807)	Buy/Sell Revenue
		(807)	-	-	(807)	-	Federal Securities Interest Revenue Including Associated Gains and Losses
		-	-	(6,095)	(4)	(6,091)	Borrowing and Other Interest Revenue
		(63)	-	(715)	-	(778)	Collections Transferred in to a TAS Other Than the General Fund of the U.S. Government - Exchange
		(933)	(1)	(7,777)	(1,033)	(7,676)	*Total Intra-governmental Earned Revenue*
Total Program Earned Revenues	**(37,039)**	**(29,716)**	**(1)**	**(8,357)**	**(1,033)**	**(37,039)**	**Total**
Loss on Pension, ORB, or OPEB Assumption Changes	172	7	-	165	-	172	Non-Federal Gross Costs
Total Net Cost of Treasury Operations	**74,031**	**(2,504)**	**-**	**75,730**	**(805)**	**74,031**	**Total**

Consolidated Statement of Net Cost
For the Fiscal Year Ended September 30, 2024

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	Other than Dedicated Collections (with Eliminations)	Eliminations between Dedicated and Other than Dedicated	Total (in millions)	Reclassified Financial Statement Line
NON-ENTITY COSTS:							
Federal Debt Interest	$ 1,125,154	$ -	$ -	$ 909,108	$ -	$ 909,108	Interest on Debt Held by the Public (Non-Federal)
		-	-	217,253	1,207	216,046	Federal Securities Interest Expense (Federal)
Total Federal Debt Interest	1,125,154	-	-	1,126,361	1,207	1,125,154	*Total*
Less Interest Revenue from Loans	(50,137)	-	-	(50,137)	-	(50,137)	Borrowing and Other Interest Revenue (Federal)
Other Federal Costs, Net	14,375	101	-	4,177	-	4,278	Non-Federal Gross Costs
							Intra-governmental Costs
		-	-	46	-	46	Buy/Sell Cost
		-	-	10,213	-	10,213	Borrowing and Other Interest Expenses
		-	-	10,259	-	10,259	*Total Intra-governmental Costs*
		-	-	(162)	-	(162)	Buy/Sell Revenue (Federal)
Total Other Federal Costs, Net	14,375	101	-	14,274	-	14,375	*Total*
GSEs Non-Entity Revenue, Net	(65,390)	-	-	(65,390)	-	(65,390)	Non-Federal Earned Revenue

Consolidated Statement of Net Cost
For the Fiscal Year Ended September 30, 2024

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	Other than Dedicated Collections (with Eliminations)	Eliminations between Dedicated and Other than Dedicated	Total (in millions)	Reclassified Financial Statement Line
Federal Debt Buyback Gain	(3,457)	-	-	(3,457)	-	(3,457)	Non-Federal Earned Revenue
COVID-19 Non-Entity Revenue, Net	(1,214)	-	-	(910)	-	(910)	Non-Federal Gross Costs
		-	-	(304)	-	(304)	Non-Federal Earned Revenue
Total COVID-19 Non-Entity Revenue, Net	(1,214)	-	-	(1,214)	-	(1,214)	*Total*
Other, Net	(882)	67	-	1	-	68	Non-Federal Gross Costs
		-	-	(950)	-	(950)	Buy/Sell Revenue (Federal)
Total Other, Net	(882)	67	-	(949)	-	(882)	*Total*
Total Net Non-Entity Costs	**1,018,449**	**168**	**-**	**1,019,488**	**1,207**	**1,018,449**	**Total**
		88	-	211,625	-	211,713	Non-Federal Gross Costs (1)
Total Net Cost of Treasury Operations and Non-Entity Costs	**1,092,480**	**(2,248)**	**-**	**1,306,843**	**402**	**1,304,193**	**Total Net Cost (1)**

(1) Includes income tax credits of $211.7 billion, which are reported on the Treasury Statement of Custodial Activity within the "Less Refunds and Other Payments" line item. These costs are reported as part of net cost on the reclassified financial statements for the purpose of presenting these costs in the manner presented in the Financial Report.

Consolidated Statement of Changes in Net Position and Statement of Custodial Activity
For the Fiscal Year Ended September 30, 2024

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	Other than Dedicated Collections (with Eliminations)	Eliminations between Dedicated and Other than Dedicated	Total (in millions)	Reclassified Financial Statement Line
STATEMENT OF CHANGES IN NET POSITION							
UNEXPENDED APPROPRIATIONS							
Beginning Balance	$ 718,386	$ 200	$ -	$ 718,186	$ -	$ 718,386	Net Position, Beginning of Period
Appropriations Received	1,131,509	-	-	1,131,509	-	1,131,509	Appropriations Received as adjusted
Other Adjustments	(24,835)	-	-	(24,835)	-	(24,835)	Appropriations Received as adjusted
Appropriations Used	(1,186,949)	-	-	(1,186,949)	-	(1,186,949)	Appropriations Used
Net Change in Unexpended Appropriations	(80,275)	-	-	(80,275)	-	(80,275)	Total
Total Unexpended Appropriations	**638,111**	**200**	**-**	**637,911**	**-**	**638,111**	**Total**
CUMULATIVE RESULTS OF OPERATIONS							
Beginning Balance	77,649	49,066	-	28,583	-	77,649	Net Position, Beginning of Period
Appropriations Used	1,186,949	-	-	1,186,949	-	1,186,949	Appropriations Expended
Non-Exchange Revenue	757	698	-	399	-	1,097	Collections Transferred Into a TAS Other Than the General Fund of the U.S. Government
		116	116	-	-	-	Accruals for entity amounts to be collected in a TAS other than the General Fund of the US Government - Nonexchange
		21	-	-	-	21	Individual Income Tax and Tax Withholdings
		31	-	(392)	-	(361)	Other Taxes and Receipts
		402	-	-	402	-	Federal Securities Interest Revenue Including Associated Gains and Losses (Non-Exchange)
Total Non-Exchange Revenue	757	1,268	116	7	402	757	*Total*

Consolidated Statement of Changes in Net Position and Statement of Custodial Activity
For the Fiscal Year Ended September 30, 2024

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	Other than Dedicated Collections (with Eliminations)	Eliminations between Dedicated and Other than Dedicated	Total (in millions)	Reclassified Financial Statement Line
Donations and Forfeitures of Cash/Equivalent	719	719	-	-	-	719	Other Taxes and Receipts
Transfers In/Out Without Reimbursement	(589)	111	111	-	-	-	Appropriation of Unavailable Special or Trust Fund Receipts Transfers-In
		(111)	(111)	-	-	-	Appropriation of Unavailable Special or Trust Fund Receipts Transfers-Out
		-	-	3	3	-	Non-expenditure Transfers-In of Unexpended Appropriations and Financing Sources
		(3)	-	-	(3)	-	Non-expenditure Transfers-Out of Unexpended Appropriations and Financing Sources
		3	-	1,232	1,232	3	Expenditure Transfers-In of Financing Sources
		(2,044)	-	(3)	(1,232)	(815)	Expenditure Transfers-Out of Financing Sources
		-	-	664	664	-	Non-expenditure Transfers-In of Financing Sources - Capital Transfers
		(664)	-	-	(664)	-	Non-expenditure Transfers-Out of Financing Sources - Capital Transfers
		2,356	2,356	-	-	-	Transfers-In Without Reimbursement
		(2,356)	(2,356)	223	-	223	Transfers-Out Without Reimbursement
Total Transfers In/Out Without Reimbursement	(589)	(2,708)	-	2,119	-	(589)	*Total*
Donation/Forfeiture of Property	779	779	-	-	-	779	Other Taxes and Receipts
Accrued Interest and Discount on Debt	33,819	-	-	33,819	-	33,819	Other Non-Budgetary Financing Sources for Debt Accruals/Amortization

Consolidated Statement of Changes in Net Position and Statement of Custodial Activity
For the Fiscal Year Ended September 30, 2024

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	Other than Dedicated Collections (with Eliminations)	Eliminations between Dedicated and Other than Dedicated	Total (in millions)	Reclassified Financial Statement Line
Imputed Financing Sources	1,423	137	-	1,286	-	1,423	Imputed Financing Sources
Transfers to the General Fund and Other	(126,135)	-	-	(2,312)	-	(2,312)	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
		-	-	(126,666)	-	(126,666)	Non-Entity Collections Transferred to the General Fund
		1,551	-	53	-	1,604	Other Financing Sources with Budgetary Impact
		(116)	(116)	-	-	-	Accrual of Collections Yet to be Transferred to a TAS Other Than the General Fund of the U.S. Government-Nonexchange
		-	-	(3)	-	(3)	Other Non-Budgetary Financing Sources
		284	-	958	-	1,242	Other Taxes and Receipts
Total Transfers to the General Fund and Other	(126,135)	1,719	(116)	(127,970)	-	(126,135)	*Total*
Net Cost of Treasury Operations and Non-Entity Costs	(1,092,480)	2,248	-	(1,306,843)	(402)	(1,304,193)	Net Cost of Operations [2]
Net Change in Cumulative Results of Operations	5,242	4,162	-	(210,633)	-	(206,471)	Total
Total Cumulative Results of Operations	**$ 82,891**	**$ 53,228**	**$ -**	**$ (182,050)**	**$ -**	**$ (128,822)**	**Total**
STATEMENT OF CUSTODIAL ACTIVITY							
Sources of Custodial Revenue							
Individual Income and FICA Taxes	$ 4,409,322	$ 88	$ -	$ 4,409,234	$ -	$ 4,409,322	Individual Income Tax and Tax Withholdings
Corporate Income Taxes	565,086	-	-	565,086	-	565,086	Corporation Income Taxes
Estate and Gift Taxes	32,868	-	-	32,868	-	32,868	Estate and Gift Taxes
Excise Taxes	94,720	-	-	94,720	-	94,720	Excise Taxes
Railroad Retirement Taxes	6,929	-	-	6,929	-	6,929	Other Taxes and Receipts
Unemployment Taxes	8,130	-	-	8,130	-	8,130	Unemployment Taxes
Deposit of Earnings, Federal Reserve System	3,131	-	-	3,131	-	3,131	Other Taxes and Receipts
Fines, Penalties, Interest and Other Revenue	8,197	-	-	8,197	-	8,197	Other Taxes and Receipts

(2) Includes income tax credits of $211.7billion, which are reported on the Treasury Statement of Custodial Activity within the "Less Refunds and Other Payments" line item. These tax credits are reported as part of net cost on the reclassified financial statements for the purpose of presenting these costs in the manner presented in the Financial Report.

Consolidated Statement of Changes in Net Position and Statement of Custodial Activity For the Fiscal Year Ended September 30, 2024							
AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	Other than Dedicated Collections (with Eliminations)	Eliminations between Dedicated and Other than Dedicated	Total (in millions)	Reclassified Financial Statement Line
Less Refunds and Other Payments	(553,442)	-	-	(303,636)	-	(303,636)	Individual Income Tax and Tax Withholdings
		-	-	(30,138)	-	(30,138)	Corporation Income Taxes
		-	-	(128)	-	(128)	Unemployment Taxes
		-	-	(6,548)	-	(6,548)	Excise Taxes
		-	-	(1,252)	-	(1,252)	Estate and Gift Taxes
		-	-	(27)	-	(27)	Other Taxes and Receipts
Total Less Refunds and Other Payments	(553,442)	-	-	(341,729)	-	(341,729)	*Total*
Non-Cash Accrual Adjustment	(39,789)	-	-	(41,957)	-	(41,957)	Other Taxes and Receipts
		-	-	(5)	-	(5)	Excise Taxes
		-	-	2,173	-	2,173	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Gov't
Total Non-Cash Accrual Adjustment	(39,789)	-	-	(39,789)	-	(39,789)	*Total*
Disposition of Custodial Revenue							
Amounts Provided to Fund Non-Federal Entities	(399)	-	-	(399)	-	(399)	Other Taxes and Receipts
Amounts Provided to Fund the Federal Government	(4,574,542)	-	-	(4,573,337)	-	(4,573,337)	Non-Entity Collections Transferred to the General Fund
		-	-	(1,205)		(1,205)	Collections Transferred to a TAS Other Than the General Fund of the U.S. Government
Total Amounts Provided to Fund the Federal Government	(4,574,542)	-	-	(4,574,542)	-	(4,574,542)	*Total*
Non-Cash Accrual Adjustment	39,789	-	-	39,793	-	39,793	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Gov't
		-	-	(4)	-	(4)	Accrual of Collections Yet to be Transferred to a TAS Other Than the General Fund of the U.S. Gov't
Total Non-Cash Accrual Adjustment	39,789	-	-	39,789	-	39,789	*Total*
Total Statement of Changes in Net Position and Statement of Custodial Activity	**$ 721,002**	**$ 53,516**	**$ -**	**$ 667,486**	**$ -**	**$ 721,002**	**Total Reclassified Statement of Operations and Changes in Net Position**

Required Supplementary Information (Unaudited – See accompanying auditors' report)

Introduction

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

Other Claims for Refunds

We estimated that $4.4 billion and $2.4 billion as of September 30, 2024 and 2023, respectively, may be payable as other claims for tax refunds. This estimate represents amounts (principal and interest) that we may pay for claims pending judicial review by the federal courts or internally, by Appeals. In FY 2024, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts and appeals courts is $0.9 billion and $3.5 billion, respectively. In FY 2023, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts and appeals courts was $1.1 billion and $1.3 billion, respectively. To the extent judgments against the government in these cases prompt other similarly situated taxpayers to file similar refund claims, these amounts could become significantly greater.

IRS Federal Taxes Receivable, Net

In accordance with SFFAS 7, some unpaid tax assessments do not meet the criteria for financial statement recognition. Internal Revenue Code (IRC) 6201 authorizes and requires us to make inquiries, determinations, and assessments of all taxes that taxpayers have not duly paid (including interest, additions to the tax, and assessable penalties) under the law. Unpaid assessments result from taxpayers filing returns without sufficient payment, as well as from tax compliance programs such as examination, under-reporter, substitute for return, and combined annual wage reporting. We also have authority to abate the paid or unpaid portion of an assessed tax, interest, and penalty. Abatements occur for a number of reasons and are a normal part of the tax administration process. Abatements may result in claims for refunds or a reduction of the unpaid assessed amount.

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

We call assessments with little or no future collection potential write-offs. Write-offs principally consist of amounts owed by deceased, bankrupt, or defunct taxpayers. Write-offs have little or no future collection potential, but statutory provisions require that we maintain these assessments until the statute for collection expires.

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

The components of the total unpaid assessments at September 30, 2024 and 2023, were as follows:

(in millions)		2024	2023
Total Unpaid Assessments	$	**566,020** $	574,000
Less Compliance Assessments		**(90,131)**	(94,000)
Write-Offs		**(86,033)**	(76,000)
Gross Federal Taxes Receivable		**389,856**	404,000
Less Allowance for Doubtful Accounts		**(250,636)**	(222,000)
Federal Taxes Receivable, Net	$	**139,220** $	182,000

In FY 2024, total unpaid assessments include $76.9 billion of non-delinquent taxes receivable in IRC 965(h) tax, which is collectible based on the type of taxpayer and the financial health of large dollar businesses. The non-delinquent IRC 965 (h) component refers to taxpayers who elected to pay their IRC 965(h) tax on an eight-year installment schedule.

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU

As an agent of the U.S. government and as authorized by 26 USC, the TTB collects excise taxes from alcohol, tobacco, firearms, and ammunition industries. In addition, the TTB collects special occupational taxes from certain alcohol and tobacco businesses. During FY 2024 and 2023, TTB collected approximately $16.8 billion and $18.1 billion in taxes, interest, and other revenues, respectively. TTB also collects federal excise taxes on certain articles produced in Puerto Rico and the U.S. Virgin Islands, and imported into the U.S. In accordance with 26 USC 7652, such taxes collected on rum imported into the U.S. are "covered over" or paid into the treasuries of Puerto Rico and the U.S. Virgin Islands.

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

DEFERRED MAINTENANCE AND REPAIRS

In FY 2024 and 2023, we had no material amounts of deferred maintenance and repair costs to report on vehicles, buildings, heritage assets, and structures we owned.

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

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

LAND

We hold land for BEP and Mint operational use in the production of U.S. currency and circulating coins. As of September 30, 2024 and 2023, the total estimated land acreage for operational use was $279 million.

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, 2024 and 2023 disaggregated by Treasury reporting entity rather than by Treasury major budget account, since we manage our budget at the reporting entity level.

Fiscal Year 2024 Combining Statement of Budgetary Resources Disaggregated by Sub-organization Accounts

(in millions):	Bureau of Engraving & Printing	Bureau of the Fiscal Service	Departmental Offices (a)	Fin. Crimes Enforcement Network	Internal Revenue Service
BUDGETARY RESOURCES					
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 899	$ 1,923	$ 325,246	$ 102	$ 76,112
Appropriations (discretionary and mandatory)	-	1,150,776	6,615	190	(7,318)
Borrowing authority (discretionary and mandatory)	-	-	21,792	-	-
Spending authority from offsetting collections (discretionary and mandatory)	2,824	365	8,715	176	175
Total Budgetary Resources	$ 3,723	$ 1,153,064	$ 362,368	$ 468	$ 68,969
STATUS OF BUDGETARY RESOURCES					
New obligations and upward adjustments	$ 2,799	$ 1,151,504	$ 45,978	$ 201	$ 18,580
Unobligated balance, end of year:					
Apportioned, unexpired accounts	924	1,431	261,596	104	49,675
Exempt from apportionment, unexpired accounts	-	11	107	-	7
Unapportioned, unexpired accounts	-	103	53,564	154	383
Unexpired unobligated balance, end of year	924	1,545	315,267	258	50,065
Expired unobligated balance, end of year	-	15	1,123	9	324
Unobligated balance, end of year	924	1,560	316,390	267	50,389
Total Status of Budgetary Resources	$ 3,723	$ 1,153,064	$ 362,368	$ 468	$ 68,969
OUTLAYS, NET, AND DISBURSEMENTS, NET					
Outlays, net (discretionary and mandatory)	$ (165)	$ 1,150,976	$ 5,542	$ 16	$ 18,326
Distributed offsetting receipts	-	(55,627)	(9,435)	-	(623)
Agency Outlays, Net (Discretionary and Mandatory)	$ (165)	$ 1,095,349	$ (3,893)	$ 16	$ 17,703
Disbursements, net (mandatory)	$ -	$ -	$ (9,364)	$ -	$ -

(a) Of the $362 billion of Total Budgetary Resources for DO, GSE, ESF, IMF, and IAP had $254 billion, $50 billion, $21 billion and $16 billion, respectively. The remainder is spread throughout other offices.

Fiscal Year 2024 Combining Statement of Budgetary Resources Disaggregated by Sub-organization Accounts

(in millions):	U. S. Mint	Office of the Comptroller of the Currency	Alcohol and Tobacco Tax and Trade Bureau	Budgetary	Non Budgetary
BUDGETARY RESOURCES					
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 839	$ 1,830	$ 7	$ 406,935	$ 23
Appropriations (discretionary and mandatory)	-	-	158	1,150,421	-
Borrowing authority (discretionary and mandatory)	-	-	-	-	21,792
Spending authority from offsetting collections (discretionary and mandatory)	3,331	1,220	9	16,150	665
Total Budgetary Resources	$ 4,170	$ 3,050	$ 174	$ 1,573,506	$ 22,480
STATUS OF BUDGETARY RESOURCES					
New obligations and upward adjustments	$ 3,238	$ 1,287	$ 167	$ 1,201,659	$ 22,095
Unobligated balance, end of year:					
Apportioned, unexpired accounts	932	-	5	314,373	294
Exempt from apportionment, unexpired accounts	-	1,763	-	1,888	-
Unapportioned, unexpired accounts	-	-	-	54,113	91
Unexpired unobligated balance, end of year	932	1,763	5	370,374	385
Expired unobligated balance, end of year	-	-	2	1,473	-
Unobligated balance, end of year	932	1,763	7	371,847	385
Total Status of Budgetary Resources	$ 4,170	$ 3,050	$ 174	$ 1,573,506	$ 22,480
OUTLAYS, NET, AND DISBURSEMENTS, NET					
Outlays, net (discretionary and mandatory)	$ (51)	$ 71	$ 151	$ 1,174,866	$ -
Distributed offsetting receipts	-	-	-	(65,685)	-
Agency Outlays, Net (Discretionary and Mandatory)	$ (51)	$ 71	$ 151	$ 1,109,181	$ -
Disbursements, net (mandatory)	$ -	$ -	$ -		$ (9,364)

Fiscal Year 2023 Combining Statement of Budgetary Resources Disaggregated by Sub-organization Accounts

(in millions):	Bureau of Engraving & Printing	Bureau of the Fiscal Service	Departmental Offices (a)	Fin. Crimes Enforcement Network	Internal Revenue Service
BUDGETARY RESOURCES					
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 839	$ 1,818	$ 329,345	$ 93	$ 80,933
Appropriations (discretionary and mandatory)	-	901,800	5,279	190	11,422
Borrowing authority (discretionary and mandatory)	-	-	1,000	-	-
Spending authority from offsetting collections (discretionary and mandatory)	975	334	6,058	24	150
Total Budgetary Resources	$ 1,814	$ 903,952	$ 341,682	$ 307	$ 92,505
STATUS OF BUDGETARY RESOURCES					
New obligations and upward adjustments	$ 923	$ 902,115	$ 28,606	$ 210	$ 16,526
Unobligated balance, end of year:					
Apportioned, unexpired accounts	800	1,722	262,288	92	75,071
Exempt from apportionment, unexpired accounts	-	2	107	-	7
Unapportioned, unexpired accounts	91	93	50,062	-	612
Unexpired unobligated balance, end of year	891	1,817	312,457	92	75,690
Expired unobligated balance, end of year	-	20	619	5	289
Unobligated balance, end of year	891	1,837	313,076	97	75,979
Total Status of Budgetary Resources	$ 1,814	$ 903,952	$ 341,682	$ 307	$ 92,505
OUTLAYS, NET, AND DISBURSEMENTS, NET					
Outlays, net (discretionary and mandatory)	$ 61	$ 901,405	$ 13,814	$ 166	$ 15,204
Distributed offsetting receipts	-	(50,710)	(9,010)	-	(53)
Agency Outlays, Net (Discretionary and Mandatory)	$ 61	$ 850,695	$ 4,804	$ 166	$ 15,151
Disbursements, net (mandatory)	$ -	$ -	$ (4,228)	$ -	$ -

(a) Of the $342 billion of Total Budgetary Resources for DO, OCA, GSE, ESF and IAP had $9 billion, $254 billion, $46 billion and $15 billion, respectively. The remainder is spread throughout other offices.

