



OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

October 14, 2021

INFORMATION MEMORANDUM FOR SECRETARY YELLEN

FROM:

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Acting Inspector General

SUBJECT:

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

In accordance with the Reports Consolidation Act of 2000, we are providing you with our perspective on the most serious management and performance challenges facing the Department of the Treasury (hereinafter Treasury or the Department). In this year's memorandum, my office is reporting six challenges, one of which is new and reports on the challenges faced with the transition of the new Administration in filling key senior leadership positions and the rise of new initiatives. As shown below, five challenges are repeated and updated from last year to include Treasury's continued role in combatting the economic fallout of the Coronavirus Disease 2019 (COVID-19) global pandemic at the forefront of the Nation, as well as its impacts on related workforce and work streams.

- COVID-19 Pandemic Relief (Repeat)
- Transition of New Administration (New)
- Cyber Threats (Repeat)
- Anti-Money Laundering/ Terrorist Financing and Bank Secrecy Act Enforcement (Repeat)
- Efforts to Promote Spending Transparency and to Prevent and Detect Improper Payments (Repeat)
- Information Technology Acquisition and Project Management (Repeat)

In addition to the above challenges, we are reporting our concerns about the following matters: (1) the coin redemption program at the United States Mint (2) managerial cost accounting, and (3) internal control matters at the Bureau of Engraving and Printing.

We identified challenges and concerns based on the threat they pose to Treasury's mission and stakeholders' interests. We also acknowledge the Department's accomplishments and efforts over the past year to address critical matters as noted within each challenge. That said, the COVID-19 pandemic has caused a global health emergency and an ensuing economic crisis that Treasury has been tackling. Furthermore, with the enactment of new legislation, Treasury will continue to provide financial assistance to the transportation industry and to all 50 States, units of local government, U.S. Territories, and Tribal governments for the foreseeable future. As noted throughout this memorandum, Treasury will need to continue to act swiftly, and in some cases, draw on its existing resources to meet the recent economic needs.

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

cc: Trevor Norris
Acting Assistant Secretary for Management

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Challenge 1: COVID-19 Pandemic Relief (Repeat)

The Coronavirus Disease 2019 (COVID-19) pandemic continues to affect the health and economic stability of communities worldwide. Since reporting this challenge last year, more than 37 million people have been infected with reported deaths of more than 684,000 in the United States as of this writing.¹ In the early stages of the COVID-19 outbreak in March 2020, Congress passed three key pieces of legislation in succession to address the public health crisis and the economic fallout affecting individuals, businesses, and many industry sectors. The *Coronavirus Preparedness and Response Supplemental Appropriation Act of 2020*, signed into law on March 6, 2020, authorized \$8.3 billion in emergency funding to address health and medical care.² Shortly thereafter, the *Families First Coronavirus Response Act* was enacted on March 18, 2020, which provided approximately \$104 billion to address the financial stress of individuals and households.³ The *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act)⁴ passed on March 27, 2020. The CARES Act provided over \$2.4 trillion in health and economic relief to hospitals and healthcare providers, individuals and households, businesses and employees, as well as, states, local and tribal governments, and federal agencies, among others. As the public health crisis continued into late 2020 and the new year, Congress legislated additional relief in passing the *Consolidated Appropriations Act, 2021*⁵ (CAA, 2021) on December 27, 2020, and the *American Rescue Plan Act of 2021*⁶ (ARP) on March 11, 2021. These laws provided another \$900 billion and \$1.9 trillion of economic stimulus, respectively.

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

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

Air Carrier Worker Support

To maintain pay and benefits of airline industry workers, Treasury implemented the Air Carrier Worker Support Program provisions of the CARES Act that authorized up to \$32 billion of direct financial assistance for passenger air carriers (\$25 billion), cargo air carriers (\$4 billion), and contractors (\$3 billion). Financial assistance is to ensure the continuation of workers' payroll and benefits with the stipulation that employees are not involuntarily furloughed and do not receive reductions in pay and benefits. Using existing resources and contractor support, Treasury quickly stood up the Payroll Support Program (PSP1) and made direct payments of \$28.6 billion to 613

¹ [CDC COVID Data Tracker](#).

² Public Law 116-123 (March 6, 2020).

³ Public Law 116-127 (March 18, 2020).

⁴ Public Law 116-136 (March 27, 2020).

⁵ Public Law 116-260 (December 27, 2020).

⁶ Public Law 117-2 (March 11, 2021).

applicants as of February 24, 2021. Financial support for air carrier workers was extended twice by CAA, 2021 and ARP which provided additional assistance to passenger air carriers and contractors up to \$15 billion and \$14 billion, respectively. Using the mechanisms to establish PSP1, Treasury implemented PSP2 and PSP3 to make corresponding payments. As of this writing, Treasury disbursed \$15.6 billion to 518 applicants under PSP2 and \$14.6 billion to 482 applicants under PSP3.

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

Coronavirus Economic Relief for Transportation Services

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

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

Coronavirus Relief Fund

The \$150 billion Coronavirus Relief Fund (CRF), established under Title VI of the *Social Security Act*, as amended by Title V of the CARES Act, continues to be a large endeavor for both the

Department and my office. The Department disbursed direct payments to States, units of local government, the District of Columbia, U.S. Territories, and Tribal governments. Disbursement of funds was a complicated undertaking given the number of recipients at varying levels of government and other payment requirements of the CARES Act. That is, payments to States and local units of government were formula-driven and based on the 2019 U.S. Census, while other payments were based on consultations with the Department of the Interior and Tribal governments and other information obtained by the Department. As you are aware, the CARES Act created a unique challenge in distinguishing between the programmatic administrative responsibility for payments made from the CRF and the Treasury Office of Inspector General's (OIG) independent oversight. Although Treasury was authorized to make payments, the CARES Act assigned Treasury OIG with responsibility for monitoring and oversight of the receipt, disbursement, and use of funds. Additionally, my office was given authority to recoup funds if it is determined that recipients fail to comply with uses of funds for COVID-19 related costs under Section 601 (d), "Uses of Funds," of the *Social Security Act*, as amended.⁷

Given the direct oversight authorities of the Treasury OIG, the Department did not establish an administrative program to ensure recipient compliance. Recipients were not bound to detailed terms and conditions for the receipt of funds, which we reported in our first audit of CRF regarding the lack of terms and conditions and accountability and transparency of funds.⁸ While this is unusual for a federal agency that administers financial assistance programs, Treasury officials have committed to supporting our oversight role for ensuring transparency, accountability, and adherence to all statutory requirements and will continue to collaborate with us to ensure compliance by recipients. This continued collaboration has been critical for overseeing such a large and widely dispersed recipient population given the ongoing challenges of defining and interpreting eligible uses of CRF proceeds. That said, it is crucial that the Department maintain its fundamental role to clarify its policy⁹ over the uses of funds when interpretation matters arise. As recipients are still in the process of using these funds, we anticipate that questions will continue to arise that will require interpretation. In addition, the litigation over the eligibility of Alaskan Native Corporations (ANC) for receiving CRF payments settled in the ANCs' favor in June 2021. Treasury must make payments to ANCs from the nearly \$533 million of CRF proceeds set aside until a court ruling was made. ANCs will have a short window to use funds by the December 31, 2021 deadline. We anticipate that eligible use questions will arise regarding ANCs' use of their CRF proceeds. Providing as much clarity as possible over allowable uses is essential for ensuring recipients understand the compliance requirements and are accountable and transparent in how they report uses of funds. My office has received over 200 complaints regarding recipient, and in some instances sub-recipient, uses of CRF proceeds that require continued collaboration between our offices.

