Audit Report

OIG-24-007

FINANCIAL MANAGEMENT

Audit of the Department of the Treasury's Consolidated Financial Statements for Fiscal Years 2023 and 2022

November 15, 2023

Office of Inspector General
Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D. C. 20220

OFFICE OF
INSPECTOR GENERAL

November 15, 2023

INFORMATION MEMORANDUM FOR SECRETARY YELLEN

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

SUBJECT: Audit of the Department of the Treasury's Consolidated Financial Statements for Fiscal Years 2023 and 2022

INTRODUCTION

The Chief Financial Officer's Act, as amended, requires the Department of the Treasury's (Treasury) Inspector General or an independent auditor, as determined by the Inspector General, to audit Treasury's consolidated financial statements. We contracted with a certified independent public accounting firm of KPMG LLP (KPMG) to audit the consolidated financial statements of Treasury as of September 30, 2023 and 2022, and for the years then ended. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*.

RESULTS OF INDEPENDENT AUDIT

In its audit of Treasury, KPMG reported

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

- a significant deficiency in internal control over unpaid assessments and a significant deficiency in information system controls at the Internal Revenue Service, collectively representing a significant deficiency for Treasury as a whole;

- noncompliance with certain requirements of FFMIA related to federal financial management systems requirements; and

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

EVALUATION OF AUDITORS' PERFORMANCE

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on Treasury's consolidated financial statements; conclusions about the effectiveness of internal control; whether Treasury's financial management systems substantially complied with FFMIA; and compliance with laws, regulations, contracts, and grant agreements. KPMG is responsible for the attached auditor's report dated November 15, 2023, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

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

Attachment

cc: Anna Canfield Roth
Assistant Secretary for Management

Carole Y. Banks
Deputy Chief Financial Officer

SECTION I –

Independent Auditors' Report
and Management's Response

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

Independent Auditors' Report

Deputy Inspector General
Department of the Treasury:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of the Department of the Treasury (Department), which comprise the consolidated balance sheets as of September 30, 2023 and 2022, and the related consolidated statements of net costs, consolidated statements of changes in net position, combined statements of budgetary resources, and statements of custodial activity for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, based on our audits and the reports of the other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Department as of September 30, 2023 and 2022, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

We did not audit the financial statements of the Internal Revenue Service (IRS), a component entity of the Department, which statements reflect total assets constituting 0.74 percent and 0.95 percent, respectively, of the Department's consolidated total assets at September 30, 2023 and 2022; net costs of operations constituting 20.04 percent and 7.55 percent, respectively, of the Department's consolidated net costs of operations for the years then ended; budgetary resources constituting 6.86 percent and 7.11 percent, respectively, of the Department's combined budgetary resources for the years then ended; and custodial revenue constituting 99.34 percent and 96.93 percent, respectively, of the Department's total custodial revenue for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for IRS, is based solely on the report of the other auditors.

We also did not audit the financial statements of the Office of Financial Stability (OFS) – Troubled Asset Relief Program (TARP), a component entity of the Department, which statements reflect total assets constituting 0.04 percent and 0.04 percent, respectively, of the Department's consolidated total assets at September 30, 2023 and 2022; net costs of operations constituting 0.16 percent and 0.12 percent, respectively, of the Department's consolidated net costs of operations for the years then ended; and budgetary resources constituting 0.01 percent and 0.01 percent, respectively, of the Department's combined budgetary resources for the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for OFS-TARP, is based solely on the report of the other auditors.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and Office of Management and Budget (OMB) Bulletin No. 24-01, *Audit Requirements for Federal Financial Statements*. Our responsibilities under those standards and OMB Bulletin No. 24-01 are further described in the Auditors' Responsibilities for the Audit of the

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

Emphasis of Matter

As discussed in Note 11, the Department is a participant in transactions with certain entities as part of significant legislation whose purpose is to assist in stabilizing the financial markets. Also as discussed in Note 1AB, the U.S. government's interventions with regards to these entities are not expected to be permanent. Furthermore, as discussed in Notes 1V and 11, the value of certain investments and commitments is based on estimates. These estimates are inherently subject to substantial uncertainty arising from the likelihood of future changes in general economic, regulatory, and market conditions. As such, there will likely be differences between the estimated value of these investments and commitments as of September 30, 2023 and 2022, and the amounts that may ultimately be realized from these investments or may be required to settle these commitments. Such differences may be material and will also affect the ultimate cost of these programs. Our opinion is not modified with respect to these matters.

Other Matter - Interactive Data

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

Responsibilities of Management for the Consolidated Financial Statements

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards,* and OMB Bulletin No. 24-01 will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, *Government Auditing Standards,* and OMB Bulletin No. 24-01, we:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

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

Required Supplementary Information

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

Other Information

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

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

Report on Internal Control Over Financial Reporting

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

In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2023, we considered the Department's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. We, and the other auditors, did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

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

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

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

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

1. Unpaid Assessments

During fiscal year 2023, the systems IRS uses to account for federal taxes receivable and other unpaid assessment balances continued to have limitations, as well as other control deficiencies that led to errors in taxpayer accounts. Because of these deficiencies, IRS's systems were unable to provide the timely, reliable, and complete transaction-level financial information necessary to enable IRS to appropriately classify and report unpaid assessment balances. As in prior years, IRS used a manually driven statistical estimation process to compensate for the effects of its system limitations and other deficiencies on a material portion of its federal taxes receivable balance to help ensure that this balance was free of material misstatement. During fiscal year 2023, IRS recorded adjustments totaling about $18.4 billion to correct the effects of continued errors in its underlying data that IRS identified during its estimation process.

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

2. Information System Controls

During fiscal year 2023, IRS continued to have unresolved information system control deficiencies from prior year audits, along with new control deficiencies, which collectively, represent a significant deficiency in IRS's internal control over financial reporting. These control deficiencies relate to information system general controls in the areas of security management, access controls, and configuration management. The new and continuing control deficiencies include the timely creation of plans of action and milestones to address identified vulnerabilities or weaknesses, use of multifactor authentication, encryption of sensitive data, logging and monitoring of audit records, and management configuration settings for certain platforms. Such control deficiencies, as well as others comprising the significant deficiency, increase the risk of unauthorized access to, modification of, and disclosure of sensitive data and programs, as well as the disruption of critical operations.

IRS mitigated the potential effect of the identified control deficiencies primarily through compensating controls that management has designed to detect potential misstatements on the financial statements. Additionally, over the past several years, IRS management has increased its focus on completing the correcting action plans necessary to address many of the information system control deficiencies comprising the significant deficiency. This has resulted in the closure of numerous system-specific recommendations. During fiscal year 2023, IRS successfully completed corrective actions sufficient to address system-specific recommendations involving the use of multifactor authentication and encryption of sensitive information.

Recommendation

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

Report on Compliance and Other Matters

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

As part of obtaining reasonable assurance about whether the Department's consolidated financial statements as of and for the year ended September 30, 2023 are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests and those of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 24-01.

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

B. Noncompliance with Federal Financial Management Improvement Act of 1996

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

Recommendation

We, and the other auditors, separately provided IRS management with recommendations to address the above noncompliance with the federal financial management system requirements. We recommend that the ASM and

DCFO ensure that IRS develop and implement remediation plans outlining actions to be taken to resolve noncompliance with the federal financial management system requirements and the resources and responsible organizational units for such planned actions.

Department's Response to Findings

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

Purpose of the Reporting Required by *Government Auditing Standards*

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

KPMG LLP

Washington, DC
November 15, 2023

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

November 15, 2023

KPMG LLP
1801 K Street, NW
Washington, DC 20006

To Whom This May Concern:

On behalf of Secretary Yellen, we are responding to your audit report on the Department of the Treasury's fiscal year 2023 consolidated financial statements. Our bureaus and program offices are proud of the Department's success in achieving an unmodified audit opinion on the Department's financial statements for the 24th consecutive year.

The high level of professionalism, technical expertise, and integrity demonstrated by KPMG LLP in conducting this year's audit contributed greatly to Treasury's successful fiscal year 2023 results. We also appreciate the expertise and commitment demonstrated by the other organizations involved in the audit process - the Office of Inspector General, Government Accountability Office, and the firms that audited several of our bureaus.

We acknowledge the one significant deficiency related to IRS's financial systems at the Department level which resulted in a noncompliance with laws and regulations described in your report. We agree with your recommendations and will continue our focus on necessary corrective actions to address these issues.

We continue to make strong progress in enhancing our internal control environment. Between FY 2022 and 2023, we successfully remediated our significant deficiency related to the Bureau of the Fiscal Service's financial management systems. We are very proud of our progress and remain committed to ensuring high standards of integrity and transparency in reporting our financial performance.

Anna Canfield Roth
Assistant Secretary for Management

Carole Y. Banks
Deputy Chief Financial Officer

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SECTION II –

Department of the Treasury
Agency Financial Report
Fiscal Year 2023

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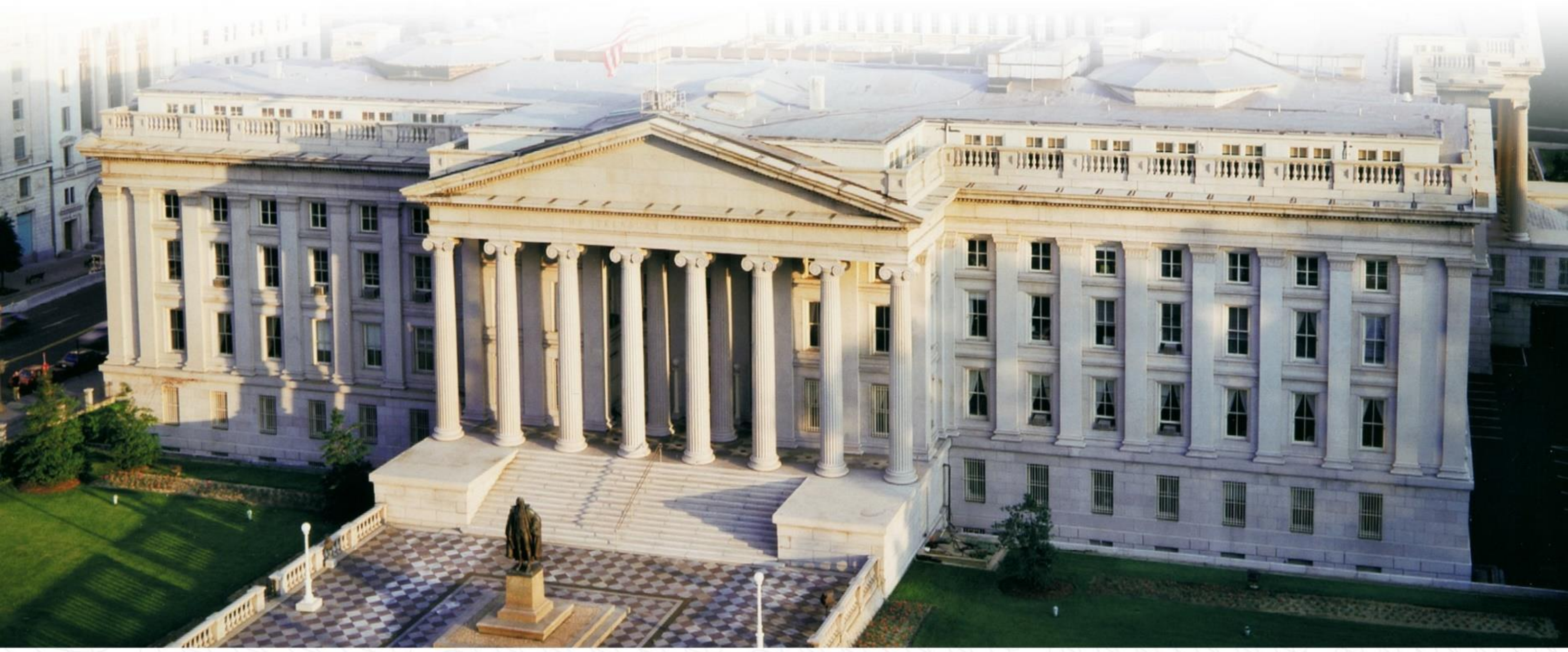
DEPARTMENT OF THE TREASURY

AGENCY FINANCIAL REPORT

FISCAL YEAR 2023



WEBSITE INFORMATION

Treasury	www.treasury.gov
Alcohol and Tobacco Tax and Trade Bureau	www.ttb.gov
Bureau of Engraving & Printing	www.bep.gov
Fiscal Service	www.fiscal.treasury.gov
Community Development Financial Institutions Fund	www.cdfifund.gov
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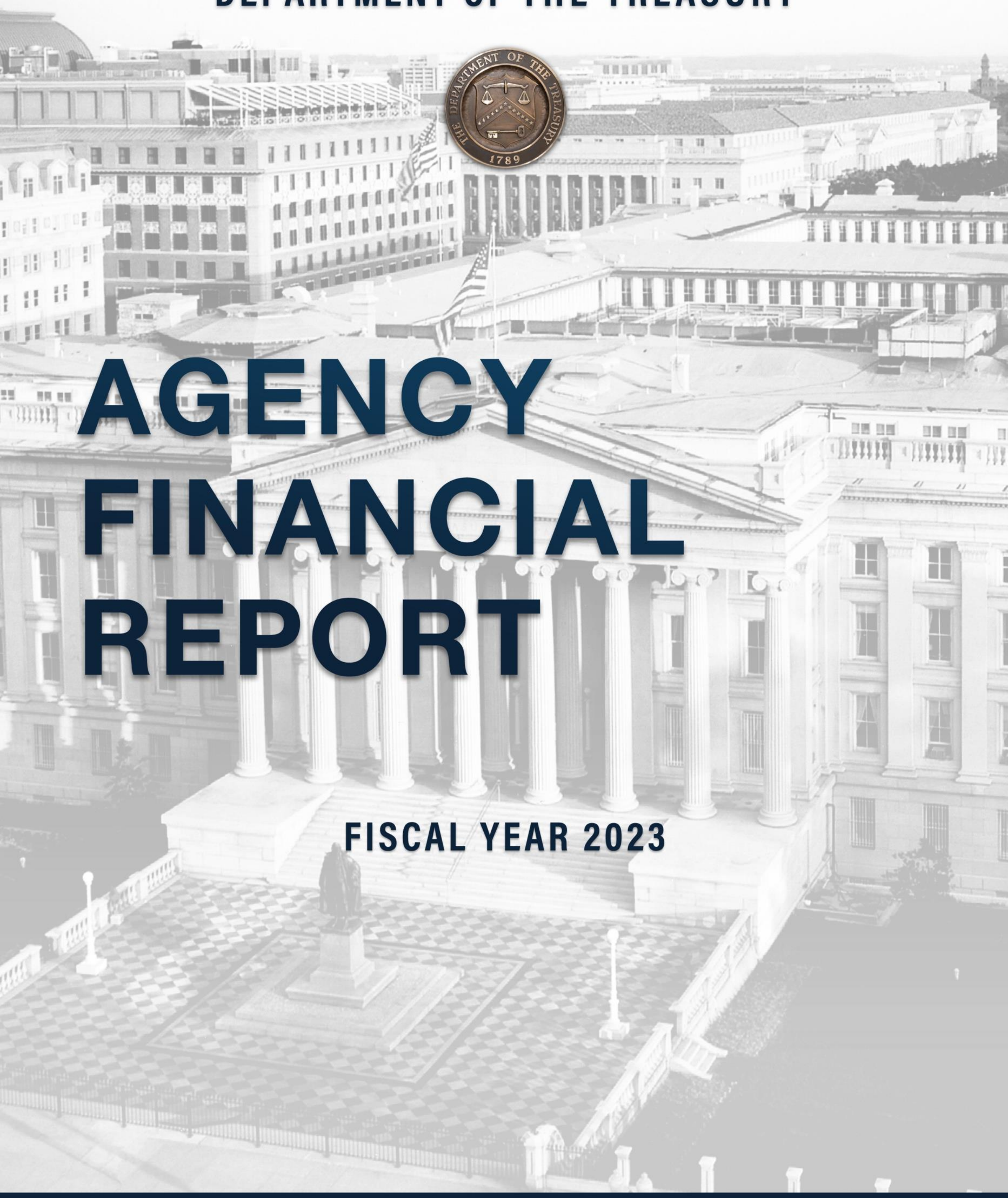
DEPARTMENT OF THE TREASURY



AGENCY FINANCIAL REPORT

FISCAL YEAR 2023

ABOUT THIS REPORT

Our *Agency Financial Report* (AFR) for Fiscal Year (FY) 2023 presents the Department of the Treasury's (Treasury, Department, or our) financial information in relation to our mission and the resources entrusted to us. The AFR also highlights our priorities, accomplishments, and challenges implementing programs that promote conditions for sustaining economic growth and stability at home and abroad, protecting the integrity of our nation's financial system, and effectively managing the United States (U.S.) government's finances and resources. In accordance with the Office of Management and Budget's (OMB) Circular A-136, *Financial Reporting Requirements,* we produce the following reports: *(i)* an *AFR* issued on November 15, 2023, and *(ii)* an *Annual Performance Report* (APR) submitted with Treasury's congressional budget justification, to be issued by February 1, 2024. The AFR will be available online at https://home.treasury.gov/about/budget-financial-reporting-planning-and-performance/agency-financial-report. The APR will be available online at https://www.treasury.gov/about/budget-performance/Pages/cj-index.aspx.

HOW THIS REPORT IS ORGANIZED

Our AFR provides financial and performance information for the FY beginning October 1, 2022, and ending on September 30, 2023, with comparative prior year data, where appropriate. The AFR demonstrates our commitment to our mission and accountability to Congress and the American people. This report presents Treasury's operations, accomplishments, and challenges. The AFR begins with a message from the Secretary of the Treasury, Janet L. Yellen. This introduction is followed by three main sections.

Part 1: Management's Discussion and Analysis

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

Part 2: Financial Section

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

Part 3: Other Information

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

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MESSAGE FROM THE SECRETARY OF THE TREASURY

MISSION STATEMENT

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

This year's Agency Financial Report provides an opportunity to reflect on the Treasury Department's progress in achieving our mission as we look ahead to the new fiscal year.

In 2021, when President Biden assumed office, we faced a pandemic for which our country and our world were unprepared. Each week, we lost thousands of lives to COVID-19. So were livelihoods, with the unemployment rate reaching almost 15 percent in April 2020. Low-wage workers were hit hardest: The bottom quartile of wage earners accounted for 80 percent of job losses. We faced high uncertainty on the course of the pandemic and the economy.

The Administration acted quickly to confront the public health emergency. By November 2021, 70 percent of adult Americans were vaccinated. We also responded with historic support for the economy. As I detailed in my Message for the FY 2021 Agency Financial Report, the *American Rescue Plan* provided direct financial support to households and fiscal relief to local, state, tribal, and territorial governments. It helped families with children, lowered healthcare costs for millions of Americans, and made sure those unemployed had extra support until the full vaccination campaign could begin to normalize the labor market. We also worked through other mechanisms, such as the Supply Chain Disruptions Task Force, formed to address short-term supply bottlenecks that had squeezed the pocketbooks of American families.

Our efforts worked. We successfully prevented a prolonged economic recession. Unemployment was at 6.1 percent when the *American Rescue Plan* was passed. It's now near historic lows, with a larger share of those between 25 and 54 years old employed than we've seen in 20 years. Inflation remains too high, but it has declined considerably from its peak.

Following the passage of the *American Rescue Plan*, we continued our focus on the long term. As I detailed in my Message for the FY 2022 Agency Financial Report, the Administration's long-term actions tackle structural issues, which have posed challenges for decades, including slow productivity growth and entrenched income inequality, as well as regional divergences: the fact that some regions had experienced economic stagnation while others had prospered. We passed a trifecta of historic legislation: the *Bipartisan Infrastructure Law* in November 2021, followed by the *CHIPS and Science Act* and *Inflation Reduction Act* in August 2022. This legislation and President Biden's economic agenda more generally reflects what I call modern supply-side economics: expanding our economy's long-term productive capacity while reducing inequality and environmental damage.

In FY 2023, the Treasury Department has been hard at work implementing this agenda, and we are seeing its significant impacts. The *Bipartisan Infrastructure Law* is funding investments from roads, to ports, to broadband, and they are happening at a fast pace across the country. Thanks in part to the *CHIPS and Science Act*, manufacturing construction has doubled since the end of 2021, as more private companies are investing their own capital in building up supply-side capacity. The *Inflation Reduction Act* has led to a battery belt of electric vehicle battery factories emerging across the Midwest and South. These investments are creating good-paying, middle-class jobs, including for those who do not have college degrees, and they are building our country's economic strength and resilience.

As for our financial performance, I am very pleased to report that Treasury has received an unmodified audit opinion of its consolidated financial statements for Fiscal Year 2023. Based on our internal evaluation, our financial and performance data have been validated as complete and reliable.

I am very proud of all the Treasury Department has accomplished, and I am glad to have this opportunity to share more information on the past fiscal year.