Fiscal Year 2023 Combining Statement of Budgetary Resources Disaggregated by Sub-organization Accounts

(in millions):	U. S. Mint	Office of the Comptroller of the Currency	Alcohol and Tobacco Tax and Trade Bureau	Budgetary	Non Budgetary
BUDGETARY RESOURCES					
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 896	$ 1,852	$ 8	$ 415,578	$ 206
Appropriations (discretionary and mandatory)	-	-	149	918,840	-
Borrowing authority (discretionary and mandatory)	-	-	-	-	1,000
Spending authority from offsetting collections (discretionary and mandatory)	4,674	1,169	9	13,143	250
Total Budgetary Resources	$ 5,570	$ 3,021	$ 166	$ 1,347,561	$ 1,456
STATUS OF BUDGETARY RESOURCES					
New obligations and upward adjustments	$ 4,749	$ 1,208	$ 159	$ 953,089	$ 1,407
Unobligated balance, end of year:					
Apportioned, unexpired accounts	821	-	5	340,770	29
Exempt from apportionment, unexpired accounts	-	1,813	-	1,929	-
Unapportioned, unexpired accounts	-	-	-	50,838	20
Unexpired unobligated balance, end of year	821	1,813	5	393,537	49
Expired unobligated balance, end of year	-	-	2	935	-
Unobligated balance, end of year	821	1,813	7	394,472	49
Total Status of Budgetary Resources	$ 5,570	$ 3,021	$ 166	$ 1,347,561	$ 1,456
OUTLAYS, NET, AND DISBURSEMENTS, NET					
Outlays, net (discretionary and mandatory)	$ 70	$ (26)	$ 138	$ 930,832	$ -
Distributed offsetting receipts	-	-	-	(59,773)	-
Agency Outlays, Net (Discretionary and Mandatory)	$ 70	$ (26)	$ 138	$ 871,059	$ -
Disbursements, net (mandatory)	$ -	$ -	$ -		$ (4,228)

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PART 3:

OTHER INFORMATION

(UNAUDITED)

Section A: Summary of Financial Statement Audit and Management Assurances

The following tables summarize the results of our financial statement audit, as well as management's assurances regarding conformance with the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) and compliance with the *Federal Financial Management Improvement Act of 1996* (FFMIA).

Summary of Financial Statement Audit

Audit Opinion: Unmodified
Restatement: No

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Summary of Management Assurances

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA SECTION 2)

Statement of Assurance: Unmodified

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA SECTION 2)

Statement of Assurance: Unmodified

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

CONFORMANCE WITH FMFIA SECTION 4

Statement of Assurance: Federal systems conform, except for instances of nonconformance with financial management system requirements

Nonconformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
IRS's Unpaid Tax Assessments [1]	1	0	0	0	0	1
IRS's Information System Controls [1]	1	0	1	0	0	0
Total nonconformances	2	0	1	0	0	1

[1] Refer to Independent Auditors' Report in Part 2 of this report.

COMPLIANCE WITH FFMIA SECTION 803(a)

	Agency	Auditor
1. Federal Financial Management System Requirements	Lack of compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	No lack of compliance noted	No lack of compliance noted
3. U.S. Standard General Ledger (USSGL) at Transaction Level	No lack of compliance noted	No lack of compliance noted

FMFIA AND FFMIA REQUIREMENTS

The FMFIA requires agencies to establish and maintain internal controls to ensure that federal programs operate efficiently, effectively, and in compliance with laws and regulations. The Secretary must evaluate and report annually on (a) whether there is reasonable assurance that the Agency's controls are achieving their intended objectives, and (b) material weaknesses in the Agency's controls (FMFIA Section 2). Additionally, the Secretary must evaluate and report separately on whether the Agency's financial management systems comply with government-wide requirements (FMFIA Section 4). The FFMIA requires agencies to implement and maintain financial management systems that substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the USSGL at the transaction level. The requirements of the FMFIA serve as an umbrella under which other reviews, evaluations, and audits should be coordinated and considered to support management's assertion about the effectiveness of internal control over operations, reporting, and compliance with laws and regulations.

As of September 30, 2024, we had no material weaknesses under Section 2 or Section 4 of the FMFIA. However, as of the end of FY 2024, we had one instance of nonconformance with the federal financial management systems requirements of Section 4 of the FMFIA compared to two instances of nonconformance in FY 2023. Prior to FY 2024, we had reported a significant deficiency in the IRS's internal control over both its unpaid assessments and information system controls. For purposes of this reporting, this significant deficiency was reported as two separate instances of nonconformance. During FY 2024, we were successful in downgrading that component of this significant deficiency related to the IRS's information system controls, reducing the number of instances of nonconformance from two down to one in FY 2024.

The one remaining nonconformance is the result of the IRS's significant deficiency related to unpaid tax assessments. This nonconformance constitutes a lack of compliance with federal financial management system requirements, as reported above under Compliance with FFMIA Section 803(a). Refer to the section in Part 1 entitled *Systems, Controls and Legal Compliance* and the section in Part 2 entitled *Independent Auditors' Report* for additional information on the nonconformance issue.

SECTION B: TAX GAP AND TAX BURDEN

TAX GAP

The gross tax gap is the amount of true tax liability for a given tax year not paid voluntarily and/or timely. Tax gap estimates provide insight on the level of overall non-compliance during the relevant tax periods and under the IRC provisions in effect at the time. They also provide the IRS with periodic appraisals about the nature and extent of noncompliance for use in formulating tax administration strategies.

The IRS develops tax gap estimates on a periodic basis. A particular challenge for tax gap estimation is the time it takes to collect certain compliance data, especially data on underreporting that come from completed audits. This results in a timing difference between when the compliance behavior occurred and the development of tax gap estimates. To address this issue, the IRS produces annual tax gap projections to provide more current tax gap information. In October 2024, the IRS issued tax gap projections for Tax Year 2022 and revised projections for Tax Years 2020 and 2021.

Measuring and reporting on taxpayer compliance related to various tax provisions is inherently complex and challenging. As a result, the IRS develops estimates of the tax gap to measure overall compliance with the current tax system. The IRS also undertakes analyses of compliance behavior with respect to specific tax provisions, such as refundable and non-refundable tax credits. The IRS enforcement strategies and legislative proposals are influenced by its National Research Program (NRP), which involves conducting detailed audits of a statistically representative sample of taxpayers to estimate compliance with individual income tax provisions and provides data on misreporting on voluntarily filed returns. To provide greater reliability and precision of the compliance estimates, the IRS groups multiple years of data together. This results in a timing difference between the time period from which the IRS generates the reported data and issues the report. Misreporting can be in favor of the taxpayer or the government, although estimates indicate that the majority of misreporting is associated with tax underreporting. Underreporting can manifest as either understatements of the liability due at the time the taxpayer files the return, the taxpayer claiming and receiving an excessive refund, or a combination of both.

Tax Gap Projections

The projected gross tax gap for TY 2022 is $696 billion, which is $12 billion lower than the revised TY 2021 projection of $708 billion. The net tax gap is the gross tax gap less tax that the IRS projects will be subsequently paid, either voluntarily but late, or collected as a result of IRS administrative and enforcement activities. In effect, the net tax gap is the portion of the gross tax gap that will not be paid. We project that $90 billion of the gross tax gap will eventually be paid, resulting in a net tax gap of $606 billion.

The tax gap projections separate noncompliance into components by the type of tax and source of noncompliance. The three primary sources of noncompliance that result in payment of less than the tax owed are:

(i) the non-filing tax gap ($63 billion): the tax not paid on time by those who do not file required returns on time;
(ii) the underreporting tax gap ($539 billion): the net understatement of tax on timely filed returns; and
(iii) the underpayment tax gap ($94 billion): which is the amount of tax reported on timely filed returns that is not paid on time.[1]

We also group the gross tax gap projections by type of tax: individual income tax ($514 billion), corporate income tax ($50 billion), employment tax ($127 billion), and estate tax ($5 billion).[2]

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[1] *Detail may not add to the total due to rounding.*
[2] *These projections are excerpted from the tax gap "map" shown below; the full version can be found at https://www.irs.gov/pub/irs-pdf/p5869.pdf.*

TAX GAP MAP: TAX GAP PROJECTIONS FOR TAX YEAR 2022 (EXCERPT) ($ IN BILLIONS)

	Total True Tax Liability	Tax Paid Voluntarily & Timely	Gross Tax Gap: Nonfiling	Gross Tax Gap: Underreporting	Gross Tax Gap: Underpayment	Gross Tax Gap	Enforced & Other Late Payments	Net Tax Gap (Tax Not Collected)
Total	$4,635	$3,939	$63	+ $539	+ $94	= $696	- $90	= $606
By Type of Tax								
Individual Income Tax	$2,557	$2,042	$53	+ $381	+ $80	= $514	- $68	= $447
Corporation Income Tax	$392	$342	#	+ $44	+ $6	= $50	- $10	= $40
Employment Tax	$1,585	$1,459	$9 (Employment Tax [4])	+ $111	+ $6	= $127	- $8	= $119
Estate Tax	$35	$30	$1	+ $2	+ $1	= $5	- $4	= $0.4

Individual Income Tax underreporting:

Business Income	Non-Business Income	Credits	Income Offsets [1]	Filing Status	Other Taxes [2]	Unallocated Marginal Effects [3]
$194	$87	$48	$27	$7	$4	$15

Corporation Income Tax underreporting:

Large Corporations	Small Corporations
$25	$19

Employment Tax underreporting:

Self-Employment Tax	FICA & Uncollected FICA TAX	FUTA
$71	$39	$1

Notes:

**Totals include Excise Tax*

 # - No estimate

Detail may not add to totals due to rounding.

(1) *Includes adjustments, deductions, and exemptions.*

(2) *Includes the Alternative Minimum Tax and taxes reported in the "Other Taxes" section of the Form 1040 except for self-employment tax and unreported Social Security and Medicare tax (which are included in the employment tax gap projections).*

(3) *The difference between: (1) the projection of the individual income tax underreporting tax gap where underreported tax is calculated based on all misreporting combined and, (2) the projection of the individual income tax underreporting tax gap based on the sum of the tax gaps associated with each line item where the line-item tax gap is calculated based on the misreporting of that item only. There may be differences if the marginal tax rates are different in these two situations.*

(4) *Self-employment tax only.*

Tax Gap Data and Methodology Limitations

Given the complexity of the tax systems and available data, we cannot use a single approach to estimate each component of the tax gap. Each approach is subject to measurement or non-sampling error; the component estimates that are based on samples are also subject to sampling error. The individual income tax NRP compliance studies are the foundation for the individual income tax underreporting tax gap estimates and projections. For the individual income tax underreporting tax gap, we use a statistical adjustment to adjust for measurement errors that result when we do not detect some existing noncompliance during an audit.[3] We use other statistical techniques to control for bias in estimates based on corporate operational audit data. Due to the heterogenous nature of the estimation methodology, we do not report standard errors, however, the user should be mindful of these limitations when using these estimates. In addition to sampling error and measurement error, there is estimation error and coverage error. The estimates do not fully represent noncompliance in some components of the tax system, particularly as it relates to corporation income tax, income from flow-through entities, foreign or illegal activities, digital assets, and pandemic credits, because compliance data are lacking. Since the underreporting projections assume compliance rates have not changed from the prior TY 2014 – 2016 tax gap estimates, they are subject to the same data limitations as those tax gap estimates. The projections are also subject to projection error.

Individual Income Tax Underreporting Tax Gap Projections for Tax Year 2022

The projections in the table below provide a breakout of the components of the individual income tax underreporting tax gap, which is the largest single contributor to the gross tax gap. For each income component, we show the component's share of both the gross tax gap and the individual income tax underreporting tax gap. Business income accounts for 51 percent of the total individual income tax underreporting tax gap for TY 2022. This primarily consists of nonfarm proprietor income (31 percent); income from flow-through entities—partnerships, S corporations, and estates and trusts (11 percent); rent and royalty income (7 percent); and farm income (2 percent).

[3] See https://www.irs.gov/pub/irs-pdf/p5869.pdf for more details.

INDIVIDUAL INCOME TAX UNDERREPORTING TAX GAP PROJECTIONS BY SOURCE: TAX YEAR 2022 [(1)] ($ IN BILLIONS)

Tax Return Line Items		Tax Gap	Share of Gross Tax Gap	Share of Individual Income Tax Underreporting Tax Gap
Gross Tax Gap	**$**	**696**	**100%**	**N/A**
Individual Income Tax Underreporting Tax Gap	**$**	**381**	**55%**	**100%**
Items Subject to Substantial Information Reporting and Withholding	**$**	**9**	**1%**	**2%**
Wages, salaries, tips	$	9	1%	2%
Items Subject to Substantial Information Reporting	**$**	**22**	**3%**	**6%**
Interest income		1	(2)	(2)
Dividend income	$	2	(2)	(2)
State income tax refunds	$	(2)	(2)	(2)
Pension & annuities	$	9	1%	2%
Unemployment Compensation		(2)	(2)	(2)
Taxable Social Security benefits	$	10	1%	3%
Items Subject to Some Information Reporting	**$**	**71**	**10%**	**19%**
Partnership, S-Corp, Estate & Trust, etc.	$	42	6%	11%
Alimony income		(2)	(2)	(2)
Capital Gains	$	30	4%	8%
Items Subject to Little or No Information Reporting	**$**	**179**	**26%**	**47%**
Form 4797 income	$	5	1%	1%
Other income	$	21	3%	6%
Nonfarm proprietor income	$	117	17%	31%
Farm income	$	7	1%	2%
Rents and royalties	$	28	4%	7%
Total Credits	$	**48**	**7%**	**12%**
Child Tax Credit and Additional Child Tax Credit	$	17	2%	4%
EITC	$	24	4%	6%
Education Credits	$	3	(2)	1%
All Other Credits	$	3	(2)	1%
Other Taxes	**$**	**4**	**1%**	**1%**
Unallocated Marginal Effects	**$**	**15**	**2%**	**4%**
Income Offsets (Adjustments, Deductions, Exemptions)	**$**	**27**	**4%**	**7%**
Filing Status	**$**	**7**	**1%**	**2%**

[(1)] *These figures will be updated as more complete compliance data becomes available.*

[(2)] *Less than 0.5 percent or $0.5 billion.*

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

Individual Income Tax Credits

The IRS is responsible for administering 21 refundable and non-refundable individual income tax credits, including the EITC, AOTC, ACTC, and PTC. Total tax credits account for 12 percent of the individual income tax underreporting tax gap. EITC accounts for 6 percent of the individual income tax underreporting tax gap, followed by the Child Tax Credit (CTC) and ACTC (4 percent), and the refundable and non-refundable education credits (1 percent).

Relationship of Tax Compliance Estimation to Improper Payments

The PIIA includes specific reporting requirements for payment programs that are determined to be susceptible to significant improper payments. The focus of PIIA, as well as related guidance from the OMB, is on implementing internal controls to prevent and detect improper payments. PIIA does not take into consideration all aspects of administering tax provisions in a system that relies heavily on voluntary reporting. In keeping with PIIA requirements, the IRS reports improper payment (*i.e.,* overclaim) estimates for four refundable tax credits, the EITC, AOTC, ACTC and net PTC, deemed susceptible to significant improper payments (refer to Part 3, Section D: *Payment Integrity*, of this report).

The IRS follows the practice of reporting improper payment estimates largely because refundable tax credits may result in a payment to the taxpayer in excess of tax liability. It can be challenging to distinguish between the portion of a credit that offsets an individual tax liability versus the portion that is refundable. Determining the impact of a refundable tax credit depends on multiple variables, including other return elements and information the taxpayer provides, some of which are unrelated to the refundable tax credit in question.

The same features of the tax system and taxpayer behaviors that create the compliance problems with refundable tax credits also create the risk of noncompliance with other tax provisions. Several credits Congress enacted to promote social and economic objectives (*e.g.*, assisting particular groups of individuals or businesses) have eligibility rules that are complex and often lead to high overclaim rates.

Tax refunds, which constitute a transfer of cash from the federal government to a taxpayer, are an integral part of the tax system as a whole. The IRS tax gap estimation process measures compliance with the current tax system and always includes noncompliance with refundable and non-refundable tax credits. Whether a tax credit results in a refund instead of a reduction in tax liability depends on all of the taxpayers' characteristics, such as income, deductions, and other credits claimed, and is not simply driven by the credit itself.

The IRS's risk assessments on refundable tax credits have consistently concluded that overclaims are not rooted in internal control deficiencies, but instead are due to the complexities of verifying eligibility, including unavailability of relevant third-party data, for refundable tax credits within the time periods the tax system prescribes. Consequently, errors in taxpayer claims for credits are the result of factors beyond our control under current law and existing authority, and are therefore, more appropriately included in the analysis of tax compliance.

Refundable Tax Credits and the Challenges of Compliance

Refundable tax credits (RTC) generally have different eligibility rules, often relating to personal family and living arrangements, which determine eligibility. Complexity in the form of differing rules is a contributor to tax credit errors. Additionally, these credits are difficult for the IRS to verify due to the lack of available and relevant third-party data. Much of the information necessary to validate the accuracy of an RTC claim before issuing a tax refund is not comprehensively available in any U.S. government database.

The complexity of eligibility rules for refundable tax credits contributes to the compliance burden for taxpayers and administrative costs for the IRS. These rules differ by credit and are often complex because they must address complicated family relationships and residency arrangements to determine eligibility. The relatively high overclaim error rates for these credits are a result, in part, of this complexity. In some cases, due also in part to the complex rules, overclaims by an ineligible taxpayer could go to another family member who is eligible for, but fails to claim, the credit. The lack of third-party data to verify eligibility requirements for these refundable credits complicates the IRS's ability to administer the credits. Such data may not exist, may be unreliable or inaccurate, or may be reported to the IRS too late to be useful during tax return processing. The IRS also has limited authority to correct mismatches at filing and traditionally uses audits to correct errors, which increases taxpayer burden. The IRS runs various automated checks of certain data on a tax return before paying a refund but is otherwise limited in its ability to question and correct the taxpayer's claim. The IRS continually looks for complete and accurate data sources to verify eligibility for claimed refundable credits to reduce the burden on compliant taxpayers.

Faced with the complexities of claiming certain refundable credits, many potential credit recipients seek help filing their tax returns from paid preparers. One-half of taxpayers claiming refundable credits use paid preparers. Unenrolled return preparers, who prepare a significant number of EITC returns, are not subject to the same level of training and certification requirements as other tax professionals and have higher error rates for EITC returns than taxpayers who prepare their own returns or who hire enrolled return preparers. Preparer education and outreach are major components of the IRS's overall strategy to address the tax gap and to reduce errors. The IRS's education and outreach efforts seek to inform preparers about the availability of the credits and about the eligibility requirements that taxpayers must meet to claim the credits. The IRS uses many communication vehicles to send important and useful messages to the return preparer community.

The IRS has a responsibility to detect and address errors and misreporting on tax returns, including those claiming refundable credits. The IRS frequently enhances filters and other detection tools to improve the accuracy of tax returns and reduce taxpayer burden, but in some instances, enforcement activities must take place. The IRS rejects millions of electronically filed returns claiming refundable credits for a variety of reasons, such as missing forms, incorrect Social Security numbers, or if another taxpayer has claimed the same child. Most taxpayers can correct their electronic returns and successfully refile with little burden. In some cases, a taxpayer must print and submit a paper return, resulting in refund delays. Despite the compliance burden and costs to the government associated with these refundable tax credits, the burden to taxpayers may be lower than with other payment or benefit programs. For example, tax credit recipients can self-certify eligibility; they do not need to meet with caseworkers or submit upfront documentation as is required with some direct service anti-poverty programs, such as with the Supplemental Security Income or Temporary Assistance for Needy Families programs. Increasing pre-refund screening for eligibility would increase the administrative costs for refundable tax credits and may discourage eligible taxpayers from claiming the credits.

The IRS may initiate a correspondence audit if it identifies, through its scoring and selection process, potential noncompliance with eligibility requirements. The IRS conducts most refundable credit audits before it issues a refund, meaning the IRS holds the credit refund until the taxpayer substantiates eligibility. The IRS sends a letter to the taxpayer requesting documentation showing that the taxpayer meets credit eligibility requirements. In addition to the refund delay, taxpayers face the burden of gathering and submitting the requested information. In FY 2024, the IRS conducted 213,329 refundable credit audits, the majority through correspondence audits. However, over-reliance on audits to resolve basic errors results in interest costs by delaying the issuance of refunds to taxpayers and can lead to fewer taxpayers receiving credits and deductions for which they are eligible and thus decrease accuracy in tax administration, whereas focusing on helping taxpayers submit accurate filings upfront will increase payment accuracy while reducing administrative burdens for the IRS and the tax filer. Moving forward, the IRS intends to reduce the number of audits specifically focused on refundable credits while also expanding outreach, helping taxpayers get it right at the point of filing, and stepping-up enforcement activities that focus on unscrupulous preparers that contribute to noncompliance in this domain.

TAX BURDEN

The Internal Revenue Code (IRC) creates the basis for a progressive tax system that applies higher rates of taxation to progressively higher levels of income. The amount of taxable income can be adjusted through the application of exemptions and deductions, which influence the amount of taxes taxpayers owe. In addition, many taxpayers qualify for one or more refundable tax credits, which collectively have a significant impact on tax administration, federal tax revenues, and refund payments.

The IRS measures tax liability by income level for individuals, and by revenue and assets for corporations. Using these data, it is possible to illustrate how tax liability rises with increases in Adjusted Gross Income (AGI) for individuals (Figures 1.1 and 1.2 and Table 1). Similar data for corporations shows the tax burden based on the percentage of taxable income (Figure 2 and Table 2). This information is the most recent data available for individuals (TY 2022) and corporations (TY 2021).