⁷ Section 601 (d), Use of Funds, to cover only those costs of the State, Tribal government, or unit of local government that (1) are necessary expenditures incurred due to the public health emergency with respect to COVID-19; (2) were not accounted for in the budget most recently approved as of the date of enactment of this section for the State or government; and (3) were incurred during the period that begins on March 1, 2020, and ends on December 31, 2021, as extended by the CAA, 2021.

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

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

As part of my office's monitoring and oversight function, we established a portal using GrantSolutions¹⁰ for recipients to report their uses of funds on a quarterly basis that started in September 2020. The data received is reviewed and approved by my office prior to being extracted for display on the Pandemic Response Accountability Committee¹¹ (PRAC) website (<https://pandemicoversight.gov>).¹² CAA, 2021 extended the covered period for recipients to use CRF payments through December 30, 2021, and now requires funding agencies under Division A of the CARES Act to report recipient obligation and expenditure data required under sections 15010 and 15011 of CARES Act Division B. This transferred the CRF recipient reporting responsibility to Treasury. While the responsibility is Treasury's, we continue to administer the GrantSolutions portal under an Economy Act Agreement. As of this writing, my office received and reviewed recipient data comprised of approximately \$139 billion in cumulative obligations and \$132 billion in cumulative expenditures covering the period of March 1, 2020 through June 30, 2021, that was exported to the PRAC for public display.

Coronavirus State and Local Fiscal Recovery Funds

While disbursing CRF payments was an enormous undertaking for the Department, the *Coronavirus State and Local Fiscal Recovery Funds* provisions of ARP require Treasury to disburse another \$362 billion to State, Local, Territorial, and Tribal governments under the Coronavirus State Fiscal Recovery Fund (\$219.8 billion) and the Coronavirus Local Fiscal Recovery Fund (\$130.2 billion) (together referred to as SLFRF), Coronavirus Capital Projects Fund (CCPF)(\$10 billion), and Local Assistance and Tribal Consistency Fund (CTCF) (\$2 billion).

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

As of September 2021, Treasury developed allocation methodologies and guidance for distributing up to \$10 billion of CCPF as noncompetitive grants to States, U.S. Territories, and Tribal governments, to address infrastructure challenges, such as reliable internet that low to moderate income and rural communities have experienced during the COVID-19 pandemic.¹³ Treasury also began accepting applications through its application submission portal from States and U.S. Territories in September 2021 and plans to open the portal to Tribal governments beginning

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

¹¹ The PRAC, created within the Council of Inspectors General on Integrity and Efficiency, is comprised of Inspectors General of agencies involved in the COVID-19 response to include Treasury OIG, Treasury Inspector General for Tax Administration, and the Special Inspector General for Pandemic Recovery (SIGPR).

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

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

October 2021. Although Treasury has developed CCPF program requirements and a means to apply for funds, recipient compliance and reporting requirements are still forthcoming. Treasury will need to develop these requirements expeditiously so that they are incorporated into the terms and conditions of CCPF grant agreements.

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

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

Emergency Rental Assistance and Homeowner Assistance Fund

To provide assistance to vulnerable households at risk of housing instability, Congress established two Emergency Rental Assistance (ERA) Programs and a Homeowner's Assistance Fund (HAF) availing over \$56 billion to households in need. Division N, Title V, Subtitle A, of CAA, 2021, created the initial ERA Program (ERA1) and ARP created a supplemental ERA Program (ERA2) and HAF.

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

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

recipients, provided guidance on fund usage, and set up a Portal where recipients are to report on their spending.

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

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

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

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

State Small Business Credit Initiative

The State Small Business Credit Initiative (SSBCI), which was originally created in the *Small Business Jobs Act of 2010* to increase availability of credit for small businesses, ended in 2017. However, Section 3301 of ARP reauthorized SSBCI and provided \$10 billion in funding for the program. Under SSBCI, participating States, U.S. Territories, and Tribal governments may obtain funding for programs that partner with private lenders to extend credit to small businesses. Such

programs may include those that finance loan loss reserves, and those that provide loan insurance, loan guaranties, venture capital funds, and collateral support. States, U.S. Territories, and Tribal governments who apply for SSBCI must provide Treasury with plans for using their funding allocations for review and approval and report quarterly and annually on results. Treasury will distribute funds in three different tranches over 10 years.

Additionally, ARP modified SSBCI in a number of ways including the following set-asides:

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

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

Community Development Investment Programs¹⁵

Emergency Capital Investment Program

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

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

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

CDFI Rapid Response Program

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

Accountability and Transparency

Over the past year, Treasury accomplished much in helping to alleviate hardships of families and industry sectors to include delivering more than \$400 billion of Economic Impact Payments under ARP to workers and households through the Internal Revenue Service (IRS) and Bureau of the Fiscal Service (Fiscal Service). Through the IRS, Treasury helps to protect workers and jobs through the Employee Retention Tax Credit and Payroll Tax Deferral authorized by the CARES Act. Treasury also assisted the Small Business Administration in carrying out the Paycheck Protection Program and the Economic Injury Disaster Loans authorized by the CARES Act to support payroll, benefits, and other operating costs of small businesses. Under the Emergency Relief and Taxpayer Protections (commonly referred to as Section 4003), Treasury was authorized to make loans, loan guarantees, and other investments to eligible businesses, states, and municipalities. The Emergency Relief and Taxpayer Protections provisions also authorized the establishment of the Special Inspector General for Pandemic Recovery (SIGPR) within Treasury to oversee loans, loan guarantees, and other investments provided by Treasury. Although some of the aforementioned CARES Act provisions do not fall under the oversight jurisdiction of my office, the payment work streams and mechanisms administered by the Fiscal Service do.