Janet L. Yellen

Janet L. Yellen
Secretary of the Treasury
November 15, 2023

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PART 1:

MANAGEMENT'S DISCUSSION AND ANALYSIS

(UNAUDITED)


THE TREASURY DEPARTMENT

TREASURY AT A GLANCE

FOUNDATION

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

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

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

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

TODAY'S TREASURY AND HOW WE SERVE THE NATION

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

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

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

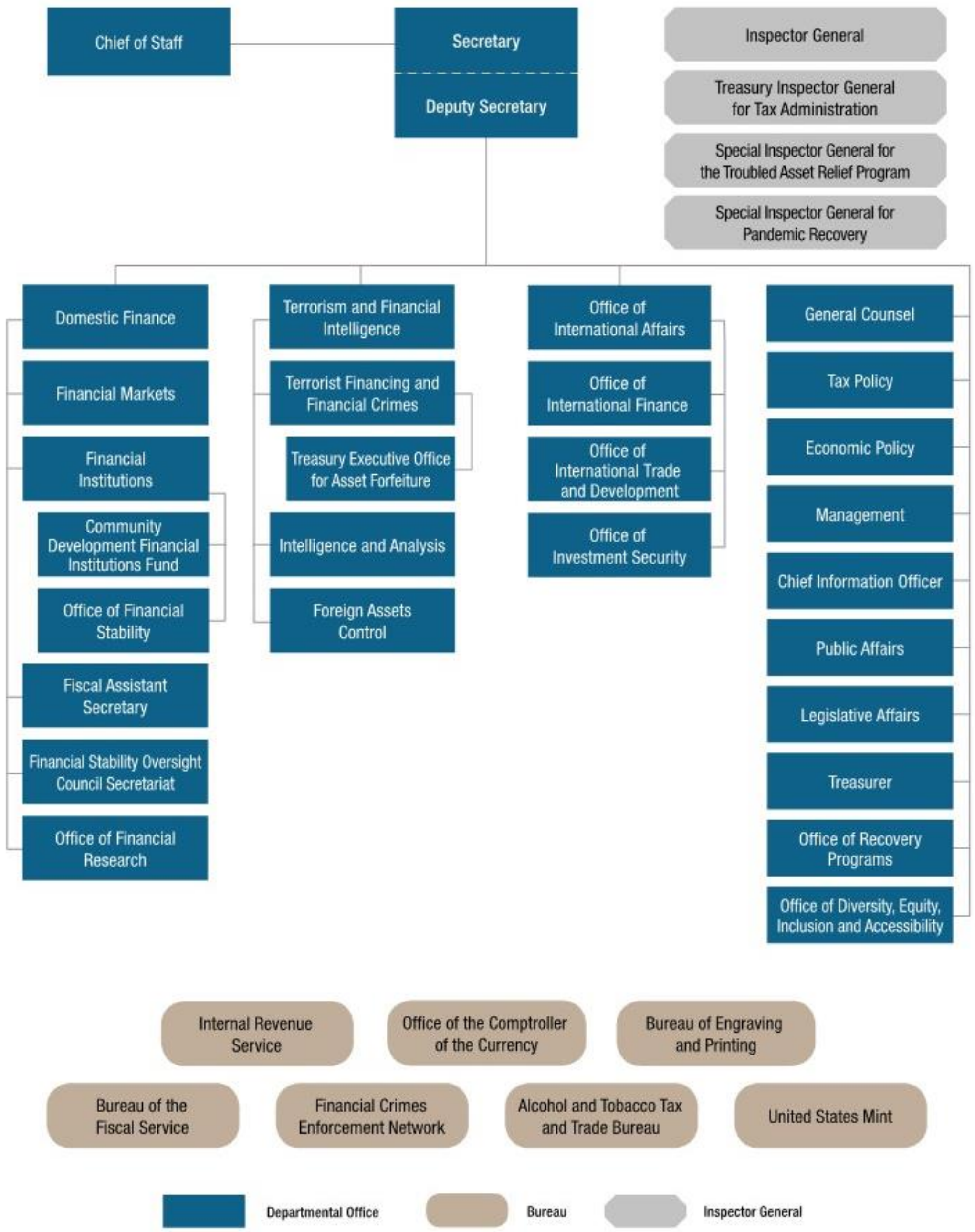
Furthermore, we work to increase opportunities for small businesses, which are the backbone of our economy. Through our efforts to enhance economic growth and promote access to credit, we support job creation to improve the well-being of U.S. citizens and to safeguard and grow our national economy. We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

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

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

ORGANIZATION

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



DEPARTMENTAL OFFICES

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

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

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

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

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

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

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

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

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

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

INSPECTORS GENERAL

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

BUREAUS

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

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

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

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

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

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

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

TREASURY STRATEGIC MANAGEMENT

FRAMEWORK

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

ORGANIZATIONAL PERFORMANCE REVIEW CYCLE

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

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

TABLE 1: TREASURY ANNUAL ORGANIZATIONAL PERFORMANCE REVIEW CYCLE

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

FY 2022 – 2026 STRATEGIC FRAMEWORK

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

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

Performance Overview

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

Goal 1: Promote Equitable Economic Growth and Recovery

Treasury plays a central role in addressing systemic issues in the financial system and strengthening economic resiliency for all Americans, while taking the lead in partnering with foreign countries to promote global recovery and sustainable growth. In the past year, we dramatically improved service in tax filing season, led global efforts to establish a Global Minimum Tax, and supported compliance and evidence-building efforts for recovery programs.

Under this goal, our first strategic objective—identified as an area of noteworthy progress and focus area for improvement in our FY 2023 SOAR process—focuses on developing a more efficient tax system that ensures we administer the tax code fairly and impartially for all Americans. Our second strategic objective under this goal relates to global economic leadership, which aims to restore confidence in U.S. economic policy leadership and promote inclusive global economic growth. Our third strategic objective focuses on addressing systemic inequities in the economy, catalyzing equitable growth through increased access to capital and resources for small businesses, households, and underserved communities. Our fourth strategic objective under this goal relates to promoting the long-term stability of the U.S. housing market in collaboration with the Department of Housing and Urban Development and other federal agencies.

Source: Adobe Stock

IRS Audits

The IRS has announced new initiatives as part of a historic effort to restore fairness in tax compliance by shifting more attention onto non-filers, high-income earners, partnerships, large corporations and promoters abusing the nation's tax laws.

Tax Administration and Policy

We took steps in FY 2023 to improve taxpayer experience with the IRS and address compliance among certain taxpayer groups.

In FY 2023, the IRS accomplished a range of actions to assist taxpayers and improve the taxpayer experience on the phones and in person. With additional funding from the *Inflation Reduction Act* (IRA), the IRS hired an additional 5,000 Customer Service Representatives to answer taxpayer calls. During the filing season, the IRS answered more calls from taxpayers seeking help than last year and significantly reduced phone wait times. This allowed the IRS to achieve a filing season (January 23 through April 21) Level of Service of 87 percent, compared to 15 percent in the prior year, including an average taxpayer telephone wait time of approximately three minutes. This was a big improvement compared to 28 minutes in tax season 2022. The IRS also announced the expansion of the customer callback option (having the option to get a call back instead of waiting on hold) to cover 95 percent of all taxpayers seeking live assistance. Additionally, the IRS provided more in-person assistance through the 363 Taxpayer Assistance Centers (TACs) open for business. We opened TACs on select Saturdays and in May we offered walk-in services, and conducted outreach events in underserved and rural communities to provide direct assistance to taxpayers who do not have convenient access to a live assistor.

The IRS has announced new initiatives as part of a historic effort to restore fairness in tax compliance by shifting more attention onto non-filers, high-income earners, partnerships, large corporations and promoters abusing the nation's tax laws. The IRS published an Interim Guidance Memorandum setting forth guidance for considering Advance Pricing Agreement submissions from taxpayers to increase awareness of tax certainty programs and their benefits to taxpayers with complex issues. As part of its initiative to offer proactive debt resolution, the IRS updated the self-service payment plan functionality in Online Account for individual taxpayers. The IRS also worked to expand engagement with non-filers by developing notices for the IRS core tax processing systems for the Case Creation Non-Filer Identification Process and launched a pilot program to address new non-filers. Finally, the IRS announced its increased focus on taxpayers with complex returns—in which audit rates are minimal today—such as those related to large partnerships, large corporations, and high-income and high-wealth individuals.

The TTB also focused on compliance by large alcohol and tobacco companies and increased filing compliance rates for these taxpayers from 94.0 percent in FY 2018 to 98.2 percent in FY 2023 through the use of enhanced analytical tools. Further, to facilitate voluntary compliance by all taxpayers, the TTB piloted new tax forms, starting with brewers, which will reduce total filing burden while improving the utility of data for tax administration and enforcement.

To support equitable economic growth and recovery, in FY 2023, the Office of Tax Policy implemented changes to the tax code through recent legislation, including the IRA and *CHIPS and Science Act* (CHIPS Act). The office published several regulations addressing credits for new clean vehicles, low-income communities, and prevailing wage and apprenticeship requirements. The office pursued new research on equity and taxation, including the development of a methodology to impute race and ethnicity in tax data, and the evaluation of how tax expenditures are distributed across different racial and ethnic groups, and a collaborative effort with the IRS and the United States Census Bureau to investigate the demographics of recipients of the initial round of Economic Impact Payments in 2020.

Source: Adobe Stock

Global Minimum Tax

In FY 2023, the Office of Tax Policy led global negotiations to establish a Global Minimum Tax to ensure that large multinational businesses pay a minimum effective tax rate in every jurisdiction in which they operate, which led many of the U.S.'s largest trading partners to implement the Global Minimum Tax starting in 2024.

Global Economic Leadership

In FY 2023, the Office of Tax Policy led global negotiations to establish a Global Minimum Tax to ensure that large multinational businesses pay a minimum effective tax rate in every jurisdiction in which they operate, which led many of the U.S.'s largest trading partners to implement the Global Minimum Tax starting in 2024. The Office of Tax Policy negotiators also secured multilateral guidance to coordinate the Global Minimum Tax with the U.S. tax system, thereby ensuring a level playing field for U.S. businesses and workers.

To prevent technical barriers to trade for U.S. alcoholic beverage products, the TTB continued to monitor World Trade Organization notifications on foreign trade measures that could adversely affect U.S. exports. Additionally, the TTB improved service delivery for export certificates to ensure U.S. industry access to foreign markets—issuing more than 12,000 certificates to U.S. alcohol exporters in an average of three days. The TTB also improved the filing experience by launching a new myTTB online option for customers to obtain export certificates.

In the wake of major disruptions such as Russia's illegal invasion of Ukraine, the offices of Economic Policy, Terrorist Financing and Financial Crimes, International Affairs (IA), and the Office of Foreign Assets Control laid the foundation for developing, organizing, and implementing the price cap on Russian seaborne oil—which went into effect December 2022—and the price caps on Russian seaborne petroleum products—which went into effect February 2023. We coordinated with the Price Cap Coalition (G7, European Union, and Australia) to implement the price cap policy and continue to evaluate and review the policy with our Coalition partners. Since its implementation, the price cap policy has helped to reduce Russian revenues while maintaining global oil supply.

Economically Resilient Communities

We supported financially underserved communities and bolstered economic resiliency for households that were disproportionately impacted by the economic repercussions of the Coronavirus Disease of 2019 (COVID-19) pandemic. In part through stewardship of over $1 trillion of funds within Treasury, the *American Rescue Plan Act of 2021* (ARP) has helped to power one of the strongest and most equitable recoveries on record while making investments that position our nation for economic success in the coming decades.

We supported economic recovery programs for state, local, territorial, and Tribal governments across the country. To date, we have delivered over 99 percent of all available State and Local Fiscal Recovery Funds (SLFRF) to state, local, territorial, and Tribal governments across the country to support their response to and recovery from the COVID-19 pandemic. SLFRF recipients have budgeted $12.1 billion for public health projects, $17.7 billion for housing-related purposes, $12.8 billion for workforce support, $5 billion for small business support, and $31.2 billion for critical investments in broadband, water, and sewer infrastructure.

In FY 2023, we increased investments in financially underserved communities through lending and investment programs. Our Emergency Capital Investment Program (ECIP) funded approximately $285 million in investments in eligible depository institutions that were certified as Community Development Financial Institutions (CDFIs) or designated as Minority Depository Institutions (MDIs) for the purpose of increasing lending in financially underserved communities, bringing our total ECIP investment in CDFIs and MDIs to over $8.5 billion. In addition, the CDFI Fund has provided resources to counteract the economic effects of the COVID-19 pandemic. During FY 2022, CDFI Program award recipients originated more than $38 billion in loans and investments in distressed and underserved areas. Cumulatively, CDFI Program award recipients have provided more than $170 billion in loans and investments to counteract disinvestment in these areas. In addition, the CDFI Fund announced and began disbursing over $1.73 billion in awards under the CDFI Equitable Recovery Program to strengthen the ability of CDFIs to help low- and moderate-income communities recover from the COVID-19 pandemic and invest in long-term prosperity. Rapid Response Program award recipients reported making loans and investments of more than

$14.8 billion to help distressed and underserved communities recover from the pandemic.

Our bureaus increased recovery, growth, and startup of small and disadvantaged businesses through supplier diversity efforts, meeting our socio-economic goals and sending millions of dollars to small and minority businesses. In FY 2023, the bureaus awarded over $10.1 billion in eligible small business dollars and obligated over $3.6 billion to small businesses, totaling over 36 percent awarded to small businesses. Also, the bureaus awarded over $1.2 billion to small, disadvantaged businesses (over 11 percent) and over $976 million to women-owned small businesses (over nine percent).

We also improved services for the alcohol and tobacco industries that we regulate to promote fair competition and growth. TTB continued to prioritize timely federal permit approvals for new producers, wholesalers, and importers to facilitate economic growth, particularly in new small businesses, and aims to improve service by simplifying the application requirements through phased rulemaking to reflect current industry operations and statutory requirements. TTB also continued phased rulemaking to modernize alcohol beverage labeling requirements, which will consolidate and clarify rules and help alcohol producers and importers obtain label approval quickly by correctly filing the first time.

Resilient Housing Market

Throughout the COVID-19 pandemic and FY 2023, we successfully distributed assistance to renters and homeowners to mitigate the effects of the pandemic, through the Emergency Rental Assistance (ERA) and Homeowner Assistance Fund (HAF) programs.

The ERA program delivered nearly 10.8 million assistance payments to families at risk of eviction. While eviction diversion programs were uncommon before the pandemic, at least 180 jurisdictions across 36 states have now launched or strengthened eviction diversion programs with the ERA funding, which have significantly limited eviction rates.

More than 230,000 families at risk of foreclosure received assistance in 2022 through the HAF program. Despite the economic disruptions COVID-19 caused, foreclosure proceedings remain significantly below pre-pandemic levels.

GOAL 1: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 20	FY 21	FY 22	FY 23	FY 23 Target	Result vs Target
Customer Service Representative Level of Service (CSR LOS) (IRS)[1]	53.1%	18.5%	17.4%	51.8%	60.0%	Unmet
Timeliness of Critical Individual Filing Season Tax Products (IRS)[2]	78.4%	92%	96.4%	96.4%	83.0%	Exceeded
Percentage of Permit Applications Processed within Service Standards (TTB)[3]	84.1%	92.2%	91.2%	86.3%	85%	Exceeded
Engagement of Partner Countries in Programs – 5 point scale (International Affairs) [4]	3.3	3.6	3.5	TBD	3.6	TBD
Enterprise Self-Assistance Participation Rate (ESAPR) (IRS)[5]	90.6%	92.3%	93.9%	94.2%	94.0%	Met
Percent of Procurement Dollars Spent on Small Business (Management)[6]	45.0%	39.9%	37.6%	36.2%	40.0%	Unmet
Number of governments using funds to support workers and develop the workforce (ORP)[7]	N/A	676	903	1023	975	Exceeded
Number of unique homeowners receiving assistance (cumulative) (ORP)[8]	N/A	N/A	162,102	425,000 (est)	300,000	Exceeded

Explanation of Results
[1]CSR LOS was 51.8 percent which was 13.6 percent below the target of 60 percent, and an increase of 197.8 percent over the prior year actual level of service of 17.4 percent. The level of service for the filing season (from January 23 through April 21) was 87 percent. The IRS allocated employees in October through December, from accounts management that answer phone calls, to assist in processing correspondence. This resulted in delivering a lower level of service. Customer service representatives answered around 17.9 million calls in FY 2023 while accounts management demand fell 52.3 percent to 38.8 million in FY 2023 from 81.3 million in FY 2022. Average wait time was 10.1 minutes, which was less than half the average from the prior fiscal year of 26.0 minutes. In FY 2023, around 8.5 million taxpayers were offered a callback and 64 percent accepted. This resulted in around 2.4 million hours saved for the taxpayer, providing a better experience. To meet service goals in FY 2024, the IRS will continue to monitor demand in real time and the resources allocated down to the half hour enabling us to regularly shift people between telephones and paper.
[2]Timeliness of Critical Individual Filing Season (CIFS) Tax Products to the Public of 96.4 percent is 16 percent above the plan of 83 percent. Eighty of 83 CIFS tax products were available to the public seven calendar days before the official IRS start of the (individual) filing season. Filing season 2023 tax products were significantly impacted by the enactment of the Inflation Reduction Act of 2022 and the CHIPS Act of 2022. The IRS assessed legislation quickly and prioritized work on the impacted products; prioritized work on the release of critical products, especially forms and instructions, over other products; and utilized overtime, credit, and compensatory time during workdays, weekends, and holidays.
[3]This measure represents the overall rate at which the TTB is meeting its annual service standard (75 days for FYs 2020 – 2023) for all original permit applications and registrations. The measure reflects the efficiency and consistency of the TTB's permitting process and supports effective communication with industry members regarding the TTB's level of service. In FY 2023, the TTB issued nearly 87 percent of applications within its 75-day service standard, surpassing its 85 percent target. With sustained high application volume, to maintain performance at target, the TTB is undertaking process and system enhancements, including an effort to streamline permit application requirements.
[4]Measures the degree to which foreign counterparts are engaging proactively and constructively with Office of Technical Assistance (OTA) advisors, at the working and policy levels. Counterpart engagement is both a key outcome of OTA efforts to structure and execute effective technical assistance projects that support host country ownership. The result for FY 2022 is 3.5, a reduction of 0.1 from FY 2022 target of 3.6.
[5]The Enterprise Taxpayer Self-Assistance Participation Rate of 94.2 percent was slightly above the fiscal year plan of 94 percent. In FY 2023 total Self -Assisted services were 1.62 billion which is 7.6 percent higher than 1.51 billion in FY 2022, assisted services were 99.41 million which is 2 percent higher than FY 97.5 million in FY 2022, and total FY 2023 Services rose to 1.72 billion which is 7.3 percent higher than 1.6 billion in FY 2022. Using the self-assistance services, taxpayers received more than 970 million transcripts, made around 212 million electronic payments, set up 1.6 million online installment agreements, received almost 2.3 million IP Pins, and accessed nearly 64.4 million Online Accounts sessions.
[6]This goal measures the percentage of procurement dollars obligated toward small businesses (or Treasury's overall small business goal) and highlights Treasury's efforts to ensure that small businesses have the maximum practicable opportunity to provide goods and services to the federal government. Treasury fell short of meeting its FY 2023 small business goal of 40 percent. However, Treasury overperformed and exceeded the socio-economic small business goals. Treasury awarded $685 million more to small business over last year.
[7]In May 2022, recipients received a letter from the Deputy Secretary that encouraged recipients to use SLFRF funds for investments in priority areas, including to expand the workforce and provide competitive wages. Since then, Treasury has continued to emphasize and uplift examples of how recipients are using SLFRF funds to support the workforce.
[8]Treasury worked with programs to identify and address program design challenges and applicant barriers, increasing eligible homeowners' access to HAF assistance. HAF programs addressed the needs of a broader set of homeowners than prior housing programs, such as providing the flexibility to serve homeowners living in manufactured housing and those with land contracts, resulting in a broader reach of HAF assistance.

Goal 2: Enhance National Security

We continue to play a key role in promoting and enhancing our national security. In FY 2023, we increased cyber resiliency in the financial sector and engaged key allies to effectively target the application of tools and authorities to dismantle bad actors. We also made progress implementing recommendations from the 2021 Sanctions Review and preparing for the implementation of *Anti-Money Laundering Act of 2020* (AMLA).

Under this goal, our first strategic objective—identified as an area of noteworthy progress and focus area for improvement in our FY 2023 SOAR—centers on ensuring that we harden the U.S. and global financial systems against cyber incidents and counter malicious cyber actions. Our second strategic objective—identified as an area of noteworthy progress and focus area for improvement in our FY 2023 SOAR—is to address threats that criminal elements, foreign adversaries, and certain foreign investments pose to U.S. national security and strategic interests using our policy, intelligence, regulatory and enforcement authorities, and tools. Our third strategic objective focuses on updating the authorities and processes we use to deploy sanctions to effectively address emerging challenges. Our fourth strategic objective—identified as a focus area for improvement in our FY 2023 SOAR process—focuses on strengthening transparency in the domestic and international financial systems to aid in the detection of illicit financial activity to protect the integrity of markets and the global financial framework.

CYBER RESILIENCY OF FINANCIAL SYSTEMS AND INSTITUTIONS

We continue to refine our ability to respond to cyber and noncyber incidents, including cybersecurity attacks that stem from the U.S.'s role in the Russian-Ukraine War. We have responded by accelerating the implementation of protective and detective controls and expanding our information sharing, seeking to prevent these types of incidents while also preparing for the impact if they occur. This also includes streamlining the mechanism to coordinate public messaging with public and private partners, which is an essential element of a mature incident response process.

Through regular engagement with international partners, we are coordinating efforts to address operational vulnerabilities and enhance sector cyber hygiene to maintain system health and improve online security. We, along with the Bank of England, serve as co-chairs of the G7 Cyber Expert Group (CEG) and are working to continually improve the volume and timeliness of relevant threat information as well as develop a collective incident response capability. The G7 CEG made several significant advancements in 2023. For example, the group restructured and formalized its relationship with its private sector participants to fully use the breadth of experiences and skills in our sector. In addition, the CEG launched a website in 2023 to provide an enduring platform for the group's public work. Along with these achievements, the CEG has continued to produce Fundamental Elements documents that incorporate expertise and good practice from group members for cybersecurity practitioners worldwide. The resources are now available publicly through the new website.

Beyond our work with the G7, we continue to engage bilaterally with key international partners, including Singapore and Israel, with which we held exercises in 2023. We are also helping to develop the capacity of countries, including Ukraine, to improve the cybersecurity and resilience of their financial sectors.

To address technology vulnerabilities and facilitate stronger security operations and management posture, we have implemented increased controls to better meet the requirements of the *Federal Information Security Modernization Act of 2014* (FISMA). Fiscal Service's FISMA systems have achieved the following: 84 percent has implemented multifactor authentication for enterprise and public users; 90 percent has implemented encryption for data at rest; and 63 percent has encrypted data in transit. While the multifactor authentication solution for Modernized e-File is currently available, we continue to enhance and upgrade the systems to achieve our goals. Additionally, the IRS will enable multifactor authentication on all FISMA systems by the end of the calendar year.

We have enhanced vulnerability and threat management capabilities in key areas. The IRS continues to deliver analytics tools that leverage machine learning to proactively identify and respond to emerging insider threats and fraudulent behavior. The IRS also continues High Value Asset continuous monitoring to protect systems that are segmented from the agency's enterprise network. Fiscal Service continues to optimize, secure, and scale technology resources—including prioritizing resources to adopt cloud technology—to effectively support our role in national security and to implement the requirements of the Cybersecurity Executive Order (EO) 14028, *Improving the Nation's Cybersecurity*. To comply with the Cybersecurity EO, Fiscal Service will continue implementing Zero Trust cloud solutions and Enterprise Log Management as it moves toward Zero Trust Architecture compliant platform services.

We and our partners in the Financial and Banking Information Infrastructure Committee (FBIIC) assessed how trends in technology usage could affect the operational resilience of the U.S. financial services sector, and released a report, "*The Financial Services Sector's Adoption of Cloud Services*," in February 2023. This report shares our findings on core issues related to the current state of cloud adoption in the sector, including potential benefits and challenges associated with increased adoption, which we have been working closely with the FBIIC and the Financial Services Sector Coordinating Council to address.

ECONOMIC MEASURES TO ADVANCE NATIONAL SECURITY

Since Russia invaded Ukraine in February 2022, we, working alongside a global coalition of more than 30 countries, implemented a historic economic pressure campaign to deprive Russia of the revenue it uses to wage war. These targeted economic measures are enhancing and protecting U.S. national security interests. We issued more than 2,500 Russia-related sanctions designations and, together with international partners, immobilized at least $280 billion of Russian sovereign assets. The combined effects of these measures have contributed to significant economic difficulties for Russia's financial, energy, and manufacturing sectors, including Russia's military supply chain. In collaboration with the Department of Commerce and international partners, we are working to maintain the pressure on Russia by monitoring for and countering Russia's attempts to evade our sanctions and other economic controls.

We continue to share information with our global partners to address threats to U.S. national security and strategic interests. Through participation in the Egmont Group of Financial Intelligence Units (FIUs), FinCEN strives to share high-value and impactful financial intelligence quickly and securely with trusted foreign partners. FinCEN regularly evaluates its processes for sharing information to gain efficiencies and takes a risk-based approach to ensure it appropriately prioritizes requests from foreign FIUs.

Source: Adobe Stock

U.S. Issued Russian-Related Sanctions

We issued more than 2,500 Russia-related sanctions designations, and, together with international partners, immobilized at least $280 billion of Russian sovereign assets.