Individual Income Tax Liability

FIGURE 1.1: AVERAGE AGI REPORTED AND AVERAGE INDIVIDUAL INCOME TAX LIABILITY FOR TY 2022

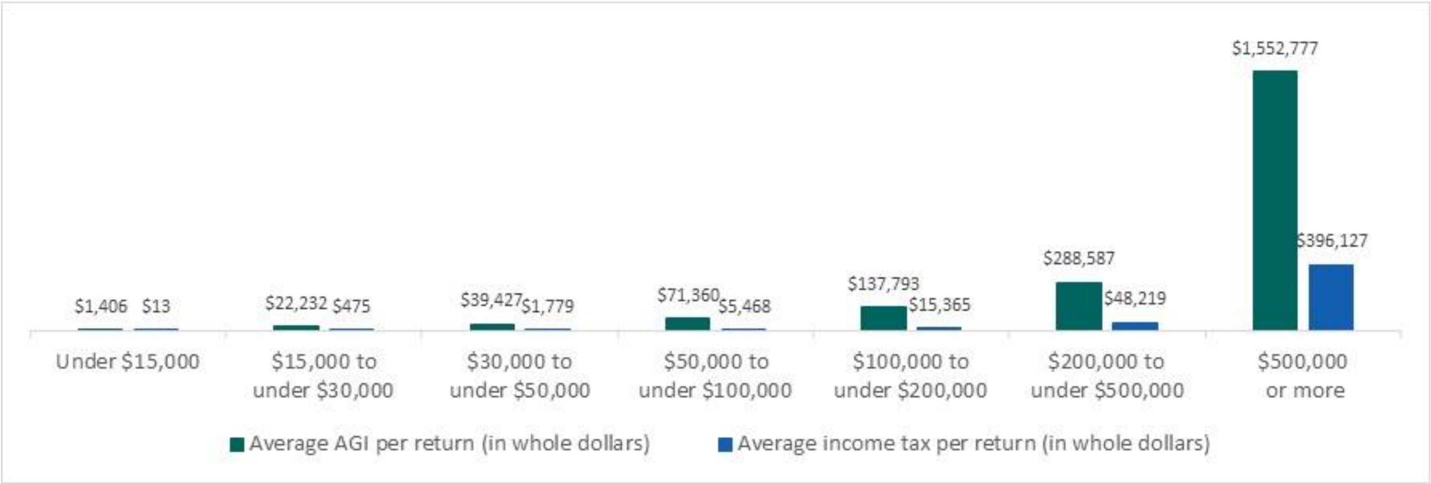

FIGURE 1.2: INDIVIDUAL INCOME TAX LIABILITY AS A PERCENTAGE OF AGI FOR TY 2022

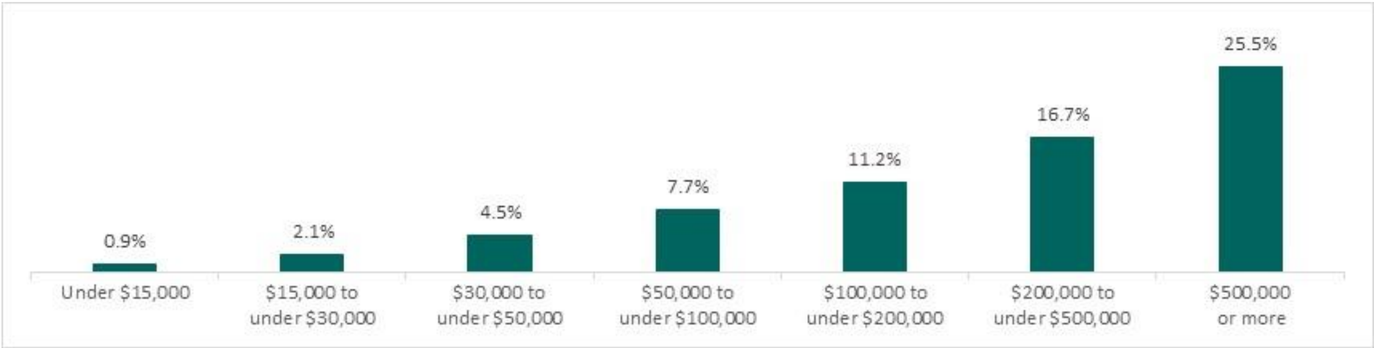

TABLE 1: INDIVIDUAL INCOME TAX DATA BY AGI FOR TY 2022

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	29,840 $	41,952 $	377 $	1,406 $	13	0.9%
$15,000 to under $30,000	25,099	558,008	11,917	22,232	475	2.1%
$30,000 to under $50,000	29,027	1,144,446	51,632	39,427	1,779	4.5%
$50,000 to under $100,000	38,987	2,782,106	213,183	71,360	5,468	7.7%
$100,000 to under $200,000	25,887	3,567,048	397,758	137,793	15,365	11.2%
$200,000 to under $500,000	10,018	2,891,065	483,057	288,587	48,219	16.7%
$500,000 or more	2,479	3,849,333	981,999	1,552,777	396,127	25.5%
Total	**161,337 $**	**14,833,958 $**	**2,139,923**			

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

Corporation Tax Liability

FIGURE 2: CORPORATION TAX LIABILITY AS A PERCENTAGE OF TAXABLE INCOME FOR TY 2021

TABLE 2: CORPORATION TAX DATA BY TOTAL ASSETS FOR TY 2021

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	$ 36,888	$ 8,286	22.5%
$1 under $500	8,903	1,814	20.4%
$500 under $1,000	6,161	1,264	20.5%
$1,000 under $5,000	25,182	5,120	20.3%
$5,000 under $10,000	16,461	3,333	20.2%
$10,000 under $25,000	27,838	5,577	20.0%
$25,000 under $50,000	24,753	4,973	20.1%
$50,000 under $100,000	27,941	5,497	19.7%
$100,000 under $250,000	43,788	8,280	18.9%
$250,000 under $500,000	40,240	7,633	19.0%
$500,000 under $2,500,000	176,908	32,255	18.2%
$2,500,000 or more	1,986,987	287,371	14.5%
Total	**$ 2,422,050**	**$ 371,403**	

SECTION C: MANAGEMENT AND PERFORMANCE CHALLENGES AND TREASURY RESPONSE

In accordance with the *Reports Consolidation Act of 2000*, the Inspectors General are required to identify specific management and performance challenges we face. At the end of each fiscal year, the Treasury Office of Inspector General (OIG) and Treasury Inspector General for Tax Administration (TIGTA) send an update of these management challenges to the Secretary and cite any new challenges for the upcoming fiscal year. This section contains the OIG and TIGTA identified management and performance challenges and management's response.

Treasury Inspector General Management Challenges

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

October 15, 2024

INFORMATION MEMORANDUM FOR SECRETARY YELLEN

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

SUBJECT: Management and Performance Challenges Facing the Department of the Treasury (OIG-CA-25-003)

In accordance with the Reports Consolidation Act of 2000, we are providing you with our perspective on the most serious management and performance challenges facing the Department of the Treasury (herein "Treasury" or "the Department"). In this year's memorandum, my office is reporting four challenges, one has been reframed, one is new, and two challenges are repeated and updated from last year. The reframed challenge focuses on Treasury's role in responsibly managing the financial assistance programs created in response to the Coronavirus Disease 2019 (COVID-19) global pandemic. A new challenge, Crypto and Digital Assets, considers factors beyond Treasury's control and their impact on Treasury's operations.

We removed two challenges from last year's memorandum, Climate Initiatives Risk and Information Technology Acquisition and Project Management. We recognize that Treasury continues to focus on meeting its responsibilities in these areas through various activities and initiatives.

The challenges discussed in detail below are as follows:

- Ongoing Management of COVID-19 Pandemic Relief Programs (Reframed from Previous Challenge, COVID-19 Pandemic Relief)
- Cyber Threats (Repeat)
- Anti-Money Laundering/Terrorist Financing and Bank Secrecy Act Enforcement (Repeat)
- Crypto and Digital Assets (New)

We identified challenges based on the threat they pose to Treasury's mission and stakeholders' interests. We also acknowledge the Department's accomplishments and efforts over the past year to address critical matters as noted within each challenge.

In addition to the challenges in this year's letter, we are reporting our concerns about the following matters: (1) U.S. Mint gold acquisitions, (2) Bureau of Engraving and Printing's construction of a new facility, and (3) Treasury's role with Customs revenue functions.

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

cc: Aditi Hardikar, Assistant Secretary for Management

Challenge 1: Ongoing Management of COVID-19 Pandemic Relief Programs (Reframed from Previous Challenge, COVID-19 Pandemic Relief)

While the national emergency declaration for the COVID-19 pandemic ended in May 2023, Treasury's responsibilities and workloads remain vastly expanded. Treasury needs to ensure these programs meet the economic needs and fiscal requirements of their respective constituencies responsibly. Specifically, Treasury is responsible for certain economic relief provisions in the *Coronavirus Aid, Relief, and Economic Security Act*[1] (CARES Act), the *Consolidated Appropriations Act, 2021*[2] (CAA, 2021), the *American Rescue Plan Act of 2021,*[3] and the *Consolidated Appropriations Act, 2023*[4] (CAA, 2023). In all, Treasury was tasked with disbursing over $650 billion in aid to more than 30,000 recipients, including state, local, territorial, and tribal government entities. As such, the Department established the Office of Capital Access (OCA)[5] to implement and manage most of Treasury's COVID-19 pandemic programs.

Our previous Management and Performance Challenges Memorandum (OIG-CA-24-001) provided the details of each program authorized by the legislation above and the associated challenge for each. Below is a list of those Treasury pandemic programs under our oversight.

- Coronavirus Relief Fund (CRF)
- Air Carrier Payroll Support Programs (PSPs)
- Emergency Rental Assistance Programs (ERA1 and ERA2)
- Homeowner Assistance Fund
- The Coronavirus State Fiscal Recovery Fund and the Coronavirus Local Fiscal Recovery Fund
- Coronavirus Capital Projects Fund (CPF)
- Local Assistance and Tribal Consistency Fund
- State Small Business Credit Initiative
- Emergency Capital Investment Program
- Community Development Financial Institutions Equitable Recovery Program

In this Management and Performance Challenges Memorandum, we are emphasizing the challenges faced by Treasury in management of these programs. Over the past year, turnover in OCA personnel and limited budgetary resources have resulted in operational weaknesses. Specifically, there has been a delay in carrying out certain required program functions, a lack of timely follow-through on implementing corrective action in response to Government Accountability Office (GAO) and Treasury Office of Inspector General (OIG) findings, and delays in responding to OIG requests. Taken together these deficiencies, if not corrected, may jeopardize the integrity of the operational effectiveness and efficiency, and compliance with regulations and guidance, for hundreds of billions of dollars of pandemic programs under Treasury's purview.

[1] Public Law 116-136 (March 27, 2020)
[2] Public Law 116-260 (December 27, 2020)
[3] Public Law 117-2 (March 11, 2021)
[4] Public Law 117-328 (December 29, 2022)
[5] Formerly known as the Office of Recovery Programs.

As discussed in our previous management and performance challenges memoranda dating back to October 29, 2020, we recognized that Treasury was initially challenged by resource and personnel constraints in standing up, in a short period of time, the multiple programs authorized by Congress in the various pandemic statutes. We also recognize that there have been changes in the leadership and the structure of OCA since my last memorandum. That said, these challenges and events do not relieve Treasury from its ongoing responsibility to ensure Congress and the American taxpayer that the pandemic funds entrusted to Treasury were, and are, being used prudently and properly.

A few examples of concerns noted follow.

- Single Audit Act[6] Report Follow-up – As part of the implementation of the multiple pandemic programs, Treasury is responsible to issue management decisions related to *Single Audit Act* (Single Audit) findings for a large number of financial assistance awardees (grantees) in compliance with the Office of Management and Budget's (OMB) Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance).[7] Among those responsibilities is the requirement to issue these management decisions on Single Audit findings timely (i.e., within 6 months). Although mostly late, in calendar years 2023 and 2024 Treasury has made some progress in issuing management decisions. However, Treasury is still behind the number of management decisions required and has yet to determine which grantees have failed to file or are late in filing Single Audit reports. This is a basic program responsibility.

- ERA1 Closeout Reports – The period of performance for ERA1 grantees ended in December 2022. After repeated requests from OIG since July 2023, OCA provided preliminary closeout data, in September 2024, for 619 out of 698 grantees. Final closeout reports for all grantees are critical because previously reported data by grantees to Treasury were determined by both OCA and OIG to be incomplete. In addition, this data is used by OIG to review thousands of ERA hotline complaints for identification of improper payments and fraud.

- The ERA and PSP programs have been identified as susceptible to significant improper payments.[8] OCA has been informed of the high risk of improper payments and other issues with these programs in multiple reports from GAO and OIG and meetings with OIG over several years but has yet to take sufficient corrective actions to fully address the issues. Treasury's inaction increases the risk of significant improper payments within these programs and potential non-compliance with applicable laws and regulations.

In late August and early September 2024, I briefed Treasury's Acting General Counsel and the Deputy Secretary about our concerns with the challenges and weaknesses with the operations of the pandemic programs. Both these senior officials expressed their commitment to a resolution of these concerns and since that time, Treasury has been working with OIG and has resolved several issues and demonstrated

[6] P. L. 104-156 (July 5, 1996) The Single Audit Act of 1984, as amended in 1996, requires entities who receive Federal funds in excess of $750,000 to obtain an annual audit of those Federal funds. It was enacted for the purpose of promoting sound financial management, including effective internal controls, with respect to Federal awards administered by non-Federal entities and to establish uniform requirements for audits.
[7] Uniform Guidance, 2 C.F.R. § 200, Subpart F, Audit Requirements.
[8] Improper payments are payments that should not have been made, were made in incorrect amount, or were made to an ineligible recipient and are a long-standing and significant problem in the Federal government. As of May 2024, the estimated improper payments for both programs totaled over $200 million.

progress towards resolving others. We will closely monitor the progress being made by OCA and look forward to continuing to work with Treasury management on these matters.

Challenge 2: Cyber Threats (Repeat)

Cybersecurity remains a long-standing and serious challenge facing the Nation and reported by GAO as a government-wide issue in its 2023 high-risk list published biennially.[9] A reliable critical infrastructure, including information systems and networks, is vital to our national security and economic stability. Cyber threats remain a persistent concern as Treasury's information systems are critical to the core functions of government and the Nation's financial infrastructure, along with the financial sector it oversees. As cyber threats continue to evolve and become more sophisticated, subtle, and easier to perform, Treasury must fortify and safeguard its internal systems and operations while modernizing and maintaining them. Although managing known risks is an ongoing challenge, Treasury must also be ready to reinforce and/or redirect cybersecurity efforts when unforeseen events occur, or when serious flaws are discovered in software or systems that increase potential risk of information compromise.

Threat actors frequently probe trusted connections for weaknesses to exploit vulnerable networks or systems and gain access to government systems. Organized hacking groups leverage published and unpublished vulnerabilities and vary their methods to make attacks hard to detect and even harder to prevent. Criminal groups and nation-states are constantly seeking to steal information; commit fraud; disrupt, degrade, or deny access to information systems; or infiltrate information systems and maintain a presence to enable future actions. Through information sharing, federal agencies are better prepared to thwart potential attacks to the cyber infrastructure of the Federal Government and the financial sector.

The tools used to perpetrate cyber-attacks continue to become easier to use and more widespread, lowering the technological knowledge and resources needed to launch successful attacks of increasing sophistication. Such attacks include distributed denial of service, phishing, fraudulent wire payments, business email compromise, malicious spam (malspam), ransomware, compromise of supply chains (both hardware and software), frequently used in combination to maximize attack effectiveness. Increasingly, artificial intelligence (AI) is being used to support attacks, from generating realistic looking phishing emails with minimal effort to creating programs to exploit vulnerabilities. Additionally, Treasury must remain cognizant of the increased risk profile a remote workforce presents, as it provides threat actors with a broader attack surface. Increased network traffic from remote sources provides cover for attackers to blend in with the federal workforce and launch cyber assaults, and denial of service attacks upon a network or service can disrupt operations and prevent remote workers from performing their duties.

There is continuing concern over foreign adversaries creating and exploiting vulnerabilities in the Nation's supply chain for information and communication technology and services. Executive Order (EO) 13873, *Securing the Information and Communications Technology and Services Supply Chain*, was issued on May 15, 2019, to secure the supply technology and services chain by banning the import, use, or sale of technology or services designed, developed, manufactured, or supplied from persons or companies that are owned or controlled by governments defined as hostile to the United States. On May 8, 2024, this EO was extended again for 1 year.[10] There are risks that Treasury's systems and resources already in use, including critical infrastructure, contain components from sources that have yet to be designated as threats. Once a

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[9] GAO, *High-Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas* (GAO-23-106203: April 20, 2023)

[10] *Notice on the Continuation of the National Emergency With Respect to Securing the Information and Communications Technology and Services Supply Chain* (May 8, 2024)

source is designated as such, repairs and/or upgrades of key system components may no longer be available. Therefore, there is risk of disruption of critical operations. The Department will need to continue to monitor developments in this area closely and plan for the possibility that its current supply chain may no longer be available.

Furthermore, EO 14028, *Improving the Nation's Cybersecurity*, issued on May 12, 2021, calls for federal agencies to update existing plans to prioritize resources for adoption and use of cloud technology and to adopt a zero-trust architecture,[11] among other things. To achieve the goals outlined in EO 14028, OMB issued M-22-09, *Moving the U.S. Government Toward Zero Trust Cybersecurity Principles*[12] to provide the strategy for achieving a zero-trust architecture, and require agencies to meet specific cybersecurity standards and objectives by the end of fiscal year 2024. OMB also issued M-22-18, *Enhancing the Security of the Software Supply Chain through Secure Software Development Practices*[13] to use only software that complies with secure software development standards. As mentioned above, Treasury management must be mindful that the efforts to secure Treasury's supply chain may hamper cloud adoption and the implementation of zero-trust architecture. In response to our fiscal year 2023 memorandum, Treasury reported progress towards implementing a zero-trust architecture by accelerating efforts to bring systems into compliance with federal mandates related to multi-factor authentication, encryption of data-at-rest, and encryption of data in-transit.

We continue to remind the Department that, in addition to Treasury's own networks and systems, management must be cognizant of, and mitigate, the risks posed by attacks made against other federal and non-federal agencies and Treasury contractors and subcontractors. Threats and risks to third parties' networks and systems also pose risks to Treasury's networks and systems, due to interconnections with other federal, state, and local agencies, and service providers to conduct its business. Management must continue thoughtful awareness of the wide threat environment and exercise due care evaluating and authorizing such internetwork connections and verify that third parties comply with federal policies and standards including any guidance issued to address new and/or expanded threats and risks. Management is also challenged with ensuring that critical data and information maintained by third-party service providers are properly protected.

Treasury is looked upon to provide effective leadership to financial institutions in particular, and the financial sector in general, to strengthen awareness and preparedness against cyber threats to the Nation's critical infrastructure. As such, effective public-private coordination is essential to the Nation's financial and national security. In this regard, the Office of Cybersecurity and Critical Infrastructure Protection coordinates Treasury's efforts to enhance the security and resilience of the financial services sector critical infrastructure and reduce operational risk including risks associated with cybersecurity. That said, Treasury and other federal agencies have yet to fully implement the National Institute of Standards and Technology (NIST) guidance to assist federal agencies in managing cybersecurity risks.[14] In 2018, GAO had reported that the extent of adoption of the NIST framework by critical infrastructure sectors was unknown since

[11] Zero-trust architecture is a method of designing a system in which all actions are presumed dangerous until reasonably proven otherwise, thereby reducing the chance of a successful attack causing further damage.
[12] OMB M-22-09, *Moving the U.S. Government Toward Zero Trust Cybersecurity Principles* (January 26, 2022), (https://www.whitehouse.gov/wp-content/uploads/2022/01/M-22-09.pdf)
[13] OMB M-22-18, *Enhancing the Security of the Software Supply Chain through Secure Software Development Practices* (September 14, 2022), (https://www.whitehouse.gov/wp-content/uploads/2022/09/M-22-18.pdf)
[14] NIST, *Framework for Improving Critical Infrastructure Cybersecurity* (Version 1.0, February 12, 2014; superseded by Version 1.1; April 16, 2018)

agencies were not measuring framework implementation.[15] With respect to Treasury, GAO had recommended that steps be taken to consult with respective sector partners to develop methods for determining the level and type of adoption by entities across the financial services sector. In 2020, GAO recommended that Treasury track the content and progress of sector wide cyber risk mitigation efforts and prioritize their completion according to sector goals and priorities in the sector-specific plan. Additionally, Treasury should update the financial services sector-specific plan to include specific metrics for measuring the progress of risk mitigation effects and information on the sector's ongoing and planned risk mitigation efforts.[16] However, as of April 2024, GAO reported Treasury needed to finalize steps to track the financial sector's risk mitigation efforts, and to prioritize the completion of efforts according to sector-wide goals and priorities. Treasury was planning to update the financial services sector-specific plan and was working on developing sector-specific cyber performance goals. Lastly, Treasury reported to GAO that it did not believe it would be beneficial to update the sector-specific plan until the Department of Homeland Security completes its updates to the national plan and provides guidance on sector-specific plans.[17] Additionally, Treasury reported in its response to our 2023 letter that it contributed to the development of the Cross Sector Cyber Performance Goals, with significant input from the financial sector and independent regulators. Treasury also noted that they were developing an effort focused on the benefits and challenges related to cybersecurity in the financial services sector, stemming from increased use of AI.

The Department reported in its response to last year's letter that it continues to focus on network defense efforts for its High Value Assets,[18] which includes an increased emphasis on risk/vulnerability assessments as well as accelerated compliance with logging, encryption, and multi-factor authentication requirements. They also reported continued advocation for financial sector entities to participate in the Cybersecurity and Infrastructure Security Agency's Cyber Hygiene Vulnerability Scanning to receive timely notifications of vulnerable internet-facing systems.

While addressing increases in cyber threats, Treasury will need to continue to balance cybersecurity demands while maintaining and modernizing Information Technology systems.

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

Over the past year, the Office of Terrorism and Financial Intelligence (TFI) has remained dedicated to countering the ability of financial networks that support terrorists, organized transnational crime, weapons of mass destruction proliferators, and other threats to international security through intelligence analysis, sanctions, and international private-sector cooperation. As previously reported, identifying, disrupting, and dismantling these networks continue to be challenging. Additionally, criminals and other bad actors evolve and continue to develop sophisticated money laundering methods in an attempt to avoid detection.

TFI's authorities are key tools in implementing U.S. policy to pressure foreign countries and regimes, such as Russia, by using a variety of targeted financial measures to include designations and economic sanctions. TFI has significantly increased sanctions against Russia related to its actions against Ukraine and its other malign activities. TFI's counter-terrorism designations disrupt the financial networks that support terrorist

[15] GAO, *Critical Infrastructure Protection: Additional Actions Are Essential for Assessing Cybersecurity Framework Adoption* (GAO-18-211; February 18, 2018)
[16] GAO, *Critical Infrastructure Protection: Treasury Needs to Improve Tracking of Financial Sector Cybersecurity Risk Mitigation Efforts* (GAO-20-631; September 17, 2020)
[17]GAO, *Priority Open Recommendations: Department of the Treasury* (GAO-24-107324; June 5, 2024)
[18] High Value Assets are assets, information systems, information, and data for which an unauthorized access, use, disclosure, disruption, modification, or destruction could cause a significant impact to the U S.' national security interests, foreign relations, economy, or to the public confidence, civil liberties, or public health and safety.

organizations. Other TFI tools, such as diplomatic and private sector engagement, regulatory oversight, and intelligence analysis, also play an important role. Disrupting terrorist financing depends on a whole-of-government approach and requires collaboration and coordination within Treasury, other federal agencies, the private sector, and international partners.

Collaboration and coordination are key to successfully identifying and disrupting illicit financial networks and meeting TFI's mission. This effort requires effective and efficient working relationships among components within TFI and the Intelligence Community. In an effort to effectively implement U.S. policy and disrupt these financial networks, officials stated that TFI is moving towards a more collaborative approach to achieve its mission. Given Treasury's critical mission and its role to carry out U.S. policy, we continue to consider anti-money laundering and combating terrorist financing programs and operations as inherently high-risk.

Data privacy, security, and information sharing are challenges for the Financial Crimes Enforcement Network (FinCEN), which has experienced unauthorized disclosures of *Bank Secrecy Act* (BSA) information.[19] FinCEN is required to maintain a highly secure database for financial institutions to report BSA information. FinCEN has previously identified that the success of that system depends on the financial sector's confidence that those reports are adequately protected, but unauthorized disclosures threaten to undermine that confidence. The challenge for FinCEN is to ensure the BSA information remains secure in order to maintain the confidence of the financial sector, while meeting the access needs of law enforcement, regulatory, and intelligence partners. FinCEN also faces an additional challenge to administer a secure database as required by the *Corporate Transparency Act.*[20] This Act requires certain businesses to submit information about their beneficial owners such as legal name, date of birth, and address. That information may be shared with governmental authorities and financial institutions. FinCEN implemented the database in January 2024 and will need to securely store tens of millions of reports containing beneficial ownership information.

The Office of Intelligence and Analysis, as a member of the Intelligence Community, is required to take steps to adopt AI to improve intelligence collection and analysis.[21] The office appointed a Chief Artificial Intelligence Officer responsible for overseeing and coordinating efforts relating to AI, including the integration of acquisition, technology, human capital, and financial management aspects necessary for the adoption of AI solutions. However, various barriers, such as a lack of Office of the Director of National Intelligence guidance and Treasury's Office of Intelligence Analysis resources, as well as necessary updates to the information technology infrastructure have negatively affected their ability to take further steps to adopt AI.