In the context of this overarching challenge, we recognize the breadth and scope of Treasury's responsibilities as it impacts programs, operations, and activities regardless of jurisdictional oversight boundaries. Along with administering and delivering economic relief, Treasury must manage the unprecedented oversight that pandemic relief funding is subject to. In addition to my office's ongoing work on pandemic programs, Treasury is subject to a number of additional oversight bodies. As mentioned above, SIGPR was created to oversee loans, loan guarantees, and other investments provided by Treasury¹⁶ and must report to congress quarterly on SIGPR's activities and Treasury's loan programs. A Congressional Oversight Commission was established

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

to report to Congress on Treasury's and the Federal Reserve Board's implementation activities under Title IV, Subtitle A, "Coronavirus Economic Stabilization Act of 2020." Moreover, the commission is required to report every 30 days on the use of contractors and administration of loan programs, the impact of programs on the Nation's financial wellbeing, whether required disclosures of the CARES Act provide market transparency, and the effectiveness of maximizing benefits and minimizing costs to taxpayers, among other things.¹⁷ Furthermore, the Government Accountability Office (GAO) has ongoing work evaluating the federal response to the COVID-19 pandemic and the effects of the pandemic on federal programs and operations.

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

While the COVID-19 pandemic continues, Treasury must persevere in navigating this challenging time. Treasury has leveraged its existing workforce, hired contractors, and obtained detailees from other Federal agencies to address the demands of the new programs created by pandemic legislation. Going forward, Treasury may experience difficulties in balancing its new responsibilities and workloads while managing several ongoing challenges as described throughout this memorandum. While I am hopeful that fiscal year 2022 will see an end to the horrific fallout that the COVID-19 pandemic has had on our nation, I am also mindful that both short-term and long-term challenges lay ahead for both Treasury and my office.

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

Challenge 2: Transition of New Administration (New)

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

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

While Treasury continues transitioning key senior leadership positions and implementing these and other new initiatives and programs going into fiscal year 2022, other previously reported uncertainties have yet to be resolved. In addition to working through the unforeseen challenges presented by the COVID-19 pandemic discussed in Challenge 1, Treasury must also operate in the

¹⁸ Executive Order 13985, *Advancing Racial Equity and Support for Underserved Communities Through the Federal Government* (January 20, 2021).

¹⁹ Executive Order 13988, *Preventing and Combating Discrimination on the Basis of Gender Identity or Sexual Orientation* (January 20, 2021).

²⁰ Executive Order 14031, *Advancing Equity, Justice, and Opportunity for Asian Americans, Native Hawaiians, and Pacific Islanders* (May 28, 2021).

²¹ Executive Order 14035, *Diversity, Equity, Inclusion, and Accessibility in the Federal Workforce* (June 25, 2021).

repeated cycle of budget and debt ceiling stopgaps. As conveyed in prior years' memoranda, a long-term solution has yet to be found. On August 2, 2019, the President signed the Bipartisan Budget Act of 2019, which suspended the statutory debt limit through July 31, 2021.²² This legislation offered a temporary solution to allow Congress to resolve unfinished business when it comes to the Nation's debt, and address long-term sustainability of large programs.

On May 5, 2021, Treasury released its Quarterly Refunding Statement which noted that substantial COVID-19 related uncertainty about receipts and outlays create difficulty in estimating how long extraordinary measures, if invoked, will last. Additionally, although not included as a top open recommendation in its June 2021 letter to the Department,²³ GAO raised concerns to Congress in its July 2015 report²⁴ with the approach to managing the federal debt limit and its impact on Treasury's borrowing costs and the need for alternative approaches. With that said, Fiscal Service has ongoing communication with the Department, particularly the Office of Fiscal Projections (OFP). OFP provides Treasury decision-makers with information on current and predicted cash balances. As the Federal Government's financial manager, Fiscal Service plays a unique role in ensuring that OFP has current and accurate federal financial data.

The debt ceiling suspension ended on July 31, 2021, resulting in it being reinstated to \$28.4 trillion on August 1, 2021. As you are aware, Treasury began employing certain extraordinary measures to prevent the United States from defaulting on its obligations, as there is still no clear plan for averting default later this year.²⁵ On July 30, 2021, Treasury suspended sales of securities that help states and municipalities invest bond proceeds. On October 12, 2021, as a short-term measure, Congress acted to extend the debt limit by \$480 billion to \$28.9 trillion until early December 2021. With that said, Congress will need to act to raise or suspend the limit again to prevent default.

Dealing with the transition of key senior leadership positions, new initiatives, additional workloads, and other critical matters such as the budget and debt ceiling stopgaps during the COVID-19 pandemic continues to be more challenging than usual. The impact of this challenge and the uncertainties require the Department to continue to focus its resources on programs that are in the highest need to citizens and/or where there is a unique federal role. It is essential that new initiatives, programs, and reforms be managed and communicated effectively for achieving performance and accountability.

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

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

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

²⁵ Extraordinary measures have been taken in the past. Specifically, the U.S. debt limit was reinstated at \$22 trillion on March 2, 2019. At that time, Treasury immediately implemented extraordinary measures to prevent the United States from defaulting on its obligations. Measures included (1) suspending State and Local Government Series securities sales, (2) declaring a "debt issuance suspension period" which suspended additional investments in the Civil Service Retirement and Disability Fund and Postal Retiree Health Benefits Fund, and (3) suspending investment in the Government Securities Investment Fund of the Federal Employees' Retirement System Thrift Savings Plan. In July 2019, Treasury informed Congress that these extraordinary measures would be exhausted before September 2019.

Challenge 3: Cyber Threats (Repeat)

Cybersecurity is a long-standing and serious challenge facing the Nation. A reliable critical infrastructure, including information systems and networks, is vital to our national security and economic stability. Cyber threats remain a persistent concern as Treasury's information systems are critical to the core functions of government and the Nation's financial infrastructure, along with the financial sector it oversees. The cyber threats continue to evolve and become more sophisticated, subtle, and easier to perform, which poses ongoing challenges for Treasury to fortify and safeguard its internal systems and operations while modernizing and maintaining them. While managing known risks is an ongoing challenge, Treasury must also be ready to reinforce and/or redirect cybersecurity efforts when unforeseen events occur such as the COVID-19 pandemic and the more recent SolarWinds attack.²⁶

Attackers frequently exploit vulnerable networks or systems in a string of trusted connections to gain access to government systems. Organized hacking groups leverage published and unpublished vulnerabilities and vary their methods to make attacks hard to detect and even harder to prevent. Criminal groups and nation-states are constantly seeking to steal information; commit fraud; disrupt, degrade, or deny access to information systems; or infiltrate information systems and maintain a presence to enable future actions. Through cyber information sharing, federal agencies are better prepared to thwart potential attacks to the cyber infrastructure of the Federal government and the financial sector that it serves. In its 2021 high risk list published biennially, again GAO reported the Nations' cybersecurity as a government-wide issue.²⁷

Long-standing cyber threats pose increased risks to networks and information systems during the ongoing COVID-19 global health pandemic as more opportunities are available for bad actors to stage cyber-attacks. As the tools used to perpetrate cyber-attacks become easier to use and more widespread, less technological knowledge and fewer resources are needed to launch successful attacks of increasing sophistication. Such attacks include distributed denial of service, phishing or whaling, fraudulent wire payments, malicious spam (malspam), ransomware, and compromise of supply chains (both hardware and software). The COVID -19 pandemic has shifted the federal workforce to a primarily telework status which has provided attackers with more possibilities to disrupt services. Increased network traffic from remote sources provides cover for attackers to blend in with the federal workforce and launch cyber assaults. Attackers may take advantage of the increased demand for information on COVID-19 by crafting highly attractive phishing, whaling, and malspam attacks that are more likely to succeed by luring workers in with promises of information related to COVID-19. These opportunities may allow hackers to launch a denial of service attack upon a network that can prevent remote workers from performing their duties and disrupt operations. Furthermore, information systems and its users are at heightened risk of COVID-19 related exploitation such as stimulus check scams, tax-fraud schemes, and fraudulent coronavirus testing kit scams, among other things.