In March 2022, FinCEN established the Russia-Related Illicit Finance and Sanctions FIU Working Group with nine of our closest FIU partner countries, in part to further expedite and increase sharing of financial intelligence related to Russian illicit finance, including sanctions evasion. FinCEN issued a number of Russia-related alerts and advisories (including two joint alerts with the Department of Commerce's Bureau of Industry and Security) to draw attention to, and generate reporting by, U.S. financial institutions on Russian sanctions and export control evasion, as well as other illicit financial activity tied to Russian oligarchs and sanction Russian elites. These actions have helped drive the filing of Suspicious Activity Reports (SARs) with FinCEN; SARs play an important role in sanctions designations and law enforcement efforts to counter Russian illicit activity.

To ensure that covered foreign investments do not give rise to unresolved national security risks, we released the first ever Committee on Foreign Investment in the United States (CFIUS) Enforcement and Penalty Guidelines, which provide the public with information about how CFIUS assesses violations of the laws and regulations that govern transaction parties, including potential breaches of CFIUS mitigation agreements. Transaction parties' compliance is critical to ensuring we protect national security against transnational risks certain foreign investments pose. We are also implementing the provisions of the IRA that bolster energy security by strengthening and diversifying vital supply chains in partnership with allies.

Modernize Sanctions Regime

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

In April 2023, we launched the Sanctions Economic Analysis Division, a cross-functional team working with IA, the Office of Terrorism and Financial Intelligence (TFI), and others to develop economic and financial analysis to inform the design and implementation of sanctions options. Finally, we improved our communication and transparency on sanctions by modernizing our Information Technology (IT) and website, enhancing case management, and other related efforts.

Transparency in the Financial System

Our work to increase transparency in the domestic and international financial systems is aiding the detection of illicit financial activity and positioning the U.S. and international financial system to better detect, disrupt, and deter illicit financial activities.

Our work addressing the illicit finance risks of digital assets from the 2022 National Strategy for Combatting Terrorist and Other Illicit Financing included the April 2023 publication of the 2023 DeFi Illicit Finance Risk Assessment, the first such risk assessment conducted on decentralized finance in the world, as well as extensive ongoing work with interagency and international partners to better understand digital asset gaps in the U.S. and global Anti-Money Laundering / Countering the Financing of Terrorism (AML/CFT) frameworks.

We are finalizing development and implementation of a Beneficial Ownership Secure System to crack down on the use of anonymous shell companies by malicious actors. FinCEN's rulemaking on beneficial ownership information and efforts to increase transparency in the real estate sector are enabling us to address emerging challenges.

We made significant progress implementing new beneficial ownership information reporting requirements as part of ongoing efforts to carry out the Corporate Transparency Act (part of the AMLA). Specifically, FinCEN issued a notice of proposed rulemaking proposing regulations that would govern the access to and protection of beneficial ownership information. Additionally, FinCEN launched a new beneficial ownership information reporting page on its website containing information related to the new reporting requirements, including frequently asked questions and informational videos. FinCEN continues to develop additional public guidance for entities that will need to report their beneficial ownership information. FinCEN also completed initial development and began testing and assessing the security of an IT system to receive and store beneficial ownership information.

Additionally, we made progress developing a notice of proposed rulemaking to address money laundering threats in the U.S. residential real estate sector.

Source: Adobe Stock

2023 DeFi Illicit Finance Risk Assessment

Our work addressing the illicit finance risks of digital assets from the 2022 National Strategy for Combatting Terrorist and Other Illicit Financing included the April 2023 publication of the 2023 DeFi Illicit Finance Risk Assessment, the first such risk assessment conducted on decentralized finance in the world, as well as extensive ongoing work with interagency and international partners to better understand digital asset gaps in the U.S. and global (AML/CFT) frameworks.

GOAL 2: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 20	FY 21	FY 22	FY 23	FY 23 Target	Result vs Target
Percentage of CFIUS Cases Reviewed within Statutory Timeframes, reported by calendar year (International Affairs)[1]	100%	100%	100%	TBD	100%	TBD
Number of New or Modified Sanctions Programs Established by Executive Order or Congressional Mandate (TFI)[2]	7	8	11	2	N/A	TBD

Explanation of Results

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

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

Goal 3: Protect Financial Stability and Resiliency

We play a critical role in improving financial resiliency and addressing vulnerabilities in core financial markets. We continued to promote a more resilient financial system, as demonstrated through the improved resiliency of Treasury security markets. The Financial Stability Oversight Council (FSOC), which is chaired by Secretary Yellen and charged with identifying risks to the financial stability of the U.S., has seen its capacity grow over the past year. We were also heavily involved in developing policy and engaging on digital assets and made significant progress in facilitating financial innovation.

Under this goal, our first strategic objective focuses on monitoring and coordinating responses to threats to financial stability both domestically and globally. Our second objective is to mitigate vulnerabilities in Treasury and municipal securities markets, keeping pace with changes in the industry, regulatory environment, trading practices, and investor demands. Our third strategic objective—identified as a focus area for improvement in our FY 2023 SOAR process—focuses on encouraging the responsible use of innovative financial technology, both across the financial sector and within Treasury.

Financial System Vulnerabilities

Through our work to rebuild FSOC's capacity, we are strengthening our ability to coordinate and improve collective actions to mitigate threats to financial stability. The FSOC continued its work to identify emerging vulnerabilities to the financial system through its monthly interagency Systemic Risk Committee meetings, as well as through recommendations to address those vulnerabilities in its Annual Report in December 2022. Identifying, assessing, and responding to systemic risks are among FSOC's core functions, and the Council has taken recent action to strengthen and provide greater transparency into how it performs these duties. On April 21, 2023, the FSOC issued its *Proposed Analytic Framework for Financial Stability Risk Identification, Assessment, and Response,* which is intended to inform the public how the Council engages with risks to the financial system. At the same time, the Council issued proposed interpretive guidance on its authority to designate nonbank financial companies for Federal Reserve supervision and prudential standards.

In FY 2023, the Office of Financial Research (OFR) proposed a rule to establish an ongoing collection of noncentrally cleared bilateral repurchase agreement data to improve transparency in short-term funding markets. The sound functioning of such markets is critical to financial stability, and the OFR will continue working to finalize and launch this daily financial data collection. The OFR also made substantial progress building its capability to collect data directly from financial companies, which it will leverage for the planned new noncentrally cleared bilateral repurchase agreement data collection and for future FSOC data collection needs. Additionally, OFR launched the Joint Analysis Data Environment (JADE), designed to enhance FSOC member agencies' access to data, high-performance computing, and tools for research and analysis on financial stability and vulnerabilities.

Source: Adobe Stock

Financial Stability Oversight Council

FSOC, which is chaired by Secretary Yellen and charged with identifying risks to the financial stability of the U.S., has seen its capacity grow over the past year.

Resilient Treasury and Municipal Securities Markets

The Treasury security markets have withstood multiple shocks this year, demonstrating their improved resiliency.

The Inter-Agency Working Group on Treasury Market Surveillance, which consists of Treasury, the Federal Reserve Board, the Federal Reserve Bank of New York, the U.S. Securities and Exchange Commission, and the Commodity Futures Trading Commission, continues to focus on improving the resilience of market intermediation, improving data quality and availability, evaluating expanded central clearing, enhancing trading venue transparency and oversight, and examining the effects of leverage and fund liquidity risk management practices. Additionally, we continue to make progress toward beginning a Treasury marketable securities buyback program in 2024. Our buybacks will have two debt management objectives—liquidity support and case management.

In 2023, the Office of Economic Policy developed and implemented important enhancements to the high-quality market corporate bond (HQM) yield curve methodology that significantly expanded market coverage of the HQM yield curve and improved the ability of the curve to capture market movements. The enhancements also enabled the HQM yield curve to be better used in combination with the Treasury securities yield curves.

Increasing market monitoring to understand the causes and effects of changes in municipal bondholder composition and municipal bond market volatility and liquidity is crucial for promoting greater efficiency, liquidity, and transparency in the market. For these reasons, we developed internal monitoring tools for variable rate and high-yield municipal debt and engaged with municipal market regulators and federal agencies on implementation of market transparency measures including voluntary disclosure of climate-risk and impact information. We also convened municipal issuer groups to improve disclosures by disseminating best practices for financing resilient infrastructure.

Financial Innovation

In FY 2023, we continued to modernize financial management processes through increased federal electronic payments and collections, and reduced use of paper checks with federal agencies. In February, the IRS implemented the capability for taxpayers who electronically filed Form 1040-X (Individual Amended Return) to receive electronic funds transfer (EFT) refunds. We are monitoring the impact on tax refund EFT percentages for the remainder of 2024. In FY 2023, the overall EFT rate was 96.5 percent. Additionally, Fiscal Service and the Federal Emergency Management Agency signed a Memorandum of Understanding to pilot emerging digital payments for faster assistance to disaster victims.

To better diversify representation on our national currency, the U.S. Mint developed and delivered to the Secretary design options for the five 2024 American Women Quarters, the 2024 American Innovation $1 Coin for Missouri, and the Liberty & Britannia 24k Gold Coin and Silver Medal. The U.S. Mint also conducted design development for the final five 2025 American Women Quarters, the 2025 Native American $1 Coin, and the 2025 American Innovation $1 Coins for Michigan and Arkansas. In addition, the U.S. Mint created a cross-functional team to increase awareness of the American Women Quarters™ Program, and, through extensive stakeholder outreach to previously untapped audiences, stimulated new interest in coin collecting.

The U.S. Mint is planning to strengthen its anti-counterfeit processes by leveraging new technologies, including advanced detection methods for authenticating bullion and circulating coinage. The advanced technology will also ease manufacturing burdens. The U.S. Mint will continue to support other federal agencies with circulating coin authentication.

Source: Adobe Stock

BEP's New Developments

BEP's development activities for the newly redesigned family of banknotes made notable progress during FY 2023. BEP implemented multiple high-volume print trials integrating machine readable, and covert security features, along with a raised tactile feature that will be appearing on U.S. currency for the first time.

Fiscal Service established the Office of Payment Integrity by merging the Do Not Pay Business Center and Payment Integrity Center of Excellence. This office manages a portfolio of payment integrity tools, services, and data sources to focus on access to data and data sharing, data analytics, and government-wide and agency-specific solutions. In FY 2023, we identified, prevented, or recovered $652.7 million in improper payments as a direct result of Fiscal Service Payment Integrity services and solutions. In FY 2024, Fiscal Service will advance a payment integrity vision and will evaluate the bureau's role in stopping improper payments.

Additionally, in FY 2023, BEP made notable progress on development activities for the newly redesigned family of banknotes. BEP implemented multiple high-volume print trials integrating public, machine readable, and covert security features, along with a raised tactile feature that will be appearing on U.S. currency for the first time. Currency redesigns are a multi-year process to ensure security and their successful adoption in domestic and international markets, and they play a vital role in maintaining end-user trust and confidence in U.S. currency.

GOAL 3: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 20	FY 21	FY 22	FY 23	FY 23 Target	Result vs Target
Percentage of Treasury Payments Made Electronically (Fiscal Service)[1]	96.0%	96.2%	96.4%	96.5%	96.6%	Unmet
Percentage of Total Federal Government Receipts Initiated Electronically (Fiscal Service)[2]	84.1%	83.0%	83.2%	84.8%	84.0%	Met

Explanation of Results

[1]This measure provides the percentage of the total volume of electronic payments that are disbursed electronically. FY 2020, FY 2021, and FY 2022 data does not include pandemic-related relief payments such as economic impact payments and advance child tax credit payments.

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

Goal 4: Combat Climate Change

We continue to work with domestic and international partners to emphatically respond to the challenges of climate change, including taking action to adapt to an already changing climate. With our partners, we work on mitigating risks associated with climate change and strive toward positioning the global economy for a clean and sustainable future. Our work in this area will strengthen the nation's energy security and enhance its competitiveness in the clean energy economy. This year, we established foundations to strengthen finance for emerging markets and climate adaptation through leadership in a variety of international forums, including co-chairing the Green Climate Fund (GCF), co-chairing the G20 Sustainable Finance Working Group, and co-chairing the Trust Fund Committee of the Climate Investment Funds. Additionally, the IRA has positioned our Department as a prominent leader in the climate space, and its implementation will be key in advancing progress towards U.S. climate goals.

Source: Adobe Stock

Climate Change and the Global Economy

With our partners, we work on mitigating risks associated with climate change and strive toward positioning the global economy for a clean and sustainable future.

Under this goal, our first strategic objective focuses on using U.S. leadership to re-engage with international partners to enhance global action and mobilize and align financial flows to combat climate change. Our second strategic objective—identified as an area of noteworthy progress and a focus area of improvement in our FY 2023 SOAR process—aims to promote incentives and policies to encourage the private sector's investment in climate-friendly projects. Our third strategic objective focuses on developing and executing approaches to measure and monitor climate risks to the financial sector, government, businesses, and households. Our fourth strategic objective focuses on our efforts to invest in adaptation and resiliency efforts to address climate change impacts on our operations and services.

Global Climate Commitment and Leadership

In FY 2023, we made strides to advance global commitments in combating climate change, including setting foundations to strengthen finance for emerging markets, helping developing economies adapt to a changing climate, and demonstrating leadership in several multilateral forums.

IA implemented programs to improve its oversight of key climate funds to ease access to finance for beneficiary countries, make more financing available to the most vulnerable countries, including small island states, and improve effectiveness of climate finance. In April, President Biden announced a $1 billion contribution to the GCF, which IA co-chairs. IA also co-chaired the G20 Sustainable Finance Working Group with China and led the Administration's work to implement the Just Energy Transition Partnerships, multilateral funding agreements that aim to bridge the gap between developed and developing nations in moving towards clean energy. In addition, IA initiated a review of the global climate finance architecture culminating in broad agreement at the June Paris Summit.

CLIMATE INCENTIVES AND INVESTMENT

The IRA is the most significant investment in climate and clean energy in U.S. history. As tax incentives deliver most of the law's investment, we are playing a leading role in implementing the law. The IRA established or modified approximately 20 clean energy-related tax incentives that will be critical in advancing the nation's climate goals while lowering costs for consumers and creating good-paying jobs. We are focused on implementing the clean energy tax provisions as quickly and effectively as possible, with a commitment to ensuring that IRA implementation maximizes the law's economic, energy security, and climate impacts in the years to come.

Our implementation efforts have stretched across the Department—including the Office of Tax Policy, Climate Hub, IRA Program Office, Office of the Deputy Assistant Secretary for Management and Budget, and the IRS—and involved extensive collaboration with other federal agency partners. Since the law was enacted, we and the IRS have issued over 40 pieces of guidance on the law's clean energy provisions, while engaging with hundreds of stakeholders and reviewing thousands of written comments. We are also modernizing the IRS's customer service and technology to ensure that we deliver the IRA's clean energy tax incentives accurately and seamlessly.

The Office of Financial Markets (OFM) is working with OMB to update Federal credit policies to integrate climate-related financial risk into financial management and reporting for federal credit programs. This effort includes proposed disclosures to facilitate public reporting of climate risk and impacts. The OFM will work with agencies to develop a standardized reporting framework across federal programs. We are also working in other ways to encourage private sector investment in companies and activities that will underpin the clean energy economy of the future. This includes releasing the *Net-Zero Principles for Financing & Investment* and working to better understand the challenges and opportunities associated with voluntary carbon markets.

Source: Adobe Stock

Consumer Climate Based Tax Incentives

The IRA established or modified approximately 20 clean energy-related tax incentives that will be critical in advancing the nation's climate goals while lowering costs for consumers and creating good-paying jobs.

CLIMATE-RELATED FINANCIAL RISKS

We made progress toward incorporating climate-related risks into assessments of financial stability risk. Following FY 2022's successful climate-related financial data and analytics hub pilot, the OFR developed an expanded and enhanced platform, JADE. This platform is designed for FSOC member agencies to jointly analyze financial-stability risks and currently provides access to publicly available climate and financial data. While JADE can support research on a variety of financial stability topics, climate-related financial risk is the first research topic the FSOC is exploring within JADE. Further, the FSOC continued its work to assess climate-related financial risk. It held multiple convenings of the Climate-related Financial Risk Advisory Committee (CFRAC) and, in July 2023, the FSOC published a staff progress report highlighting the FSOC and its member agencies' progress to better assess and address climate-related financial risk.

SUSTAINABLE TREASURY OPERATIONS

We have met one of two objectives in our "Sustainable Treasury Operations" APG, specifically in our progress converting our fleet to electronic vehicles. We are on track to disseminate a climate literacy program for our targeted audience.

We developed strategies and standardized processes to acquire carbon-free electricity (CFE) to meet our goal of 100 percent usage across our "Energy Goal Facilities" by 2030, with up to 50 percent generated on a 24/7 basis. We identified new and additional actionable CFE opportunities, including initiatives at the Denver Mint and the BEP's Western Currency Facility. The Denver Mint uses 100 percent clean energy by purchasing its electricity through Xcel Energy's wind energy program, Windsource. The U.S. Mint is also installing electric vehicle charging stations at all plants. In addition, the Climate Literacy Working Group partnered with the National Oceanic and Atmospheric Administration and successfully published a Climate 101 training for all staff. Additionally, Treasury published a Climate and Sustainability SharePoint site, which offers additional resources and references to all stakeholders.

GOAL 4: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 20	FY 21	FY 22	FY 23	FY 23 Target	Result vs Target
Treasury-wide Footprint (Thousands of Square Feet) (Management)[1]	32,517	32,006	31,691	TBD	31,734	TBD
Explanation of Results						
[1]The actual FY 2023 square footage of Treasury-wide real property is not available until December 2023, at which time the comparison can be made of actual results versus target.						

Goal 5: Modernize Treasury Operations

We made progress in filling critical Diversity, Equity, Inclusion, and Accessibility (DEIA) leadership positions, expanding efforts to increase diversity in our talent pipeline and create a more inclusive workplace culture, and adjusting work routines to support a hybrid workforce. We also clarified our priorities regarding how we use data, beginning with building data capacity across the Department. Additionally, we issued an agency vision statement for customer experience, which is a key deliverable of our FY 2022 – 2026 Strategic Objective 5.4, to mature and embed strong customer experience practices across the Department.

Under this goal, our first strategic objective—identified as a focus area for improvement in our FY 2023 SOAR process—focuses on developing a diverse pipeline for hiring and promotions, and investing in training and development opportunities to improve retention and inclusion in our workforce. Our second strategic objective—assessed as a focus area for improvement in our FY 2023 SOAR process—focuses on modernizing our workplace infrastructure and work routines to enable an engaged and inclusive workforce of the future. Our third strategic objective centers on strengthening our data infrastructure, data governance, and analytic capabilities within the workforce. Our fourth strategic objective is to mature customer experience practices across the Department, while increasing American's trust in government.

RECRUIT AND RETAIN A DIVERSE AND INCLUSIVE WORKFORCE

We established the Office of Diversity, Equity, Inclusion, And Accessibility (ODEIA) to serve as a center of excellence to modernize the Department's overall DEIA strategy and drive cohesive implementation and accountability across the departmental offices and bureaus. The new structure allows for greater, more concentrated, and dedicated focus on civil rights compliance and mitigation, as well as DEIA accountability, competencies, and transparency.

Source: Adobe Stock

Newly Centralized ODEIA

The newly centralized ODEIA is responsible for four essential functions: carrying out policy analysis on racial and economic issues; advancing efforts to develop a workforce that reflects the diversity of the nation; ensuring fair and equitable business utilization; and guaranteeing compliance with civil rights laws and regulations.

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- carrying out policy analysis on racial and economic issues;
- developing a workforce that reflects the diversity of the nation;
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- guaranteeing compliance with civil rights laws and regulations.

To improve our ability to implement these key functions, we expanded our Office of Minority and Women Inclusion (OMWI) Treasury-wide and aligned OMWI with our Office of Civil Rights and Equal Employment Opportunity (OCRE), formerly known as the Departmental Office's Office of Civil Rights and Diversity. In addition, ODEIA added a new component, the Treasury Equity Hub. This new office focuses on economic analysis and public policy to ensure DEIA is central to our efforts of reaching and providing services and resources to the public.

In FY 2022, ODEIA began recruiting for key senior leadership positions, including the Chief of the ODEIA, the OCRE Director, and the Director of the Equity Hub. In FY 2023, we appointed Directors of the OCRE and the Equity Hub, and we will continue recruiting for the ODEIA Chief position in FY 2024.

Bureaus have expanded their critical leadership in DEIA efforts as well. For example, the U.S. Mint, BEP, and Fiscal Service have each hired Chief Diversity or Equity Hub Officers. Other bureaus have expanded the role of their Equal Employment Opportunity Officers to include DEIA efforts.

To ensure we develop a workforce that reflects the diversity of the nation, Fiscal Service began posting vacant positions in all its locations, where appropriate. Fiscal Service plans to increase partnerships with minority-serving institutions, improve inclusive and accessible language in recruitment and public-facing materials, expand outreach to minority-serving networks, and use alternative job listing sites. In addition, Fiscal Service continued quarterly rotational leadership development opportunities for Director-level employees in FY 2023.

TTB continued efforts to increase diversity in its talent pipeline and to create a more inclusive workplace culture. TTB established an Inclusion, Diversity, Engagement, Equity and Accessibility Council comprised of a cross-section of bureau volunteers to generate input for TTB workforce engagement and diversity strategies. TTB is also continuing a multi-year initiative to develop career development models by TTB job series based on competency and proficiency level. These tools provide transparent expectations on capabilities employees must demonstrate to advance by job series and grade, and are an important part of TTB's plans to prepare candidates for leadership positions.

In addition, FinCEN actively participates in virtual Historically Black Colleges and Universities (HBCU) recruiting events, in part through our ongoing outreach to HBCU students and alumni. FinCEN also participates in the Annual National HBCU Week Conference, planned under the leadership of the White House Initiative on HBCUs and coordinated by the Department of Education. FinCEN engages with the HBCU Museum and the Black Scholarship Fund on career opportunities.

Additionally, in FY 2023, we established an agency-wide recruitment program. The new program, which includes a council with diverse representatives from across the agency, will establish an employee value proposition and foster new talent partnerships both internally and externally.

FUTURE WORK ROUTINES

We are committed to an evidence-based approach to developing the future of work, including adjusting work routines, and are rightsizing and equipping office spaces to support a hybrid workforce. Future efforts will focus on creating an equitable experience by enabling leaders and teams to use available tools and facilities effectively to build and maintain strong relationships and avoid proximity and in-group biases.

In FY 2023, we established agency and component Work Environment Plans in accordance with OMB

Source: Adobe Stock

Future of Work

We are committed to an inclusive and evidence-based approach to developing the future of work, including adjusting work routines, and are rightsizing and equipping office spaces to support a hybrid workforce.

Memorandum M-23-15, *Measuring, Monitoring, and Improving Organizational Health and Organizational Performance in the Context of Evolving Agency Work Environments*. We continue to increase the amount of meaningful in-person interactions across the organization. In addition, our bureaus have experimented with innovative, flexible work arrangements to fill critical talent gaps and improve retention, such as piloting remote work and maxi-flex work schedules.

As work routines, employee expectations, and customer needs evolve, we continuously evaluate our practices through the Quarterly Performance Review, Organizational Health Workbook, and other organizational performance health measurement processes. We also completed an evaluation of telework policies and practices.

Better Use of Data

In FY 2023, we established the role and function of the Chief Data Officer and clarified priorities, beginning with building data capacity, increasing data literacy, improving data infrastructure, and facilitating a common lexicon across our Department.