TFI and its components have a wide range of responsibilities in combatting terrorists, criminals, and bad actors, Thus, it is critical that TFI has the resources and tools needed to stay ahead of sophisticated terrorists' financial networks and criminal money laundering schemes.

Challenge 4: Crypto and Digital Assets (New)

[19] Public Law 91-508 (October 26, 1970)
[20] Public Law 116-283 (January 1, 2021)
[21] Public Law 117-263 (December 23, 2022)

Interest in, and use of, digital assets, including cryptocurrencies, and stablecoins has increased rapidly over the past decade. Multiple jurisdictions are progressing with central bank digital currency[22] research and pilots which may be based on distributed ledger technology (DLT). [23] Experimentation with DLT continues, with numerous projects at various stages of proof-of-concept development. As of September 2024, the crypto-asset market reached a combined market capitalization of over $2 trillion, up from approximately $14 billion in late 2016 but down from $3 trillion in November 2021.[24]

Decentralized finance (DeFi) platforms increased total value locked (TVL)[25] during 2024, commensurate with overall growth in crypto market capitalization.[26] In April 2023, Treasury published a risk assessment on DeFi in which Treasury explored how illicit actors are abusing DeFi services as well as the vulnerabilities unique to DeFi services.[27] Treasury made several recommendations in the report, including strengthening existing supervisory and enforcement functions to increase and harmonize compliance with regulatory requirements including those under the Bank Secrecy Act (BSA) such as the Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) program rule obligations.

While Treasury supports responsible innovation and the potential benefits of digital assets, the Financial Stability Oversight Council (FSOC)[28] reported that many crypto-asset firms may be acting outside of, or out of compliance with, applicable law(s) and may also lack sufficient risk governance and control frameworks. This increases the potential for fraud, illicit finance, sanctions evasion, operational failures, liquidity and maturity mismatches, and risk to investors and consumers, as well as contagion within the crypto-asset market.[29] Insufficient oversight or regulatory safeguards could create opportunities for illicit actors, such as cyber actors, ransomware cybercriminals, drug traffickers, and scammers who may be using digital assets and DeFi services to transfer and launder their illicit proceeds. The lack of consensus, standards, and practices among crypto industry participants regarding AML/CFT regulations as applied to digital assets or DeFi services exacerbate these issues.

Volatility in the crypto-asset market also poses risks to the traditional financial system. Financial institutions that partner with or provide traditional banking products and services to crypto-asset market participants may be impacted by this volatility. In 2023, in response to significant crypto-asset market volatility in 2022 (known as the “crypto winter”), the federal banking agencies, including the Office of the Comptroller of the Currency (OCC), issued two joint statements highlighting risks to banks involved with crypto-assets and crypto-asset participants. Shortly following the publication of these statements, in the Spring of 2023, residual risks adjacent to the 2022 “crypto winter” contributed to the failure of Silvergate, Silicon Valley, and Signature banks (e.g., liquidity and asset/liability risk management, concentration risk management).

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[22] A central bank digital currency or CBDC is generally defined as a digital liability of a central bank that is widely available to the general public. A central bank is a national bank that provides financial and banking services for its country's government and commercial banking system, as well as implementing the government's monetary policy and issuing currency.
[23] Distributed ledger technology is a decentralized record of ownership of digital assets.
[24] Cryptocurrency Prices, Charts, and Crypto Market Cap, accessed September 9, 2024.
[25] TVL is an industry reported metric that is the amount of user funds deposited or “locked” in a DeFi service. TVL is used as a measure to gauge the size of the DeFi market or the degree of adoption or acceptance by users.
[26] There is currently no generally accepted definition of DeFi, even among industry participants. There is also no consensus on what characteristics would make a product, service, arrangement or activity “decentralized.” The term broadly refers to virtual asset protocols and services that purport to allow for some form of automated peer-to-peer transactions.
[27] Treasury Report, *Illicit Finance Risk Assessment of Decentralized Finance* (April 2023)
[28] FSOC was established by the Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203). FSOC is charged with identifying risks to the nation’s financial stability, promoting market discipline, and responding to emerging threats to the stability of the U.S. financial system. It is a collaborative body chaired by the Secretary of the Treasury.
[29] FSOC 2023 Annual Report, page 42

Several Treasury offices, including the OCC's Office of Financial Technology continue to engage with digital asset industry stakeholders, including crypto-asset industry participants, and the agency's supervised institutions to understand developments and interest in the space, educate examiners and staff, and collaborate with other Treasury offices and federal agencies.
Taken together, the growth and continued interest in digital assets and DeFi services demands that the Department adopts a holistic approach to understanding the risks and opportunities these technologies present both within and outside the established financial system.

Other Matters of Concern

Although we are not reporting these as management and performance challenges, we are highlighting three areas of concern: (1) U.S. Mint gold acquisitions, (2) Bureau of Engraving and Printing's construction of a new facility, and (3) Treasury's role with Customs revenue functions.

U.S. Mint Gold Acquisitions

Despite purchasing over a half a billion dollars in gold annually, the U.S. Mint (Mint) has limited engagement with its gold bullion suppliers or approved gold refineries to reaffirm that responsible sourcing requirements are met and that a majority of gold coins produced are minted from newly mined U.S. gold in compliance with U.S. law. For a little over 20 years, the Mint has not requested or obtained documentation from gold refiners concerning the origin of the gold purchased. In a May 2024 report, we recommended that the Mint considers additional procedures to oversee refiners including, but not limited to, obtaining and periodically reviewing documentation from the Mint's approved refineries to ensure that refineries are sourcing gold responsibly in accordance with U.S. law and the best interests of the U.S. Government.[30] We also recommended that the Mint develops a plan that outlines the steps and controls the Mint will implement to comply with the law in the production of gold coins. Additionally, the Mint's Basic Ordering Agreements with suppliers and representations to the public on its website need to reflect a validated methodology to ensure its compliance with U.S law in its purchase of gold for its coin programs.

As the Mint vets the options for improving the gold purchasing process, we will monitor the implementation of these controls to ensure they are sufficient to comply with U.S. law in the production of gold coins.

BEP's Construction of a New Facility

The Bureau of Engraving and Printing (BEP) project to replace its Washington, DC facility with a new facility in Beltsville, Maryland, is currently estimated to cost $1.78 billion. The FY 2024 and FY 2025 budget estimates include $1.5 billion and $63.9 million, respectively, for the next phases of this project. The U.S. Army Corps of Engineers will award a construction contract for the replacement facility during first quarter FY 2025 with construction expected to begin in late FY 2025. Until the estimated completion of the facility in 2027, BEP will need to ensure effective project oversight for construction of the building and purchase of equipment and machinery; proper accounting procedures; and employment of a workforce to produce the new family of secure notes. Treasury OIG will coordinate with the Federal Reserve Board OIG and the Department of Defense OIG, as necessary, to monitor the funding for, and construction of, the new facility and conduct related audit work.

[30] OIG, Bill and Coin Manufacturing- The Mint Needs to Enhance Controls Over Gold Acquisitions (OIG-24-027; issued May 29, 2024)

Treasury's Role in Customs Revenue Functions

U.S. Customs and Border Protection is the second largest revenue collection agency in the United States. The Homeland Security Act of 2002 established the Department of Homeland Security (DHS) and dissolved the legacy United States Customs Service (Customs) in Treasury, transferring all its functions from Treasury to DHS, except Customs revenue functions, which were to be retained by Treasury. Treasury retained certain Customs revenue functions which include the approval of trade and duty related regulations and the authority to review, modify, or revoke any determination or ruling. Further, the Advisory Committee on Commercial Operations of the Customs Service is jointly appointed by the Secretary of the Treasury and the Secretary of DHS. In accordance with Treasury orders and directives, the Deputy Assistant Secretary for Tax, Trade and Tariff Policy has been delegated Customs revenue responsibilities; however, this position has been vacant for a little over 2 years. Treasury's Deputy Assistant Secretary for Tax Policy assumed Customs revenue responsibilities until his departure in February 2024. Treasury has not made any official delegations since the departure of the Deputy Assistant Secretary for Tax, Trade and Tariff Policy in 2022. This risks continuity of operations and assurance that Customs revenue responsibilities are being managed by the appropriate Treasury officials.

In an August 2024 memorandum, we recommended that Treasury's Acting Assistant Secretary for Tax Policy ensures that Treasury orders and directives are updated as necessary to accurately reflect the Treasury officials currently performing the Customs revenue functions. [31] This may include appointing an official to serve as the Deputy Assistant Secretary for Tax, Trade and Tariff Policy or issuing a revised Treasury Directive. Treasury officials have been working with colleagues at DHS to finalize an order that will delegate to the Secretary of Homeland Security authority related to Customs revenue functions not already delegated. Treasury officials are also working on revising delegations within Treasury to ensure that responsibility for the Customs revenue functions that will remain with Treasury is clearly delineated. We will continue to monitor Treasury operations to ensure the proper delegations are put in place and Customs revenue responsibilities are being fulfilled by designated Treasury officials. It is important that Customs revenue be protected and supported with responsible legislation and rulings.

[31] OIG, U.S. Treasury's Role with the Customs Revenue Function – Trade Facilitation and Trade Enforcement Act of 2015, Section 112 (OIG-CA-24-025; issued August 28, 2024)

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

OIG Challenge 1 – Ongoing Management of COVID-19 Pandemic Relief Programs (Reframed from Previous Challenge, COVID-19 Pandemic Relief): *While the national emergency declaration for the COVID-19 pandemic ended in May 2023, Treasury's responsibilities and workloads remain vastly expanded. Treasury needs to ensure these programs meet the economic needs and fiscal requirements of their respective constituencies responsibly. Specifically, Treasury is responsible for certain economic relief provisions in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the Consolidated Appropriations Act, 2021 (CAA, 2021), the American Rescue Plan Act of 2021, and the Consolidated Appropriations Act, 2023 (CAA, 2023). Treasury needs to ensure that the challenges and events related to resource limitations do not jeopardize the integrity of the operational effectiveness and efficiency, and compliance with regulations and guidance, for hundreds of billions of dollars of pandemic programs under Treasury's purview. Treasury must ensure that the pandemic funds entrusted to it were, and are, being used prudently and properly.*

Management's Response: We are committed to the responsible stewardship of taxpayer funds and made significant and meaningful progress to address the issues the OIG raised with respect to the ongoing management of our pandemic programs. We will continue to prioritize this work while keeping the OIG updated on our progress, as follows:

- Continue the increased pace of issuing Management Decision Letters (MDLs) in response to Single Audit submissions. In 2024, we completed the review of single audits for all States covering the years 2020-22. Management decision letters (MDLs were issued or were determined to not be required for over half the states. These single audits covered $73 billion in State and Local Fiscal Recovery Funds, contained 64 findings, and included over $54 million in questioned costs. While we acknowledge that we are not yet on track to successfully issue MDLs within six months of submission, we established a prioritization order to address the backlog and are committing significant resources for FY 2025 to increase the pace of issuance even further;

- Provide the OIG with additional Emergency Rental Assistance 1 closeout data for the remaining ten percent of recipients as they complete closeout;

- Continue to hold monthly internal meetings to discuss open audit recommendations for these COVID-19 programs, including those focused on improper payments. We made it a priority to close, in the coming months, multiple open audit recommendations. Every open recommendation has an assigned manager who is held accountable for closing the recommendation. We recently closed eight open OIG recommendations relating to Payroll Support Program (PSP) improper payments; and

- Conduct a payment recapture audit of the PSP in FY 2025. We met with the OIG to discuss lessons learned from the OIG's audits of PSP recipients. These efforts will build on our prior PSP recertification effort in response to the OIG findings that resulted in the recapture of over $147 million in improper payments.

OIG Challenge 2 - Cyber Threats (Repeat): *Cybersecurity remains a long-standing and serious challenge facing the Nation and was reported by GAO as a government-wide issue in its 2023 high-risk list published biennially. A reliable critical infrastructure, including information systems and networks, is vital to our national security and economic stability. Cyber threats remain a persistent concern as Treasury's information systems are critical to the core functions of government and the Nation's financial infrastructure, along with the financial sector it oversees. As cyber threats continue to evolve and become more sophisticated, subtle, and easier to carry out, Treasury must fortify and safeguard its internal systems and operations while modernizing and maintaining them. Although managing known risks is an ongoing challenge, Treasury must also be ready to reinforce and/or redirect cybersecurity efforts when unforeseen events occur, or when serious flaws are discovered in software or* *systems that increase potential risk of information compromise. There is continuing concern over foreign adversaries creating and exploiting vulnerabilities in the Nation's supply chain for information and communication technology and services. In addition to Treasury's own networks and systems, management must be cognizant of, and mitigate, the risks posed by attacks made against other federal and non-federal agencies and Treasury contractors and subcontractors where interconnections with Treasury's networks and systems exist. While addressing increases in cyber threats, Treasury will need to continue to balance cybersecurity demands while maintaining and modernizing Information Technology systems.*

Management Response: We made demonstrable progress in FY 2024 in cybersecurity risk management for both compliance and operations, while managing a turbulent risk landscape. While the breadth and depth of our mission has always made us a high value target, as our mission has grown, both domestically and internationally, so too has the volume, sophistication, and persistence of threat actors attempting to disrupt our mission. This year, we achieved critical milestones in advancing compliance with Executive Order 14028, *Improving the Nation's Cybersecurity*, and related memoranda. These include (but are not limited to):

- deployed Endpoint Detection and Response (EDR) software for 95 percent of our endpoints, such as workstations and servers, which provides for real time detection and response to actualized threats;
- achieved Enterprise Logging Maturity Level 1 (EL1), resulting in the Treasury Security Operations Center having access to foundational logs for Treasury-wide threat detection and incident response;
- completed collection of secure software attestations for producers of our most critical software, except for producers that declined to provide attestations or asked for extensions on reasonable grounds; these attestations have been stored in the CISA Repository for Software Attestations and Artifacts where they are centrally managed; and
- encrypted data at-rest for nearly all High Value Assets (HVA) and all data in-transit for Department-wide network traffic and achieved EL3 for 95 percent of our HVAs.

We also made significant advancements in other areas of cybersecurity operations, such as cloud adoption and zero trust architecture. Some of these advancements include:

- awarded a Treasury-wide enterprise cloud services contract, which introduces cost saving opportunities and allows us to better manage by limiting services to a common set of providers;
- successfully transitioned our network (data, voice, and video) to GSA's Enterprise Infrastructure Solutions contract, which reduces our attack surface and supply chain risk;
- drafted required contract language to help ensure our critical suppliers adhere to sound security practices while keeping us apprised of any incidents impacting their ability to conduct business and incidents that undermine the security of their institutions or products;
- expanded our enterprise-wide authentication platform (CAIA) as part of our Zero Trust implementation and phishing-resistant multi-factor authentication;
- migrated our bureaus to a single system for Governance Risk and Compliance, which allows us to optimize our risk management efforts around a common set of controls and a common set of practices, undergirded by well-defined workflows to make work more consistent and repeatable; and

- improved the resilience of Treasury HVAs by increasing overall implementation of specific security controls from 73 percent to 87 percent.

We will continue to build upon these successes to improve cybersecurity compliance further, take action to reduce our attack surface, and implement additional enterprise-wide controls and visibility to identify and mitigate risk. For example, we began work on the following initiatives or plan to start work on these initiatives in the coming year, subject to resource availability and changes in the threat landscape:

- consolidate component Security Operations Centers into a Department-wide instance, which provides opportunities for economies of scale but more importantly allows us to identify and apply protective and detective controls in a unified and consistent fashion, and will drive down the time required to detect, respond to, and recover from cybersecurity incidents;

- implement a new approach to remove access services which allows us to better control access to our sensitive data;

- continue to drive adoption of our enterprise Zero Trust remote access solution, Zscaler which allows us to more granularly control authentication and authorization to access our information systems and information assets;

- migrate Departmental Offices mobile device management to Microsoft Intune and integrate with Derived Personal Identity Verification for secure, mobile access to Departmental information systems and migrate our virtual desktop infrastructure to a service in our FISMA High Cloud ("Azure Virtual Desktop");

- begin the transition of our classified information system, Treasury Secret Data Network to the cloud allowing us to reduce reliance on a datacenter-centric delivery model that requires intensive infrastructure management;

- overhaul our cyber compliance program, allowing us to streamline activities, reduce the paperwork burden, and centrally manage Department-wide risk;

- award additional enterprise-wide contracts to provide consistent and efficient cybersecurity services support across the Department;

- continue to mature and expand our logging and telemetry capabilities across the Department, further enabling real-time access to security information that we can use to detect and respond to cybersecurity threats;

- continue the migration of component web properties to our enterprise hosting platform, which has integrated protective and detective security controls that allow for centralized risk management and rapid incident response;

- provide redundancy in Credential Service Providers with further adoption of Login.gov services for systems that require users to prove their identities before authentication, helping to defend against fraud; and

- add new cloud providers on the Treasury Cloud and enhance and further define Service Level Agreements, clearly laying out expectations for communications, coordination, and response to the broad spectrum of security events from anomalies to major breaches.

OIG Challenge 3 - Anti-Money Laundering/Terrorist Financing and Bank Secrecy Act Enforcement (Repeat): *Over the past year, the Office of Terrorism and Financial Intelligence (TFI) has remained dedicated to countering the ability of financial* *networks that support terrorists, organized transnational crime, weapons of mass destruction proliferators, and other threats to international security through intelligence analysis, sanctions, and international private-sector cooperation. As criminals and other bad actors evolve and continue to develop sophisticated money laundering methods to avoid detection, identifying, disrupting, and dismantling these networks that support rogue regimes, terrorist organizations, transnational criminal organizations, and other threats to the national security of the United States and our allies continues to be challenging. In addition, the Financial Crimes Enforcement Network (FinCEN) faces the challenge of ensuring Bank Secrecy Act (BSA) information remains secure to maintain the confidence of the financial sector, while meeting the access needs of law enforcement, regulatory, and intelligence partners. Furthermore, the Office of Intelligence and Analysis, as a member of the Intelligence Community, is required to take steps to adopt Artificial Intelligence (AI) to improve intelligence collection and analysis. However, various barriers, such as the lack of guidance and resources, as well as necessary updates to the information technology infrastructure have negatively affected its ability to take further steps to adopt AI.*

Management Response: TFI and FinCEN have made significant progress on several anti-money laundering and countering the financing of terrorism (AML/CFT) initiatives that target bad actors while also protecting the financial sector from abuse in a constantly evolving risk landscape. This includes our important work focused on BSA enforcement. These efforts include:

- Providing the public and private sectors with critical information on the complex illicit finance risk environment necessary for detecting and disrupting this activity, including:
    - Issuing the *National Illicit Finance Strategy* addressing overall threats to the U.S. financial system, including but not limited to, AML/CFT, fraud, and ransomware attacks. The strategy's recommendations include closing legal gaps in the AML/CFT framework and improving the operational effectiveness of law enforcement.
    - Releasing key risk assessments including the *National Money Laundering Risk Assessment*, *National Terrorist Financing Risk Assessment*, and *National Proliferation Financing Risk Assessment*. These reports highlight the most significant risks to the financial sector while also addressing how large-scale threats to global peace and security have affected the risk landscape.
- Implementing the Corporate Transparency Act of 2020 (CTA), which is designed to provide law enforcement and other authorized stakeholders with beneficial ownership information (BOI) for the purpose of detecting, preventing, and punishing terrorism, money laundering, and other misconduct through business entities. We are committed to ensuring that reporting entities are aware of their obligations and understand what BOI they need to report and when, so that the Beneficial Ownership IT System continues to become a database that is highly useful to national security, intelligence, and law enforcement agencies and federal functional regulators as required by the CTA Section 6402(8)(C). Critical workstreams include:
    - A robust nationwide outreach and education campaign we launched in 2023 before reporting began on January 1, 2024. This multimedia campaign—which includes in-person meetings and trade shows; television, radio, and newspaper ads; as well as social media outreach and webinars is directed to both businesses that are required to report as well as organizations that support these businesses, such as the Secretaries of State offices, tax professionals, and the Small Business Administration.
    - Finalizing a regulation in December 2023 identifying who can access BOI and how they can use it. This regulation outlines the stringent security and confidentiality requirements applicable to each category of authorized stakeholder. We will provide authorized stakeholders access to the Beneficial Ownership IT System only after they fulfill these requirements. FinCEN continues to collect BOI and provide access to

the Beneficial Ownership IT system on a phased access plan. Currently, FinCEN offers access to BOI to all agencies and our components that also have access to other BSA information; and in the year to come we will extend this access to other specific stakeholders, including financial institutions, as authorized by, and consistent with the purposes laid out in, the CTA.

- Continuing work with international partners on AML/CFT efforts through the Financial Action Task Force (FATF), the international standard-setting body for AML/CFT. FY 2024 efforts include:
  - new risk-based guidance for the beneficial ownership and transparency of legal arrangements (Recommendation 25);
  - potential changes to current recommendations on wire transfers;
  - approving new guidance to strengthen implementation requirements for trusts; and
  - monitoring implementation of the FATF Standards relating to virtual asset service providers.

OIG Challenge 4 – Crypto and Digital Assets (New): *Interest in, and use of, digital assets, including cryptocurrencies and stablecoins has increased rapidly over the past decade. Multiple jurisdictions are progressing with central bank digital currency research and pilots which may be based on distributed ledger technology (DLT). Experimentation with DLT continues, with numerous projects at various stages of proof-of-concept development. As of September 2024, the crypto asset market reached a combined market capitalization of over $2 trillion, up from approximately $14 billion in late 2016 but down from $3 trillion in November 2021. Taken together, the growth and continued interest in digital assets and decentralized finance (DeFi) services demands that the Department adopt a holistic approach to understanding the risks and opportunities these technologies present both within and outside the established financial system.*

Management Response: The Office of the Comptroller of the Currency's (OCC) *FY 2024 Bank Supervision Operating Plan* ("the Plan") states that in addition to baseline activities, OCC risk-based supervision would focus on certain specified areas. These include assessment risk management processes for any distributed ledger technology-related activities, products, and services; including crypto asset custody, tokenization of real-world assets and liabilities, payments, and other uses to support business operations. The Plan also outlines the supervision priorities and aligns with the Strategic Plan for FY 2023–FY 2027 and the National Risk Committee's priorities. It is intended to facilitate the implementation of supervisory strategies for individual national banks, federal savings associations, and federal branches and agencies of foreign banking organizations, as well as third-party service providers subject to OCC examination.

Consistent with its priorities, in February 2024, the OCC held a Tokenization Symposium which convened thought leaders in government, academia, and private industry to examine the benefits and risks associated with tokenizing real-world assets and liabilities. The event sought to promote public discussion regarding the potential for asset and liability tokenization to improve efficiency and robustness of, for example, financial settlements, with a particular focus on the foundations needed to ensure safe, sound, and fair innovation in this emerging application of digital asset technology.

In FY 2024, the OCC concluded an internal project begun in FY 2023 to provide examiners and other employees with a resource of baseline knowledge regarding issues associated with crypto assets through the lens of banking activities such as custody, payments, AML/BSA compliance, and credit. These sessions are available for examiners who wish to review the material. The OCC's FY25 *Bank Supervision Operating Plan* explains that, in addition to baseline activities, the OCC will apply risk-based supervision principles with a focus on specified areas, including the examiner's identification of banks that are undertaking or implementing new or significant changes to activities, products, and services, and the assessment of the suitability of governance processes and internal controls, including new or significant changes to the use of distributed ledger technology. Specific risks to review may include financial, operational, compliance, strategic, and reputational risks, among others.