There is continuing concern over foreign adversaries creating and exploiting vulnerabilities in the Nation's supply chain for information and communication technology and services as evidenced

²⁶ The SolarWinds attack, reported in December 2020, was a supply chain attack that used the update mechanism for legitimate software to distribute malicious software.

²⁷ GAO, *High-Risk Series, Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas* (GAO-21-119SP: March 2020).

by the SolarWinds attack that affected many federal agencies and private sector companies. Executive Order 13873, *Securing the Information and Communications Technology and Services Supply Chain*, was issued on May 15, 2019, to secure the supply technology and services chain by banning the import, use, or sale of technology or services designed, developed, manufactured, or supplied from persons or companies that are owned or controlled by governments defined as hostile to the United States.²⁸ On May 11, 2021, this Executive Order was extended again for 1 year.²⁹ There are risks that Treasury's systems and resources already in use, including critical infrastructure, contain components from sources that have yet to be designated as threats. Once a source is designated as such, repairs and/or upgrades of key system components may no longer be available. Therefore, there is risk of disruption of critical operations. The Department will need to monitor developments in this area closely and plan for the possibility that its current supply chain may no longer be available. Furthermore, Executive Order 14028, *Improving the Nation's Cybersecurity*, issued on May 12, 2021, calls for federal agencies to update existing plans to prioritize resources for adoption and use of cloud technology and to adopt a zero-trust architecture,³⁰ among other things. In response to our prior year memorandum, Treasury reported that Fiscal Service continues to modify current contracts to include clauses in support of Executive Order 13873, by requiring all solicitations to adhere to Treasury's security requirements and leveraging the Federal Risk and Authorization Management Program³¹ to accelerate the authorization of cloud-based systems and services. Treasury needs to prioritize cloud adoption and zero-trust architecture among its other component bureaus and offices. As mentioned above, Treasury management must be mindful that the efforts to secure Treasury's supply chain may hamper cloud adoption and the implementation of zero-trust architecture.

We continue to remind the Department that, in addition to Treasury's own networks and systems, management must be cognizant of, and mitigate, the risks posed by attacks made against other federal and non-federal agencies and Treasury contractors and subcontractors. Increased threats and risks posed to third-parties' networks and systems due to the opportunities that extended telework provides to potential attackers also poses increased risks to Treasury's networks and systems. Treasury frequently enters into interconnection agreements with other federal, state, and local agencies, and service providers to conduct its business. Management must exercise due care when authorizing such internetwork connections and verify that third parties comply with federal policies and standards including any guidance issued to address new and/or expanded threats and risks. Management is also challenged with ensuring that critical data and information maintained by third-party cloud service providers are properly protected. There have been ongoing issues related to management of cloud systems reported in four consecutive *Federal Information Security Modernization Act of 2014*³² audits (fiscal years 2015, 2016, 2017, and 2018) with some recommendations not implemented by the fiscal years 2019 and 2020 audits.

²⁸ Executive Order 13873, *Securing the Information and Communications Technology and Services Supply Chain* (May 15, 2019).

²⁹ *Notice on the Continuation of the National Emergency with Respect to Securing the Information and Communications Technology and Services Supply Chain* (May 11, 2021).

³⁰ Zero-trust architecture is a method of designing a system in which all actions are presumed dangerous until reasonably proven otherwise, thereby reducing the chance of a successful attack causing further damage.

³¹ The Federal Risk and Authorization Management Program is a government-wide program that provides a standardized approach to security assessment, authorization, and continuous monitoring for cloud products and services.

³² Public Law 113-283 (December 18, 2014).

Treasury is looked upon to provide effective leadership to financial institutions in particular, and the financial sector in general, to strengthen awareness and preparedness against cyber threats to the Nation's critical infrastructure. As such, effective public-private coordination is essential to the Nation's financial and national security. In this regard, The Office of Critical Infrastructure Protection and Compliance Policy coordinates Treasury's efforts to enhance the security and resilience of the financial services sector critical infrastructure and reduce operational risk including risks associated with cybersecurity. Given the stress that the global COVID-19 pandemic continues to place on financial institutions and the financial sector as a whole, it is important that the Department monitors cyber risks in these areas. That said, Treasury and other federal agencies have yet to fully implement the National Institute of Standards and Technology (NIST) guidance to assist federal agencies in managing cybersecurity risks.³³ In 2018, GAO had reported that the extent of adoption of the NIST framework by critical infrastructure sectors was unknown since agencies were not measuring framework implementation. With respect to Treasury, GAO had recommended that steps be taken to consult with respective sector partners to develop methods for determining the level and type of adoption by entities across the financial services sector. In its June 16, 2021 letter³⁴ regarding its top open recommendations, GAO noted that Treasury had established ongoing initiatives such as developing common terminology for cyber terms, but had not developed methods to determine the level and type of framework adoption; the recommendation remained open. GAO acknowledged that Treasury had developed a cybersecurity risk management strategy, which included key elements identified in federal guidance and established a process for conducting an organization-wide cybersecurity risk assessment.

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

³³ NIST, *Framework for Improving Critical Infrastructure Cybersecurity* (Version 1.0, February 12, 2014; superseded by Version 1.1; April 16, 2018).

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

³⁵ High Value Assets are assets, information systems information, and data for which an unauthorized access, use, disclosure, disruption, modification, or destruction could cause a significant impact to the U.S.' national security interests, foreign relations, economy, or to the public confidence, civil liberties, or public health and safety.

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

Over the past year, the Office of Terrorism and Financial Intelligence (TFI) has remained dedicated to countering the ability of financial networks that support terrorists, organized transnational crime, weapons of mass destruction proliferators, and other threats to international security through intelligence analysis, sanctions, and international private-sector cooperation. As previously reported, identifying, disrupting, and dismantling the financial networks that support rogue regimes, terrorist organizations, transnational criminal organizations, and other threats to the national security of the United States and our allies continues to be challenging as TFI's role to counter these financial networks and threats has grown because its economic authorities are key tools to carry out U.S. policy. Additionally, criminals and other bad actors evolve and continue to develop more sophisticated money laundering methods in an attempt to avoid detection.