In FY 2023, USAspending.gov launched a new homepage that improves the experience of users by re-organizing content and presenting a friendly face to reduce what was previously reported as being intimidating. The USAspending.gov team also created several features to help users understand data, including an interactive tool called "About the Data," and launched eight new videos on YouTube to help users understand how to use USAspending.gov answer common questions. Finally, given the importance of Congressional stakeholders, USAspending.gov updated features across the site to reflect new Congressional Districts, while ensuring that all data is backwards compatible to show prior Congressional Districts.

In FY 2024, we will expand our capacity to visualize and mature data by developing a data governance operational model with a focus on data stewardship and data sharing responsibilities. Implementing a Treasury-wide data catalogue will enable our workforce to access our metadata for analysis in support of mission priorities.

We are poised to better assess our commercial data investments by: (1) expanding the utility of our data inventory to capture each bureau's third-party data inventory; (2) building a data strategy to consolidate the investment, leading to a strategic sourcing effort that better leverages our buying power; and (3) potentially reducing cost burdens and improving data sharing.

Customer Experience Practices

Despite limited resources, we continue to make significant progress strengthening customer experience governance and capacity. We issued an agency vision statement for customer experience: "Earning your trust through reliable, exceptional service." Our customer experience vision statement is a key deliverable of our FY 2022 – 2026 Strategic Objective 5.4, to mature and embed strong customer experience practices across the Department. Our customer experience vision statement builds on previous actions that established the Treasury Customer Experience Community of Practice, which provides a senior leadership forum to promote successful adoption of customer experience practices across our bureaus and offices through collaboration and information sharing.

The Customer Experience Community of Practice has sufficiently matured to allow the transition to bureau leadership and continues to facilitate meaningful coordination, sharing, and collaboration across service providers.

GOAL 5: KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 20	FY 21	FY 22	FY 23	FY 23 Target	Result vs Target
Percent of Aged Hardware (IRS)[1]	16.0%	9.3%	7.1%	19.9%	20.0%	Met
Treasury-wide EVS Satisfaction Index (Management)[2]	71%	67%	65%	65%	65%	Met

Explanation of Results

[1]The percent of aged hardware was 19.9 percent which met the 20 percent target for FY 2023. The major driver in exceeding this goal was the focus on hardware selections and timely refresh implementations. For FY 2024, IRS will continue with risk-based management to prioritize funding of assets with highest risk values.

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

ENTERPRISE RISK MANAGEMENT

FRAMEWORK

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

The CRO meets regularly with senior leaders to discuss top risks to critical programs, systems, projects, and priorities, including response strategies. The Enterprise Risk Management (ERM) Council, chaired by the Deputy CRO, brings together risk managers from each of our bureaus and policy offices on a bi-monthly basis to share best practices and discuss risks. In October 2022, the Assistant Secretary for Management aligned the ERM program to the Office of Strategy, Planning, and Performance Improvement (OSPPI) to improve its integration with our strategic direction. OSPPI works with our bureaus and policy offices to monitor and annually update our risk profile.

Beyond its work within the Department, the Deputy CRO leads an interagency ERM community of practice including officials from more than 50 federal agencies. This group originated from our efforts to support agencies in their implementation of ERM, including the *Playbook: Enterprise Risk Management for the U.S. Federal Government* as amended in 2021. This government-wide working group meets bimonthly to discuss common risks and various methods of implementing the guidelines of the circular.

RISKS AND CHALLENGES

Through the FY 2023 SOAR and enterprise risk management process, we identified the following cross-cutting risks.

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

Human Capital: There is a potential for an erosion in our mission capability due to human capital challenges, such as in the areas of hiring, knowledge management, diversity and inclusion, and employee engagement. This risk may be exacerbated when paired with changing mission and skill requirements.

Enterprise Prioritization: We may not be able to achieve the fullest extent of our objectives and perform our mission to its greatest capacity if we cannot allocate resources effectively in the current resource-constrained environment. This risk is exacerbated by uncertain funding, new or changing legislative requirements, and reduced capacity.

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

Operational Resilience: We may face significant disruptions to operations, due to climate change, natural disasters, terrorist events, pandemics, or lapse in appropriations, which could inhibit successful mission delivery, curtail progress in critical areas, and introduce challenges for agency employees and contractors as well as our customers and taxpayers.

Procurement, Acquisition, and Vendor Management: The inability of our offices and bureaus to timely acquire necessary products and services, initiate work under contracts, and effectively monitor contract execution and budget may result in failure to execute mission, loss of funding, and public loss of confidence in us.

CLIMATE-RELATED RISKS AND CHALLENGES

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

We issue broad guidelines rather than overly restrictive instructions for conducting climate risk assessments as we have diverse missions and operations. These guidelines included, but were not limited to, key factors such as flooding, heat, and extreme weather (*e.g.,* hurricanes). Currently, we are using our climate action plan to guide investments towards enhancing the resilience of our buildings. Additionally, we are working to improve the access to and quality of climate data and analytical tools to better inform decision-making across the financial system. As noted above, this year the OFR launched JADE, which supports the FSOC and its member agencies researching climate-related financial risks. Finally, we are continuing to coordinate with regulators through the FSOC to facilitate information sharing, analysis, and capacity building on climate-related financial risks. This year we launched the Climate-related Financial Risk Advisory Committee (CFRAC) within FSOC to receive information and analysis on climate-related financial risks from a broad array of stakeholders.

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

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

FY 2024 Strategic Outlook

Our FY 2022 – 2026 Strategic Plan, published in March 2022, describes the long-term goals and objectives we aim to achieve during this Administration. In September 2023, we updated our FY 2022 – 2026 Strategic Plan to reflect our progress, including updating our goals and objectives to reflect the most relevant initiatives and stakeholder feedback, as well as further specifying our desired outcomes and measures/indicators of success.

The updated strategic plan includes language that better describes the unique status of Tribal Governments and the nature of our work with Tribal communities and governments, updates to strategic objectives that reflect initiatives associated with the IRA, and updates to reflect our priorities in global climate commitments, among others.

Our FY 2023 SOAR outlined several critical leadership actions in the following priority areas for the coming year: (1) economic measures to advance national security; (2) transparency in the financial system; (3) climate incentives and investment; (4) sustainable Treasury operations; and (5) recruiting and retaining a diverse and inclusive workforce.

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

- identify different mechanisms to encourage progress towards beneficial ownership accountability (Goal 2: Enhance National Security);
- continue the current APG on payment experience (Goal 3: Protect Financial Stability and Resiliency);
- implement tax incentives for investments in clean energy, domestic manufacturing, and cost-saving energy efficiency as authorized by the IRA (Goal 4: Combat Climate Change);
- continue implementing OMB Memorandum 23-15, *Measuring, Monitoring, and Improving Organizational Health and Organizational Performance in the Context of Evolving Agency Work Environments,* (Goal 5: Modernize Treasury Operations).

In addition, we will continue to work diligently to support efforts to combat climate change as articulated in the IRA. We have made strides and will continue to advance global commitments in combating climate change, including setting foundations to strengthen finance for emerging markets, climate adaptation, and demonstrating leadership in the Green Climate Fund.

Financial Highlights – Financial Overview

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

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

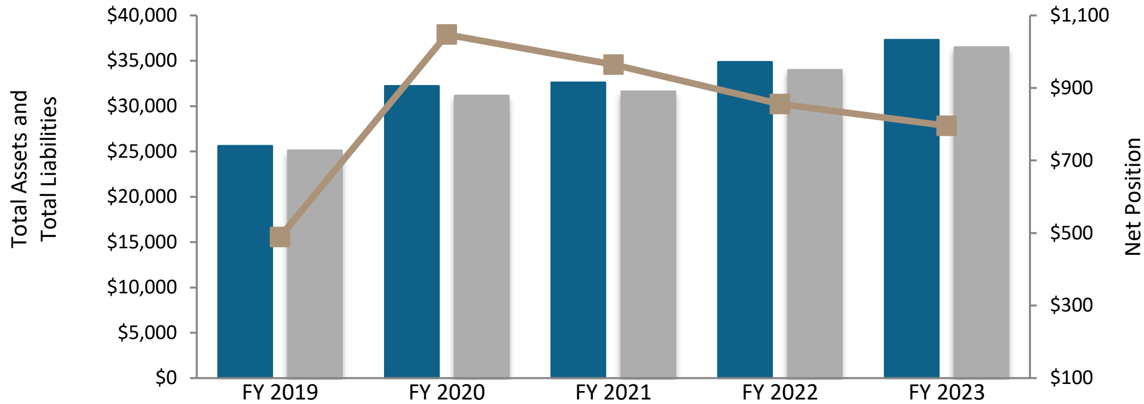
The chart below presents changes in key financial statement line items as of and for the fiscal year ended September 30, 2023 compared to September 30, 2022.

Summary Financial Information (*dollars in billions*)

	2023	2022	$ Change	% Change
Total Assets	$ **37,288.0**	$ 34,846.9	$ 2,441.1	7.0 %
Total Liabilities	$ **36,491.9**	$ 33,991.1	$ 2,500.8	7.4 %
Total Net Position	$ **796.1**	$ 855.8	$ (59.7)	(7.0)%
Total Net Cost of Treasury Operations	$ **78.5**	$ 186.8	$ (108.3)	(58.0)%
Federal Debt Interest Costs, Net	$ **826.6**	$ 675.9	$ 150.7	22.3 %
Other Federal Costs, Net	$ **15.9**	$ 17.2	$ (1.3)	(7.6)%
GSEs Non-Entity Cost (Revenue), Net	$ **(16.7)**	$ (2.9)	$ (13.8)	475.9 %
COVID-19 Non-Entity (Revenue) Cost, Net	$ **(1.3)**	$ 1.9	$ (3.2)	(168.4)%
Total Net Cost of Treasury Operations and Non-Entity Costs	$ **902.1**	$ 878.1	$ 24.0	2.7 %
Total Budgetary Resources	$ **1,349.0**	$ 1,341.8	$ 7.2	0.5 %
Agency Outlays, Net	$ **871.1**	$ 828.2	$ 42.9	5.2 %
Net Revenue Received (Custodial)	$ **4,061.5**	$ 4,392.5	$ (331.0)	(7.5)%

Financial Overview. Our financial performance as of and for the fiscal year ended September 30, 2023, reflects several major trends. Most significantly, the outstanding federal debt, including interest, rose by $2.2 trillion, to $33.2 trillion, to finance the U.S. government's operations.

Additionally, our "Total Net Cost of Treasury Operations and Non-Entity Costs" for FY 2023 increased by $24.0 billion due to $148.8 billion of higher federal debt interest costs, corresponding to the increase in federal debt as mentioned above, partially offset by a $108.3 billion decrease in net cost primarily associated with the financial assistance we provided in support for the COVID-19 pandemic relief efforts over the past several years, as well as $13.8 billion of higher revenue from our investments in two Government-Sponsored Enterprises (GSEs) – the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) – pursuant to our Senior Preferred Stock Purchase Agreements (SPSPAs), as amended (refer to Note 11 of the Consolidated Financial Statements).



	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Total Assets	$25,614.5	$32,200.1	$32,591.1	$34,846.9	$37,288.0
Total Liabilities	$25,125.0	$31,152.8	$31,626.2	$33,991.1	$36,491.9
Net Position	$489.5	$1,047.3	$964.9	$855.8	$796.1

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

Total Assets of $37.3 trillion at September 30, 2023 consist of a receivable due from the General Fund of the U.S. government (General Fund) of $33.2 trillion, intra-governmental loans and interest receivable of $2.0 trillion, and fund balance and various other assets totaling $2.1 trillion (Figure 2).

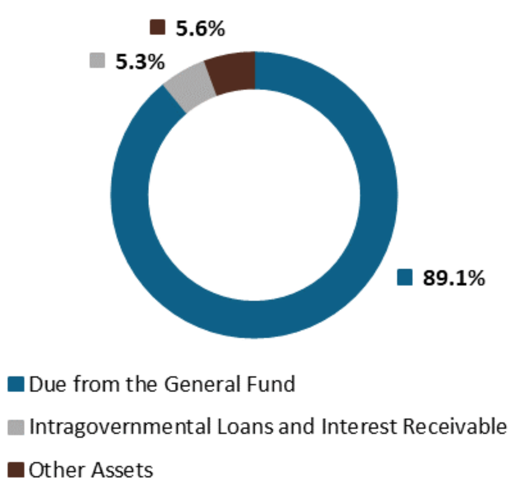


Figure 2: FY 2023 Total Assets (Composition)

The $2.4 trillion (or 7.0 percent) increase in total assets at the end of FY 2023 over the prior year is primarily due to a $2.2 trillion increase in our receivable, "*Due From the General Fund*," which corresponds to a $2.2 trillion increase in federal debt and interest payable. The "*Due From the General Fund*" asset represents future funds required from the General Fund to pay borrowings from the public and other federal agencies.

Intra-governmental *"Loans and Interest Receivable"* represents loans issued primarily by the Fiscal Service to other federal agencies for their own use or for the agencies to loan to private sector borrowers whose loans are guaranteed by the federal agencies. This receivable increased by $341.7 billion (or 21.2 percent) during FY 2023 due to higher borrowings from the Department of the Education, Federal Deposit Insurance Corporation (acting in its capacity as Receiver), and Department of Housing and Urban Development—to fund their programs.

Other assets primarily include *"Fund Balance," "Cash, Foreign Currency, and Other Monetary Assets," "Taxes Interest, and Other Receivables, Net," "Advances and Prepayments,"* and "*Investments in Government Sponsored Enterprises*." Other assets totaling $2.1 trillion decreased by $78.3 billion or (3.6 percent), largely reflecting a decrease in our "*Taxes, Interest, and Other Receivables, Net*" and "*Advances and Prepayments*".

The *"Taxes, Interest, and Other Receivables, Net,"* primarily comprised of federal taxes receivable, decreased by $53.0 billion principally due to decreased unpaid transition taxes on foreign earnings pursuant to Internal Revenue Code Section 965(h), coupled with the effect of taxpayer payments received for the deferred employers' portion of *Federal Insurance Contributions Act* Social Security taxes due to the U.S. government pursuant to the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act) (refer to Note 8 to the Consolidated Financial Statements entitled *Taxes, Interest, and Other Receivables, Net*).

Other assets also reflect a decrease of $53.3 billion in "*Advances and Prepayments,*" which represents additional liquidation of advances primarily paid to state, local, territorial, and Tribal governments pursuant to the COVID-19 related legislations enacted during FY 2021 and FY 2020 (refer to Note 10 within the Consolidated Financial Statements).

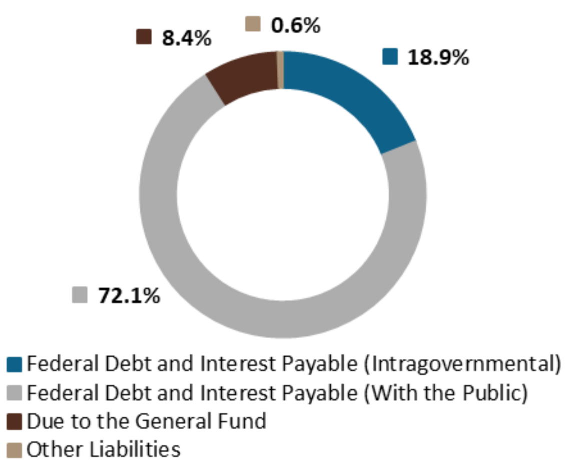
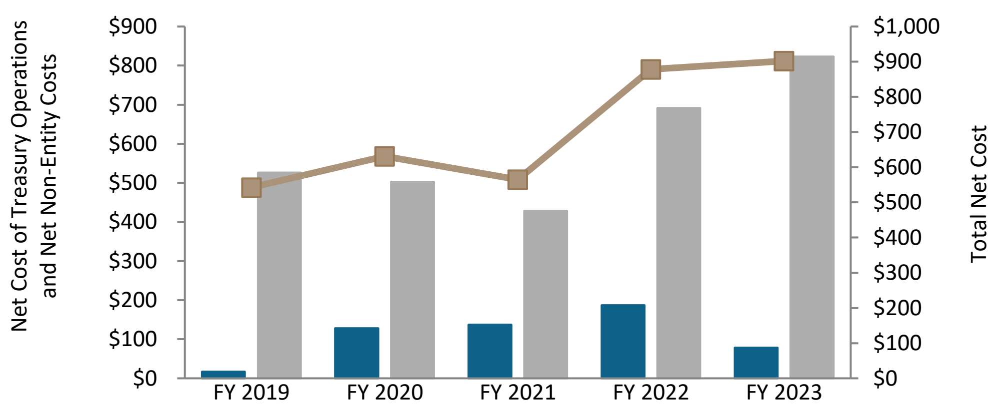


Figure 3: FY 2023 Total Liabilities (Composition)

Total Liabilities of $36.5 trillion at September 30, 2023 principally consist of the federal debt held by the public, including interest, of $26.3 trillion (Figure 3), which was mainly issued as Treasury Notes, Bonds, and Bills. Liabilities also include intra-governmental liabilities totaling $10.0 trillion (of which $6.9 trillion represent principal and interest of federal debt in the form of Treasury securities held by other federal agencies), and various other liabilities totaling $195.6 billion. Federal debt, including interest, held by the public and other federal agencies together totaled $33.2 trillion at the end of FY 2023, an increase of $2.2 trillion over the prior year. This increase in the federal debt accounts for the $2.5 billion (or 7.4 percent) increase in total liabilities over the prior year. Federal debt is needed to finance the U.S. government's operations.

Total Net Position of $796.1 billion at September 30, 2023 represents the combined total of our cumulative results of operations and unexpended appropriations at the end of the fiscal year. The $59.7 billion decrease in the net position at the end of FY 2023 was principally attributable to a decrease in unexpended appropriations remaining available to support pandemic relief programs authorized through the *American Rescue Plan Act of 2021* (ARP), *Consolidated Appropriations Act, 2021* (CAA), and the CARES Act.



	FY 2019	FY 2020	FY 2021	FY 2022	FY 2023
Net Cost of Treasury Operations	$16.6	$128.5	$137.0	$186.8	$78.5
Net Non-Entity Costs	$526.0	$502.7	$428.3	$691.3	$823.5
Total Net Cost	$542.6	$631.2	$565.3	$878.1	$902.1

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

Total Net Cost of Treasury Operations and Non-Entity Costs is presented on our Consolidated Statements of Net Cost (Figure 4). "*Net Cost of Treasury Operations*" represents the gross costs, net of earned revenues, we incurred related to our own entity activities comprising both operating bureaus and Departmental Offices that are consolidated with the Department. "*Net Non-Entity Costs*" represents the gross costs, net of earned revenues, we incurred on behalf of the U.S. government (or General Fund), and primarily include *"Federal Debt Interest Costs, Net"* (net of interest revenue from loans), *"Other Federal Costs, Net," "GSEs Non-Entity Revenue, Net," "COVID-19 Non-Entity (Revenue) Cost, Net,"* and other federal costs and revenues.

"*Total Net Cost of Treasury Operations and Non-Entity Costs"* totaled $902.1 billion and $878.1 billion for FY 2023 and FY 2022, respectively, an increase of $24.0 billion (or 2.7 percent) over the prior year. Net costs associated with our entity operations (*"Net Cost of Treasury Operations"*) decreased $108.3 billion year-over-year primarily as a result of decreased costs associated with our pandemic relief programs. Net costs associated with our non-entity operations ("*Net Non-Entity Costs*") increased by $132.2 billion year-over-year, primarily driven by a combination of $148.8 billion of higher federal debt interest costs, partially offset by $13.8 billion of increased revenue from our GSE investments.

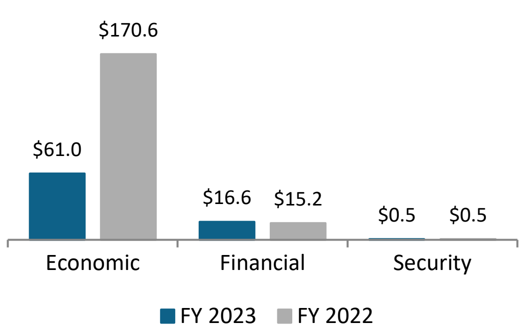


Figure 5 : Net Cost of Treasury Operations by Strategic Program (in billions)

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

Table 2: Program Segments by Treasury Mission

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

Our *"Net Cost of Treasury Operations"* totaled $78.5 billion for FY 2023 compared to $186.8 billion for FY 2022, a decrease of $108.3 billion (or 58.0 percent). This decrease primarily stems from the year-over-year $101.2 billion net decrease in costs associated with pandemic relief efforts (refer to Note 10 of the Consolidated Financial Statements).

Federal Debt Interest Costs, Net (*a non-entity cost*) totaling $826.6 billion for FY 2023 primarily reflect interest expense on the federal debt, net of interest income on loans. This net cost increased $150.7 billion (or 22.3 percent) from the prior year, primarily attributable to an increase in interest rates, and an increase in outstanding debt held by the public.

Other Federal Costs, Net (*a non-entity cost*) of $15.9 billion in FY 2023 decreased by $1.3 billion from the prior year primarily due to a decrease in interest expense incurred on uninvested credit program funds held on behalf of other federal agencies.

GSEs Non-Entity Revenue, Net (*a non-entity revenue*) is reported as a net revenue totaling $16.7 billion and $2.9 billion for FY 2023 and FY 2022, respectively. GSE non-entity revenue is driven by fair value changes to our GSE investments and changes to the liquidation preference of our GSE senior preferred stock. The asset value of our GSE investments grew by $16.7 billion in FY 2023 compared to FY 2022, reflecting a fair value valuation loss in our senior preferred stock and warrants of $3.8 billion in FY 2023, which was more than offset by a $20.5 billion growth in the liquidation preference of the senior preferred stock. The FY 2023 $3.8 billion fair value valuation loss when compared to the $27.9 billion fair value loss in the prior year, resulted in a year-over-year gain of $24.1 billion as reflected in the current fiscal year's net costs of non-entity operations. The $24.1 billion year-over-year fair value gain, offset by a $10.3 billion year-over-year decrease in our senior preferred stock liquidation preference (discussed below), resulted in a total $13.8 billion year-over-year change in this line.

Pursuant to amendments to the SPSPAs that, among other things, increased the GSEs' capital reserve amounts, the GSEs will not pay a quarterly dividend until they achieve their regulatory minimum capital requirement. We received no cash dividends for the fiscal years ended September 30, 2023 and 2022 as the GSEs' had not achieved their capital requirement as of the fiscal years ended (refer to Note 11 to the Consolidated Financial Statements). As compensation to Treasury for the replacement of the dividend, the SPSPA amendments call for the liquidation preference of the GSEs' senior preferred stock to increase by a specified amount until each GSE has achieved its capital reserve requirement. The liquidation preference of our senior preferred stock increased in value by $20.5 billion in FY 2023 compared to $30.8 billion in FY 2022, pursuant to the amended SPSPA, which had the effect of increasing the year-over-year net costs of non-entity operations by $10.3 billion. The GSEs agreed that, at the end of each fiscal quarter, through and including the capital reserve end date, our liquidation preference will be increased by an amount equal to the increase in the GSEs' net worth amount, if any, during the immediately prior fiscal quarter.