The OCC continues to implement Interpretive Letter No. 1179 (Nov. 2021), which establishes a process for supervised entities to engage in certain crypto asset, digital ledger, and stablecoin activities that may be permitted under Interpretive Letters No. 1170, 1172, and 1174 (July 2020, Sept. 2020, and Jan. 2021, respectively) and to monitor these digital asset-related activities through supervisory processes. These entities currently do not have crypto assets on their balance sheets. Regarding tokenization-related activities, the OCC enhanced the scope and frequency of internal monitoring of tokenization activities of supervised institutions, and also collaborates with other relevant domestic and international authorities on issues arising from activities involving digital assets.

Matters of Concern

OIG Concern 1: U.S. Mint Gold Acquisitions: *Despite purchasing over a half a billion dollars in gold annually, the U.S. Mint (Mint) has limited engagement with its gold bullion suppliers or approved gold refineries to reaffirm that responsible sourcing requirements are met and that a majority of gold coins produced are minted from newly mined U.S. gold in compliance with U.S. law. For a little over 20 years, the Mint has not requested or obtained documentation from gold refiners concerning the origin of the gold purchased. The OIG recommends that the Mint consider additional procedures to oversee refiners including, but not limited to, obtaining and periodically reviewing documentation from the Mint's approved refineries to ensure that refineries are sourcing gold responsibly in accordance with U.S. law and the best interests of the U.S. Government. The OIG also recommends that the Mint develop a plan that outlines the steps and controls the Mint will implement to comply with U.S. law in the production of gold coins.*

Management Response: To better understand where gold is currently mined and refined, the Mint contacted the United States Geological Survey which indicated that it conducts voluntary surveys to identify the amount of material mined in the U.S. and where the material is sent for refining. We also reviewed all orders received for the past five years to determine the specific hallmarks. We then reviewed any audit information available via the London Bullion Market Association and contacted each of the refiners to determine how much "newly-mined U.S. gold" they received over the past several years. Most of the refiners do not have direct contracts with the Mint. The responsive refiners provided us with the quantities of U.S. newly mined gold acquired during the past several years.

In keeping with the need to ensure material purchased from our Basic Ordering Agreements (BOA) is U.S. newly mined gold, we must also be cognizant of the prices paid for the materials. To determine if average world prices could still be attained, we contacted the top six BOA holders, by volume, to determine if clearly identifying the available hallmarks at the time of offer would be feasible and result in increased premiums.

We are currently vetting the following options for improving the gold purchasing process:

- requesting a legislative change that would redefine the required sources of gold raw material to be more aligned with the language we use for other precious metal material;
- requiring all BOA holders to clearly identify the hallmark they supply with each offer; and
- engaging refiners to setup dedicated U.S. newly mined gold lines.

OIG Concern 2: BEP's Construction of a New Facility: *The Bureau of Engraving and Printing (BEP) project to replace its Washington, DC facility with a new facility in Beltsville, Maryland, is currently estimated to cost $1.78 billion. The FY 2024 and FY 2025 budget estimates include $1.5 billion and $63.9 million, respectively, for the next phases of this project. Until the estimated completion of the facility in 2027, BEP will need to ensure effective project oversight for construction of the building and purchase of equipment and machinery; proper accounting procedures; and employment of a workforce to produce the new family of secure notes.*

Management Response: The BEP continues to manage this effort via formal project governance and a change management structure with key stakeholders; the Federal Reserve Board, Treasury, and the U.S. Army Corps of Engineers (USACE). We also effectively partnered with the USACE to perform multiple third-party cost, schedule, and risk assessments to validate the project budget, contingency amounts, schedule, and known risks. During FY 2025, we anticipate receiving formal governance approval to award the construction contract and begin on-site construction activities.

OIG Concern 3: Treasury's Role in Customs Revenue Functions: U.S. Customs and Border Protection is the second largest revenue collection agency in the United States. Treasury maintains the Customs revenue functions, since the Department of Homeland Security (DHS) was established and the legacy United States Customs Service and all its functions were dissolved. In accordance with Treasury orders and directives, the Deputy Assistant Secretary for Tax, Trade and Tariff Policy has been delegated customs revenue responsibilities; however, this position has been vacant for a little over two years. Treasury has not made any official delegations since the departure of the Deputy Assistant Secretary for Tax, Trade and Tariff Policy in 2022. This risks continuity of operations and assurance that customs revenue responsibilities are being managed by the appropriate Treasury officials.

Management Response: In connection with the OIG's August 2024 report on our role in the customs revenue functions, we acknowledged the OIG's recommendation to update orders and directives "as necessary to accurately reflect the Treasury officials currently performing customs revenue functions." Since then, in October 2024, the Secretary signed a new order delegating to the Secretary of Homeland Security authority related to customs revenue functions not already delegated by Treasury Order 100-16. This new order addresses the concern regarding continuity of operations and ensures customs revenue responsibilities are managed by the appropriate Treasury officials.

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION MANAGEMENT CHALLENGES

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C.

October 15, 2024

MEMORANDUM FOR SECRETARY YELLEN

FROM: Heather M. Hill *Heather Hill*
Acting Inspector General

SUBJECT: Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2025

The Reports Consolidation Act of 2000 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, we evaluate IRS programs, operations, and management functions to identify the most vulnerable areas in the Nation's tax system. The Inflation Reduction Act of 2022 (IRA) significantly impacted the IRS by providing the opportunity and funding to transform all aspects of its operations over the next decade.

The IRS issued a long-term Strategic Operating Plan (SOP) in April 2023 that outlines its vision for the future of tax administration. The first update to the SOP was issued in May 2024 and described the IRS's accomplishments in the past year. Additionally, it included a document that summarized the current work underway and outlined the IRS's plans to make fundamental changes using IRA funding.

However, achieving all the objectives reflected in the SOP will be the main challenge facing the IRS in the future, especially given recent funding cuts. These transformation efforts are a significant undertaking, which impact all other management challenges discussed in this memorandum.

For Fiscal Year (FY) 2025, we have identified the IRS's top management and performance challenges as:

- Managing IRA Transformation Efforts;
- Protection of Taxpayer Data and IRS Resources;
- Tax Law Changes;
- Taxpayer Service;
- Human Capital;
- Information Technology Modernization;
- Tax Compliance and Enforcement;
- Tax Fraud and Improper Payments; and
- Taxpayer Rights.

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

MANAGING IRA TRANSFORMATION EFFORTS

What's the challenge?

The IRS has historically struggled to fulfill long-term plans to transform the organization. IRA originally authorized $79.4 billion in supplemental funding for the IRS through September 2031 to help transform tax administration by improving taxpayer service, updating computer systems, and increasing compliance and enforcement actions against high-income taxpayers and large corporations. Congress subsequently rescinded $21.6 billion, leaving $57.8 billion in IRA funding remaining. If funding cuts continue, the IRS will have to make difficult decisions on what to prioritize to improve its operations and how to serve taxpayers.

What progress has the IRS made?

The IRS was required to develop a SOP detailing how IRA resources will be spent over the next decade. The SOP has five objectives that will be accomplished through a series of initiatives and projects.

In May 2024, the IRS published a supplement with additional details in three areas: 1) vision for a transformed IRS, 2) priorities for FYs 2024 and 2025, and 3) budget and staffing. The supplement provides information on the projects and outcomes the IRS expects to deliver over the next 12 to 18 months, including progress on digitalization, efforts to implement an IRS-run free electronic filing tax return system called Direct File, enforcement activities, and efforts to modernize information technology and improve employee tools.

As of June 2024, the IRS spent nearly $7 billion (12 percent) of its IRA funding. IRS officials indicated that $2 billion of the spent funds covered annual appropriation shortfalls for pay raises, inflationary increases in existing contracts, and other current services. The IRS Commissioner indicated that with no anticipated increase in annual appropriations for FY 2025 to account for inflation, the IRS will once again need to use IRA resources for normal operating expenses. As a result, the IRS will likely use all IRA funds before 2031.

What key recommendations have the IRS implemented?

- As a result of our review of IRS efforts to scan paper-based tax returns into a digital format, the IRS evaluated potential benefits, challenges, and costs to do so.
- As a result of our findings that the IRS was not capturing the total cost of the Direct File pilot, the IRS ensured that the salaries and benefits of IRS employees who were participating in the Direct File Task Force were expensed against the $15 million IRA allocation.[1]

What ongoing work does TIGTA have to address the challenge?

We planned 38 reviews to address this challenge.

Our IRA Oversight Plan outlines how we will review the IRS's IRA implementation. We continue to provide a quarterly and cumulative snapshot of IRA spending. Additionally, we will assess the IRS's efforts to monitor and measure milestones for operational initiatives and related projects outlined in the SOP, and the impact on transformation efforts should delays occur.

Because modernizing IRS information technology underpins all service and enforcement improvements, we plan to provide an overview of the IRS's use of IRA funding for business systems modernization projects from Fiscal Year 2022 through Fiscal Year 2024. Additionally, we will continue to evaluate the IRS's progress to digitize paper-filed tax returns. We will continue to evaluate the Direct File tool.

We also initiated reviews to assess the management oversight of certain IRA contracts, such as those pertaining to information technology. This work will help ensure that IRA contract stakeholders comply with all regulations, policies, and procedures and that information technology projects are not delayed.

PROTECTION OF TAXPAYER DATA AND IRS RESOURCES

What's the challenge?

The IRS accumulates vast amounts of data as it annually processes hundreds of millions of tax returns and other forms. Much of this data is sensitive and stored in different computer systems available to IRS employees and contractors.

Without effective security controls, computer systems are vulnerable to human error or actions committed with malicious intent. For example, the IRS identifies and mitigates more than 1.4 billion cyberattacks annually. TIGTA investigates potentially illicit activity against IRS computer systems, such as individuals using IRS online portals to carry out fraudulent schemes.

[1] Throughout this document, we include recommendations the IRS reported implementing. We have not confirmed their implementation.

In addition, preventing unauthorized access to and disclosure of sensitive taxpayer information continues to be a challenge for the IRS. Our Office of Investigations has conducted an average of 175 of these investigations per year. One involved a former IRS contractor, Charles Littlejohn, who was sentenced to five years in prison in January 2024 for disclosing thousands of tax returns without authorization. Littlejohn accessed and stole tax returns and return information for a high-ranking government official and related entities and individuals and disclosed this information to a news organization. Littlejohn separately stole tax returns and return information associated with thousands of the nation's wealthiest individuals and disclosed this information to a second news organization.

In July 2023, we identified that nearly 92,000 IRS employees and contractors were authorized to access one or more of the 276 computer systems that contain sensitive data. We found 279 users still had access to at least one sensitive system despite no longer being employed by the agency. However, network access was removed for each of these individuals, which reduces the risk that a user can access a sensitive system. We also found that 19 contractors retained access to one or more sensitive systems despite having an unfavorable background investigation.

What progress has the IRS made?

Audit logs are files containing data that show a chronological record of system activities and are invaluable in the detection, investigation, and remediation of cyber threats. These logs provide both TIGTA and the IRS information necessary to detect unauthorized access to IRS systems and data to reconstruct events for potential criminal investigations. The IRS is implementing a tool that will enable it to organize its information technology to identify where the IRS does or does not meet audit log requirements, apply those requirements, and track its progress.

What key recommendations have the IRS implemented?

- Ensured access to sensitive systems was immediately suspended or disabled when contractors were identified as having an unfavorable background determination.
- Developed and implemented a plan to ensure that audit log data is collected from all systems that contain sensitive information, as required.

What ongoing work does TIGTA have to address the challenge?

We planned 19 reviews to address this challenge.

We plan to assess the IRS's processes and procedures it used to alert individual and business taxpayers of the unauthorized disclosures by IRS contractor Charles Littlejohn. We also plan to inspect how taxpayer data is protected at Volunteer Income Tax Assistance sites. We will determine if cloud-computing security controls prevent the loss of sensitive data and assess the IRS's efforts to provide effective governance, management, and oversight of forthcoming artificial intelligence.

TAX LAW CHANGES

What's the challenge?

Annually implementing new tax law changes – especially those enacted shortly before taxpayers begin filing returns – complicates the IRS's processing of tax returns. Tax law changes require the IRS to update computer programming, often in a short timeframe. For example, we reported on the IRS's efforts to implement employer tax credits, such as the Employee Retention Credit (ERC) included in pandemic relief legislation. We found that the IRS did not have enough time to make computer programming changes to identify potentially erroneous or fraudulent claims because the tax return filing season was already underway when the legislation was enacted. In fact, the IRS did not begin processing ERC claims until 12 months after the credit was enacted, due to a lack of updated programming and procedural guidance. As a result, a backlog of ERC claims developed. As of April 2024, the IRS reported 1.4 million ERC claims waiting to be worked.

Changes to tax laws also require the IRS quickly create tax forms, instructions, or new processes. For example, the American Rescue Plan Act gave taxpayers the ability to receive some of their estimated Tax Year 2021 Child Tax Credit in advance. The IRS estimated the advance payments based on prior year tax return information and other information but in some cases, taxpayers did not get the full amount of the credit for which they were eligible.

The IRS also must communicate and provide guidance to taxpayers and tax professionals about tax law changes. For example, the IRA contains 36 tax provisions that affect individual and business taxpayers. One of these provisions is the Corporate Alternative Minimum Tax, which is a new tax on financial statement income. Given the complexities of this tax law, we found that 118 IRS employees spent more than 21,000 hours on notice publication and taxpayer guidance.

What progress has the IRS made?

The IRS took several actions to implement IRA tax provisions that affected Processing Year 2023. These actions included creating or revising 71 tax products, creating or modifying 78 electronic filing business rules, and developing a communication and outreach plan to educate and inform taxpayers and tax professionals about tax law changes.

The IRS has also made some progress administering the ERC. Because these claims are filed on paper, the IRS developed a process to capture key data to analyze the backlogged inventory. IRS employees manually transcribed data from each ERC claim while the IRS worked on a more efficient and accurate technology solution that allowed for systemic transcription of key data elements. The captured data were analyzed by the IRS's Research, Applied Analytics, and Statistics function to evaluate the potential risk of questionable, invalid, potentially ineligible, or overstated claims. Beginning in February 2024, the IRS exclusively used its technology solution to transcribe ERC claims.

The IRS also updated identity theft filters and identified more than 155,000 tax returns claiming potentially erroneous ERC, preventing $487 million in refunds from being issued during Processing Years 2021 through 2023.

What key recommendations have the IRS implemented?

- During our review of the Advanced Child Tax Credit, we found some taxpayers were eligible but did not receive the credit. In response, the IRS reviewed these cases and took appropriate actions to ensure taxpayers received the correct amount.
- Updated the programming for three business rules used to verify the accuracy of calculations of qualified small business payroll tax credits for the 2024 Filing Season.

What ongoing work does TIGTA have to address the challenge?

We planned 10 reviews to address this challenge.

We are evaluating whether the IRS timely and accurately processed individual paper and electronically filed tax returns during the 2024 Filing Season. We are also conducting reviews of clean vehicle credits, the IRA transferability and elective payment provisions, and the Social Security tax deferral passed as part of pandemic relief legislation.

TAXPAYER SERVICE

What's the challenge?

Every year, millions of taxpayers seek assistance from the IRS via its telephone helplines, Taxpayer Assistance Centers (TAC), IRS.gov, social media platforms, and volunteer tax return preparation sites. As of March 2024, taxpayers made more than 18 million attempts to contact the IRS by calling the various customer service toll-free telephone assistance lines. Additionally, the IRS anticipated assisting about 2 million taxpayers at its TACs in FY 2024.

The IRS acknowledged that it has been unable to meet all demands for taxpayer services. By using IRA funds, the IRS plans to reshape the taxpayer experience, making it easier and more convenient. This includes taxpayers having convenient access to their data and finding it easier to interact with the IRS via electronic filing, expanded online accounts, telephone, in-person, and chat assistance. However, IRA funding for taxpayer services is expected to run out by FY 2026, which could negatively impact any improvements made.

The IRS also surveys taxpayers to identify what it is doing well and areas for improvement to deliver quality service to taxpayers. However, certain IRS functions are generally not using the results of customer satisfaction surveys to make improvements.

What progress has the IRS made?

As of December 2023, the IRS spent nearly $1 billion to hire additional customer service representatives to answer telephone calls and to staff TACs. According to the IRS, this enabled the agency to meet the Secretary of the Treasury's expectations for the 2023 Filing Season by reducing the average wait time to answer a taxpayer's call from 30 minutes to approximately
3 minutes.

With additional staff, the IRS again offered Saturday service at select TACs and expanded hours on certain weekdays at many TAC locations to assist more taxpayers during the 2024 Filing Season.

The IRS improved taxpayer service to underserved, underrepresented, and rural communities. In June 2023, the IRS began offering Community Assistance Visits to aid underserved taxpayers in need of in-person assistance. The IRS partnered with local media outlets to advertise the locations, dates, and the types of services to be offered. During Calendar Year 2023, the IRS offered this service in nine locations.

What key recommendations have the IRS implemented?

- Updated the "IRS Face-to-Face Saturday Help" webpage to improve visibility of events in search results on IRS.gov and external search engines.
- Established processes to continually evaluate the resources available and/or needed to provide quality customer service on all toll-free telephone lines and reduce the number of available lines as needed.

What ongoing work does TIGTA have to address the challenge?

We are assessing the accuracy of service and taxpayers' experience during the extended weekday and Saturday hours offered by TACs. Additionally, we are evaluating whether the IRS's toll-free telephone lines are operational, and whether taxpayers can get simple, fast, accessible, and courteous customer service.

We planned 33 reviews to address this challenge.

We will also assess the effectiveness and efficiency of self-assistance kiosks located at the TACs and the availability and accessibility of customer service options for taxpayers living abroad.

HUMAN CAPITAL

What's the challenge?

The IRS aims to attract, retain, and empower a highly skilled, diverse workforce to deliver results to taxpayers. This includes delivering growth and learning opportunities by developing attractive career pathways for all employees, integrating training and skill-building, and better equipping managers to lead high-performing teams.

The IRA transformation plan allocated $8.2 billion to address workforce needs. These funds will be invested in hiring in tax enforcement, taxpayer service, and information technology.

However, hiring has been difficult. The IRS was granted multiple authorities to expedite hiring and fill job vacancies when a critical hiring need or a severe shortage of candidates exists. However, we found that hiring has been delayed because of workload constraints, miscommunication, security checks exceeding their targeted completion time, and limitations in the IRS's hiring management system. We have also reported that the IRS has an average three-year attrition rate of 8.5 percent which is higher than the average for federal agencies.

What progress has the IRS made?

As of June 2024, the IRS reported that the largest portion of IRA expenditures was for employee compensation totaling approximately $2.8 billion and contractor advisory and assistance services totaling approximately $2.6 billion. Most of the labor costs (approximately $1.3 billion) were to hire more customer service representatives to answer telephone calls and employees to staff the TACs.

The IRS anticipates having 89,727 full-time equivalents in FY 2025, which increases to 102,500 by FY 2029.[2] The planned increase in staffing will be funded from the IRS's annual appropriation and the IRA supplemental funding.

What key recommendations have the IRS implemented?

- Improved communication across business units to share information relative to hiring needs.
- The IRS formalized a new approach to incorporate future workforce needs with human resources strategies, including the identification of mission-critical positions on a recurring basis and the use of special payment incentives to recruit and retain highly skilled non-IT organization employees.

What ongoing work does TIGTA have to address the challenge?

We planned 6 reviews to address this challenge.

We are reviewing the IRS's efforts to implement efficient hiring processes that will fill critical program vacancies. Additionally, we are assessing the IRS's implementation of the IRS University as its primary training resource. We also plan to review the IRS's efforts to attract a talented and diverse workforce and review the IRS's efforts to improve the onboarding process.

INFORMATION TECHNOLOGY MODERNIZATION

What's the challenge?

The modernization of IRS information technology and business systems is essential to fulfilling its mission of providing America's taxpayers with top quality service, helping them understand and meet their tax responsibilities, and enforcing the law with integrity and fairness. However, the IRS continues to maintain some of the oldest information technology systems in the federal government.

IRA allocated $4.8 billion to Business Systems Modernization, and as of June 2024, the IRS has spent $1.6 billion. One of the five objectives in the SOP is to deliver cutting-edge technology, data, and analytics to

[2] A full-time equivalent is a measure of labor hours in which one full-time equivalent is equal to eight hours multiplied by the number of days in a particular fiscal year.

operate more effectively. The SOP outlined 13 related milestones but we found that only seven (54 percent) were completed during FY 2023.

A significant portion of the modernization process involves addressing new and additional security requirements, which add costs and complexity to new systems. Historically, the IRS has had challenges implementing effective security and audit logs when implementing new technologies. Incomplete or ineffective security requirements can create vulnerabilities and make detection of attacks and exploitations more difficult to identify.

Federal agencies can use shared services to address their modernization needs. For example, agencies are required to expand the use of shared services to enable broader use and adoption of cloud computing. Cloud computing is the delivery of computing services – including servers, storage, databases, networking, software, analytics, and intelligence – over the Internet to offer faster innovation, flexible resources, and economies of scale. When an application hosted in the cloud has unidentified internal control deficiencies or unmonitored security weaknesses, it can potentially lead to the disclosure of sensitive data.

We found that the IRS was not maintaining appropriate separation of duties for certain roles related to cloud systems. The agency also did not follow guidance meant to prevent conflicts of interest, increasing the risk of inappropriate actions and errors.

What progress has the IRS made?

The IRS is working to streamline data processes and increase data efficiency, including publishing an initial artificial intelligence powered Enterprise Data Catalog. The Catalog provides a comprehensive view of data assets and should enable data sets to be standardized so they can be used for efficient discovery, understanding, and lineage tracking.

In addition, several significant data assets were added to the IRS's Enterprise Data Platform. This new platform delivers universal data access for users and systems at the enterprise level, as well as provides an analytics platform for users.

What key recommendations have the IRS implemented?

- We found that the IRS's cloud application inventory reporting was decentralized, which the IRS has since centralized to improve accuracy.
- Ensured that all applications operating in the cloud obtained approval of the governance board.

What ongoing work does TIGTA have to address the challenge?

We planned 14 reviews to address this challenge.

The SOP calls for a standard case management platform that will be more technologically efficient and improve the IRS's ability to resolve taxpayer issues. The IRS's Enterprise Case Management program intends to deliver such technology, and we are currently assessing efforts to migrate dozens of legacy case management systems to the Enterprise Case Management platform and decommission legacy systems.