TFI's authorities are key tools in implementing U.S. policy to pressure foreign countries and regimes, such as Russia, through the use of designations and economic sanctions. TFI has significantly increased sanctions against Russia related to malign activities and human rights violations. TFI's counter-terrorism designations disrupt the financial networks that support terrorist organizations. Disrupting terrorist financing depends on a whole-of-government approach and requires collaboration and coordination within Treasury and with other federal agencies. Collaboration and coordination are key to successfully identifying and disrupting all of these financial networks and meeting TFI's mission. This effort requires effective and efficient working relationships among components within TFI and the Intelligence Community. In an effort to effectively implement U.S. policy and disrupt these financial networks, officials stated that TFI is moving towards a more collaborative approach to achieve its mission. Given the criticality of Treasury's mission and its role to carry out U.S. policy, we continue to consider anti-money laundering and combating terrorist financing programs and operations as inherently high-risk.

Data security and information sharing are challenges for the Financial Crimes Enforcement Network (FinCEN), which has experienced unauthorized disclosures of Bank Secrecy Act information. FinCEN is required to maintain a highly secure database for financial institutions to report suspicious activity. FinCEN has previously identified that the success of that system depends on the financial sector's confidence that those reports are adequately protected, but data breaches threaten to undermine that confidence. FinCEN is also required to maintain a government-wide data access service to make information available and useful to federal, state, local, and foreign law enforcement agencies and appropriate regulators and to support intelligence and counterintelligence activities and anti-money laundering initiatives. The challenge for FinCEN is to ensure the Bank Secrecy Act data remains secure in order to maintain the confidence of the financial sector while meeting the access needs of law enforcement, regulatory, and intelligence partners.

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

Given the broad implications and critical roles assigned to Treasury by the Digital Accountability and Transparency Act of 2014 (DATA Act), we note the renewed challenges facing the Department given the need to ensure transparency to the taxpayer and other stakeholders on the use of funds distributed under economic relief packages enacted to address individuals and industry sectors impacted by the COVID-19 global pandemic. As noted in Challenge 1, over the past year, Treasury delivered more than \$400 billion of Economic Impact Payments under ARP to workers and households through IRS and Fiscal Service. Treasury is also accountable for providing transparency over the expenditure of pandemic relief funds.

DATA Act reporting is seen as one of the means to ensure transparency into the use of federal funds related to COVID-19 expenditures. In its April 2020 memorandum, *Implementation Guidance for Supplemental Funding Provided in Response to the Coronavirus Disease 2019 (COVID-19)*³⁶ the Office of Management and Budget (OMB) requires that agencies leverage existing financial accountability and transparency mechanisms. In part, OMB requires (1) tracking of COVID-19 expenditures with usage of a Disaster Emergency Fund Code; (2) reporting financial assistance recipient information within two weeks of issuance, with the exception of loans; and (3) reporting outlay information at the financial award transaction level. As discussed in Challenge 1, many reporting requirements of sections 15010 and 15011 of the CARES Act were extended under the CAA, 2021, PRAC amendments. Furthermore, Treasury must provide public reports quarterly on the use of funds under its Emergency Rental Assistance program, among others. With that said, the Department must balance its ongoing response to the financial impacts of the public health emergency with its responsibility to respond to oversight bodies and stakeholders.

To further enhance transparency, Treasury has devoted significant resources and leveraged existing financial reporting systems to promote spending transparency and use of federal financial data in order to strengthen Government-wide decision-making. Treasury has also shifted from quarterly to monthly reporting and certification of data beginning with the period ending June 2020, and has added a program activity attribute beginning with the first quarter of fiscal year 2021. The speed in which supplemental funding was distributed created new data management needs for Treasury along with labor intensive ingestion of data associated with the application for, and issuance of, economic relief. The rapid delivery of funds within short timeframes may create opportunities and risks for illicit activity by anyone attempting to misuse or abuse funds that were intended for COVID-19 relief. Considering the challenges and risks associated with ensuring economic relief is deployed and used for intended purposes, Treasury should continue to address reporting and data quality issues noted in DATA Act audits and intensify efforts to reduce improper payments.

Given the data-centric aspects of the *Foundations for Evidence-Based Policymaking Act of 2018*³⁷ (Evidence Act), it is critical that data is of high quality to be useful. In accordance with the

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

³⁷ Public Law 115-435; (January 14, 2019).

Evidence Act and OMB's M-19-23,³⁸ the Department is implementing Government-wide reforms for making data accessible and useful for decision-making. Under Title I of the Evidence Act, also known as *Federal Evidence Building Activities*, federal agencies, among other things, must submit annually to Congress and OMB, an evidence-building plan for identifying and addressing policy questions relevant to programs, policies, and regulations. Under Title II of the Evidence Act, also known as the *Open, Public, Electronic, and Necessary Government Data Act* or the "*OPEN Government Data Act*," Federal agencies must develop a strategic information resources management plan that includes, among other things, an open data plan that requires agencies to develop processes and procedures making data collection mechanisms created on or after enactment available in an open format. The strategic information resources management plan and open data plan must be updated annually and made publicly available on agency websites. Federal agencies must also develop and maintain a data inventory to be included in the Federal Data Catalog³⁹ (www.Data.gov) developed and maintained by the General Services Administration.

Since the law was enacted, Treasury leveraged the Department-wide Strategic Objective Annual Review that the Office of Strategic Planning and Performance Improvement leads to collaboratively identify a preliminary set of research questions as a primary means of gathering relevant policy questions for each of the Department's strategic objectives. Treasury has worked with Treasury's Federally Funded Research Development Center⁴⁰ to identify existing research efforts that align closely with the Department's research priorities. Under Phase 1 of its implementation efforts, Treasury's Assistant Secretary for Management established an Office of the Chief Data Officer and appointed an interim Chief Data Officer and interim Deputy Chief Data Officer. The Chief Data Officer's goals are to ensure data is used as a strategic asset, increase use of data in decision-making and evidence building, and increase coordination of data collection and use. Prior to the enactment of the Evidence Act, Treasury had already started developing a data governance framework in alignment with Evidence Act Title II requirements. At that time, Treasury's Deputy Chief Financial Officer began a Data Governance and Analytics project designed to identify a data governance structure, develop standards, and increase the department's analytic capabilities through infrastructure and visualization improvements. Since that time, the Executive Steering Committee, which includes the Deputy Chief Financial Officer, Chief Information Officer (CIO), and the Office of Strategic Planning and Performance Improvement, was expanded to include Treasury's designated Statistical Official and the Deputy Assistant Secretary for Privacy, Transparency, and Records. Currently, this group is developing recommendations for the mission and goals of the Data Governance Body, along with recommendations for initial broader membership.