COVID-19 Non-Entity (Revenue) Cost, Net (*a non-entity revenue or cost*) primarily reflects fair value losses or gains recognized on financial instruments received from U.S. airlines in FY 2020 and 2021 as appropriate compensation to the U.S. government for the financial support provided to preserve aviation jobs during the pandemic. As a provision of the CARES Act in FY 2020, and further extended by the CAA and ARP in FY 2021, the U.S. government received promissory notes and common stock warrants for providing financial support to the aviation industry. We recognized a fair value gain of $1.3 billion in FY 2023 compared to a $1.9 billion fair value loss in FY 2022 on these instruments.

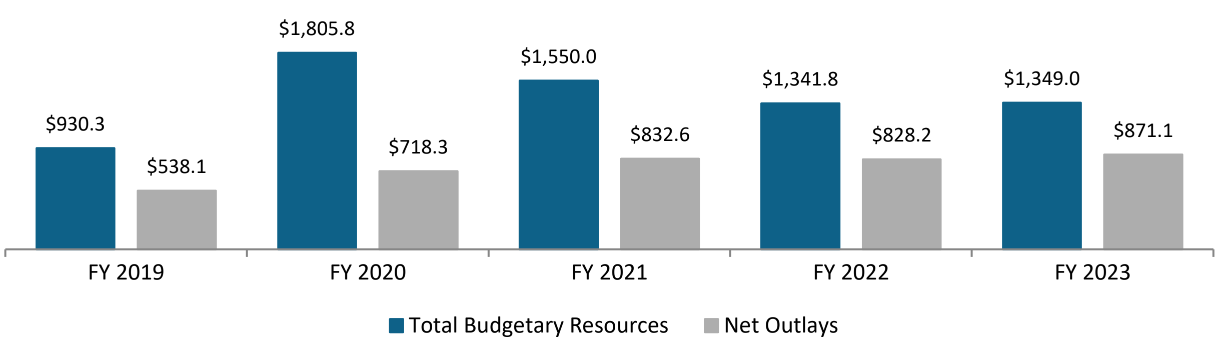


Figure 6 : Total Budgetary Resources and Agency Outlays, Net (*in billions*)

Total Budgetary Resources of $1.3 trillion in FY 2023 (Figure 6) increased by $7.2 billion (or 0.5 percent), primarily due to a $84.4 billion increase in appropriations, partially offset by a $73.8 billion year-over-year reduction in unobligated balances brought forward from the prior years.

The $84.4 billion increase in appropriations stems primiarly from a $163.0 billion year-over-year increase in new resources required to finance the increased public debt (including increased average interest rates, which were partially offset by a decrease in inflation adjustments), partially offset by $81.4 billion of fewer resources received to implement the provisions of the IRA which was passed into law in August 2022. The IRA authorized the IRS to offer tax incentives for climate-friendly investments. The $73.8 billion reduction in unobligated balances brought forward is primarily attributable to fewer pandemic relief program unobligated resources carried over from FY 2022 compared to FY 2021.

Agency Outlays, Net of $871.1 billion were higher in FY 2023 (Figure 6) by $42.9 billion (or 5.2 percent) primarily due to an increase in interest payments on public debt as discussed above, partially offset by a decrease in outlays in the form of financial assistance payments primarily in connection with pandemic relief programs.

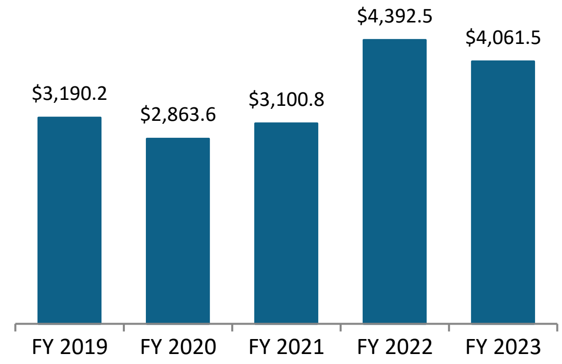


Figure 7 : Net Revenue Received (Custodial) (*in billions*)

Net Revenue Received (Custodial), representing the net revenue we collect on behalf of the U.S. government, includes various taxes, primarily income taxes, as well as user fees, fines and penalties, and other revenue (Figure 7). Over 90 percent of these revenues (before refunds) are related to income and social security taxes. Net revenue received was $4.1 trillion for FY 2023, a decrease of $0.3 trillion (or 7.5 percent) over the prior fiscal year. This decrease is attributable mainly to an overall decline in income tax collections, primarily from individuals and corporations, coupled with decreased deposits of earnings from the Federal Reserve due to increased interest rates.

MANAGEMENT ASSURANCES

THE SECRETARY'S ASSURANCE STATEMENT

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

Based on our assessment, we can provide reasonable assurance that, in accordance with Section 2 of the FMFIA, Treasury's internal control over operations, reporting, and compliance with laws and regulations were operating effectively as of September 30, 2023. In addition, we can provide reasonable assurance that, as of September 30, 2023, we are in substantial conformance with the federal financial management systems requirements of Section 4 of the FMFIA, with the exception of the significant deficiency related to the financial management systems at the IRS.

As a result of the significant deficiency at the IRS, our financial management systems are not in substantial compliance with the *Federal Financial Management Improvement Act* (FFMIA) as of September 30, 2023. In FY 2023, the Fiscal Service successfully remediated its prior year significant deficiency related to its financial management systems. Our remediation commenced in FY 2022 with the elimination of that portion of the significant deficiency related to the Fiscal Service's debt management systems, and the remaining portion of the deficiency related to its cash management systems was eliminated in FY 2023.

As demonstrated by the elimination of the significant deficiency of the Fiscal Service's financial management systems over the past two years, we continue to make progress in remediating our deficiencies and remain committed to focusing management's attention and resources on appropriate corrective actions. Overall, we continue our efforts to ensure high standards, minimize internal control weaknesses, and meet federal financial management systems requirements. Additional information on the lack of compliance can be found in Part 3, Section A, of this report.

Janet L. Yellen
Secretary of the Treasury
November 15, 2023

SYSTEMS, CONTROLS AND LEGAL COMPLIANCE

FMFIA

Background

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

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

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

Analysis of Controls

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

Internal Control over Financial Reporting

In accordance with OMB Circular A-123, Appendix A, *Management of Reporting and Data Integrity Risk*, we also conducted an assessment of our internal controls over financial reporting. Our components assessed the effectiveness of their internal controls to support reliable financial reporting through testing the design and operating effectiveness of key internal controls for material transactions. Based on the results of this assessment we can provide reasonable assurance regarding the effectiveness of our internal control over financial reporting as of September 30, 2023.

FFMIA AND FINANCIAL MANAGEMENT SYSTEMS

FFMIA

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

FFMIA Section 803(c)(1) requires us to make an annual determination of the agency's substantial compliance with Section 803(a) of the Act based on a review of relevant factors. We assess our financial management systems annually for conformance with the requirements of the revised OMB Circular A-123, Appendix D, *Management of Financial Management Systems- Risk and Compliance*, and other federal financial management system requirements. Our assessment process includes the use of the FFMIA Compliance Determination Framework, (the "Compliance Framework") in OMB Circular A-123, Appendix D, which is a risk and evidence-based assessment model that leverages existing audits, evaluations, and reviews that auditors and agency management already perform. The Compliance Framework is an outcome-based approach to assessing FFMIA compliance through a series of financial management goals that are common to all agencies.

In applying the Compliance Framework, we assess available information from audit reports and other relevant and appropriate sources, such as the *Federal Information Security Modernization Act* (FISMA) compliance activities, to determine whether our financial management systems substantially comply with FFMIA. We also assess improvements and ongoing efforts to strengthen financial management systems and the impact of instances of noncompliance on overall financial management system performance. Based on the results of our overall assessment, we concluded that our financial management systems were not substantially compliant with federal financial management system requirements as of September 30, 2023, due to a significant deficiency at the IRS.

The IRS has a significant deficiency in internal control over financial reporting related to its unpaid assessments and information system controls. Specifically, this deficiency relates to: (1) limitations in the ability of IRS's financial management systems to classify unpaid assessments and report tax receivable in accordance with federal accounting standards, and (2) unresolved and new internal control deficiencies related to information system controls. The IRS worked diligently during FY 2023 to continue to enhance its IT security. The IRS continues to implement a strategy and assessment process to verify the effectiveness of internal controls for the financial systems that affect the financial statements. This assessment supports the IRS's overall internal control framework and helps mitigate deficiencies in the IT environment.

In FY 2023, the Fiscal Service successfully remediated its significant deficiency related to its financial management systems. Our remediation commenced in FY 2022 with the elimination of that portion of the significant deficiency related to the Fiscal Service's debt management systems, and the remaining portion of the deficiency related to its cash management systems was eliminated in FY 2023. The Fiscal Service remains committed to making improvements necessary for maintaining compliance with federal financial management systems requirements.

Financial Management Systems

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

The FARS includes the following financial applications:

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

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

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

Goals and Supporting Strategies

Our financial system goals and supporting strategies focus on improving, streamlining, and integrating current bureau financial management systems, as well as the current FARS applications, to support new financial management requirements and to support data-driven financial decision making by management. In FY 2023, we made significant strides in our mission to migrate our FARS applications to the Microsoft Azure cloud hosting platform by FY 2024. The cloud adoption, once completed, will allow for a more cost effective and secure alternative that supports rapid deployment of new information technology (IT) assets.

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

We maintain an information security program for our financial systems consistent with applicable FISMA requirements, OMB policy and guidance, and NIST standards and guidelines. Our systems undergo annual security assessments, and we remediate security weaknesses we identify through those assessments by developing and implementing plans of action and milestones. We monitor bureau conformance with government-wide information technology security targets and provide roll-up reports quarterly to OMB. Representatives of the OIG evaluate our compliance with FISMA annually.

We continue to focus on financial innovation and transformation. FY 2023 marked the first year of the mandated use of the Government Invoicing (G-Invoicing) solution, which Fiscal Service developed to help broker Intragovernmental Buy/Sell Transactions and to assist more broadly in reducing intragovernmental differences. The Fiscal Service continued to partner closely with federal agencies and system vendors to drive enhancements to G-Invoicing. FY 2023 also saw Fiscal Service expedite the implementation of the Common Approach to Identity Assurance (CAIA) in response to Treasury's requirement to implement multi-factor authentication through CAIA to strengthen our cybersecurity posture. In FY 2023, ARC implemented eight new Robotic Process Automation (RPAs) to improve efficiency, timeliness, and quality in its service operations and business processes.

OTHER LAWS

We are not aware of any violations of the Antideficiency Act.

IMPROPER PAYMENTS

Background

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

Risk Assessments and Results

In FY 2023, we completed a full program inventory and performed risk assessments to identify programs that have a significant risk of improper payments. We perform our assessment of each program on a three-year rotational schedule, excluding the Earned Income Tax

Credit (EITC), the American Opportunity Tax Credit (AOTC), the Additional Child Tax Credit (ACTC), and the net Premium Tax Credit (PTC), using the eleven qualitative risk factors identified in OMB Circular A-123, Appendix C, *Requirements for Payment integrity Improvement*. We assessed risks related to the amounts of payments processed relative to the OMB specified threshold amounts which define programs susceptible to significant improper payments. As a result of prior risk assessments, we determined that the EITC, the AOTC, the ACTC, and the net PTC were susceptible to significant improper payments.

The EITC, AOTC, ACTC, and net PTC are refundable tax credits that offset income tax taxpayers owe. If the credit exceeds the amount of taxes due, the IRS provides a refund payment to those who qualify. The IRS estimates that for FY 2023, 33.5 percent ($21.9 billion) of the total EITC payments of $65.4 billion were improper. For the AOTC, the IRS estimates that for FY 2023, 31.6 percent ($1.7 billion) of the total payments of $5.2 billion were improper. For the ACTC, the IRS estimates that for FY 2023, 14.5 percent ($.5 billion) of the total payments of $3.8 billion were improper. For Net PTC, the IRS estimates that for FY 2023, 26.0 percent ($1 billion) of the total payments of $3.7 billion were improper. The IRS has a robust enforcement program for its refundable tax credits which consist of examinations and audits, math error notices, and document matching.

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

Payment Recapture Audits

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

PART 2:

FINANCIAL SECTION

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

Anna Canfield Roth
Assistant Secretary for Management

Carole Y. Banks
Deputy Chief Financial Officer

In fiscal year 2023, Treasury continued to pursue an aggressive set of initiatives to manage the Department more efficiently and implement the priorities set by the Secretary of the Treasury and the President. Treasury took a leadership role in undertaking some of the government's most persistent challenges: addressing department wide and financial sector cybersecurity risks, evaluating and modernizing the Treasury work environment, and continuing to further efforts on diversity, equity, inclusion, and accessibility.

In fiscal year 2023, we also demonstrated effective fiscal and management leadership by:

- promoting successful achievement of priorities by providing direction, support, and accountability to the critical programs and projects that are most essential to achieving Treasury's goals, including implementing the *Inflation Reduction Act* and the FinCEN Beneficial Ownership Secure IT System, and taking steps to replace the Bureau of Engraving and Printing's Washington, DC Currency Production Facility;

- administering Treasury's Climate Action Plan, which includes assessing our financial investments in property and the procurement of renewable energy credits and energy-savings performance contracts; and

- leading Treasury efforts in assessing and measuring our organizational health and work environment through examination of organizational performance, resiliency, and capacity.

We received an unmodified audit opinion on our consolidated financial statements for the 24th consecutive year. We were also successful this past year in fully remediating our significant deficiency related to the Bureau of the Fiscal Service's financial management systems. We are proud of this progress. Despite the complexity of Treasury's financial systems, we remain committed to making steady progress toward fully resolving all remaining deficiencies associated with our systems.

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

Anna Canfield Roth
Assistant Secretary for Management
November 15, 2023

Carole Y. Banks
Deputy Chief Financial Officer
November 15, 2023

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Pages 55 - 63 have been moved to the front of this report prior to Section II:
For the Memorandum for the Secretary (was 55-56, now pages E - F);
For the Independent Auditors' Report (was 57-62, now pages I - N); and
For Management's Response (was 63, now page O).

Consolidated Balance Sheets

As of September 30, 2023 and 2022

(in millions)	2023	2022
ASSETS		
Intra-Governmental		
Fund Balance (Note 2)	$ **543,532**	$ 554,590
Loans Receivable:		
Loans and Interest Receivable (Note 3)	**1,953,567**	1,611,875
Advances to Trust Funds (Note 3)	**37,269**	47,298
Other Assets:		
Due From the General Fund (Note 4)	**33,242,246**	31,064,578
Other (Note 15)	**1,501**	1,370
Total Intra-Governmental	**35,778,115**	33,279,711
Other Than Intra-Governmental		
Cash and Other Monetary Assets:		
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	**816,530**	784,073
Gold and Silver Reserves (Note 6)	**11,062**	11,062
Reserve Position in the International Monetary Fund (Note 7)	**31,970**	31,334
Accounts Receivable, Net:		
Taxes, Interest, and Other Receivables, Net (Note 8)	**185,003**	238,027
Loans Receivable, Net:		
Loans and Interest Receivable, Net (Notes 7 and 10)	**12,481**	12,072
Credit Program Receivables, Net (Notes 9 and 10)	**3,386**	3,415
Advances and Prepayments (Note 10)	**171,890**	225,180
Investments in Government Sponsored Enterprises (GSEs) (Note 11)	**240,410**	223,720
Other Investments:		
Investments in Special Purpose Vehicles (Note 10)	**15,114**	17,835
Investments in Multilateral Development Banks (Note 12)	**9,105**	8,727
Other, Net (Notes 10 and 13)	**6,674**	6,799
Property, Plant, and Equipment, Net (Note 14)	**3,256**	3,072
Other Assets (Note 15)	**2,968**	1,867
Total Other Than Intra-Governmental	**1,509,849**	1,567,183
Total Assets	$ **37,287,964**	$ 34,846,894

Heritage Assets (Note 14)

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

Consolidated Balance Sheets

As of September 30, 2023 and 2022

(in millions)	2023	2022
LIABILITIES		
Intra-Governmental		
Federal Debt and Interest Payable:		
Federal Debt and Interest Payable (Notes 4 and 16)	$ **6,878,998**	$ 6,717,361
Other Federal Debt and Interest Payable (Note 17)	**5,527**	4,878
Other Liabilities:		
Due To the General Fund (Note 4)	**3,080,791**	2,768,781
Other (Note 19)	**2,872**	1,551
Total Intra-Governmental	**9,968,188**	9,492,571
Other Than Intra-Governmental		
Federal Debt and Interest Payable (Notes 4 and 16)	**26,328,135**	24,308,695
Accounts Payable:		
Refunds Payable (Note 4)	**6,662**	6,961
Other Payables	**1,945**	1,402
Other Liabilities:		
Special Drawing Right Certificates Issued to the Federal Reserve (Note 5)	**5,200**	5,200
Allocation of Special Drawing Rights (Note 5)	**151,041**	147,009
Gold Certificates Issued to the Federal Reserve Banks (Note 6)	**11,037**	11,037
D.C. Federal Pension and Judicial Retirement Actuarial Liability (Note 18)	**8,780**	8,461
Other (Note 19)	**10,941**	9,776
Total Other Than Intra-Governmental	**26,523,741**	24,498,541
Total Liabilities (Note 19)	**36,491,929**	33,991,112
Commitments and Contingencies (Note 27)		
NET POSITION		
Unexpended Appropriations		
Funds from Dedicated Collections (Note 24)	**200**	200
Funds from Other than Dedicated Collections	**718,186**	785,761
Total Unexpended Appropriations	**718,386**	785,961
Cumulative Results of Operations		
Funds from Dedicated Collections (Note 24)	**49,066**	45,259
Funds from Other than Dedicated Collections	**28,583**	24,562
Total Cumulative Results of Operations	**77,649**	69,821
Total Net Position (Note 20)	**796,035**	855,782
Total Liabilities and Net Position	$ **37,287,964**	$ 34,846,894

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

Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2023 and 2022

(in millions)	2023	2022
COST OF TREASURY OPERATIONS:		
Economic Program		
Gross Cost (Note 10)	**$ 90,462**	$ 190,762
Less Earned Revenue	**(29,512)**	(20,173)
Net Program Cost	**60,950**	170,589
Financial Program		
Gross Cost	**27,337**	25,708
Less Earned Revenue	**(10,700)**	(10,511)
Net Program Cost	**16,637**	15,197
Security Program		
Gross Cost	**518**	548
Less Earned Revenue	**(13)**	(28)
Net Program Cost	**505**	520
Total Program Gross Costs	**118,317**	217,018
Total Program Earned Revenues	**(40,225)**	(30,712)
Total Net Program Cost before Changes in Actuarial Assumptions	**78,092**	186,306
Loss on Pension, ORB, or OPEB Assumption Changes	**443**	519
Total Net Cost of Treasury Operations (Note 21)	**78,535**	186,825
NON-ENTITY COSTS:		
Federal Debt Interest	**871,019**	722,233
Restoration of Foregone Federal Debt Interest (Note 16)	**3,292**	726
Less Interest Revenue from Loans	**(47,745)**	(47,064)
Federal Debt Interest Costs, Net	**826,566**	675,895
Other Federal Costs, Net (Note 21)	**15,856**	17,180
GSEs Non-Entity Revenue, Net (Note 11)	**(16,690)**	(2,860)
COVID-19 Non-Entity (Revenue) Cost, Net (Note 10)	**(1,263)**	1,945
Other, Net	**(920)**	(858)
Total Net Non-Entity Costs	**823,549**	691,302
Total Net Cost of Treasury Operations and Non-Entity Costs	**$ 902,084**	$ 878,127

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

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

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

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

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

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

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

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

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

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

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

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

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

Statements of Custodial Activity
For the Fiscal Years Ended September 30, 2023 and 2022

(in millions)	2023	2022
SOURCES OF CUSTODIAL REVENUE (Note 23)		
Individual Income and FICA Taxes	$ **4,111,955**	$ 4,308,098
Corporate Income Taxes	**456,941**	475,871
Estate and Gift Taxes	**35,434**	33,355
Excise Taxes	**92,344**	90,240
Railroad Retirement Taxes	**7,218**	6,148
Unemployment Taxes	**7,947**	7,046
Deposit of Earnings, Federal Reserve System	**581**	106,675
Fines, Penalties, Interest and Other Revenue	**8,680**	7,305
Total Revenue Received	**4,721,100**	5,034,738
Less Refunds and Other Payments (Note 10)	**(659,569)**	(642,230)
Net Revenue Received	**4,061,531**	4,392,508
Non-Cash Accrual Adjustment	**(53,696)**	(66,747)
Total Custodial Revenue	**4,007,835**	4,325,761
DISPOSITION OF CUSTODIAL REVENUE (Note 23)		
Amounts Provided to Fund Non-Federal Entities	**369**	421
Amounts Provided to Fund the Federal Government	**4,061,162**	4,392,087
Non-Cash Accrual Adjustment	**(53,696)**	(66,747)
Total Disposition of Custodial Revenue	**4,007,835**	4,325,761
Custodial Revenue Less Disposition of Collections	$ **-**	$ -

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

NOTES TO THE FINANCIAL STATEMENTS

TABLE OF CONTENTS

1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

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

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

Following U.S. Generally Accepted Accounting Principles (GAAP) for federal entities, we do not consolidate into our financial statements the assets, liabilities, or results of operations of any financial organization or commercial entity in which we hold either a direct or indirect majority equity investment, unless they meet the criteria for consolidation as described in Statement of Federal Financial Accounting Standards (SFFAS) No. 47, *Reporting Entity*. We have determined that none of our significant equity investments meet such criteria for consolidation. SFFAS No. 47 also provides criteria for reporting "disclosure entities" and "related party" relationships of such significance that it would be misleading to exclude information about them. Refer to the accounting policy below entitled "*Disclosure Entities and Related Parties*" for additional information on Treasury's "disclosure entities" and "related parties", which are material to our consolidated financial statements, of significance to the public, or required by SFFAS No. 47.

B. Basis of Accounting and Presentation

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

These financial statements consist of the Consolidated Balance Sheets, the Consolidated Statements of Net Cost, the Consolidated Statements of Changes in Net Position, the Combined Statements of Budgetary Resources, and the Statements of Custodial Activity. The statements and the related notes are prepared in a comparative form to present both fiscal year (FY) 2023 and 2022 information.

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

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

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

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

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

C. Fund Balance

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

D. Loans Receivable – Intra-Governmental

Loans and Interest Receivable

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

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

Advances to the Unemployment Trust Fund

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

Advances to the Federal Supplementary Medical Insurance Trust Fund

The General Fund issues advances to the Department of Health and Human Services' (HHS) Federal Supplementary Medical Insurance Trust Fund to temporarily replace the reduction in Medicare Part B participants' premiums. The Fiscal Service accounts for the advances issued on behalf of the General Fund. As outlined in 42 USC 1395, *Prohibition Against*

Any Federal Interference, these advances do not bear any interest. These advances are recorded within the "*Advances to Trust Funds*" line of the Consolidated Balance Sheets. HHS repays advances over time from amounts collected from certain participants' increase in premiums until the balance due reaches zero.