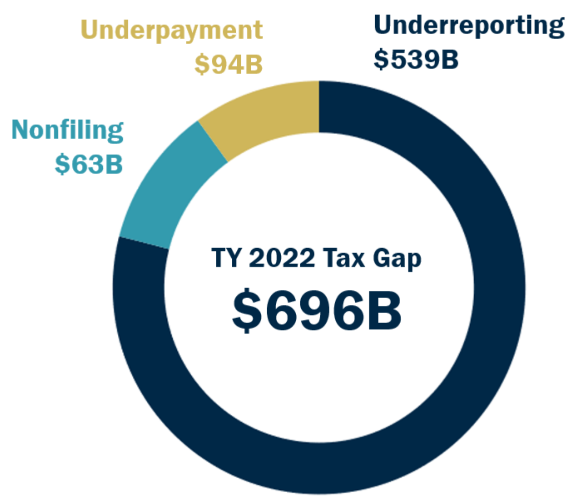
Additionally, we have on-going and planned work in other information technology areas, such as determining whether the IRS effectively and efficiently processes information technology incident tickets and evaluating efforts to modernize the Business Master File (the information technology system storing business tax return data).

TAX COMPLIANCE AND ENFORCEMENT

What's the challenge?

One of the IRS's key responsibilities is to ensure taxpayer compliance with the Internal Revenue Code. This is important because small declines in compliance:

- cost the country billions of dollars in lost revenue; and
- shift the tax burden from those who do not pay their taxes to those who pay their taxes on time every year.



The difference between the estimated amount of tax legally owed by taxpayers and the amount they voluntarily and timely pay is known as the Tax Gap. The IRS noted that the rising complexity of tax administration and sophisticated tax evasion schemes have outpaced the IRS's ability to close the Tax Gap.

The IRS has expanded enforcement on taxpayers with complex tax filings and high-dollar noncompliance. The agency also intends to increase its focus on taxpayers with complex issues and complex returns where audit rates are low, such as those related to large partnerships, large corporations, and high income and high-wealth individuals.

Certain tax credits can be challenging for the IRS to administer. For example, unscrupulous individuals have been known to file fraudulent tax returns claiming improper Fuel Tax Credits (FTC)[3] to reduce taxes or receive improper refunds. In fact, the IRS regularly identifies the FTC on its annual "Dirty Dozen" list of the worst tax scams.

What progress has the IRS made?

The IRS is taking swift and aggressive action to improve tax compliance in areas where the agency did not have adequate resources prior to IRA funding. In late 2023, the IRS launched a new initiative to collect revenue from 1,600 taxpayers with more than $1 million in income that owed more than $250,000 in taxes.

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[3] The FTC is a tax credit that may be claimed for various nontaxable uses of fuel, including farming and off-highway business use.

In September 2024, the IRS reported that this initiative recovered $1.1 billion from nearly 80 percent of these taxpayers.

We reported that the IRS is using data analytics to help select and expand its audit coverage of large corporations by starting an additional 60 audits of the largest corporate taxpayers. Additionally, the IRS has initiated a compliance effort focusing on large corporations with foreign entities that have patterns that could indicate an improper use of transfer pricing to avoid reporting U.S. profits. The IRS noted that transfer pricing audits often result in significant proposed adjustments to taxes owed. From October 2017 through July 2023, the average adjustment for transfer pricing was $219 million.

Additionally, IRS Criminal Investigation has taken advantage of analytics tools to address virtual currency noncompliance. During Fiscal Years 2018 to 2023, it investigated 390 cases involving virtual currency and completed 224 cases where it recommended prosecution.

What key recommendations have the IRS implemented?

- Established a process to use Tax Gap data annually to identify opportunities to better align resources that more effectively narrow the net Tax Gap.
- Ensured that the FTC examination workplan addresses questionable higher dollar FTC claims without a business purpose.

What ongoing work does TIGTA have to address the challenge?

We planned 36 reviews to address this challenge.

The Secretary of the Treasury stated that any additional resources provided by IRA "shall not be used to increase the share of small businesses or households below a $400,000 threshold that are audited relative to historical levels." Consequently, the IRS Commissioner highlighted plans to rebalance its enforcement activities and modify its Earned Income Tax Credit (EITC) audit selection process (a tax credit intended for lower-income taxpayers). We will review the IRS's examination plan and the changes to EITC case selection processes to ensure they are fair and equitable and to assess compliance with the Secretary of Treasury's directive.

Additionally, we will assess the processes for the safeguarding and disposition of digital assets seized by IRS Criminal Investigation as well as for identifying and recovering fraudulent ERC payments after they complete IRS processing.

TAX FRAUD AND IMPROPER PAYMENTS

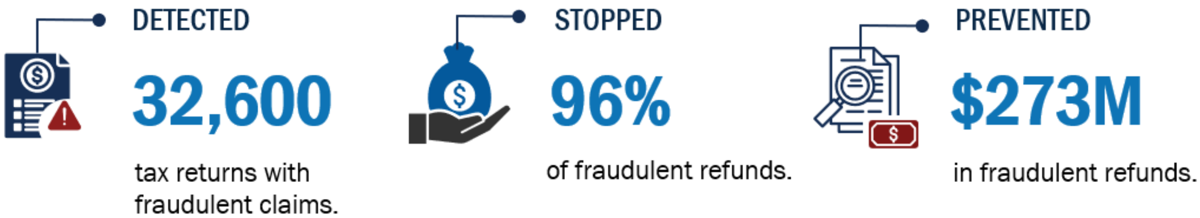
What's the challenge?

One of the IRS's objectives in its SOP is to help taxpayers meet their obligations and receive the tax incentives for which they are eligible with fewer inadvertent errors and improper payments. An improper payment is any payment that should not have been made, was made in an incorrect amount, or was made to an ineligible recipient. The IRS estimates billions of dollars in fraudulent or improper payments are made each year. For example, in FY 2023, the IRS reported estimated improper payments associated with its four high-priority programs susceptible to improper payments as:

- EITC - $21.9 billion
- American Opportunity Tax Credit - $1.7 billion
- Net Premium Tax Credit - $1 billion
- Additional Child Tax Credit - $500 million

What progress has the IRS made?

The IRS continues to increase the number of fraudulent tax returns detected and stopped. As of February 2024, the IRS reported that it identified more than 32,600 tax returns with approximately $273 million claimed in fraudulent refunds and prevented the issuance of nearly $263 million (96 percent) of those refunds.



For the 2024 Filing Season, the IRS is using 282 filters to detect potential identity theft tax returns and prevent the issuance of fraudulent refunds. Tax returns identified by these filters are held during processing until the IRS can verify the taxpayer's identity. As of February 2024, the IRS reported that it identified nearly 2 million tax returns with refunds totaling approximately $16.5 billion for additional review using the identity theft filters. As of that same date, the IRS confirmed more than 15,000 tax returns as fraudulent and prevented the issuance of
$180.5 million in fraudulent refunds.

What key recommendations have the IRS implemented?

- Implemented procedures to assess the frivolous filing penalty to deter improper FTC claims without a business purpose.
- We previously identified more than 3,500 returns with potentially erroneous Child and Dependent Care Credits totaling $6.8 million because they had obviously invalid Taxpayer Identification Numbers for the care providers. The IRS updated its programming to identify taxpayers who reported an invalid care provider Taxpayer Identification Number when claiming this credit.

What ongoing work does TIGTA have to address the challenge?

We planned 36 reviews to address this challenge.

Our Cybercrime Investigations Division found that Employer Identification Numbers are being used in various financial-related crimes. Therefore, we are assessing how the IRS is processing applications for Employer Identification Numbers to prevent their use for potentially invalid or fraudulent purposes.

We plan to determine the effectiveness of IRS programs designed to resolve suspected individual identity theft cases, evaluate continued efforts to detect and prevent business identity theft, and assess efforts to detect and prevent tax refund fraud related to Schedule C, *Profit or Loss from Business*.

TAXPAYER RIGHTS

What's the challenge?

As the IRS seeks to transform its operations and interactions with taxpayers, it must ensure that all taxpayers are treated equitably. Additionally, as the IRS plans to increase compliance efforts, it must protect the rights of taxpayers and promote tax fairness. For example, as the IRS changes how it selects returns and identifies issues for examination, including integrating artificial intelligence into case selection, it must consider the potential for disparate treatment of taxpayers.

The IRS continues to dedicate resources to comply with the taxpayer rights provisions of the IRS Restructuring and Reform Act of 1998, which include the right for taxpayers to be properly notified before certain enforcement actions occur (like a lien or a levy).

What progress has the IRS made?

We found the IRS was compliant with the legal requirements to provide notice to taxpayers of their right to decline to extend the assessment statute of limitations or to request that any extension be limited to a specific timeframe or to specific issues. In addition, we determined that the IRS redacted certain taxpayer information when responding to Freedom of Information Act requests in 99 percent of the requests we reviewed, an improvement from the prior year.

What key recommendations have the IRS implemented?

- Communicated to employees the need to maintain documentation that taxpayers and/or their representatives are properly advised of their rights when requesting certain extensions.

- Identified certain accounts where overpayments were being held because of Failure to File penalties and released the overpayments where warranted.

What ongoing work does TIGTA have to address the challenge?

We planned 11 reviews to address this challenge.

Each year, we complete statutorily mandated reviews involving computer security, taxpayer rights, and privacy issues. This includes evaluating whether the following actions were done in compliance with the Internal Revenue Code, Treasury Regulations, or IRS procedures: liens, seizures, and direct contact of taxpayers and their representatives.

Conclusion

This memorandum is provided as our annual summary of the most serious major management and performance challenges confronting the IRS in FY 2025. TIGTA's Fiscal Year 2025 Annual Audit Plan and Fiscal Year 2025 Inspections and Evaluations Program Plan contain our proposed reviews.

cc: Deputy Secretary of the Treasury
Assistant Secretary for Management
Deputy Chief Financial Officer
Commissioner of Internal Revenue

IRS MANAGEMENT RESPONSE TO TIGTA IDENTIFIED CHALLENGES FACING THE IRS FOR FISCAL YEAR 2024

The IRS appreciates TIGTA's management and performance challenges memorandum as valuable feedback as we enhance taxpayer services and promote fairness in enforcement activities.

TIGTA Challenge 1 - Managing IRA Transformation Efforts:

After enactment of the *Inflation Reduction Act of 2022* (IRA), the IRS developed a detailed *Strategic Operating Plan FY 2023-2031* (SOP) that consists of five transformational objectives and 42 initiatives that the IRS will implement through FY 2031 when the funding expires. In FY 2024, we made progress on many areas highlighted in the SOP, and many more are in progress as we work to modernize the way we serve taxpayers through improved technology, better service, and fairer enforcement. The IRS faces a challenge in executing our long-term vision for transforming tax administration amid ongoing budgetary pressures. Originally, the IRA appropriated $79.4 billion in supplemental funding through 2031 to improve taxpayer services, modernize information technology systems, and enhance enforcement activities focused on high-income taxpayers and large corporations. However, subsequent recissions have reduced that total by $21.6 billion, leaving $57.8 billion to achieve this monumental transformation. Despite these cuts, we remain committed to delivering on its core objectives. A few of the activities developed to meet the SOP objectives include:

- Implementing an operating model with supporting processes to manage the transformation effort, which is inclusive of the projects being implemented under the SOP. We use a ServiceNow Implementation Methodology tool to capture all project data and generate reports for governance bodies. The governance process is three-tiered and provides the oversight, monitoring, and decision making needed to manage the transformation. Additionally, we established an Enterprise Transformation Roadmap which articulates IRS leadership priorities for transformation by way of outcomes and annual key results.

- Digitization of paper-filed tax returns which is a cornerstone of our modernization efforts. We replaced outdated scanning equipment and are installing automated mail-sorter machines in the six highest-volume IRS locations. Once digitized, tax return data is processed throughout the IRS in a digitally optimized manner. Historical documents are also digitized and made digitally available for both taxpayers and IRS employees. In FY 2024, we processed more than 11.8 million pieces of paper, reducing processing times and ensuring that taxpayers receive faster service. Taxpayers will also be able to digitally reply to IRS notices that do not have a payment or filing requirement via our Document Upload Tool.

Modernizing the IRS is no small task; it requires balancing improvements in taxpayer services with the need for more robust enforcement and up-to-date technology. As detailed in the SOP, the IRS's vision is to make it easier for taxpayers to meet their obligations, address noncompliance more effectively, and use advanced data analytics to drive decision-making.

As we navigate financial constraints, the challenge remains as to how to maintain momentum on critical modernization efforts without sacrificing ongoing operations. Should additional budget cuts materialize, our ability to complete the IRS transformation by 2031 may be severely impacted, requiring further difficult decisions about prioritization. We will continue to monitor these developments closely, ensuring that we stay on track to meet our goals while using the IRA funding effectively.

TIGTA Challenge 2 - Protection of Taxpayer Data and IRS Resources:

We manage vast amounts of sensitive taxpayer data across its systems. As technology evolves and cybersecurity threats increase, the protection of taxpayer data and efficient use of resources remain critical priorities for the IRS. As the we continue to modernize our systems, safeguarding taxpayer data from both internal and external threats remains essential to maintaining the integrity of our operations and the trust of taxpayers.

In FY 2024, we improved our process for removing system access of departing employees and contractors by:

- streamlining the process for handling employee separations, to ensure a secure and efficient way of timely removing system access;
- utilizing the Business Entitlement Access Request System, an automated workflow that is initiated to remove the employee from all IRS systems;
- developing additional training for contracting officer's representatives to ensure adherence to established separation procedures and timelines following negative background determinations; and
- evaluating the feasibility of automating these processes to streamline the access removal process, which would require integrating disparate IRS systems and Treasury's personnel system.

Additionally, we improved our process for preventing unauthorized access to, and disclosure of, sensitive taxpayer information. We disabled network access for 279 separated users identified by TIGTA, and we purged all system-level user accounts. We have an ongoing effort to improve the processes for the identification and resolution of any user accounts that have not been timely purged. We are also working to implement a tool that will organize information technology to identify whether it meets audit log requirements, applies those requirements, and tracks progress.

TIGTA Challenge 3 - Tax Law Changes:

Tax law changes present a significant challenge, requiring that we quickly modify our systems, processes, and guidance, often with tight deadlines. This is particularly challenging when tax law changes occur close to the start of the tax filing season or worse, when changes are made during the filing season. Tax law changes require us to issue timely, clear guidance to taxpayers and tax professionals about new and revised forms, instructions, and publications, all while conducting outreach and education to promote compliance.

For tax year 2024, the refundable portion of the Child Tax Credit, known as the Additional Child Tax Credit, increased from tax year 2023. Informing taxpayers of these types of tax law changes is an IRS priority. Many refundable tax credits, including the Additional Child Tax Credit, are designed to benefit low- and middle-income families. Informing taxpayers of changes helps ensure that they have the information needed to accurately claim the credit, avoid delays due to errors, and provide essential financial support. To make sure taxpayers are notified and receive the full amount of the Additional Child Tax Credit for which they are eligible, we continue to conduct proactive outreach through different modes of communication as a convenience to taxpayers.

In FY 2025, we will continue to review legislation and update tax forms, instructions, and publications with the tax law changes and other forms of guidance that taxpayers and tax professionals need. Annually, between mid-October and mid-November, we launched *Get Ready for Taxes* (https://www.irs.gov/getready), a communication campaign that focuses on helping individual taxpayers prepare for the upcoming filing season. This is a highly effective channel to communicate and provide guidance to taxpayers and tax professionals regarding tax law changes.

TIGTA Challenge 4 - Taxpayer Service:

During the 2024 filing season, the IRS answered more than one million more phone calls than the prior year and achieved a nearly 88% level of service while maintaining an average call wait time of three minutes. We focused on ensuring that toll-free customer support lines are staffed with highly trained customer service representatives in each location. Several changes include:

- Utilizing conversation routing on some of the phone lines, which allows taxpayers to speak the reason for their call. This change simplified the customer experience, allowing a verbal statement to replace traditional menu-based, touch-tone navigation for call routing. In 2025, we will continue rolling out conversational routing to other phone lines.

- Improving the ability for taxpayers to perform more functions from home. While the self-assistance kiosks located in Taxpayer Assistance Centers are effective in serving taxpayers, many of the functions conducted through the kiosks can be done through applications available on IRS.gov and are accessible by smartphones. We are considering how to best maintain and potentially expand kiosk-like technology to support taxpayers who may not have access to smartphones/mobile browsers or who have difficulty using the technology.

- Launching our new Direct File Pilot to the public. The Direct File Pilot provided a free, easy-to-use, secure option for taxpayers in 12 states with simple tax situations to file their taxes directly with the IRS using smartphones, laptops, tablets, or desktop computers. Although it supported limited tax situations, 19 million taxpayers were eligible to use the tool, and over 140,000 taxpayers have successfully used the system to file their tax returns.

In addition, we continue to ensure availability and accessibility to those taxpayers living abroad by partnering with the U.S. Department of State to answer questions of taxpayers living abroad in selected countries and providing telephone assistance to international callers on tax laws and account related questions. Taxpayers needing to authenticate their identities have 24-hour-a-day access through Secure Access Digital Identity. In addition, the View My Audit Status Tool, released in July 2024, provides taxpayers with real-time status updates of their audits through their Individual Online Accounts. We are also progressing toward deployment of an unauthenticated International Chatbot by the end of FY 2025. This chatbot would assist international callers with automated web-based support by providing general answers and information to common concerns. Further plans include an authenticated live chat service, currently targeted for deployment in FY 2026, which would allow international taxpayers to avoid toll number charges by communicating directly with an assistor through a text-based chat.

We are always looking for ways to improve our service to taxpayers. In FY 2024, we made several changes to questions asked through surveys conducted to elicit more specific feedback. For FY 2025, we will review the results of external customer satisfaction surveys and incorporate any actionable and useful suggestions into products for release in the following tax season.

As previously identified, we used both IRA funds and annual appropriations to enhance the taxpayer experience. However, IRA funding for taxpayer services is expected to run out by FY 2026, negatively impacting future taxpayer service.

TIGTA Challenge 5 - Human Capital:

In FY 2024, the IRS delivered a revitalized recruitment strategy, which included: 1) securing a strategic recruitment contractor who developed recruiter bootcamp training and performed a labor market analysis and, 2) conducting 55 virtual information sessions targeting accounting students, current accountants, and current employees, resulting in the hiring of 5,370 revenue agents, of which 2,787 were external hires. These new hires represent 77% of the FY 2024 hiring goal.

Our efforts to improve the onboarding process included an in-person orientation program developed to provide new IRS employees the information and tools needed to successfully transition into the IRS. This program resulted in the stand up of 12 orientation teams and the successful onboarding of 5,893 external hires in FY 2024. Ask Me Anything is a new pilot project implemented to hear directly from new hires about what did and did not work during their onboarding experience. We held six sessions in FY 2024, which included external hires, reemployed annuitants, and Pathways program hires. The Ask Me Anything project will be expanded across the IRS in 2025 and we will use information gathered from these sessions to improve the onboarding experience.

To effectively monitor employee retention, we rigorously track employee separations and monitor overall attrition on a regular basis, and we take action to analyze quantitative and qualitative data received from various surveys. Over the next three years, we will:

- develop and implement engagement and retention strategies that are driven by a deeper analysis of workforce trends;
- utilize dedicated staffing resources to leverage qualitative employee feedback from routinely administered surveys such as the Federal Employee Viewpoint Survey, New Employee Entrance Survey, Treasury Exit Survey, and IRS Employee Pulse Survey; and
- use the routinely administered surveys to continuously monitor the employee experience, employee engagement, and environmental issues impacting the workplace culture, including impacts to the health and safety of IRS employees, to institute changes across the IRS.

We will implement the IRS University's federated model structure in FY 2025. The federated operating model combines the training expertise of human resources with the technical expertise of the business units to create high quality learning, ensuring that learning-related decisions are made through a collaborative process. The vision for the university is to become the standard-bearer for learning excellence by improving or implementing multiple efforts that serve the IRS, including instructor readiness programs, on-the-job instruction, expanded classroom availability, modernized classroom equipment, the incorporation of more adult-learner concepts and feedback loops, as well as the alignment of IRS competency models for job series. The university's structure is designed to directly support mission-critical learning, assist employees across the IRS with career growth, and provide enhanced customer service to individual learners and their organizations.

TIGTA Challenge 6 - Information Technology Modernization:

The IRS Next Generation Enterprise Security Audit Trails program did not effectively identify and track all systems and applications that contain personally identifiable information (PII) and federal tax information. In FY 2024, we took actions to ensure all applications with PII or federal tax information send audit trail data to a repository. These actions include:

- Consolidating the plans, directives, and process documentation into a formal event logging plan to communicate the delivery strategy for addressing auditing requirements.
- Automating the disablement of inactive user accounts in accordance with policies and procedures outlined in *Internal Revenue Manual 10.8.24, Cloud Computing Security Policy* (https://www.irs.gov/irm/part10/irm_10-008-024r), moving from a manual cyclical process to an automated real-time process.

- Implementing annual recertification procedures to ensure that continued authorization is appropriate. The process of completing implementation of the automatic tracking tool to demonstrate compliance with OMB Memorandum M-21-31, *Improving the Federal Government's Investigative and Remediation Capabilities Related to Cybersecurity Incidents* is ongoing.

- Standardizing the information system taxonomy across the enterprise to ensure the Next Generation Enterprise Security Audit Trails program has a complete and accurate inventory of systems for its data repository. We will also ensure that the program periodically validates receipt of required audit trail data from all source systems.

Additionally, we began migrating legacy case management systems to the Enterprise Case Management platform in support of decommissioning legacy case management systems. We are developing ten projects for migration in FY 2025.

We are continually improving, implementing, and expanding modernization of our technology and tools to enhance the experience, options, and efficiency for employees, taxpayers, and tax practitioners as well as increasing the security of its systems and data. These advancements are having significant impacts on service to taxpayers and practitioners and the effectiveness of employee interactions. Modernization will continue through the decade with the commitment of targeted IRA funding.

The Individual Master File modernization is targeted for completion in FY 2028. This effort involves upgrading the core tax processing system that feeds data to 250 systems as well as improving individual taxpayer account management functions and data distribution. The Individual Master File modernization plan has multiple initiatives that will deliver incremental benefits to both taxpayers and systems that rely on individual taxpayer data, leading to the full retirement of the Individual Master File. The modernization of the Business Master File, which stores and manages information about business taxpayers, is targeted to be completed in FY 2029. These targets are dependent on consistent and available funding to support the full modernization effort.

TIGTA Challenge 7 - Tax Compliance and Enforcement:

As tax laws grow more complex and sophisticated tax schemes emerge, the IRS must continuously adapt its compliance strategies to close the tax gap and promote fairness for all taxpayers.

In FY 2024, we took important measures to overhaul our efforts to ensure fairness in tax compliance by shifting more attention onto high-income earners, partnerships, large corporations, and promoters abusing the Nation's tax laws. We are using improved technology and artificial intelligence to better detect cheating, identify emerging compliance threats, and improve case selection tools to avoid burdening taxpayers with needless audits.

We have prioritized high-income cases, intensifying our work on taxpayers with total positive income above $1 million and more than $250,000 in recognized tax debt. We also opened examinations of 76 of the largest partnerships in the U.S. over a range of industries, such as real estate investment partnerships, publicly traded partnerships, large law firms, and hedge funds. On average, each of these partnerships had more than $10 billion in assets.

The complex structures and tax issues presented by large partnerships require a focused approach to best identify the highest risk issues and apply resources accordingly. We expanded our Large Partnership Compliance Program, with examinations of some of the largest and most complex partnership returns in the filing population, to include additional large partnerships. We collaborated with experts in data science and enforcement in refining their artificial intelligence, which was crucial in identifying potential compliance risks in the areas of partnership tax, general income tax and accounting, and international tax. We are also ensuring that audit rates will not increase for taxpayers earning less than $400,000 a year, compared to historical rates.