Detect Improper Payments

In light of the continuing government-wide problem with improper payments (estimated at \$206.4 billion or 3 percent of all program outlays for fiscal year 2020),⁴¹ the federal agencies

³⁸ OMB M-19-23, Phase 1 Implementation of the Foundations for Evidence-Based Policymaking Act of 2018: Learning Agendas, Personnel, and Planning Guidance.

³⁹ A single public interface on-line as a point of entry for sharing data assets with the public.

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

⁴¹ National Aeronautics and Space Administration OIG, *NASA's Compliance with the Payment Integrity Information Act of Fiscal Year 2020* (IG-21-020; May 18, 2021), percentage based on total Government outlays of 6.6 billion (<https://www.fiscal.treasury.gov/files/reports-statements/mts/mts0920.pdf>).

intensified efforts to reduce improper payments in major federal programs. The Do Not Pay (DNP) Initiative and Fiscal Service's DNP Business Center are chief components of efforts designed to prevent and detect improper payments to individuals and entities.

The DNP Business Center is comprised of the DNP Portal and the Data Analytics Services. The DNP Portal is intended to provide users with a single entry point to search data sources such as the Social Security Administration's (SSA) publicly available Death Master File, the Department of Health and Human Service Office of Inspector General's List of Excluded Individuals/Entities, the General Services Administration's System for Award Management, and Treasury's Debt Check Database. However, as we reported in November 2014, the effectiveness of the DNP Business Center as a tool to prevent and detect improper payments is hindered because the center does not have access to, among other things, SSA's full death data.⁴² Since our May 2016 report, that challenge continues to exist in obtaining better death information.⁴³ In October 2016, GAO reported that restrictions on the center's access to SSA's full death data remained in place.⁴⁴ In June 2020, GAO issued its initial report examining key actions the Federal Government has taken to address the COVID-19 pandemic and evolving lessons learned relevant to the Nation's response to the pandemic. In its report, GAO recommended that Congress take legislative action to provide Treasury with access to the SSA's full set of death records, and require that Treasury use it, to help reduce improper payments.⁴⁵ Subsequently, the DNP Business Center received temporary access to SSA's full death data to support Economic Impact Payment screening for deceased individuals.

In response to the *Federal Improper Payments Coordination Act of 2015*,⁴⁶ Fiscal Service entered into agreements with the Department of Defense and the Department of State in 2016 to incorporate death data collected by these agencies into the DNP Business Center Working System, which began receiving data in September 2017. In November 2017, OMB designated six additional databases for inclusion in the DNP Business Center Working System to help agencies address a broader range of improper payments beyond what can be detected through DNP Business Center's previously existing data sources.⁴⁷ Moreover, in May 2021, OMB designated 12 additional databases for inclusion in the DNP Business Center Working System.⁴⁸ There have also

⁴² OIG, *Fiscal Service Successfully Established the Do Not Pay Business Center But Challenges Remain* (OIG-15-006; November 6, 2014).

⁴³ OIG, *Fiscal Service Faces Challenges in Obtaining Better Death Information for the Do Not Pay Business Center, but Alternatives Exist* (OIG-16-042; May 18, 2016).

⁴⁴ GAO, *Improper Payments, Strategy and Additional Actions Needed to Help Ensure Agencies Use the Do Not Pay Working System as Intended* (GAO-17-15; October 14, 2016).

⁴⁵ GAO, *COVID-19: Opportunities to Improve Federal Response and Recovery Efforts* (GAO-20-625; June 25, 2020).

⁴⁶ Public Law 114-109 (December 18, 2015).

⁴⁷ The following databases were added: (1) Treasury's Office of Foreign Assets Control's Specially Designated National list, (2) the General Services Administration's System for Award Management, (3) the IRS' Automatic Revocation of Exemption List, (4) the IRS' Exempt Organizations Select Check, (5) the IRS' e-Postcard database, and (6) commercial database American InfoSource Deceased Data.

⁴⁸ The following databases were added: (1) the United States Postal Service Delivery Sequence File, (2) the Census Bureau Federal Audit Clearinghouse, (3) the DNP Agency Adjudication Data, (4) Fiscal Service's Payments, Claims, and Enhanced Reconciliation database, (5) Bureau of Prisons Incarceration Data, (6) DATA Act data, (7) Census Bureau's American Communities Survey Annual State and County Data Profiles, (8) Veterans Affairs' Beneficiary Identification Records Locator Service, (9) Department of Agriculture's National Disqualified List, (10) Center for Medicare and Medicaid Services National Plan and Provider Enumeration System, (11) IRS Statistics of Income Annual Individual Income Tax ZIP Code Data, and (12) the U.S. Securities and Exchange Commission's Electronic Data Gathering, Analysis, and Retrieval System.

been legislative proposals in January 2017, February 2017, February 2018, and May 2019 to obtain authorization to use both the SSA's full death file as well as the National Directory of New Hires.⁴⁹ Furthermore, Fiscal Service included legislative proposals in its fiscal year 2021 budget justification that included, among other things, that Treasury is granted access to SSA's full Death Master File for purposes of administering the DNP Business Center and preventing, identifying, and recovering improper payments for federal agencies and federally funded state programs. In December 2020, CAA, 2021 authorized the DNP Business Center access to SSA's full death data for a 3-year period beginning in December 2023. Given that the access is only temporary, Fiscal Service will continue encouraging Congress to renew the temporary access or provide permanent access.

In addition to the Do Not Pay Portal, the DNP Data Analytics Service supports agencies' efforts to identify and prevent improper payments. The DNP Data Analytics Service identifies trends and patterns in agency payment and other information that may be indicative of improper payments. The results of these analyses are provided to agencies at no cost for further study so they can prevent future improper payments. We assessed the services provided to agencies by the DNP Data Analytics Service and found that performance metrics developed by Fiscal Service to measure the effectiveness of the DNP Data Analytics Service need to be strengthened.⁵⁰

Altogether, the DNP Business Center works to identify and prevent improper payments in federally funded programs by providing access to relevant data and analytic services. Fiscal Service plans to leverage the DNP Initiative to assist programs making certain pandemic payments in the identification and prevention of improper payments and will continue to seek additional ways to improve improper payment prevention and detection. In this regard, the DNP Business Center has worked with Federal Communications Commission, the IRS, the Small Business Administration, and the Small Business Administration's Office of Inspector General to match certain pandemic payments against DNP's data sets to help prevent and identify improper payments. Fiscal Service also meets regularly with the PRAC, GAO, and other stakeholders to obtain feedback about COVID-19 spending data to ensure that the data is available for oversight entities.

With its potential to reduce improper payments, the DNP Business Center is a major and important undertaking by Treasury and critical to ensuring COVID-19 economic support funds are properly spent. As part of our ongoing audit work in this area, we will continue to monitor the steps taken by Fiscal Service to improve the effectiveness of the DNP Business Center.