Advances to the Agricultural Disaster Relief Trust Fund

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

E. Cash, Foreign Currency, and Other Monetary Assets

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

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

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

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

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

F. Taxes, Interest, and Other Receivables, Net

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

Taxes receivable consist of unpaid assessments (taxes and associated penalties and interest) due from taxpayers. The existence of a receivable is supported by a taxpayer agreement, such as filing of a tax return without sufficient payment, or a court ruling in favor of the IRS. We record an allowance for doubtful accounts to reflect an estimate of the portion of total taxes receivable deemed to be uncollectible. Taxes receivable also consist of unpaid taxes related to Internal Revenue Code (IRC) section 965, which requires taxpayers who are shareholders of certain specified foreign corporations to pay a transition tax on foreign earnings as if those earnings had been repatriated to the U.S. IRC 965(h) allows taxpayers to elect to pay their 965(h) tax on an eight-year installment schedule. Additionally, taxes receivable includes employer's deferred share of the Social Security portion of the *Federal Insurance Contributions Act* (FICA), and the employer's and employee representative's share of the Railroad Retirement Tax (RRTA). Pursuant to the *Coronavirus Aid, Relief, and Economic Security Act*, P.L. 116-136 (CARES Act), employers were allowed to defer payment, without penalty, of these portions of FICA and RRTA.

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

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

Loans and Interest Receivable, Net

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

The Coronavirus Disease 2019 (COVID-19) notes and interest receivable represent the principal and related interest receivable on promissory notes received in connection with providing financial assistance to air carriers, cargo air carriers, and airline contractors to support ongoing employment of their aviation workers under the CARES Act, *Consolidated Appropriations Act, 2021*, P.L. 116-260 (CAA), and *American Rescue Plan Act of 2021*, P.L. 117-2 (ARP) (refer to Note 10). Interest revenue on the promissory notes is accrued as earned over the life of the notes. The notes include a Payment-In-Kind (PIK) option in which borrowers may elect to pay the interest in-kind, capitalizing the interest due to the principal amount of the note, instead of paying the interest in cash. We increase the principal balance of the note and reduce interest receivable by the amount of unpaid interest when borrowers make this PIK election.

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

Credit Program Receivables, Net

We account for all of our credit program receivables under the provisions of credit reform accounting pursuant to the *Federal Credit Reform Act* (FCRA). Credit programs include loans or equity securities associated with our CDFI Fund programs, state and local Housing Finance Agency (HFA) initiative programs, IAP programs, SBLF program, and the Troubled Asset Relief Program (TARP) (refer to Note 9). Our credit programs also include loans associated with emergency relief efforts in response to the COVID-19 pandemic.

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

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

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

- security characteristics such as unpaid principal balance, coupon rate, weighted-average loan age, issued bond balance, credit rating, maturity date, sinking fund schedules, principal and interest payment schedules, and performance of underlying collateral;
- discount rate;
- observed market prices;
- department actions, as well as changes in legislation;
- forecast dividend payments, late payments, prepayment rates and default rates;
- forward interest rates;

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

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

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

H. Advances and Prepayments

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

I. Investments

Investments in GSEs

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

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

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

Investments in Special Purpose Vehicles

Pursuant to the CARES Act enacted in FY 2020 in response to the COVID-19 pandemic, we hold preferred equity investments in SPVs the Board of Governors of the Federal Reserve System (Federal Reserve Board or Board) established through the Federal Reserve Bank of New York (FRBNY) and Federal Reserve Bank of Boston (FRBB) to enhance the liquidity of the U.S. financial system (refer to Note 10). We present these non-federal investment holdings at their fair value (see the discussion below on *"Fair Value Measurement")*. We record changes in the valuation of these investments as entity exchange transactions on the Consolidated Statements of Net Cost.

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

Investments in Multilateral Development Banks

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

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

Other Investments, Net

In connection with our Emergency Capital Investment Program established pursuant to the FY 2021 enactment of the CAA, we hold preferred stock and subordinated debt we received in exchange for our capital disbursed to low- and moderate-income community financial institutions to augment their efforts to support small businesses and consumers in their communities (refer to Notes 10 and 13). We present these non-federal investment holdings at their fair value (see the discussion below on "*Fair Value Measurement*"). We record changes in the valuation of these investments as entity exchange transactions on the Consolidated Statements of Net Cost. We recognize preferred stock dividend income when declared and interest income on subordinated debt when earned.

In connection with other emergency relief programs established in response to the COVID-19 pandemic, we also hold warrants for the purchase of common stock we received as compensation from recipients of financial assistance provided to support ongoing employment of aviation workers during the pandemic (refer to Note 10). The warrants are assets of the U.S. government and we are precluded from using the cash proceeds realized from the financial instruments we received. We present these non-entity, non-federal investment holdings at their fair value (see the discussion below on *"Fair Value Measurement")*. These investments and related fair valuation changes also result in a corresponding "*Due To the General Fund*" liability, as we hold these investments on behalf of the General Fund. We report the investment revenue, as well as changes in valuation, as non-entity, exchange transactions within the "*COVID-19 Non-Entity (Revenue) Cost, Net*" line of the Consolidated Statements of Net Cost.

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

We estimate the fair value of our common stock warrants that are closely held using a Black-Scholes valuation methodology. The primary input into our common stock warrant investments that are publicly held is the market value of the underlying shares of common stock of those warrants. Our common stock warrant inputs also include, but are not limited to, the implied volatility and market prices of comparable options. We evaluate the need for adjusting our market-based valuation of these warrants for the effects, if any, of significant events occurring after the close of the market but before the end of the measurement date.

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

Fair Value Measurement

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

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

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

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

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

J. Property, Plant, and Equipment, Net

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

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

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

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

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

Heritage Assets

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

K. Federal Debt and Interest Payable

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

L. Refunds Payable

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

M. Special Drawing Rights

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

Allocations and Holdings

We record the SDR holdings that are permanent resources to the U.S. as part of "*Cash, Foreign Currency, and Other Monetary Assets*," and we record the SDR allocations as a liability entitled "*Allocation of Special Drawing Rights*" when the IMF allocates SDRs to the U.S. The SDR allocations are a liability because the U.S. is obligated to repay the allocation amount to the IMF under specified circumstances. Except for the payment of interest and charges on SDR allocations to the

U.S., the payment of the U.S. commitment related to SDR allocations is conditional on the following events in which the U.S. has a substantial or controlling voice: *(i)* withdrawal by the U.S. from IMF membership or termination of its position in the SDR Department of the IMF, *(ii)* cancellation of the SDRs by the Board of Governors (pursuant to an 85 percent majority decision of the voting power of IMF members), *(iii)* liquidation of the IMF, or *(iv)* liquidation of the SDR Department of the IMF.

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

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

Certificates Issued to the Federal Reserve

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

N. Federal Employee Benefits Payable – FECA Actuarial Liability

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

O. Annual, Sick, and Other Leave

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

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

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

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

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

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

District of Columbia Federal Pension and Judicial Retirement Funds

Pursuant to Title XI of the *Balanced Budget Act of 1997*, as amended, we became responsible for the District of Columbia Judicial Retirement and Survivors Annuity Fund (the Judicial Retirement Fund) and the District of Columbia Teachers, Police Officers, and Firefighters Federal Pension Fund (the D.C. Federal Pension Fund) retirement plans (refer to Note 18). The actuarial cost method we use to determine costs and actuarial liability for the Judicial Retirement Fund is the Individual Entry Age Normal Cost Method, which approximates the methodology specified by the Aggregate Entry Age

Normal Actuarial Cost Method. The actuarial cost method we use to determine the cost and actuarial liability for the D.C. Federal Pension Fund is the Projected Unit Credit Cost Method, which recognizes that participants have fully accrued all service and does not generate a normal cost. These methodologies base actuarial liabilities on long-term economic assumptions. The pension benefit costs the plans incur are included on the Consolidated Statements of Net Cost.

Q. Commitments and Contingencies

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

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

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

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

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

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

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

R. Revenue and Financing Sources

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

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

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

S. Custodial Revenues

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

T. Appropriations and Other Budgetary Activity

Combined Statement of Budgetary Resources Activity

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

Permanent and Indefinite Appropriations

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

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

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

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

U. Income Taxes

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

V. Use of Estimates

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

Estimation of such complex and long-duration receivables, investments, and contingencies is subject to uncertainty. It is possible that new developments will adversely impact the value of receivables, investments, and contingencies, as well as ultimate amounts we are required to fund. Except as expressly noted herein, we have not revalued or included in our estimates as of September 30, 2023, the effects of any new developments that may have occurred subsequent to September 30, 2023.

We derive credit program receivables using credit reform modeling, which is subject to the use of estimates and forecasts that have inherent uncertainty. Refer to the accounting policy above entitled "*Credit Program Receivables, Net*" and Notes 9 and 10 for additional discussion related to the estimation of credit program receivables.

We estimate our non-federal investment holdings based on fair value and changes in these asset valuations, including impairment. Since the valuation is an annual process, we deem changes in valuation of our equity investments as usual and recurring. Refer to the accounting policy above entitled "*Investments*" and Notes 10 and 11 for additional discussion related to fair value estimations.

For certain of our liabilities, we perform annual calculations, as of September 30, to assess our need for recording an estimated liability in accordance with SFFAS No. 5 related to certain liabilities of our CARES Act programs, as well as liabilities related to our funding commitment to the GSEs under the SPSPAs.

As stipulated by the CARES Act, we must remit excess residual proceeds we realize from our SPV capital contributions and direct loans to air carriers and other related businesses to the Federal Old-Age and Survivors Insurance Trust Fund (refer to Note 10). We estimate and record the net present value of this potential liability, if any, based on the probable future occurrence of excess cash flows received above the full recovery of our costs associated with these programs. This calculation is subject to the same sensitivities as those related to our credit reform modeling we discuss above.

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

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

W. Other-Than-Temporary Impairments

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

X. Credit, Market and Foreign Currency Risk

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

Our activities generally focus on the underlying problems in the credit markets. We developed these programs, or provided credit support to the pandemic emergency relief programs of the Federal Reserve Board, to provide credit where borrowers are not able to get access to credit with reasonable terms and conditions. Because these programs attempt to correct for a market imperfection, it can expose us to potential costs and losses. Additional risk of costs and losses could result from terrorist attacks under the Terrorism Risk Insurance Program. We describe the extent of the risk we assumed in more detail in the notes to the financial statements and, where applicable, we factor it into credit reform models and reflect it in fair value measurements (refer to Notes 9, 10, 11, and 27).

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

Y. Funds from Dedicated Collections

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

Z. Allocation Transfers

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

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

AA. Fiduciary Activities

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

AB. Disclosure Entities and Related Parties

SFFAS No. 47, *Reporting Entity*, requires that our consolidated financial statements reflect the balances and activities of consolidation entities, including Treasury bureaus and other reporting entities, meeting the following "principles for inclusion" when considered as a whole: *(i)* the entity is included in the Budget of the United States (also known as the President's Budget); *(ii)* the U.S. government holds "majority ownership interest"; *(iii)* the U.S. government has "control with risk of loss or expectation of benefit"; or *(iv)* it would be misleading to exclude such entity. SFFAS No. 47 also provides guidance for assessing whether we report an organization meeting the inclusion principles as a disclosure entity or related party.

A disclosure entity exists when we determine that an entity meets any of the following SFFAS No. 47 "inclusion principles" with respect to the U.S. government but does not meet the characteristics of a "consolidation entity." Based on SFFAS No. 47 criteria, the Federal Reserve System is considered to be a disclosure entity. Additionally, entities the U.S. government owns and/or controls as a result of regulatory actions—such as organizations in receivership or conservatorship—or other U.S. government intervention actions are generally classified as disclosure entities if the relationship with such entities is not expected to be permanent.

A related party exists when one party to an established relationship has the ability to exercise significant influence over another party in making policy decisions. Related parties generally do not meet the SFFAS No. 47 inclusion principles; however, we report on a relationship that is of such significance that it would be misleading to exclude information about that entity. Disclosure entities and related parties are not considered components of the consolidated Treasury reporting entity and, thus, are only disclosed in the notes to our consolidated financial statements. Using the principles prescribed in SFFAS No. 47, we identified the following disclosure entities and related parties as of September 30, 2023.

Disclosure Entities

Federal Reserve System

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

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

Federal Reserve System Structure

Federal Reserve Board of Governors

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

Federal Reserve Banks

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

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

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

Federal Open Market Committee

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

Federal Reserve System Assets and Liabilities

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

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

FRB Residual Earnings Transferred to the Department

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

FRBs' residual earnings may vary due to, among other things, changes in the SOMA balance levels that may occur in conducting monetary policy. Under P.L. 116-283, if an FRB's earnings for the year are not sufficient to provide for the cost of operations, dividend payments, or allocated portion of the $6.8 billion aggregate surplus funds limitation, an FRB will suspend its payments to us until such earnings become sufficient. The FRB's residual earnings of $0.6 billion and $106.7 billion for fiscal years ended September 30, 2023 and 2022, respectively, are reported as custodial revenues on our Statements of Custodial Activity. They constituted 0.01 percent and 2.12 percent of our total custodial revenues collected in FY 2023 and 2022, respectively. "*Taxes, Interest and Other Receivables, Net*" includes a receivable for FRB's residual earnings which represents the earnings due to us as of September 30, but not collected by us until after the end of the month (refer to Note 8).

FRB-Managed Special Purpose Vehicles – Liquidity Lending Facilities

We hold equity investments in SPVs the Federal Reserve Board established through the FRBNY and FRBB to enhance the liquidity of the U.S. financial system. Our involvement in these programs represents non-permanent intervention activities designed to help mitigate the economic impacts of the pandemic. Accordingly, our equity interests in these SPVs meet the SFFAS No. 47 criteria for classifying our SPV investments as disclosure entities. These entities are not consolidated as part of our consolidated financial statements; however, the value of our investments in these entities is presented as equity investments on our Consolidated Balance Sheets (refer to Note 10).

Government Sponsored Enterprises – Fannie Mae and Freddie Mac

During the FY 2008 financial crisis, the U.S. government placed Fannie Mae and Freddie Mac under conservatorship to help ensure their financial stability. These entities meet the SFFAS No. 47 criteria for disclosure entities as organizations owned or controlled by the U.S. government as the result of regulatory actions (such as conservatorship). Additionally, the U.S. government's intervention actions with regards to these GSEs are not expected to be permanent. Accordingly, these entities are not consolidated as part of our consolidated financial statements; however, the value of our investments in these entities is presented as equity investments on our Consolidated Balance Sheets (refer to Note 11).

Related Parties

In accordance with SFFAS No. 47 determination principles, we currently maintain related party relationships with the IMF and the MDBs. The IMF is an international organization of 190 member countries that works to foster global monetary cooperation, secure financial stability, sustain economic growth, and reduce poverty around the world. The U.S. government holds the largest quota subscription of any member. The U.S. quota subscription serves as the key determinant for our 16.5 percent share of voting rights in various IMF decisions for which the U.S. government has a substantial voice. The Secretary serves as the U.S. Governor to the IMF, and the U.S. Governor nominates and elects the U.S. Executive Director of the IMF, who is one of 24 directors responsible for exercising voting rights over the strategic direction of the institution.

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

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

2. Fund Balance

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

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

Status of Fund Balance

As of September 30, 2023 and 2022, the status of the fund balance consisted of the following:

(in millions)	2023	2022
Unobligated Balance - Available	**$ 342,728**	$ 308,612
Unobligated Balance - Not Available	**51,793**	96,607
Obligated Balance Not Yet Disbursed	**183,665**	181,515
Subtotal	**578,186**	586,734
Adjustment for ESF	**(194,109)**	(188,154)
Adjustment for Intra-Treasury Investments	**(11,183)**	(10,481)
Adjustment for Borrowing Authority	**(7,678)**	(7,180)
Adjustment for IMF	**152,768**	150,041
Adjustment for Authority Unavailable for Obligations	**18,274**	17,371
Other Adjustments	**7,274**	6,259
Total Status of Fund Balance	**$ 543,532**	$ 554,590

Portions of the Unobligated Balance Not Available, as shown on the Combined Statement of Budgetary Resources, include amounts appropriated in prior fiscal years that are not available to fund new obligations. However, we may use such amounts for upward and downward adjustments for existing obligations in future years. The Obligated Balance Not Yet Disbursed represent amounts designated for payment of goods and services we ordered but have not received, or goods and services we received but for which payment has not yet been made. The changes in Unobligated Balance - Available and Unobligated Balance - Not Available are primarily due to funding provided by the *Inflation Reduction Act* (IRA) being apportioned in FY 2023. In August 2022, Congress passed, and the President signed into law the IRA, which, among other things, addresses climate change by providing tax incentives.

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

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

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

As of September 30, 2023 and 2022, we had no budgetary authority in the Fund Balance that was specifically withheld from apportionment by the OMB. We hold balances in non-entity funds, such as certain deposit funds (*e.g.*, seized cash), for the public or for another federal entity, such as the General Fund. Such funds have an offsetting liability equal to the Fund Balance. Refer to Note 7 regarding restrictions related to the letter of credit held for a portion of the U.S. quota in the IMF.

3. LOANS AND INTEREST RECEIVABLE – INTRA-GOVERNMENTAL

ENTITY INTRA-GOVERNMENTAL

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

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

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

As of September 30, 2023 and 2022, entity intra-governmental loans (issued by FFB) and interest receivable consisted of the following:

	2023			2022		
(in millions)	**Loans Receivable**	**Interest Receivable**	**Total**	**Loans Receivable**	**Interest Receivable**	**Total**
Department of Agriculture	**$ 54,548**	**$ 373**	**$ 54,921**	$ 51,814	$ 30	$ 51,844
Federal Deposit Insurance Corporation[(1)]	**50,000**	**91**	**50,091**	-	-	-
Department of Energy	**16,614**	**81**	**16,695**	15,449	73	15,522
United States Postal Service[(2)]	**13,000**	**81**	**13,081**	10,000	39	10,039
Department of Housing & Urban Development	**2,800**	**8**	**2,808**	2,716	8	2,724
Other Agencies	**709**	**4**	**713**	623	3	626
Total Entity Intra-Governmental	**$ 137,671**	**$ 638**	**$ 138,309**	$ 80,602	$ 153	$ 80,755

(1) In September 2023, FFB executed a transaction in support of the Federal Deposit Insurance Corporation (FDIC), acting in its capacity as Receiver, wherein FFB purchased a $50 billion note issued by a trust created by an FDIC Receivership and backed by a guarantee from the FDIC in its corporate capacity.

(2) As a result of an operating deficit experienced by the United States Postal Service (USPS) in past fiscal years, on April 6, 2022, the President signed the Postal Service Reform Act of 2022, P.L. 117-108, with an objective to return the USPS to a sound financial position. We, along with Congress and other stakeholders, will continue monitoring the USPS progress towards this objective.

NON-ENTITY INTRA-GOVERNMENTAL

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

As of September 30, 2023 and 2022, non-entity intra-governmental loans (issued by the Fiscal Service) and interest receivable that were due to the General Fund consisted of the following:

	2023			2022		
(in millions)	**Loans Receivable**	**Interest Receivable**	**Total**	Loans Receivable	Interest Receivable	Total
Department of Education	**$ 1,188,589**	**$ -**	**$ 1,188,589**	$ 905,076	$ -	$ 905,076
Small Business Administration	**334,320**	**-**	**334,320**	362,801	-	362,801
Department of Housing and Urban Development	**107,104**	**-**	**107,104**	93,585	-	93,585
Department of Agriculture	**94,315**	**3**	**94,318**	87,342	-	87,342
Department of Transportation	**22,220**	**-**	**22,220**	16,066	-	16,066
Department of Homeland Security	**20,529**	**-**	**20,529**	20,533	-	20,533
Export Import Bank of the U.S.	**12,804**	**-**	**12,804**	13,501	-	13,501
US International Development Finance Corporation	**10,498**	**-**	**10,498**	8,965	-	8,965
Department of Labor	**6,658**	**-**	**6,658**	6,557	-	6,557
Department of Energy	**6,513**	**32**	**6,545**	6,442	31	6,473
Railroad Retirement Board	**4,627**	**60**	**4,687**	4,418	35	4,453
Environmental Protection Agency	**2,953**	**-**	**2,953**	1,557	-	1,557
Department of Defense	**1,910**	**-**	**1,910**	1,598	-	1,598
Other Agencies	**2,123**	**-**	**2,123**	2,613	-	2,613
Total Non-Entity Intra-Governmental	**$ 1,815,163**	**$ 95**	**$ 1,815,258**	$ 1,531,054	$ 66	$ 1,531,120
Total Intra-Governmental Loans and Interest Receivable (Entity and Non-Entity)	**$ 1,952,834**	**$ 733**	**$ 1,953,567**	$ 1,611,656	$ 219	$ 1,611,875

ADVANCES TO TRUST FUNDS

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

As of September 30, 2023 and 2022, Advances to Trust Funds consisted of the following:

	2023			2022		
(in millions)	Loans Receivable	Interest Receivable	Total	Loans Receivable	Interest Receivable	Total
Advances to the Unemployment Trust Fund	$ 31,499	$ 35	$ 31,534	$ 39,500	$ 51	$ 39,551
Advances to the Agricultural Disaster Relief Trust Fund	2,881	-	2,881	-	-	-
Advances to the Federal Supplementary Medical Insurance Trust Fund	2,854	-	2,854	7,747	-	7,747
Total Advances to Trust Funds	$ 37,234	$ 35	$ 37,269	$ 47,247	$ 51	$ 47,298

Advances to the Unemployment Trust Fund and Federal Supplementary Medical Insurance Trust Fund decreased by $8.0 billion and $4.9 billion, respectively, from the end of the prior fiscal year, largely due to states and HHS repaying their outstanding borrowings from the respective Trust Funds to the General Fund. As of September 30, 2023, there were no repayments by USDA of their outstanding borrowings from the Agricultural Disaster Relief Trust Fund.

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

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

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

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

As of September 30, 2023 and 2022, the General Fund liabilities we owed exceeded the assets we hold on behalf of the General Fund by $30.2 trillion and $28.3 trillion, respectively. This represents the amount the U.S. government needs, through a combination of future tax collections or continued borrowing from the public and federal agencies to meet its obligations.