We have also taken crucial steps with Employee Retention Credit (ERC) compliance. The ERC program increasingly became the target of aggressive marketing by unscrupulous promoters who caused some businesses to claim the credit when they were ineligible. In FY 2024, we reopened our ERC Voluntary Disclosure Program for a limited time. Running through November 2024, the program allows businesses a chance to correct overclaims of the credit at a 15% discount and avoid future audits, penalties, and interest. During the first phase of the disclosure program, there were more than 2,600 applications from ERC recipients that disclosed $1.09 billion worth of credits. We plan to mail up to 30,000 new letters to address more than $1 billion in potentially improper ERC claims. Following the moratorium on ERC payments, we are currently processing about 400,000 claims, representing about $10 billion in eligible claims.

In FY 2024, we assembled a team of employees across various business units to assess compliance risks and develop strategies to detect and prevent improper individual Fuel Tax Credit claims. The team proposed an enterprise response using cross-business unit resources and developed compliance filters to detect and prevent fraudulent claims in the pre-refund stage, while continuing to investigate high-risk, post-refund cases related to fraud, identity theft, and frivolous filers.

The number of taxpayers using virtual currency as a payment method is growing. Each time a taxpayer uses virtual currency as a medium of exchange, there may be taxable consequences. We have seen an increase in virtual currency for nefarious endeavors or to avoid tax reporting obligations. However, the anonymity of virtual currency complicates our enforcement efforts. In FY 2024, we took advantage of various analytics tools and began developing a strategic plan to address virtual currency noncompliance, including a process to safeguard and dispose of seized digital assets. This process involves transferring seized digital assets from a target's wallet to a government-owned hard wallet, which is a physical device that houses the digital asset. For non-tax violations, the final step of this process involves liquidating the assets and depositing the proceeds into the Treasury Forfeiture Fund.

We expanded enforcement efforts in FY 2024 including:

- the pursuit of balance sheet discrepancies for partnerships with at least $10 million in assets and the use of artificial intelligence to assist with the selection of 76 of the largest partnerships for audit; and
- expanding compliance efforts on the U.S. subsidiaries of foreign companies that distribute goods in the U.S. and use transfer pricing rules year- after- year to report losses that are engineered through the improper use of these rules to avoid reporting an appropriate amount of U.S. profits.

Monitoring the progress of these efforts utilizing artificial intelligence and subject matter expertise in areas such as cross-border issues will be the focus for FY 2025.

We have invested heavily in hiring and training and have specifically leveraged direct hire authority for accountants, engineers, economists, data scientists, attorneys, and tax experts with specialized skills to examine the returns of large corporations, complex partnerships, and high-income individuals. New tools and technology, combined with investments in training, will ensure our workforce has the necessary capabilities to tackle increasingly complex work. We expanded training for managers, increasing the ability to support their employees and the IRS mission. Updating compliance training programs is a top priority for 2025. These training programs will ensure employees are prepared to work more complex returns, including those of high-income and high-wealth taxpayers. We will continue to support the IRS mission to provide America's taxpayers top quality service by helping them understand and meet their tax responsibilities and by enforcing the law with integrity and fairness to all while building a 21st century tax agency.

TIGTA Challenge 8 – Tax Fraud and Improper Payments:

Reducing improper payments of refundable tax credits, such as the EITC, ACTC, AOTC, and net PTC, continues to be a challenging priority for the IRS. We historically allocated a disproportionate amount of its enforcement resources to audit returns that claim one or more refundable tax credits. This created several challenges. Lower-income taxpayers, who make up the majority of those claiming refundable tax credits, were disproportionately audited (at about three times the rate of other taxpayers). This treatment runs counter to the IRS's mission of fairness to all. In addition, over-reliance on pre-refund audits to resolve basic errors results in interest costs to the U.S. government by delaying the issuance of refunds to taxpayers. To address these improper payments, we are increasing taxpayer outreach and education, in lieu of conducting additional pre-refund audits on refundable tax credits. Helping taxpayers submit accurate filings upfront will increase payment accuracy while reducing administrative burdens for both the IRS and taxpayers. The following are highlights of these efforts:

- We initiated a *Refundable Credits Return Preparer Strategy*, shifting focus to approximately 24,000 noncompliant tax return preparers. This strategy includes identifying patterns of noncompliance using data analytics to identify ghost preparers, or preparers who have not signed a return; conducting focused correspondence examinations, outbound calls, and post-refund client audits; and working with the clients of ghost preparers to resolve any discrepancies.
- We organize *EITC Awareness Day*, a nationwide effort to educate taxpayers on their eligibility for the EITC and how to file accurate returns. These events use social media and community outreach to communicate with taxpayers. By providing this information upfront, we help minimize inadvertent errors, which is a key root cause of improper payments.

Through its annual Nationwide Tax Forums and Refundable Credit Summits, we provide tax professionals, federal and state partners, and taxpayer advocates with up-to-date information about refundable tax credits. These events improve knowledge on eligibility rules and correct filing procedures and ensure that a wide range of preparers and tax advisors help their clients file accurate returns. In its FY 2024 annual improper payments compliance audit, TIGTA found that the IRS was largely compliant with the reporting requirements contained in the PIIA of 2019; however, the IRS still has not satisfied the Act's goal to reduce improper payment rates to less than ten percent for its refundable tax credits. TIGTA noted in previous audits that increasing improper payment rates are not the result of internal control weaknesses that the IRS can address. The root causes of these improper payments are the complex eligibility requirements for the credits, our reliance on taxpayer self-reported information, and our lack of access to necessary information to validate and confirm the accuracy of these credit claims before issuing a refund. Despite our initiatives to reduce improper payment rates, a meaningful reduction is unlikely without independent data sources through which we can verify taxpayer-provided information and additional time and resources for us to address any issues identified.

In FY 2024, we expanded our efforts to prevent the fraudulent and improper use of employee identification numbers, introducing several online tools and digital services to streamline employee identification number applications. To track and control employee identification numbers and reduce the risk of misuse in fraudulent schemes, we limited employee identification number issuance to one per responsible party per day, requiring that the responsible party have a valid taxpayer identification number. Additionally, we improved our Business Tax Account services, making it more accessible for business owners to manage employee identification number related tasks, such as downloading business entity transcripts. This process streamlines the process for legitimate users and allows us to monitor and detect irregularities.

For the 2024 filing season, we completed an annual refresh of key identity theft models and modified existing filters to find potential identity theft tax returns and prevent the issuance of fraudulent tax refunds. We hold tax returns identified by these filters during processing until we can verify and confirm data points to prevent the issuance of a fraudulent refund. For 2025, these models will be reviewed and updated to continue successfully stopping tax-related identity theft for individuals and businesses.

Given the large volume of filings related to Schedule C, Profit or Loss from Business, detecting and preventing fraud is crucial to protecting public funds and ensuring that refunds are issued only to eligible taxpayers. In FY 2024, we detected and prevented Schedule C refund fraud utilizing intervention methods such as pre-refund audits and post-refund actions. In addition, we monitor fraud in both the Individual Master File and Business Master File claims processing. We also dedicate resources to various compliance strategies and offer technical and legal assistance in refund fraud investigations.

TIGTA Challenge 9 – Taxpayer Rights:

The IRS is committed to ensuring that taxpayers are treated fairly, have access to clear information, and receive proper assistance when resolving tax issues. We continue to prioritize the protection of taxpayer rights while implementing new enforcement strategies and modernizes its systems. A few of the strategies include:

- Expanding enforcement efforts related to high-income individuals, and large corporations and partnerships to reverse the historically low audit rates and limited focus on the wealthiest individuals in the years predating the IRA. We are adding staff and important technology to ensure that all taxpayers pay the correct amount of taxes.

- Expanding our Large Partnership Compliance Program, with examinations of some of the largest and most complex partnership returns in the filing population. The complex structures and tax issues presented by large partnerships require a focused approach to best identify the highest risk issues and apply resources accordingly.

- Collaborating with experts in data science and enforcement in refining the use of artificial intelligence, which was crucial in identifying potential compliance risks in the areas of partnership tax, general income tax, accounting, and international tax.

- Established the Risk Identification Control Board, which governs case selection methods and ensures the enforcement selection process is equitable and fair to all taxpayers under *IRM 1.2.1.2.36, Policy Statement 1-236, Fairness and Integrity in the Enforcement Selection*.

- Issuing interim guidance to communicate artificial intelligence governance and principles for case selection governance.

We are committed to fair and effective collection of taxes owed through all means allowed by law. However, we continue to face challenges in ensuring timely notifications of liens and preventing premature levy actions while improving compliance with legal and procedural requirements. As TIGTA noted in its report, *FY 2024 Mandatory Review of Compliance with Legal Guidance when Conducting Seizures of Taxpayers' Property*, the IRS generally complies with the legal requirements surrounding liens and taxpayer communication. The IRS largely complies with IRC requirements to ensure that Notices of Federal Tax Lien are issued and mailed on time and uses its automated systems to manage lien filings and track enforcement actions. However, noticeable lapses remain, particularly with notification delays and improper levy actions. We continue to find ways to improve our seizure process and ensure the rights of taxpayers are protected. For example, in FY 2024, we improved our procedures regarding communications with affected taxpayers and ensured that there was an advisory review of all cases for technical accuracy prior to seizure.

SECTION D: PAYMENT INTEGRITY

Refundable Tax Credit Programs

We currently report erroneous payments for refundable tax credits (RTCs) within this section in accordance with the improper payment reporting requirements of the PIIA and OMB Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement* (OMB Appendix C). We also report these erroneous payments as part of the tax gap estimate program (see Part 3, Section B: *Tax Gap and Tax Burden),* as we have long held that these RTCs are more appropriately addressed in this section. Improper payment reporting does not simultaneously provide a comprehensive understanding of the extent and nature of taxpayer compliance with Internal Revenue Code tax credit provisions needed for tax administration purposes. The IRS's tax gap estimate and enterprise risk management framework better equip the IRS to analyze and address noncompliance throughout the federal tax system. Focusing enforcement resources on the larger tax gap is a more efficient and cost-effective way to minimize the tax gap and maximize tax collections.

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Primary Causes of RTC Errors

- Complex statutory eligibility rules
- Inability to verify taxpayer-provided information prior to refunding due to lack of independent data sources
- Lack of correctable error authority
- Statutory requirement to issue tax refunds within 45 days of the filing deadline without paying interest

Moreover, while internal control deficiencies are generally considered to be a principal root cause of improper payments, internal control issues are not the root cause of RTC errors. Instead, they are largely the result of factors beyond the IRS's control, such as the statutory design of the RTCs, the complexity of the eligibility requirements, the lack of third-party data for verification, and the IRS's reliance on taxpayers' self-certification of the accuracy of their returns. TIGTA has agreed that risk assessments the IRS conducted indicate that improper payments from RTCs are not rooted in internal control weaknesses, financial management deficiencies, or reporting failures. Both GAO and TIGTA concur with our view by similarly reporting that RTC errors are largely due to the statutory design and complexity of the RTC programs, and the IRS's need to rely on self-certified, taxpayer-provided information that cannot be verified at the time of filing. We continue to support the reporting of RTC errors as part of the tax gap estimate as a better reflection of how the IRS approaches taxpayer compliance relative to the U.S. tax system.

We refer to erroneous claims for RTCs as "overclaims" and improper payment rates as "error" rates. Accordingly, we report error rates as outlined in the PIIA and OMB Appendix C*,* for four refundable tax credits—the EITC, AOTC, ACTC, and net PTC—which have error rates similar in concept to "significant improper payments." Each of these RTCs is described below. Additional current and prior year Payment Integrity information can be accessed at https://paymentaccuracy.gov/, which is a public facing website that serves as a centralized location for current and historical information about improper payments made under federal programs that have been determined to be susceptible to significant improper payments based on assessments of all government programs.

Earned Income Tax Credit

Congress enacted the EITC in 1975 through the *Tax Reduction Act* (Public Law (P.L.) 94-12), as a temporary anti-poverty measure to offset inflation and rising Social Security payroll taxes. In addition to encouraging work and reducing dependence on cash welfare, the credit was also viewed as a means to encourage economic growth in the face of the 1974 recession and rising food and energy prices.[1] Since then, the EITC has undergone numerous legislative changes, most notably by the *Revenue Act of 1978* (P.L. 95-600), which made the EITC a permanent refundable tax credit. Congress believed the EITC would be an effective way to provide financial assistance to working families, with or without children, who might otherwise rely on government subsidized welfare payments.

American Opportunity Tax Credit

Education tax credits have generally been intended to provide federal financial assistance to students from middle-income families who may not benefit from other forms of traditional student aid.[2] Congress enacted the AOTC as part of the *American Recovery and Reinvestment Act of 2009* (P.L. 111-5) to replace the Hope Credit and to expand the education tax credit to lower- and upper-income students. The AOTC is a partially refundable tax credit that provides financial assistance to taxpayers (or their children) with qualified educational expenses who are pursuing a higher education. Like other education tax credits, the AOTC was enacted with the goal of making higher education more affordable.

Child Tax Credit (CTC) and Additional Child Tax Credit

Congress enacted the CTC to help ease the financial burdens for families with children as part of the *Taxpayer Relief Act of 1997* (P.L. 105-34). If the CTC exceeds the tax liability, taxpayers may receive some or all of the credit as a refund, known as the ACTC. Various legislative changes over the past 20 years have made significant changes to the CTC, which have expanded it from a generally non-refundable credit available only to the middle- and upper-middle class, to a partially refundable credit that more low-income families are eligible to claim. Notably, the *Tax Cuts and Jobs Act of 2017* (P.L. 115-97) doubled the CTC, increased the amount that taxpayers could claim as a refund, and allowed it to include more upper-middle class families.

Net Premium Tax Credit

The Premium Tax Credit, created under the *Affordable Care Act of 2010* (P.L. 111-148), was designed to make health insurance more affordable for individuals and families with lower incomes and helps cover the premiums for their health insurance purchased through the Health Insurance Marketplace. This program is operationally divided between the Department of Health and Human Services (HHS) and Treasury. The HHS, through the Centers for Medicare & Medicaid Services (CMS), administers advance payments to insurance providers on behalf of applicants/taxpayers through the federally facilitated exchange. These payments are referred to as advance payments of the Premium Tax Credit or "advance PTC". We and the IRS administer the federal income tax return process where a tax credit (repayment or zero are other possibilities) is based on reconciliation of advance PTC amounts with final allowable Premium Tax Credits determined in tax filing. Payment of this credit is referred to as "net PTC".

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

[2] *Congressional Research Report, The American Opportunity Tax Credit: Overview, Analysis, and Policy Options, Updated June 4, 2018.*

REDUCING RTC ERRORS DIVERTS VALUABLE RESOURCES FROM OTHER TAX GAP ELEMENTS AND UNDERMINES THE STATUTORY PURPOSE OF THE CREDITS

Compliance with the improper payment legislation and OMB reporting guidance requires reducing each program's improper payment rate to ten percent or less. Currently, the IRS must deploy a variety of costly enforcement tools, including audits, to verify the information on the tax return prior to paying tax refunds or collecting any tax due. If the IRS were to reallocate enforcement resources to comply with PIIA, the IRS would lose substantial enforcement revenue because the IRS would have to divert resources from programs with higher returns and tax gap elements to audits of RTC returns. In addition, conducting pre-refund audits of millions of additional RTC claims would mean delayed refunds for millions of taxpayers whose returns contain no errors. These additional delays in refund receipt would interfere with achieving the statutory purpose of the credits for eligible claimants. To meet OMB's metric of reducing the improper payment rate to ten percent or less for FY 2024, RTC programs would need to reduce erroneous payments by $11.7 billion, based on FY 2024 estimates. Table 1 below, which shows the total RTC claims, estimated improper payments, and estimated improper payment rates for the EITC, ACTC, AOTC, and net PTC, illustrates this data.

TABLE 1:

RTC Claims and Improper Payments, TY 2022 [1] (dollars in billions)				Reduction of Improper Payments to 10% of claims value		Comparative Improper Payment Rates	
Program	Claims	Improper Payments	Improper Payment Rates [2] [4]	10% of claims value	Reduction needed for ≤ 10%	TY 2022 Improper Payment Rates	Improper Payment Rates
EITC	$58.4	$15.9	27.3%	5.8	$10.1	27.3%	33.5%
ACTC	32.1	3.4	10.7%	3.2	0.2	10.7%	14.5%
AOTC	5.2	1.4	27.7%	0.5	0.9	27.7%	31.6%
net PTC [3]	2.3	0.7	28.5%	0.2	0.5	28.5%	26.0%
Total	**$98.0**	**$21.4**	**21.9%**	**$9.7**	**$11.7**	**21.9%**	**32.1%**

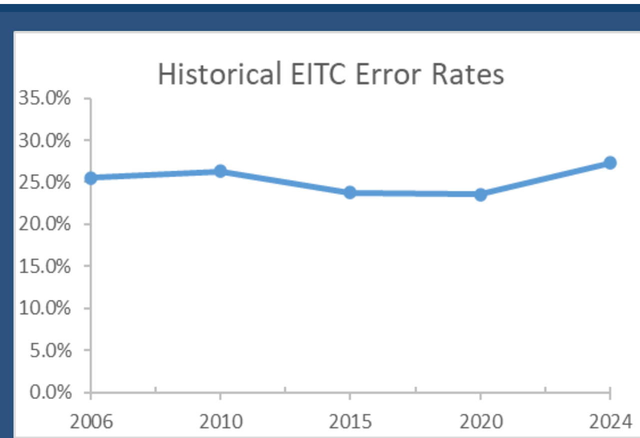
(1) In FY 2024, we are reporting on claims and improper payments associated with tax year 2022 tax returns filed in 2023 and 2024.
(2) Total improper payments ÷ Total RTC claims ($21.4 ÷ $98.0).
(3) Includes amounts for federal and state exchanges.
(4) Percentages may not calculate due to rounding.

The estimated improper payment rates for the RTCs for FY 2024 were not statistically different from the estimated rates reported for FY 2023. The sample precision margins at 95 percent confidence, for FY 2024 estimated rates are +/- 4.35 percent for EITC, +/- 2.96 percent for ACTC, +/- 6.89 percent for AOTC, and +/- 11.80 percent for net PTC. A two-sample test with 95% confidence determined that the differences in the FY 2024 EITC, ACTC, AOTC, and net PTC estimated improper payment rates, and the respective FY 2023 improper payment rates, are not statistically significantly different from zero. Accordingly, based on these samples, there is not significant evidence that the true population improper payment rates for EITC, ACTC, AOTC, or net PTC have changed.

As PTC has been determined to be susceptible to significant improper payments, we collaborated with HHS to develop a joint methodology for reporting improper payment information for advance PTC (reported by HHS) and net PTC (reported by Treasury).

We report net PTC for both the federal and state exchanges in Table 1 above. HHS reports advance PTC in its improper payment table within its AFR. Both agencies disclose a combined advance and net PTC rate in their AFRs. To satisfy reporting to OMB and PaymentAccuracy.gov requirements, the HHS reports disbursements/outlays, estimated error rates, and other data for advance PTC. The IRS similarly reports estimated overclaims and error rates for net PTC. The combined advance and net PTC rates are for informational purposes only and will not be included in either agency's overall improper payment rate as reported on PaymentAccuracy.gov. For TY 2022, the HHS reported advance PTC outlays of $55.7 billion and improper payments of $562.9 million. For TY 2022, IRS reported net PTC claims of $1.3 billion and estimated improper payments of $362.7 million. The combined advance PTC and net PTC improper payment estimate is $925.6 million out of $57.0 billion total Premium Tax Credit outlays/claims, or a combined improper payment rate of 1.62 percent.[3]

The error rate for EITC has averaged 25.9 percent from FY 2006 to FY 2024 despite the ongoing base enforcement and EITC compliance strategies. The current improper payment statutory framework does not consider recoveries of improper payments as reductions to the error rate. Therefore, remediation efforts would need to be preventive in nature, which create challenges given the tax framework and the need to process returns timely or incur interest payment obligations. Accordingly, all enforcement activity would need to be in the pre-refund environment to be counted as a reduction of errors. The control activities specific to reducing the improper payment rate to less than ten percent are the same as those being deployed to reduce the RTC portion of the tax gap: additional audits, system build-outs or enhancements (upgrades), increased outreach, third-party databases to verify taxpayer data, and others. The IRS would have to increase these control activities significantly in an entirely pre-refund environment to reduce the erroneous RTC payments, which would come with highly diminishing returns. Refer to Table 2 for other tax administration strategies.



DEPARTMENT OF THE TREASURY

Estimated Errors Have Averaged 25.9% Despite Efforts to Reduce Error Rates

EITC estimated error rates have ranged from 22.8 percent to 33.5 percent between FY 2006 and FY 2024, with an average annual error rate estimate of 25.9 percent.

The FY 2024 estimates are derived from data from the TY 2019 and TY 2020 National Research Program (NRP) Individual Income Tax reporting compliance studies and the associated estimation methodology. Through TY 2019, NRP studies used a traditional design-based stratification method for sample design and selection. The TY 2019 NRP study also served as a base-lining year for redesigning the sample; both the traditional design-based stratification method and a new model-based stratification method were used to sample the population in TY 2019. The new model-based stratification method uses a compliance risk model to efficiently stratify the population. Beginning with TY 2020, only the model-based stratification method is being used for the NRP sample design.

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

In addition to the new sample design methodology, the new samples have significantly fewer returns on which to base the improper payment estimates. The TY 2020 NRP study only includes 1,500 returns, which is less than half the number of returns used to estimate improper payments in FY 2023. For this reason, two years of NRP samples were used to estimate improper payments in FY 2024. Both the traditional and model-based samples from TY 2019 were combined with the smaller model-based sample from TY 2020. Combining statistical samples over two years to improve the precision of estimates is a common practice by U.S. statistical agencies and the IRS has combined multiple years of data for tax gap estimates for many years.[4]

RTC Improper Payment Reduction Strategies

Much of the information necessary to validate the accuracy of RTC claims before issuing a tax refund is not comprehensively available in any U.S. government database. As a result, the IRS historically allocated a disproportionate amount of its enforcement resources to audit returns that claim one or more RTCs. This created several challenges. Lower-income taxpayers, who make up the majority of those claiming RTCs, were disproportionately audited (at about three times the rate of other taxpayers). This treatment runs counter to the IRS's mission of fairness to all. In addition, over-reliance on pre-refund audits to resolve basic errors results in interest costs to the U.S. government by delaying the issuance of refunds to taxpayers. In response to these challenges, the IRS is realigning resources internally to accelerate progress toward its strategic priorities. In FY 2024, the IRS reduced the number of correspondence audits focused specifically on RTCs. Instead, the IRS is focusing on outreach and education around RTCs. Preparer outreach and education are major components of the IRS's overall strategy to address the tax gap and to reduce errors, as more than 50 percent of taxpayers claiming RTCs use paid preparers. The IRS seeks to inform preparers about the availability of the credits and about the eligibility requirements that taxpayers must meet to claim the credits. The IRS uses many communication vehicles to send important and useful messages to the return preparer community. Table 2 highlights the IRS's RTC improper payment reduction strategies.