⁴⁹ The National Directory of New Hires is a national database of wage and employment information operated by the Federal Office of Child Support Enforcement. The Federal Office of Child Support Enforcement uses the National Directory of New Hires primarily to assist states administering programs that improve States' abilities to locate parents, establish paternity, and collect child support. The information in this database is only available to authorized persons or entities for authorized purposes.

⁵⁰ OIG, *Performance Metric Policy Needed for the Fiscal Service Do Not Pay Business Center's Data Analytics Services* (OIG-20-025; January 28, 2020).

Challenge 6: Information Technology Acquisition and Project Management (Repeat)

The *Federal Information Technology Acquisition Reform Act* (FITARA), enacted in December 2014, was the first major overhaul of federal IT management since the passage of the *Clinger-Cohen Act of 1996*⁵¹ which was designed to improve the Federal Government's acquisition and management of its resources to include IT investment. Among other things, it expanded the involvement of CIOs of federal agencies in IT decision making, including annual and multi-year planning, programming, budgeting, execution, reporting, management, governance, and oversight functions.⁵² FITARA is intended to improve how federal agencies acquire and manage IT, as well as enable Congress to monitor progress and hold federal agencies accountable for reducing duplication and achieving cost savings. FITARA includes specific requirements related to seven areas: (1) the federal data center consolidation initiative, (2) enhanced transparency and improved risk management, (3) agency CIO authority enhancements, (4) portfolio review, (5) expansion of training and use of IT acquisition cadres, (6) government-wide software purchasing, and (7) maximizing the benefit of the federal strategic sourcing initiative.

While FITARA is intended for agencies to better manage their IT investments, implementation continues to be a government-wide challenge. Since February 2015, GAO has included the management of IT acquisitions and operations on its high-risk list as cost overruns and schedule delays impact mission related outcomes government-wide.⁵³ In its March 2021 high risk report, GAO acknowledged that the Federal Government has undertaken numerous initiatives to better manage the more than \$90 billion that is invested annually in IT. However, GAO reported that more needed to be done to improve overall management of IT acquisitions and operations. In general, federal agencies had not (1) modified their practices to fully address the role of the CIO, (2) documented modernization plans or included key best practice elements in the plans, (3) taken further action to reduce duplicative IT contracts, and (4) implemented the remaining 400 open recommendations related to management of IT acquisitions and operations. For example, 21 of the 24 major federal agencies, still have not implemented IT management policies that fully addressed the role of their CIOs consistent with federal laws and OMB's FITARA guidance. The guidance covers, among other things, enhancing the authority of federal CIOs and ensuring that program staff have the necessary knowledge and skills to effectively acquire IT. In addition, progress in establishing key IT workforce planning processes is also lacking. GAO also noted that the General Service Administration and OMB had fewer funds available than anticipated to award to new projects for replacing aging IT systems.⁵⁴ Furthermore, GAO recommended that, in general, agencies needed to improve CIOs' authorities, enhance transparency and improve risk management of IT investments, and consolidate federal data centers.⁵⁵

The House Oversight and Reform Committee worked with GAO to develop a scorecard to assess federal agencies' efforts in implementing FITARA by assigning a grade from A to F based on

⁵¹ Public Law 104-106 (February 10, 1996).

⁵² Public Law 113-291 (December 19, 2014).

⁵³ GAO, *High-Risk Series, An Update* (GAO-15-290; February 11, 2015).

⁵⁴ GAO, *High-Risk Series, Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas* (GAO-21-119SP; March 2020).

⁵⁵ GAO, *High-Risk Series, Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas* (GAO-21-119SP; March 2021).

self-reported data at the agency level. Agencies are scored on areas of CIO authority enhancements, transparency and risk management, portfolio review, data optimization, software licensing, and modernizing government technology. Since the first scorecard was issued in November 2015, Treasury's overall FITARA score has wavered between a D- and a B. More recently, in December 2020, Treasury received a B for its FITARA implementation efforts, and remained a B in July 2021. Areas needing most improvement were enhanced transparency and risk management (i.e. IT investment risk), improved cybersecurity, and agency CIO authority enhancements. Furthermore, the *FITARA Enhancement Act of 2017*⁵⁶ extended the sunset date for full implementation of the data center optimization requirements of FITARA from October 1, 2018 to October 1, 2020. As reported in the December 2020 scorecard, Treasury scored an A in this area after meeting its remaining targets, including virtualization and advanced energy metering.

In fiscal year 2021, Treasury reported approximately \$2 billion in non-IRS IT investment, which is expected to increase in fiscal year 2022. Given this sizable investment, we are reporting the Department's IT acquisition and project management as an ongoing management and performance challenge distinct from challenge 3 that addresses cybersecurity concerns. Treasury's non-IRS bureaus reported 23 major IT investments. Treasury's CIO assessed 19 IT investments as having moderately low or low risk to accomplishing their goals. One project, Pay.gov, did not include a ranking. The remaining three IT investments, which reside at Fiscal Service, were assessed as having medium risk⁵⁷ to accomplishing their goals:

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

During fiscal year 2021, some projects within the Electronic Federal Tax Payment System, WSS and Post Payment Services, specifically the Payment Information View of Transactions (PIVOT) were behind schedule and over budget. Although projects identified with medium overall risk in cost and scheduling require special attention from the highest level of agency management, they are not necessarily at risk for failure. We plan to initiate an audit of these IT acquisitions. Overall, 82 percent of Treasury's total IT projects were on schedule and 58 percent were within budget. During fiscal year 2021, Treasury spent 36 percent of its total IT spending on 42 major investments. A major WSS investment includes the Treasury Automated Auction Processing System (TAAPS), used by Fiscal Service for the announcement, auction, and issuance of marketable Treasury bills, notes, bonds, Treasury inflation-protected securities, and floating rate notes. In fiscal year 2017, Fiscal Service started a multi-year project to modernize the TAAPS application software and associated technology components to ensure that critical auction processes continue to work flawlessly, remain secure, and operate without service disruptions. However, in January 2020, Fiscal Service terminated its TAAPS application software project due to contractor delays and other challenges involving (1) application code quality issues; (2) project

⁵⁶ Public Law 115-88 (November 21, 2017).

⁵⁷ IT Dashboard, "the Agency CIO rates each investment based on his/her judgment using a set of pre-established criteria. As a rule the evaluation should reflect the CIO's assessment of risk and the investment's ability to accomplish goals." Evaluation ratings are based on a five-point risk scale as follows: 5=low risk, 4= moderately low risk, 3= medium risk, 2= moderately high risk, and 1=high risk.

⁵⁸ Renamed Tax Collections Services in fiscal year 2021.

leadership that did not include sufficient IT support; and (3) governance bodies relying on representations that the project was succeeding, despite some warning signs. It was not until third party reviews were conducted that the full extent of the project's challenges became clear. In fiscal year 2021, Fiscal Service will complete the Financing Modernization Discovery Phase to determine which approach to take to move forward with the Financing Modernization effort. Financing Modernization is a multi-year program dedicated to creating a modernized financing operations system, which will align with Treasury's strategic priorities and long-term business requirements.