As of September 30, 2023 and 2022, Due From the General Fund included the following non-entity liabilities:

Liabilities Requiring Funding from the General Fund (in millions)	2023	2022
Federal Debt and Interest Payable - Held by the Public (Note 16)	**$ 26,328,135**	$ 24,308,695
Federal Debt and Interest Payable - Intra-Governmental (Note 16)	**6,878,998**	6,717,361
Refunds Payable	**6,662**	6,961
Adjustment for Eliminated Liabilities	**28,451**	31,561
Total Due From the General Fund	**$ 33,242,246**	$ 31,064,578

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

As of September 30, 2023 and 2022, Due To the General Fund included the following non-entity assets:

Assets to be Distributed to the General Fund (in millions)		2023		2022
Fund Balance	**$**	**3,891**	$	3,147
Loans and Interest Receivable - Intra-Governmental (Note 3)		**1,815,258**		1,531,120
Advances to Trust Funds (Note 3)		**37,269**		47,298
Cash Due To the General Fund (Held by the Department) (Note 5)		**638,923**		617,114
Taxes and Other Non-Entity Receivables Due To the General Fund		**183,759**		237,763
Credit Reform Downward Subsidy Re-estimates		**94**		84
Loans and Interest Receivable, Net (Note 10)		**12,406**		11,585
Common Stock Warrant Investments (Notes 10 and 13)		**397**		493
Investments in Government Sponsored Enterprises (Note 11)		**240,410**		223,720
Adjustment for Eliminated Assets		**146,779**		94,977
Other		**1,605**		1,480
Total Due To the General Fund	**$**	**3,080,791**	$	2,768,781

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

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

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

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

5. Cash, Foreign Currency, and Other Monetary Assets

Cash, Foreign Currency, and Other Monetary Assets held as of September 30, 2023 and 2022 were as follows:

(in millions)	2023	2022
Entity:		
Cash	**$ 95**	$ 25
Foreign Currency and Foreign Currency Denominated Assets	**13,682**	12,816
Other Monetary Assets:		
Special Drawing Right Holdings	**163,157**	153,596
U.S. Dollars Held in Cash by the IMF	**370**	319
Total Entity	**177,304**	166,756
Non-Entity:		
Operating Cash of the U.S. government	**638,923**	617,013
Foreign Currency	**174**	144
Miscellaneous Cash Held by All Treasury Reporting Entities	**129**	160
Total Non-Entity	**639,226**	617,317
Total Cash, Foreign Currency, and Other Monetary Assets	**$ 816,530**	$ 784,073

We hold non-entity operating and other miscellaneous cash due to the General Fund which consisted of the following as of September 30, 2023 and 2022:

(in millions)	2023	2022
Operating Cash - FRB Account	**$ 656,889**	$ 635,994
Outstanding Checks	**(17,966)**	(18,981)
Total Operating Cash of the U.S. government	**638,923**	617,013
Miscellaneous Cash	**50**	110
Subtotal	**638,973**	617,123
Amounts Due to the Public	**(50)**	(9)
Total Cash Due to the General Fund (Note 4)	**$ 638,923**	$ 617,114

Entity

Entity cash, foreign currency, and other monetary assets principally include foreign currency, foreign currency denominated assets (FCDAs), and SDRs. These assets are valued as of September 30, 2023 and 2022 using current exchange rates plus accrued interest.

Special Drawing Rights

The SDR is an international reserve asset the IMF created to supplement existing reserve assets (refer to Note 1M). The SDR derives its value as a reserve asset from the commitments of participants to hold and accept SDRs and to honor various obligations connected with their proper functioning as a reserve asset. The IMF has allocated new SDRs on several occasions to members participating in the IMF's SDR department typically in response to the global financial crisis. During FY 2023 and 2022, we purchased an additional 2.6 billion SDRs (valued at $3.5 billion) and 3.3 billion SDRs (valued at $4.5 billion), respectively, from other IMF participants. Our increased commitment to hold and accept SDRs helps to provide liquidity to the global economic system and supplement member countries' official reserves.

As of September 30, 2023 and 2022, the total amount of SDR holdings of the U.S. (including interest receivable) was the equivalent of $163.2 billion and $153.6 billion, respectively. As of September 30, 2023 and 2022, the total value of SDR allocations to the U.S. was the equivalent of $151.0 billion and $147.0 billion, respectively. The outstanding SDR certificates issued to the Federal Reserve are valued at $5.2 billion which we reported as a liability on the Consolidated Balance Sheets as of September 30, 2023 and 2022.

NON-ENTITY

We manage the non-entity cash, foreign currency, and other monetary assets which principally included Operating Cash of the U.S. government. Also included is foreign currency maintained by various U.S. disbursing offices, miscellaneous cash such as seized monetary instruments, undistributed cash, and offers in compromises which are maintained as a result of our tax collecting responsibilities.

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

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

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

The U.S. Mint and the FRBs hold the gold and silver bullion reserves. We report these reserves on the consolidated financial statements at the values stated in 31 USC 5116 – 5117 (statutory rates) which are $42.2222 per FTO of gold and no less than $1.292929292 per FTO of silver. Accordingly, the silver is valued at $1.292929292 per FTO. The market values of the gold and silver reserves we disclose below are based on the London Gold Fixing. As of September 30, 2023 and 2022, the values of gold and silver reserves consisted of the following:

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

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

7. Reserve Position in the International Monetary Fund and Related Loans and Interest Receivable

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

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

Reserve Position in the International Monetary Fund

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

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

The U.S. quota is denominated in SDRs. As of September 30, 2023 and 2022, the U.S. quota in the IMF was SDR 83.0 billion. The equivalent U.S. dollar value of the U.S. quota consisted of the following:

(in millions)	2023	2022
Letter of Credit (1)	**$ 76,932**	$ 74,708
Reserve Position (2)	**31,970**	31,334
Total U.S. Quota in the IMF	**$ 108,902**	$ 106,042

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

Fluctuations in the value of the U.S. dollar with respect to the SDR result in valuation changes in dollar terms for the U.S. quota. We periodically adjust this balance to maintain the SDR value of the U.S. quota as required by the IMF Articles of Agreement. The U.S. quota reflects a net upward adjustment in value of $2.9 billion as of September 30, 2023 when compared to 2022, and a net downward adjustment in value of $10.7 billion as of September 30, 2022 when compared to 2021, due to the depreciation and appreciation of the U.S. dollar against the SDR, respectively.

IMF Loans and Interest Receivable

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

The U.S. participation in the NAB as of September 30, 2023 and 2022 was SDR 56.4 billion, which was equivalent to $74.2 billion and $72.2 billion, respectively. As of September 30, 2023 and 2022, under the U.S. NAB arrangement with the IMF, there was $0.1 billion and $0.5 billion, respectively, of U.S. loans outstanding, which we reported as "*Loans and Interest Receivable, Net*" on the Consolidated Balance Sheets.

8. Taxes, Interest, and Other Receivables, Net

As of September 30, 2023 and 2022, Taxes, Interest, and Other Receivables, Net consisted of the following:

(in millions)	2023	2022
Non-Entity		
Federal Taxes Receivable, Gross	**$ 404,280**	$ 437,271
Less Allowance on Taxes Receivable	**(222,215)**	(201,200)
Receivable on FRB Deposits of Earnings	**-**	7
Other Receivables	**1,926**	1,814
Less Allowance on Other Receivables	**(119)**	(113)
Total Non-Entity (Note 15)	**183,872**	237,779
Entity		
Miscellaneous Entity Receivables and Related Interest	**1,131**	248
Total Taxes, Interest, and Other Receivables, Net	**$ 185,003**	$ 238,027

Federal taxes receivable constitutes the largest portion of these receivables, with IRS-related federal taxes receivable representing the majority of the balance. IRS federal taxes receivable consists of delinquent tax assessments, penalties, and interest, which were not paid or abated, and which were agreed to by either the taxpayer and IRS, or the courts. These receivables also include non-delinquent IRC 965(h) amounts and employers' deferred share of the Social Security portion of FICA and both the employers' and employee representatives' share of the Railroad Retirement Tax (RRTA), as provided for by the CARES Act. The decrease in the net federal taxes receivable amount is largely due to payments received for these deferrals.

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

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

9. Credit Program Receivables, Net

We administer a number of programs designed to stabilize the nation's financial system and restore the flow of credit to consumers, businesses, and homeowners. As of September 30, 2023 and 2022, Credit Program Receivables, Net (including our Credit Program Receivables associated with our COVID-19 programs, which are discussed in Note 10) consisted of the following:

(in millions)		2023		2022
CDFI Fund's Bond Guarantee Program (BGP)	$	**1,302**	$	1,198
State and Local Housing Finance Agency Program (GSE sponsored)		**1,019**		1,083
Direct Loans to Air Carriers and Other Related Businesses (Note 10)		**901**		1,046
Other[1]		**164**		88
	$	**3,386**	$	3,415

(1) Includes IAP, SBLF, and other CDFI credit program receivables valued at $84 million, $32 million, and $48 million, respectively, as of September 30, 2023, and other CDFI, SBLF, and TARP credit program receivables valued at $49 million, $36 million, and $3 million, respectively, as of September 30, 2022.

CDFI Fund's Bond Guarantee Program (BGP)

The *Small Business Jobs Act of 2010*, P.L. 111-240, created the CDFI-BGP. The CDFI Fund issues guarantees for the full amount of bonds issued to support CDFIs that make investments for eligible community or economic development purposes. The bonds support CDFI lending and investment by providing a source of long-term capital to CDFIs. As of September 30, 2023 and 2022, the CDFI-BGP net credit program receivable of $1.3 billion and $1.2 billion, respectively, included a negative subsidy allowance of $59 million and $49 million, respectively, which reflects our projection that the program will result in a net revenue to us after accounting for repayments, interest, and fees.

We performed a financial statement re-estimate of the program's cost as of September 30, 2023 and 2022. These re-estimates resulted in a downward re-estimate, or a decrease in the cost of the program, of $2 million and an upward re-estimate, or an increase in the cost of the program, of $7 million as of September 30, 2023 and 2022, respectively. The downward re-estimate in FY 2023 was driven by changes in performance assumptions, actual performance to-date, and actual program funding cost. The 2023 performance assumptions anticipate an overall revenue to the program due to lower default projections in future years' cash flows. The upward re-estimate in FY 2022 was driven by higher bond prepayments.

State and Local Housing Finance Agency Program (GSE sponsored)

Under the *Housing and Economic Recovery Act of 2008*, P.L. 110-289 (HERA), we, together with the FHFA, Fannie Mae, and Freddie Mac, created a program in October 2009 to provide support to HFAs. The HFA Program is comprised of the New Issue Bond Program (NIBP) that is designed to support low mortgage rates and expand resources for low- and middle-income borrowers to purchase or rent homes, making them more affordable over the long term. Under the terms of the NIBP, we purchased securities of Fannie Mae and Freddie Mac backed by new mortgage revenue bonds HFAs issued. As of September 30, 2023 and 2022, the HFA net credit program receivable of $1.0 billion and $1.1 billion, respectively, included a positive subsidy allowance of $137 million and $184 million, respectively, which reflects our projection that the HFA program will result in a net cost to us after accounting for repayments, interest, and fees.

We performed a financial statement re-estimate of the NIBP program's cost as of September 30, 2023 and 2022. These re-estimates resulted in a downward re-estimate, or a decrease in the cost of the program, of $38 million and $55 million as of September 30, 2023 and 2022, respectively. The downward re-estimates in FY 2023 and 2022 were primarily driven by higher than estimated principal collections. A higher prepayment assumption was used in the projection of future years' cash flows for FY 2023, which contributed to the downward re-estimate.

10. COVID-19 Investments, Advances, Receivables, and Other

The global spread of the COVID-19 over the past several years resulted in a severe global health and economic crisis. In FY 2020 and 2021, Congress took steps to limit the damage the pandemic in the U.S. caused by passing several key statutes, including the *Coronavirus Aid, Relief, and Economic Security Act,* P.L. 116-136 (CARES Act), the *Consolidated Appropriations Act, 2021,* P.L. 116-260 (CAA), and the *American Rescue Plan Act of 2021,* P.L. 117-2 (ARP). The relief funding these legislative Acts provided helped reduce the financial burden on individuals and their families, minimized business and employment losses, and enhanced the liquidity of the U.S. financial system. In addition to the FY 2022 and 2021 rescissions pursuant to the *Infrastructure Investment and Jobs Act*, P.L. 117-58 (IIJA) and the CAA, respectively, on June 3, 2023, Congress passed the *Fiscal Responsibility Act of 2023*, P.L. 118-5 (FRA), which rescinded certain unobligated funds that were provided by these legislative Acts.

The following tables summarize our key budgetary resources, for the fiscal year ended September 30, 2023 and 2022, for each Treasury program established under the legislative Acts enacted in response to the COVID-19 pandemic:

(in millions)	Fiscal Year Ended September 30, 2023 Beginning Available Budgetary Resources	Rescissions and Other Adjustments (1)	Less: Obligations Incurred	Remaining Available Budgetary Resources
ARP Authority				
Economic Impact Payments to Individuals	$ -	$ 1,238	$ (1,238)	$ -
Advances for Child Tax Credits	-	(282)	282	-
Other COVID-19 Related Tax Credits	-	51,750	(51,750)	-
Total Taxpayer Support Programs	-	52,706	(52,706)	-
Coronavirus State and Local Fiscal Recovery Funds	66	-	(1)	65
Emergency Rental Assistance	394	-	(373)	21
Homeowners Assistance Fund	29	-	(5)	24
Coronavirus Capital Projects Fund	127	-	(116)	11
State Small Business Credit Initiative	5,524	(175)	(4,097)	1,252
Total State, Local, Territorial, and Tribal Programs	6,140	(175)	(4,592)	1,373
Payroll Support to Aviation Workers	358	(356)	(2)	-
Total American Industry and Financial Markets Programs	358	(356)	(2)	-
Total ARP Authority (2)	$ 6,498	$ 52,175	$ (57,300)	$ 1,373
CAA Authority				
Economic Impact Payments to Individuals	$ -	$ 814	$ (814)	$ -
Total Taxpayer Support Programs	-	814	(814)	-
Emergency Rental Assistance	26	(4)	(22)	-
Total State, Local, Territorial and Tribal Programs	26	(4)	(22)	-
Payroll Support to Aviation Workers	133	(133)	-	-
Coronavirus Economic Relief for Transportation Services	16	-	5	21
Total American Industry and Financial Markets Programs	149	(133)	5	21
Emergency Capital Investment Program	678	(104)	(294)	280
CDFI Rapid Response and Equitable Recovery Programs	1,747	-	(1,729)	18
Total CDFI Programs	2,425	(104)	(2,023)	298
Total CAA Authority (2)	$ 2,600	$ 573	$ (2,854)	$ 319

(in millions)	Fiscal Year Ended September 30, 2023 Beginning Available Budgetary Resources	Rescissions and Other Adjustments [1]	Less: Obligations Incurred	Remaining Available Budgetary Resources
CARES Act Authority				
Economic Impact Payments to Individuals	$ -	$ (87)	$ 87	$ -
Total Taxpayer Support Programs	-	(87)	87	-
Payroll Support to Aviation Workers	369	(295)	-	74
Direct Loans to Air Carriers and National Security Business	228	(195)	(11)	22
Total American Industry and Financial Markets Programs	597	(490)	(11)	96
Total CARES Act Authority [2]	$ 597	$ (577)	$ 76	$ 96

(1) Rescissions and Other Adjustments primarily include permanent and indefinite authority obtained as of September 30, 2023, to fund certain tax provision programs that extended beyond September 30, 2022. We will obtain permanent and indefinite appropriations in FY 2024 to fund certain tax provision programs that extend beyond September 30, 2023. Pursuant to the June 3, 2023 FRA, additionally included rescissions of the following: (i) $150 million and $356 million of ARP authority related to the State Small Business Credit Initiative and the Payroll Support to Aviation Workers programs, respectively, (ii) $133 million, $104 million and $4 million of CAA Authority related to the Payroll Support to Aviation Workers, Emergency Capital Investment Program and the Emergency Rental Assistance programs, respectively, and (iii) $295 million and $200 million of CARES Act authority related to the Payroll Support to Aviation Workers and the Direct Loans to Air Carriers and National Security Business programs, respectively.

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

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

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

(1) Rescissions and Other Adjustments primarily include permanent and indefinite authority obtained as of September 30, 2022, to fund certain tax provision programs that extended beyond September 30, 2021. We obtained permanent and indefinite appropriations in FY 2023 to fund certain tax provision programs that extended beyond September 30, 2022. Pursuant to the November 15, 2021 IIJA, also included are rescissions of $3.0 billion and $1.4 billion of CARES Act authority related to the Payroll Support to Aviation Workers program and the Direct Loans to Air Carriers and National Security Business programs.

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

TAXPAYER SUPPORT

ECONOMIC IMPACT PAYMENTS FOR INDIVIDUALS

Pursuant to the CARES Act, CAA, and ARP, Treasury, through the IRS, used its permanent and indefinite authority to pay recovery rebates for individuals (also referred to as the "Economic Impact Payments" (EIPs)). These Acts authorized the IRS to allow for a tax credit (or rebate) to individuals against their income taxes. We reported these outlays as "*Refunds and Other Payments"* on the Statements of Custodial Activity (refer to Note 23).

ADVANCES FOR CHILD TAX CREDITS

The ARP increased the child tax credit from $2,000 to $3,000 for the 2021 tax year only. For the 2021 tax year only, the child tax credit was made fully refundable for taxpayers whose principal residence for more than one-half of the tax year was in the U.S. The program also included the ability to receive a portion of the child tax credit as an advance from July through December of 2021.

OTHER RELATED TAX CREDITS

Other related tax credits primarily consist of the Employee Retention Credit (ERC). The CARES Act authorized eligible employers to claim the ERC against applicable employment taxes for a portion of qualified wages employers paid to employees during the COVID-19 crisis. The credit is available to employers whose *(i)* operations were fully or partially suspended, due to a COVID-19 related shut-down order, or *(ii)* gross receipts declines by more than 50 percent when compared to the same quarter in the prior year. The ERC was extended through June 30, 2021, and then through December 31, 2021 by the CAA and ARP, respectively.

Refunds and Other Payments

The IRS used its permanent and indefinite authority to fund the taxpayer support programs as authorized by the CARES Act, CAA, and ARP. We reported this activity within the "*Refunds and Other Payments"* line of the Statements of Custodial Activity (also refer to Note 23). EIP outlays and tax credits paid in FY 2023 and 2022 were as follows:

(in millions)		2023	2022
Economic Impact Payments	$	1,965 $	13,108
Advances for Child Tax Credits		(282)	46,649
Other COVID-19 Related Tax Credits (1)		51,750	29,470
Total COVID-19 Related Refunds and Other Payments	**$**	**53,433** $	89,227

(1) Includes ERC credits which change significantly due primarily to the timing of taxpayers' submission and delayed processing of tax returns.

Support Provided Through State, Local, Territorial and Tribal Governments

The following is a description of each support program directed through state, local, territorial, and Tribal governments. Refer to the section near the end of this note entitled *"COVID-19 Pandemic Relief – Advances and Prepayments"* which discusses the accounting treatment for these programs.

Coronavirus State and Local Fiscal Recovery Funds

The Coronavirus State and Local Fiscal Recovery Funds (SLFRF), established in FY 2021 in accordance with the ARP, provide a combined $350.0 billion, to remain available through December 31, 2024, to state, local, territorial, and Tribal governments to reduce the fiscal effects stemming from COVID-19, and lay the foundation for a strong and equitable recovery. Pursuant to the terms of the ARP, we provided eligible jurisdictions assistance to support:

- households, small businesses, and nonprofits, or aid to impacted industries such as tourism, travel, and hospitality;
- eligible workers of state, territorial, or Tribal governments by providing them premium pay for performing essential work during the COVID-19 public health emergency;
- vital public services and help retain jobs and to replace lost state, local, territorial, and Tribal government revenue; and
- necessary investments in water, sewer, or broadband infrastructure.

We allocated the $350.0 billion of appropriations we received as follows: $195.3 billion for states, including the District of Columbia; $130.2 billion for local governments, including counties, metropolitan cities, and non-entitlement units of local government; $4.5 billion for territorial governments; and $20.0 billion for Tribal governments.

Of the $350.0 billion appropriated in FY 2021 for this program, we disbursed an aggregate total of $349.9 billion through September 30, 2023, of which $1.0 billion and $106.0 billion were disbursed during the fiscal years ended September 30, 2023 and 2022, respectively.

Emergency Rental Assistance (Housing Support)

We established two Emergency Rental Assistance (ERA) programs in FY 2021, the first program created pursuant to the CAA (ERA 1) and a second round under the ARP (ERA 2). The ERA programs make funding available through state, local, territorial, and Tribal governments. Recipients must use up to 90 percent of the awarded funding to provide financial assistance to eligible households for rent (and arrears), utilities and home energy costs (and arrears), other housing costs and housing stability services. The ERA 1 funding expired on September 30, 2022, and the ERA 2 funding will generally remain available until September 30, 2025. Of the $21.6 billion appropriated in FY 2021 for the ERA 2 program, we disbursed an aggregate total of $21.4 billion through September 30, 2023, of which $3.3 billion and $9.8 billion were disbursed during the fiscal years ended September 30, 2023 and 2022, respectively.

Homeowner Assistance Fund

The ARP provided $9.9 billion of appropriated funds to establish the Homeowner Assistance Fund (HAF) to help prevent homeowner mortgage delinquencies, defaults, foreclosures, loss of utilities or home energy services, and displacement of homeowners experiencing financial hardship after January 21, 2020. Funds from the HAF are being made available through state, local, territorial, and Tribal governments. Recipients must use the funds for assistance with mortgage payments, homeowner's insurance, utility payments, and other specified purposes related to mortgages and housing. This funding will remain available until September 30, 2025. As of September 30, 2023, we fully disbursed the $9.9 billion appropriated in FY 2021 for this program, of which $0.3 billion and $8.6 billion were disbursed during the fiscal years ended September 30, 2023 and 2022, respectively.

Coronavirus Capital Projects Fund

The Coronavirus Capital Projects Fund, established pursuant to the ARP in FY 2021, addresses certain challenges of the pandemic, especially in rural America and low- and moderate-income communities, helping to ensure that all communities have access to high-quality, modern infrastructure, including internet access. The ARP provided an appropriation of $10.0 billion for payments to states, territories, the freely associated states, and Tribal governments to carry out critical capital projects that directly enable work, education, and health monitoring, including remote options, in response to the public health emergency. This appropriation will remain available until the funds are fully spent. Of the $10.0 billion appropriated in FY 2021 for this program, we disbursed an aggregate total of $231 million through September 30, 2023, of which $200 million and $31 million were disbursed during the fiscal years ended September 30, 2023 and 2022, respectively.

State Small Business Credit Initiative

We established the State Small Business Credit Initiative (SSBCI) program under the ARP to provide $10.0 billion in appropriated funds to state, territorial, and Tribal governments for small business credit support and investment programs. The remainder of the funds will continue to remain available until expended to provide support to small businesses responding to and recovering from the economic effects of the COVID-19 pandemic, help socially and economically disadvantaged individuals have access to credit and investments, provide technical assistance to help small businesses applying for various support programs, and to pay reasonable costs of administering this program. This program amends the SSBCI program we had previously established under the *Small Business Jobs Act of 2010*.

The ARP requires all disbursements and remaining obligations to be completed on or before September 30, 2030; any remaining unexpended amounts as of that date will be rescinded and returned to the General Fund. Of the $9.85 billion in net appropriated funds (including rescissions) for this program, we disbursed an aggregate total of $2.6 billion through September 30, 2023, of which $1.3 billion and $1.3 billion were disbursed during the fiscal years ended September 30, 2023 and 2022, respectively.

LOCAL ASSISTANCE AND TRIBAL CONSISTENCY FUND

The ARP provided us $2.0 billion of appropriated funds to establish the Local Assistance and Tribal Consistency Fund and make payments to eligible revenue-sharing counties and Tribal governments for any governmental purpose other than a lobbying activity. Of the total appropriated amount, the ARP reserved $750 million and $250 million for eligible revenue-sharing counties and Tribal governments, respectively. The $2.0 billion of appropriated funds remained available until September 30, 2023, with amounts obligated during FY 2022 and 2023. Of the $2.0 billion appropriated in FY 2021 for this program, we disbursed an aggregate total of $1.9 billion through September 30, 2023, of which $1.8 billion and $0.1 billion were disbursed during the fiscal years ended September 30, 2023 and 2022, respectively.