[4] *The U.S. Census Bureau's American Community Survey (ACS) combines multiple years of data to improve the precision of small area estimates. The U.S. Census Bureau defines the ACS as "the premier source for detailed population and housing information about our nation."*

TABLE 2:

RTC Improper Payment Reduction Strategies	
Nationwide Tax Forum	The IRS hosts annual tax forums that offer tax professionals the opportunities to learn the latest news and gain valuable insight on the tax industry from the IRS leadership and experts. In FY 2024, preparers attended presentations entitled, *Refundable Credits Eligibility Rules* and *ABCs of Due Diligence* to increase their understanding of the eligibility rules for the refundable tax credits and their due diligence requirements.
Interactive Due Diligence Training Module	The IRS updated the training module on IRS.gov. These modules cover the technical aspects of tax preparer's due diligence requirements. In FY 2024, more than 19,768 preparers received a certificate of completion.
Tax Preparer Toolkit	The IRS updated the Tax Preparer Toolkit on IRS.gov, which educates and assists tax return preparers with returns claiming the EITC, ACTC, AOTC, as well as other credits and tax benefits.
Software Developers Working Group	The IRS holds meetings with members of tax preparation companies and software industry representatives to identify software enhancements that can help reduce refundable credit errors and to assist paid preparers in meeting their due diligence requirements.
Tax Professional Awareness Week	The IRS conducts educational webinars and relays messages to educate and provide legislative information to tax professionals. In FY 2024, nearly 16,246 preparers attended the virtual webinar on refundable tax credit eligibility and due diligence requirements entitled, *Answering Your Frequently Asked Questions about Due Diligence, Due Diligence for Return Preparers,* and *Sailing Through the Rules of Refundable Tax Credits.*
Tax Preparer Alerts	IRS updates alerts on IRS.gov to provide return preparers with current news and information on key refundable credit and return filing topics.
Refundable Credits Summit	In FY 2024, the IRS held its annual summit attended by more than 40 participants from 29 external organizations and agencies. The objectives of the 2024 Summit were to share information on current IRS compliance and outreach activities and to solicit input on ways to increase participation, improve administration and reduce overclaims with respect to refundable credits.
Dependent Database (DDb) Meeting	In FY 2024, IRS held its annual Dependent Database (DDb) meeting with all stakeholders that have a vested interest in refundable tax credits. The meeting was held to evaluate the value of prior-year compliance filters and audit selection criteria and to discuss improvement opportunities to refundable tax credits for the next filing season.

Further improving the payment integrity of the RTC programs will take actions beyond our control. We have proposed various legislative changes over the years aimed at providing more effective tools for managing the RTCs. For the FY 2025 budget submission, the Administration included the following proposals in its budget submission:

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

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

These statutory changes are designed to reduce RTC errors to some degree. However, a meaningful reduction in the estimated error rate is unlikely without independent data sources through which the IRS can verify taxpayer-provided information and additional time and resources for the IRS to address any issues identified.

Pandemic Relief Programs

Certain COVID-19 pandemic relief programs were determined to be susceptible to significant improper payments. Because of their short-term nature, we did not report estimates of improper payments for these programs. However, these programs continue to conduct risk assessments in accordance with OMB guidelines.

Two of Treasury's COVID-19 pandemic relief programs, the Air Carrier Payroll Support Program (PSP) and the Emergency Rental Assistance Program (ERA), are susceptible to significant improper payments. At Congress' direction, we created and implemented these programs under extraordinary emergency conditions and on an expedited timeframe. We are actively identifying and attempting to recover those payments deemed to be improper under these programs.

Three additional COVID-19 pandemic relief programs, the Child and Dependent Care Tax Credit (CDCTC), U.S. Coronavirus Payments, and U.S. Coronavirus Refundable Credits, are susceptible to significant improper payments. The CDCTC, which was expanded by the American Rescue Plan Act of 2021, applied only to TY 2021. Given the one-year nature of the changes to the CDCTC and in an effort to reduce improper payments, the IRS's strategy focused on ensuring that tax preparers, filing platforms, and taxpayers understood the new eligibility criteria and changes for TY 2021. To reduce the risk of improper payments in the Employee Retention Credit (ERC), which was the most significant component of the U.S. Coronavirus Refundable Credit fund expenditures, the IRS moved methodically and deliberately to balance protecting taxpayers from improper claims while also making payments to qualifying businesses. At the end of the prior fiscal year, the IRS announced a moratorium on processing the ERC, to give the bureau time to digitize information on the large amount of ERC claims. In FY 2024, the IRS completed a detail analysis of more than one million claims related to the ERC and enhanced its filters for detecting invalid claims. Through this process, the IRS denied billions of dollars in improper payments, intensified audits, and pursued civil and criminal investigations of potential improper claims.

SECTION E: CIVIL MONETARY PENALTIES INFLATION ADJUSTMENT

The *Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015* (2015 Act) amended the *Federal Civil Penalties Inflation Adjustment Act of 1990* (Inflation Adjustment Act), to improve the effectiveness of civil monetary penalties (CMPs) and to maintain their deterrent effect. The 2015 Act requires agencies to annually adjust the level of CMPs for inflation and report on these adjustments in AFRs. Agencies are required to follow annual OMB guidance to make inflation adjustments and publish the latest penalty levels in the Federal Register no later than January 15 each year. The Inflation Adjustment Act and the 2015 Act exclude penalties under the IRC and the *Tariff Act of 1930*.

Information about the latest inflation adjustments to the CMPs within our jurisdiction can be found at the following locations:

Alcohol and Tobacco Tax and Trade Bureau: 89 FR 3351
https://www.federalregister.gov/documents/2024/01/18/2024-00887/civil-monetary-penalty-inflation-adjustment-alcoholic-beverage-labeling-act

Financial Crimes Enforcement Network: 89 FR 4820
https://www.federalregister.gov/documents/2024/01/25/2024-01420/financial-crimes-enforcement-network-inflation-adjustment-of-civil-monetary-penalties

Office of Foreign Assets Control: 89 FR 2139
https://www.federalregister.gov/documents/2024/01/12/2024-00594/inflation-adjustment-of-civil-monetary-penalties

Office of the Comptroller of the Currency: 89 FR 872
https://www.federalregister.gov/documents/2024/01/08/2024-00097/notification-of-inflation-adjustments-for-civil-money-penalties

Terrorism Risk Insurance Program and Department-wide: 89 FR 4818
https://www.federalregister.gov/documents/2024/01/25/2024-01409/inflation-adjustment-of-civil-monetary-penalties

SECTION F: GRANTS PROGRAMS

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

CATEGORY	2-3 Years	4-5 Years	More than 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	431	12	-
Number of Grants/Cooperative Agreements with Undisbursed Balances	111	30	-
Total Amount of Undisbursed Balances	**$ 64,575,793**	**$ 315,189**	**$ -**

The undisbursed balances increased significantly from last year primarily due to the first Emergency Rental Assistance program created under the CAA (ERA1). Because the ERA1 grants are interrelated to grants awarded by the second program under the ARP (ERA2), ERA1 grantees continue to make corrections for ERA1 grants reporting. Additionally, production and reviews of Single Audits were delayed by the pandemic, and oversight bodies have several open desk reviews that may impact final cash balances of ERA1 grants.

The IRS continues to make the closeout of awards a priority every fiscal year. The IRS did see an increase in the number of expired grant and cooperative agreements with a period of performance over two years from 343 in FY 2023 to 500 in FY 2024. Grant recipients have not correctly completed and submitted all progress reporting forms and financial forms in the Payment Management System which continues to be a challenge preventing closeout of awards. Other factors include competing priorities, employee turnover and challenges associated with integrating a new grants management system. The program offices are reviewing closeout procedures and are dedicated to closing out the remaining accounts in FY 2025.

APPENDIX: GLOSSARY OF ACRONYMS

Abbreviation	Description
2015 Act	Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015
ACTC	Additional Child Tax Credit
AFR	Agency Financial Report
AGI	Adjusted Gross Income
AI	Artificial Intelligence
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
AOTC	American Opportunity Tax Credit
APG	Agency Priority Goal
APR	Annual Performance Report
APTC	Advance Payments of the Premium Tax Credit
ARC	Administrative Resource Center
ARP	American Rescue Plan Act of 2021
ARRA	American Recovery and Reinvestment Tax Act of 2009
ASM	Assistant Secretary for Management
BEP	Bureau of Engraving and Printing
BGP	Bond Guarantee Program
BOA	Basic Ordering Agreement
BOI	Beneficial Ownership Information
BSA	Bank Secrecy Act
CAA	Consolidated Appropriations Act, 2021
CAIA	Common Approach to Identity Assurance
CAP	Climate Adaptation Plan
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CDCTC	Child and Dependent Care Tax Credit
CDFI	Community Development Financial Institutions
CDFI RRP	CDFI Rapid Response Program
CFIUS	Committee on Foreign Investment in the United States
CFO	Chief Financial Officer
CIFS	Critical Individual Filing Season
CISA	Cybersecurity and Infrastructure Security Agency
Civil Service Fund	Civil Service Retirement and Disability Fund
CMP	Civil Monetary Penalties
CMS	Centers for Medicare & Medicaid Services
Compliance Framework	FFMIA Compliance Determination Framework
COVID-19	Coronavirus Disease 2019
CPF	Coronavirus Capital Projects Fund
CPI	Consumer Price Index
CRF	Coronavirus Relief Fund
CRO	Chief Risk Officer
CSR	Customer Service Representative

Abbreviation	Description
CSRS	Civil Service Retirement System
CTA	Corporate Transparency Act of 2020
CTC	Child Tax Credit
D.C.	District of Columbia
D.C. Federal Pension Fund	D.C. Teachers, Police Officers, and Firefighters Federal Pension Fund
DEI	Diversity, Equity, and Inclusion
DEIA	Diversity, Equity, Inclusion, and Accessibility
DHS	Department of Homeland Security
DLT	Distributed Ledger Technology
DO	Departmental Offices
DOL	Department of Labor
ECIP	Emergency Capital Investment Program
EITC	Earned Income Tax Credit
EO	Executive Order
ERA	Emergency Rental Assistance
ERC	Employee Retention Credit
ERM	Enterprise Risk Management
ESA	Exchange Stabilization Agreement
ESF	Exchange Stabilization Fund
EV	Electric Vehicle
Fannie Mae	Federal National Mortgage Association
FARS	Financial Analysis and Reporting System
FASAB	Federal Accounting Standards Advisory Board
FATF	Financial Action Task Force
FCDA	Foreign Currency Denominated Assets
FCRA	Federal Credit Reform Act
FDC	Funds from Dedicated Collections
FDIC	Federal Deposit Insurance Corporation
FECA	Federal Employees' Compensation Act
Federal Reserve Act	Federal Reserve Act of 1913
Federal Reserve Board or Board	Federal Reserve Board of Governors
FEGLI	Federal Employees Group Life Insurance
FEHBP	Federal Employees Health Benefits Program
FERS	Federal Employees' Retirement System
FEVS	Federal Employee Viewpoint Survey
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act of 1996
FHFA	Federal Housing Finance Agency
Financial Report	Financial Report of the U.S. Government
FinCEN	Financial Crimes Enforcement Network
Fiscal Service	Bureau of the Fiscal Service
FISMA	Federal Information Security Modernization Act

Abbreviation	Description
FMFIA	Federal Managers' Financial Integrity Act
FOMC	Federal Open Market Committee
FR System	Federal Reserve System
FRA	Fiscal Responsibility Act of 2023
FRB	Federal Reserve Bank
FRBB	Federal Reserve Bank of Boston
FRBNY	Federal Reserve Bank of New York
Freddie Mac	Federal Home Loan Mortgage Corporation
FRN	Floating Rate Note
FSOC	Financial Stability Oversight Council
FTC	Fuel Tax Credit
FTO	Fine Troy Ounce
FY	Fiscal Year
G Fund	Government Securities Investment Fund
G7	Group of Seven
G20	Group of 20
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
General Fund	General Fund of the U.S. Government
GPRA	Government Performance and Results Act
GSA	General Services Administration
GSE	Government Sponsored Enterprise
HAF	Homeowner Assistance Fund
HBCU	Historically Black College and University
HERA	Housing and Economic Recovery Act of 2008
HFA	Housing Finance Agency
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
HVA	High Value Asset
IA	International Affairs
IAP	International Assistance Programs
IIJA	Infrastructure Investment and Jobs Act
IMF	International Monetary Fund
Inflation Adjustment Act	Federal Civil Penalties Inflation Adjustment Act of 1990
IRA	Inflation Reduction Act
IRC	Internal Revenue Code
IRS	Internal Revenue Service
IT	Information Technology
JADE	Joint Analysis Data Environment
Judicial Retirement Fund	District of Columbia Judicial Retirement and Survivors Annuity Fund
LLC	Limited Liability Company
LOS	Level of Service

Abbreviation	Description
MALSPAM	Malicious Spam
MDB	Multilateral Development Bank
MDI	Minority Deposit Institution
MLF	Municipal Liquidity Facility LLC
MSF	MS Facilities 2020 LLC
NAB	New Arrangements to Borrow
NAFA	North American Framework Agreement
NCCBR	Non-Centrally Cleared Bilateral Repurchase
NIBP	New Issue Bond Program
NIST	National Institute of Standards and Technology
NRP	National Research Program
OCA	Office of Capital Access
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
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
OPEB	Other Post-Employment Benefits
OPM	Office of Personnel Management
OPM Funds	Civil Service Fund and Postal Benefits Fund
ORB	Other Retirement Benefits
ORP	Office of Recovery Programs
OSDBU	Office of Small and Disadvantaged Business Utilization
OSPPI	Office of Strategy, Planning, and Performance Improvement
OTA	Office of Technical Assistance
OTC	Over-the-Counter
OTP	Office of Tax Policy
P.L.	Public Law
PEP	Platform Evolution Program
PIIA	Payment Integrity Information Act of 2019
PIK	Payment-in-Kind
PIO	Performance Improvement Officer
Postal Benefits Fund	Postal Service Retiree Health Benefits Fund
PP&E	Property, Plant, and Equipment
PRC	People's Republic of China
PRGT	Poverty Reduction and Growth Trust
PSP	Payroll Support Program
PTC	Premium Tax Credit
PTIN	Preparer Tax Identification Number
RTC	Refundable Tax Credits

Abbreviation	Description
SB/SE	Small Business/Self Employed
SBLF	Small Business Lending Fund
SBR	Statement of Budgetary Resources
SDR	Special Drawing Rights
Secretary	Secretary of the Treasury
SFFAS	Statement of Federal Financial Accounting Standards
SIGPR	Special Inspector General for Pandemic Recovery
SLFRF	Coronavirus State and Local Fiscal Recovery Funds
SLGS	State and Local Government Series
SOAR	Strategic Objective Annual Review
SOMA	System Open Market Account
SOP	Strategic Operating Plan
SPSPA	Senior Preferred Stock Purchase Agreements
SPV	Special Purpose Vehicle
TAC	Taxpayer Assistance Centers
TALF	Term Asset-Backed Securities II LLC
TEOAF	Treasury Executive Office of Asset Forfeiture
TFI	Terrorism and Financial Intelligence
TFS	TIER Financial Statements
TGA	Treasury General Account
TIER	Treasury Information Executive Repository
TIGTA	Treasury Inspector General for Tax Administration
TIPS	Treasury Inflation-Protected Securities
TRIP	Terrorism Risk Insurance Program
TSP	Thrift Savings Plan
TTB	Alcohol and Tobacco Tax and Trade Bureau
TVL	Total Value Locked
TY	Tax Year
U.S.	United States
U.S. Mint	United States Mint
USACE	United States Army Corps of Engineers
USC	United States Code
USDA	United States Department of Agriculture
USPS	United States Postal Service
USSGL	United States Standard General Ledger
XBRL	eXtensible Business Reporting Language

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RESPONSE TO REPORT OIG-24-007 PURSUANT TO THE JAMES M. INHOFE NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2023, PUBLIC LAW NO. 117-263, SECTION 5274

The Treasury Office of Inspector General attaches the following response received from specifically identified non-governmental organizations or business entities as required by the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Public Law No. 117-263, § 5274

The Treasury Office of Inspector General offers no comment and makes no representations, express or implied, of any nature with respect to the matters stated in the attached responses.

OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D. C. 20220

April 3, 2025

Summary of the International Bank for Reconstruction and Development's Response to Report Number OIG-25-009 Pursuant to the James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, Public Law 117-263, § 5274

Public Law 117-263, § 5274, James M. Inhofe National Defense Authorization Act for Fiscal Year 2023, which amends the Inspector General Act of 1978, requires the Office of Inspector General (OIG) to notify non-governmental organizations (NGOs) and business entities (BEs) of the publication of a report, which specifically identifies them in the content of the report. The law also requires the OIG to provide NGOs and BEs 30 days from the date of the notice to review the final report and submit a written response to the OIG that clarifies or provides additional context for each instance within the report in which they are specifically identified.

On December 23, 2024, we notified the International Bank for Reconstruction and Development (IBRD) that they were identified in the content of the report, Audit of the Department of the Treasury's (Treasury) Consolidated Financial Statements for Fiscal Years 2024 and 2023 (OIG-25-009). On January 2, 2025, IBRD via email[1], responded to our notification with the following comments:

We have reviewed the information related to IBRD in the report and have the following observations.

1. *the callable capital value is different by $1Mn for FY 2024 which looks like a rounding issue, but we still wanted to bring this to your attention.*

Snip 2 from the report: pg 157

(in millions)		2024		2023
International Bank for Reconstruction and Development	$	**50,628**	$	49,206
Inter-American Development Bank		**49,181**		49,181
Asian Development Bank		**18,701**		18,701
African Development Bank		**9,033**		8,177
European Bank for Reconstruction and Development		**3,055**		3,055
North American Development Bank		**1,530**		1,530
Multilateral Investment Guarantee Agency (1)		**315**		315
Total	**$**	**132,443**	$	130,165

(1) Both FY 2024 and 2023 include commitments of $22 million for the undisbursed portion of the subscription to paid-in capital investments.

2. *The paid in value is different by $13Mn, however this is not new and has persisted for many decades. It stems from the historical adoption of the 1974 SDR value by IBRD. Would also want highlight that we had discussed*

[1] AfDB did not respond to our notification on company letterhead.

this with Tim and Jeanny from US treasury as part of regular interactions a couple of months back and it is a well-settled adjustment.

Snip 1 from the report: pg 115

12. Investments in Multilateral Development Banks

As of September 30, 2024 and 2023, Investments in Multilateral Development Banks consisted of the following:

(in millions)		2024		2023
International Bank for Reconstruction and Development	$	**3,883**	$	3,677
Inter-American Development Bank [1]		**2,023**		2,023
Asian Development Bank		**991**		991
African Development Bank		**652**		714
European Bank for Reconstruction and Development		**636**		636
International Finance Corporation		**569**		569
North American Development Bank		**450**		450
Multilateral Investment Guarantee Agency		**45**		45
Total	$	**9,249**	$	9,105

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

Paid In capital	**2024**	**2023**	
Information from the report	3,883	3,677	Snip 1
Per IBRD financial records	3,896	3,690	
Difference	13	13	
Callable Capital	**2024**	**2023**	
Information from the report	50,628	49,206	Snip 2
Per IBRD financial records	50,627	49,206	
Difference	1	-	

We reached out to Treasury Departmental Offices (DO) on January 7, 2025, to provide them with IBRD's response and requested an official response from them on agency letterhead. Attached is DO's response dated January 31, 2025, to IBRD's response.

We provided IBRD's and DO's responses to KPMG, LLP, Treasury's independent auditor, and requested that they provide us with their determination regarding the error noted. In an email received on March 4, 2025, KPMG, LLP indicated that they determined that the variances related to the Callable Capital and Paid in Capital balances disclosed in Treasury's fiscal year 2024 consolidated financial statements issued on November 15, 2024, are inconsequential to Treasury's financial statements as a whole. Further, they noted that the variances do not impact the independent auditor's report on the consolidated financial statements of the Department of the Treasury.

January 31, 2025

Deborah L. Harker
Assistant Inspector General for Audit
Office of the Inspector General
Department of the Treasury

Dear Ms. Harker:

We are in receipt of the Department of the Treasury, Office of Inspector General's notification under Public Law 117-263, § 5274 to the International Bank for Reconstruction and Development (IBRD). IBRD provided a response to this notification identifying the discrepancies regarding Paid-In Capital and Callable Capital balances disclosed in the Department of the Treasury's Fiscal Year (FY) 2024 Agency Financial Report, included in the Treasury Office of Inspector General's Report OIG-25-009 issued on November 15, 2024.

We confirm that all payments have been properly disbursed and received by IBRD in a timely and accurate manner. The issue at hand is a recording/accounting issue, regarding a discrepancy between Treasury and IBRD's recordings of the U.S. Paid-In Capital and Callable Capital balances at the IBRD.

Regarding the Paid-In Capital balance, Treasury recorded $3.883 billion as of the end of September 2024, while IBRD recorded $3.896 billion at the end of July 2024. This $13 million discrepancy has existed for decades, and resulted from the IBRD's adoption of a conversion rate of $1.20635 per SDR in the early 1970's when it shifted the value of certain shares from the $1 to 1 SDR rate that existed during the period of the gold standard. This caused the U.S. dollar value of certain U.S. shares to increase by $13 million, while they continued to be recorded based on the U.S. dollar cost of their original purchase in Treasury accounts.

Regarding the Callable Capital balance, Treasury recorded $50.628 billion as of end September 2024, while IBRD recorded $50.627 billion at the end of July 2024. This difference stems from slight variations between the U.S. and IBRD recording of U.S. Callable Capital subscriptions over the years, along with rounding in Treasury's FY24 Agency Financial Report.

Please be advised that Treasury has discussed the foregoing differences in Paid-In Capital and Callable Capital balances with the IBRD. And, for the reasons outlined above, we expect these differences in recorded Paid-in and Callable Capital balances to persist. However, Treasury is implementing additional controls to mitigate against differences recorded for future Callable Capital subscriptions.

We updated our accounting policy and procedures for confirming both the Paid-in Capital and Callable Capital balances with the MDBs in FY24. These procedures include an annual confirmation process: by October 20 of each fiscal year, the Bureau of the Fiscal Service's Administrative Resource Center provides the Office of Multilateral Development Banks (MDB

Office) under the Office of International Affairs with a summary of Paid-in Capital and Callable Capital balances for each institution as of September 30, which has been reviewed by Treasury's Office of Performance Budgeting, with the explicit purpose of conducting a reconciliation of accounts. The MDB Office requests written confirmation from each MDB on their current recorded balances of Paid-in Capital and Callable Capital, as of September 30. The review and reconciliation of these balances will take place before the finalization of Treasury's annual Agency Financial Report.

Sincerely,

Paula E. Corbin

Digitally signed by Paula E. Corbin
Date: 2025.01.31 12:04:07 -05'00'

Paula Corbin
Deputy Assistant Commissioner, Administrative Resource Center, Service Delivery

Margaret L. Kuhlow

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Date: 2025.02.07 09:47:14 -05'00'

Margaret L. Kuhlow
Deputy Assistant Secretary for International Development Finance and Policy, International Affairs

Kawan Taylor

Digitally signed by Kawan Taylor
Date: 2025.02.07 11:00:44 -05'00'

Kawan Taylor
Executive Director, Financial Reporting, Policy, & Operations, Office of the Deputy CFO

cc: Mr. Prithiviraj Sathyam
Senior Financial Officer
World Bank Group
1818 H Street, NW
Washington, DC 20433