An ongoing initiative to manage and monitor IT investments includes the government-wide adoption of the Technology Business Management (TBM) framework as reported in the fiscal year 2018 *President's Management Agenda: Modernizing Government for the 21st Century* (March 20, 2018). The goal is to improve outcomes through federal IT spending transparency with the adoption of TBM government-wide by fiscal year 2022. TBM is expected to improve IT spending data accountability and transparency, empowering agency executive suite leadership from across the enterprise to drive mission value and improve customer experience through technology. The TBM framework consists of layers that represent different views into IT costs and performance, enabling greater transparency into the true cost of IT and its value to the business. Fiscal Service's financial community was trained on TBM and has reduced uncategorized IT spending, or spending that is not categorized into standard IT buckets, by 60 percent. In early fiscal year 2021, Fiscal Service expects to see further reductions in IT portfolio spending.

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

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

Other Matters of Concern

Although we are not reporting these as management and performance challenges, we are highlighting three areas of concern: (1) coin redemption, (2) managerial cost accounting, and (3) internal control at BEP.

Coin Redemption

As reported in prior years, the United States Mint (Mint) continues to address internal control issues to ensure the integrity of U.S. coinage in its coin redemption program. The Mint has since made progress in addressing the risk of accepting genuine coins through its redemption program with such actions as considering the establishment of limited quantities accepted into the program, scrutinizing the sources of the coins, and enhancing its examination of coins being accepted into the program. As the Mint finalizes policies and procedures and recommences its program, we will continue to monitor the implementation of these controls to ensure they are sufficient to properly safeguard U.S. coinage.

Managerial Cost Accounting

Managerial cost accounting continues to be a fundamental part of a financial performance management system. It involves the accumulation and analysis of financial and nonfinancial data, resulting in the allocation of costs to organizational pursuits, such as performance goals, programs, activities, and outputs. We have reported concerns that were identified in our audit of the Departmental Offices' Office of Budget and Travel (OBT) controls over its overhead⁵⁹ process and compliance with the *Economy Act*.⁶⁰ Specifically, we identified internal control weaknesses within OBT's overhead process and composite methodology used during fiscal years 2015 through 2018 to charge reimbursable customers. That is, OBT's methodology to accumulate, allocate, and charge overhead costs to reimbursable customers was not appropriate and consistently followed and the salaries and expenses directly charged to reimbursable customers through the composite methodology lacked adequate support. Therefore, we also concluded that OBT violated the Economy Act and potentially augmented its fiscal year 2015 appropriation by recovering indirect costs in excess of actual costs from reimbursable customers. These concerns, in turn, could also potentially be violations of the Anti-deficiency Act.

In response to our concerns, OBT management implemented a new overhead process beginning with fiscal year 2019 and subsequently hired a consultant to review and improve the process. After implementing a new process, OBT management made further changes to the overhead process for fiscal year 2020. Additionally, based on the consultant's recent report, OBT management implemented a number of the consultant's recommendations to improve the process going forward, which we plan to review during our ongoing audit.

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

⁶⁰ Public Law 73-2 (March 20, 1933).

Internal Control Issues at BEP

Internal control is a process put in place by management to safeguard assets, promote accountability, and increase efficiency and effectiveness of operations. It helps an entity report reliable information about its operations and comply with applicable laws and regulations. The fiscal year 2020 BEP financial statement audit identified 12 deficiencies in internal control.⁶¹ Although the number of deficiencies in internal control identified decreased from 22 in fiscal year 2019 to 12 in fiscal year 2020, three of the deficiencies were collectively reported as a significant deficiency related to information technology controls. The remaining nine deficiencies related to journal entries; financial reporting; inventory; and property, plant, and equipment were reported in a management letter.⁶² Six of the prior year's deficiencies were re-issued in fiscal year 2020. While we are reporting this as a concern, it should be noted that as part of the fiscal year 2020 financial statement audit, the independent auditors issued an unmodified opinion on the effectiveness of BEP's internal controls over financial reporting.

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

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

⁶¹ OIG, *Audit of the Bureau of Engraving and Printing's Financial Statements for Fiscal Years 2020 and 2019* (OIG-21-022; February 12, 2021).

⁶² OIG, *Management Letter for the Audit of the Bureau of Engraving and Printing's Financial Statements for Fiscal Years 2020 and 2019* (OIG-21-023, February 12, 2021).

⁶³ OIG, *BEP's Administration of the Burson-Marsteller Public Education Awareness Contract Was Deficient* (OIG-13-046; August 13, 2013).

Appendix A: Acronyms and Abbreviations

ANC	Alaskan Native Corporations
ARP	American Rescue Plan Act of 2021
BEP	Bureau of Engraving and Printing
CAA, 2021	Consolidated Appropriations Act, 2021
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CCPF	Coronavirus Capital Projects Fund
CDFI	Community Development Financial Institutions
CERTS	Coronavirus Economic Relief for Transportation Services
CIO	Chief Information Officer
COVID-19	Coronavirus Disease 2019
CRF	Coronavirus Relief Fund
CTCF	Local Assistance and Tribal Consistency Fund
DATA Act	Digital Accountability and Transparency Act of 2014
Department	Department of the Treasury
DNP	Do Not Pay
ECIP	Emergency Capital Investment Program
EO	Executive Order
ERA	Emergency Rental Assistance
ERA1	Emergency Rental Assistance Program 1
ERA2	Emergency Rental Assistance Program 2
Evidence Act	Foundations for Evidence-Based Policymaking Act of 2018
FINCEN	Financial Crimes Enforcement Network
Fiscal Service	Bureau of the Fiscal Service
FITARA	Federal Information Technology Acquisition Reform Act
GAO	Government Accountability Office
HAF	Homeowner's Assistance Fund
IRS	Internal Revenue Service
IT	Information Technology
MINT	United States Mint
NIST	National Institute of Standards and Technology
OBT	Office of Budget and Travel
OFP	Office of Fiscal Projections
OIG	Office of Inspector General
OMB	Office of Management and Budget
PRAC	Pandemic Response Accountability Committee
PSP1	Payroll Support Program
PSP2	Payroll Support Program 2
PSP3	Payroll Support Program 3
RRP	Rapid Response Program
SEDI	Socially and Economically-Disadvantaged Individuals
SIGPR	Special Inspector General for Pandemic Recovery
SLFRF	Coronavirus State and Local Fiscal Recovery Funds
SSA	Social Security Administration
SSBCI	State Small Business Credit Initiative
TAAPS	Treasury Automated Auction Processing System

TBM	Technology Business Management
TFI	Office of Terrorism and Financial Intelligence
Treasury	Department of the Treasury
WSS	Wholesale Securities Services