SUPPORT TO AMERICAN INDUSTRY AND FINANCIAL MARKETS

INVESTMENTS AND DIRECT LOANS OVERVIEW

In FY 2020, the CARES Act appropriated $500.0 billion to our Exchange Stabilization Fund to fund the credit subsidy costs associated with making loans, loan guarantees or investments through December 31, 2020 in support of eligible businesses, states and municipalities that incurred losses as a result of COVID-19. Additionally, in FY 2020, the Federal Reserve Board of Governors (Board) used its emergency-lending authority under Section 13(3) of the *Federal Reserve Act* (Section 13(3) hereafter) and Regulation A of the Board, authorizing the Federal Reserve Bank of New York (FRBNY) and Federal Reserve Bank of Boston (FRBB) to establish liquidity lending facilities for the purpose of making loans and purchasing debt and commercial paper of eligible entities to support key U.S. financial markets.

Since the CARES Act, there were several legislative enactments that, among other things, eliminated our ability to make new loans and investments under the CARES Act effective January 9, 2021. The enactment of the CAA on December 27, 2020, among other things, rescinded an aggregate total of $478.8 billion of the $500.0 billion appropriation provided to Treasury. On November 15, 2021, the IIJA rescinded an additional $1.4 billion of the remaining appropriation. Further, in accordance with the FRA, an additional $200 million was rescinded on June 3, 2023. As of September 30, 2023 and 2022, the remaining appropriation was $22 million and $228 million, respectively.

SECTION 13(3) FEDERAL RESERVE PROGRAMS

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

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

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

The SPV LLC Agreements provide for interim distributions to Treasury in November and May of each fiscal year in accordance with the terms of the most recent amended agreements. During the fiscal years ended September 30, 2023 and 2022, we received $4.6 billion and $8.5 billion in interim distributions from the SPVs, respectively, which we used to repay outstanding debt to the Fiscal Service that we borrowed to finance the non-subsidized portion of these investment transactions. The interim distributions to Treasury represent the amounts by which funds that were contributed by Treasury to each facility (and earnings thereon) exceeded the purchase price of the assets, loans, and/or loan participations, as the case may be, within each facility at such time. We cannot use our funds remaining in the SPVs funded under the CARES Act for further lending, asset purchases, or extensions of credit.

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

(1) These amounts exclude cumulative 9/30/23 fair valuations associated with these assets. See table below for such fair valuations.

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

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

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

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

Investments in Special Purpose Vehicles

As of September 30, 2023 and 2022, our preferred equity investments in the SPVs were valued as follows:

Investments in SPVs (in millions)	Gross Investments As of 9/30/23	Cumulative Valuation Gain (Loss)	9/30/23 Fair Value
Main Street Facilities LLC (1)	**$ 9,685**	**$ 1,439**	**$ 11,124**
Municipal Liquidity Facility LLC (1)	**2,826**	**181**	**3,007**
Term Asset-Backed Securities II LLC (1)	**848**	**135**	**983**
Total Investments in SPVs	**$ 13,359**	**$ 1,755**	**$ 15,114**

(1) *In FY 2023, Treasury received interim distributions equivalent to the amount by which its initial capital contribution to the facility (and earnings thereon) exceeded the purchase price of the assets held within these SPVs.*

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

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

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

For proprietary accounting purposes, we accounted for all SPV investments at fair value, rather than as direct loans, as these instruments do not meet the criteria of SFFAS No. 2, *Accounting for Direct Loans and Loan Guarantees*. Accordingly, we record changes in the fair value of these investments as realized or unrealized fair value gains or losses within the "*Economic Program*" on the Consolidated Statements of Net Cost. The budgetary subsidy cost allowance is based on cash flows discounted using a Treasury rate to determine the subsidy cost, and the proprietary fair value adjustment is based on market interest rates to discount projected cash flows. For the fiscal years ended September 30, 2023 and 2022, we recorded an unrealized fair value net gain of $1.9 billion and $0.7 billion related to these investments, respectively.

Fair Value Estimation Factors. In determining the fair value of our SPV investments, we use available market pricing data, forward interest rates, expected loss rates, historical prepayment rates, and contractual instrument terms to estimate scenario-specific, expected cash flows for the SPVs. For market pricing data, we specifically use: *(i)* active market prices for the TALF program that owns publicly traded securities, *(ii)* Bloomberg estimated prices for the MLF program, which owns securities that do not have active market prices but have estimated prices in Bloomberg, or *(iii)* market prices for baskets of comparable publicly traded bonds for the MSF program, based on relevant bond attributes, such as instrument credit rating, time to maturity, issuer industry, coupon rate, and call provisions. We use contractual instrument terms, active market prices, expected loss rates, historical prepayment rates, and, where applicable, forward interest rates, to estimate scenario-specific, expected cash flows, which are discounted using market-based discount rates.

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

Transfer of Proceeds Upon Dissolution of SPVs. For those SPVs that we funded through a combination of CARES Act appropriation and Fiscal Service borrowings in accordance with FCRA guidelines, all proceeds that we realize from these investments upon the dissolution of the SPVs are transferred to us to repay all borrowings and other funding costs incurred from these investments. In accordance with the CARES Act, we must transfer any remaining excess residual proceeds to the Federal Old-Age and Survivors Insurance Trust Fund. To the extent that the fair value of the SPV investment assets also incorporates anticipated realization of excess residual proceeds, we record a corresponding liability due to the Federal Old-Age and Survivors Insurance Trust Fund. We recorded a liability of $952 million and $186 million as of September 30, 2023 and 2022, respectively.

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

DIRECT LOANS TO AIR CARRIERS AND OTHER RELATED BUSINESSES

The CARES Act authorized us to make direct loans and loan guarantees to eligible passenger and cargo air carriers and national security businesses to provide them liquidity for losses they incurred as a result of COVID-19. We chose to make only direct loans under this authorization. The CARES Act specified that the Secretary determines the terms and conditions of the loans and stated that the duration of the loans will be no longer than five years. As “financial protection of the Government,” the CARES Act also mandated that we obtain certain financial instruments including, but not limited to, common stock in the eligible business for the benefit of taxpayers. As of September 30, 2023 and 2022, there were no remaining loan commitments for which future borrowings could be made under the CARES Act. The following is a discussion of our accounting related to our direct loans.

Credit Program Receivables, Net

We present the direct loans as credit program receivables on our Consolidated Balance Sheets. As of September 30, 2023, the net credit program receivables of the passenger airlines and other related businesses of $901 million included a positive subsidy allowance of $70 million. The other related businesses include national security, air cargo carriers, ticket agents, and maintenance and repair businesses. As of September 30, 2022, the net credit program receivables of the passenger airlines and other related businesses of $1.0 billion included a negative subsidy allowance of $32 million. The positive or negative subsidies at the end of FY 2023 and 2022 reflect our projection as of those dates that these programs would result in net cost or net earnings to us, respectively, after accounting for principal loan repayments, interest, and fees. Included in these receivables are the projected cash flows associated with the common stock warrants, common stock shares, and senior debt instruments we received in connection with making these direct loans.

We performed a financial statement re-estimate of these credit programs costs. The re-estimates we performed as of September 30, 2023, resulted in an upward re-estimate, or an increase of $17 million, in the cost of the passenger airline programs and other related businesses programs. The upward re-estimate primarily stemmed from an increase in projected Federal Old-Age and Survivors Insurance Trust Fund payments, which was partially offset by lower expected losses for outstanding investments. The re-estimates we performed as of September 30, 2022, resulted in an upward re-estimate, or an increase of $78 million, in the cost of the passenger airline programs and other related businesses programs. The upward re-estimate primarily stemmed from a decline in the value of warrants we hold. The FY 2023 and 2022 re-estimates we recorded included the expected Federal Old-Age and Survivors Insurance Trust Fund liabilities for passenger airlines and other related businesses.

We treat our net credit program receivables, including loan principal repayments, interest, fees, and proceeds from common stock sales, as entity exchange transactions. We will use all such future proceeds realized from the net credit program receivables to repay all of our borrowing and other funding costs we incur from these direct loans. In accordance with the CARES Act, we must transfer any remaining excess residual proceeds to the Federal Old-Age and Survivors Insurance Trust Fund. Accordingly, to the extent that our net credit program receivables also incorporate anticipated realization of excess residual proceeds, we will record a corresponding liability due to the Federal Old-Age and Survivors Insurance Trust Fund. Hence, our net credit program receivables, including loan principal repayments, interest, fees, and proceeds from common stock sales are treated as entity transactions, with the exception of any excess residual amounts owed to this trust fund, which are treated as non-entity transactions. As of September 30, 2023 and 2022, we recorded a liability of $128 million and $184 million, respectively, due to the Federal Old-Age and Survivors Insurance Trust Fund.

PAYROLL SUPPORT TO AVIATION WORKERS

Disruption to economic activity the spread of COVID-19 caused in the early spring of 2020 placed significant pressure on U.S. airlines and the aviation industry as a whole. We established three payroll support programs (PSPs), the first program created pursuant to the CARES Act (PSP1) in FY 2020, and continued in FY 2021 through the CAA (PSP2) and ARP (PSP3), with PSP3 only providing additional assistance to those who received assistance under PSP2. These PSP programs provided for relief to this industry by helping to preserve aviation jobs and compensate air carrier industry workers. Specifically, the PSPs provided financial assistance to passenger air carriers, cargo air carriers, and certain contractors to be used exclusively for the continuation of payment of employee salaries, wages, and benefits.

We entered into Payroll Support Program Agreements (PSPA) with passenger air carriers, cargo air carriers, and aviation industry contractors. Each agreement specified that the recipient could receive up to a maximum awardable amount equal to the compensation the recipient paid to its employees for a certain period specified in the relevant Act. For the fiscal years ended September 30, 2023 and 2022, we recorded $2 million and $21 million, respectively, of financial assistance disbursements under the PSPs as "*Economic Program*" costs on the Consolidated Statements of Net Cost.

The CARES Act further authorized the Secretary to receive warrants, options, preferred stock, debt securities, or other financial instruments recipients of the PSP issued, which provide appropriate compensation to the federal government for providing the financial assistance. We received no promissory notes and warrants during the fiscal years ended September 30, 2023 and 2022. The recipients repaid an aggregate total of $346 million and $351 million of principal on the promissory notes during the fiscal years ended September 30, 2023 and 2022, respectively. We report the promissory notes and warrants we received as compensation within "*Loans and Interest Receivable, Net*" and *"Other Investments, Net,"* respectively, on the Consolidated Balance Sheets.

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

Loans and Interest Receivable, Net

We present our promissory notes totaling $12.4 billion and $11.6 billion as of September 30, 2023 and 2022, respectively, net of an allowance for doubtful accounts estimated at $2.0 billion and $3.2 billion, respectively. Interest on the notes is payable semi-annually on March 31 and September 30 of each year. For the fiscal years ended September 30, 2023 and 2022, we recognized interest revenue of $155 million and $166 million, respectively.

We treat the promissory notes as exchange transactions as we received them as compensation for financial assistance paid to air carriers to support ongoing employment of their aviation workers. The notes and related interest receivable also represent assets of the U.S. government, or non-entity assets, as we are precluded from using any of the cash proceeds realized from these promissory notes. Accordingly, we reported the initial revenue recognized at the inception of the loans, and subsequent recognition of related interest revenue, within the "*COVID-19 Non-Entity (Revenue) Cost, Net"* line item of the Consolidated Statements of Net Cost. The recording of this receivable also resulted in a corresponding amount recorded to the "*Due To the General Fund*" liability (refer to Note 4).

Other Investments, Net

We account for the common stock warrants at fair value, with changes in the fair value of these investments recorded as realized or unrealized gains or losses within the Consolidated Statements of Net Cost. As of September 30, 2023 and 2022, our common stock warrants were valued at $397 million and $493 million, respectively, which includes a fair value loss of $52 million and $354 million, respectively, recognized for the fiscal years ended September 30, 2023 and 2022, respectively. The warrants held give us the right to purchase common shares upon the warrants' exercise. For the fiscal year ended September 30, 2023, we exercised $44 million in warrants. There were no warrants exercised during FY 2022.

Our common stock warrants are comprised of those that give us a right to purchase common shares of either publicly traded or non-publicly traded air carriers. If we obtained the warrants from publicly traded companies, then we determined the fair value based on quoted prices of underlying shares in an active market as well as other significant unobservable inputs that reflect assumptions about the expectations that market participants would use in pricing. If we obtained the warrants from non-publicly traded companies, then we determined their fair value based only on significant unobservable inputs. As such, the measurement of our common stock warrants fair value includes Level 3 inputs.

SUPPORT TO AMERICAN SMALL BUSINESSES THROUGH CDFIS

EMERGENCY CAPITAL INVESTMENT PROGRAM

Established under the CAA, the Emergency Capital Investment Program encourages low- and moderate-income community financial institutions to augment their efforts to support small businesses and consumers in their communities. Under this program, we are providing up to $9.0 billion in capital directly to depository institutions through purchases of preferred stock or subordinated debt from certified CDFIs or minority depository institutions (MDIs). This funding is intended to be used to, among other things, provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers, especially in low-income and underserved communities, that may be disproportionately impacted by the economic effects of the COVID-19 pandemic. We set aside $2.0 billion for CDFIs and MDIs with less than $500 million in assets and an additional $2.0 billion for CDFIs and MDIs with less than $2.0 billion in assets. As of September 30, 2023 and 2022, we disbursed $0.23 billion and $8.3 billion in connection with this program, respectively. No further disbursements are expected after September 30, 2023.

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

We account for the preferred stock and subordinated debt investments at fair value, with changes in the fair value of these investments recorded as realized or unrealized gains or losses within the *"Economic Program*" on the Consolidated Statements of Net Cost. As the incentives and other conditions of our capital investments result in more favorable terms than available to the CDFIs and MDIs from private investors and more favorable terms compared to investment pricing available in the conventional financial markets, their fair values are less than the amounts we paid at acquisition. As of September 30, 2023 and 2022, our preferred stock and subordinated debt investments were valued at $2.5 billion and $2.5 billion, respectively, which includes a fair value loss of $0.23 billion and $5.8 billion recognized for the fiscal years ended September 30, 2023 and 2022, respectively.

CDFI FUND'S RAPID RESPONSE AND EQUITABLE RECOVERY PROGRAMS

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

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

FY 2021 for these programs, we disbursed an aggregate total of $2.5 billion through September 30, 2023, of which $1.3 billion and $0.1 billion were disbursed during the fiscal years ended September 30, 2023 and 2022, respectively.

COVID-19 Pandemic Relief - Advances and Prepayments

During FY 2023 and 2022, we disbursed an aggregate total of $9.2 billion and $125.9 billion, respectively, in appropriated and obligated funds to state, local, territorial, and Tribal governments, as well as in support to American small businesses through CDFIs to cover eligible costs that recipients incurred in response to the pandemic (refer to the sections entitled "*Support Provided Through State, Local, Territorial and Tribal Governments*", and "*Support to American Small Businesses Through CDFIs*"). Of the aggregate amounts disbursed, we initially recorded $5.6 billion and $115.8 billion as an advance during FY 2023 and 2022, respectively, within the line item *"Advances and Prepayments"* on the Consolidated Balance Sheets, and recorded the remaining $3.6 billion and $10.0 billion disbursed in FY 2023 and 2022, respectively, as *"Economic Program"* costs on the Consolidated Statements of Net Cost. We subsequently recognized $58.3 billion and $146.6 billion of this advance as an expense which were recorded as "*Economic Program*" costs on the Consolidated Statements of Net Cost for the fiscal years ended September 30, 2023 and 2022, respectively, to reflect the estimated amount of eligible costs incurred during those years by recipients.

COVID-19 Pandemic Relief – Summary Impact on the Statement of Net Cost

For the fiscal years ended September 30, 2023 and 2022, the primary impact of COVID-19 relief efforts reported as "*Economic Program*" costs on the Consolidated Statements of Net Cost were as follows:

(in millions)	2023	2022
Entity Cost/(Revenue):		
Expense Recognition of Support to States, Local, Territorial, and Tribal Governments	**$ 61,557**	$ 156,360
Emergency Capital Investment Program - Fair Value Loss	**228**	5,848
Section 13(3) SPV Investments - Fair Value Gain	**(1,860)**	(715)
Coronavirus Economic Relief for Transportation Services Payments	**(23)**	686
CDFI Fund's Rapid Response and Equitable Recovery Programs Payments	**123**	110
Other	**100**	146
Total Net Entity Costs (Economic Program) (Note 21)	**60,125**	162,435
Non-Entity Cost/(Revenue):		
Payroll Support for Aviation Workers - Promissory Note Compensation	**(1,315)**	1,591
Payroll Support for Aviation Workers - Common Stock Warrant Compensation	**52**	354
Total Non-Entity (Revenue)/Cost	**(1,263)**	1,945
Total COVID-19 Pandemic Relief Costs, Net	**$ 58,862**	$ 164,380

11. INVESTMENTS IN GOVERNMENT SPONSORED ENTERPRISES

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

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

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

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

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

Additionally, the January 14 amendment, among other things, imposed restrictions on certain GSE business activities, including purchases of loans backed by investment properties, second homes, and multifamily properties, and on purchases of loans with multiple high-risk characteristics or for cash consideration. On September 14, 2021, Treasury and FHFA entered into letter agreements to suspend certain business activity restrictions added to the SPSPAs by the January 14 amendment while FHFA undertakes a review of the extent to which these requirements are redundant or inconsistent with existing FHFA standards, policies, and directives. Under the letter agreements, the suspension will terminate six months after Treasury notifies the GSEs. As of September 30, 2023, Treasury has not provided notice to the GSEs to terminate the suspension.

For the fiscal year ended September 30, 2023, Treasury's liquidation preference in Fannie Mae and Freddie Mac increased by $12.6 billion and $7.9 billion, respectively. For the fiscal year ended September 30, 2022, Treasury's liquidation preference in Fannie Mae and Freddie Mac increased by $19.1 billion and $11.7 billion, respectively. The GSEs will not pay a quarterly dividend until after the capital reserve end date. We received no cash dividends for the fiscal year ended September 30, 2023 and 2022, as the GSEs had not achieved their capital reserve end date as of September 30, 2023.

The SPSPAs, which have no expiration date, require us to disburse funds to either GSE if, at the end of any quarter, the FHFA determines that the liabilities of either GSE exceed its assets. Draws from the Department under the SPSPAs are designed to ensure that the GSEs maintain positive net worth, with a fixed maximum amount available to each GSE under this agreement, established as of December 31, 2012 (refer to the "*Contingent Liability to GSEs*" section below). Draws against the funding commitment of the SPSPAs do not result in the issuance of additional shares of senior preferred stock; instead, they increase the liquidation preference of the initial 1,000,000 shares by the amount of the draw. The combined cumulative liquidation preference totaled $305 billion and $284 billion as of September 30, 2023 and 2022, respectively. There were no payments to the GSEs for the fiscal years ended September 30, 2023 and 2022.

Accounting Treatment

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

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

Investments in GSEs

As of September 30, 2023 and 2022, our investments in the GSEs consisted of the following:

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

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

Senior Preferred Stock and Warrants for Common Stock

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

The fair value of the senior preferred stock considers forecasted cash flows to equity holders and the traded prices of the other equity securities, including the GSE's common stock and junior preferred stock. The fair value of the senior preferred stock—as measured by unobservable and observable inputs—increased as of September 30, 2023, when compared to September 30, 2022. Fannie Mae's senior preferred stock drove this increase primarily due to higher projected cash flows and a decrease in credit-related expenses (refer to Notes 1I and 1V).

Factors impacting the fair value of the warrants include the nominal exercise price and the large number of potential exercise shares, the market prices and trading volumes of the underlying common stock as of September 30, the principal market, and the market participants. Other factors impacting the fair value include, among other things, the holding period risk related directly to the assumption of the amount of time that it will take to sell the exercised shares without depressing the market. The fair value of the warrants—as measured by observable inputs—increased at the end of FY 2023, when compared to 2022, primarily due to increases in the Level 1 fair value measurement of the market price of the underlying common stock of each GSE.

Contingent Liability to GSEs

As part of the annual process, we prepare a series of long-term financial forecasts to assess, as of September 30, the likelihood and magnitude of future draws to be required by the GSEs under the SPSPAs within the forecast time horizon. We used 25-year financial forecasts prepared through years 2048 and 2047 in assessing if a contingent liability was required as of September 30, 2023 and 2022, respectively. If future payments under the SPSPAs are deemed to be probable within the forecast horizon, and we can reasonably estimate such payment, we will accrue a contingent liability to the GSEs to reflect the forecasted equity deficits of the GSEs. We do not discount this accrued contingent liability, nor do we take into account any of the offsetting dividends that we could receive, as the dividends, if any, would be owed directly to the General Fund. We will adjust such recorded accruals in subsequent years as new information develops or circumstances change.

Based on our annual assessment, we estimated there was no probable future funding draws as of September 30, 2023 and 2022, and thereby accrued no contingent liability. However, as of September 30, 2023, it is reasonably possible that a period of sustained economic and housing market volatility could potentially cause the GSEs to generate quarterly losses of sufficient magnitude to result in future funding draws against our funding commitment. Due to challenges quantifying future market volatility or the timing, magnitude, and likelihood of such events, we could not estimate the total amount of this reasonably possible future funding liability as of September 30, 2023. There were no payments to the GSEs for the fiscal year ended September 30, 2023. At September 30, 2023 and 2022, the maximum remaining contractual commitment to the GSEs for the remaining life of the SPSPAs was $254.1 billion.

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

Estimation Factors

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

GSEs Non-Entity Revenue

For the fiscal years ended September 30, 2023 and 2022, GSEs Non-Entity Revenue, Net consisted of the following:

Summary of GSEs Non-Entity Revenue (in millions)		2023	2022
General Fund Revenue from Increase in Liquidation Preference of GSEs Preferred Stock	$	**(20,494)**	$ (30,761)
Fair Value Loss/(Gain) on GSEs Warrants/Preferred Stock		**3,804**	27,901
Total GSEs Non-Entity Revenue, Net	$	**(16,690)**	$ (2,860)

Regulatory Environment

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

The *Temporary Payroll Tax Cut Continuation Act of 2011* (P.L. 112-78) was funded by an increase of ten basis points in the GSEs' guarantee fees (referred to as "the incremental fees") which began in April 2012, and extended by the *Infrastructure Investment and Jobs Act of 2021* (P.L. 117-58) through September 30, 2032. The incremental fees are remitted to us and not retained by the GSEs and, thus, do not affect the profitability of the GSEs. For FY 2023 and 2022, the GSEs remitted to us the incremental fees totaling $6.2 billion and $5.8 billion, respectively, which are reported within the line item entitled "*Fines, Penalties, Interest and Other Revenue*" on our Statements of Custodial Activity.

12. Investments in Multilateral Development Banks

As of September 30, 2023 and 2022, Investments in Multilateral Development Banks consisted of the following:

(in millions)	2023	2022
International Bank for Reconstruction and Development	**$ 3,677**	$ 3,470
Inter-American Development Bank (1)	**2,023**	2,023
Asian Development Bank	**991**	991
African Development Bank	**714**	543
European Bank for Reconstruction and Development	**636**	636
International Finance Corporation	**569**	569
North American Development Bank	**450**	450
Multilateral Investment Guarantee Agency	**45**	45
Total	**$ 9,105**	$ 8,727

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

13. Other Investments, Net

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

Other Investments, Net also include non-federal investment holdings acquired pursuant to the establishment of emergency relief programs in response to the COVID-19 pandemic, including investments of $2.5 billion in preferred stock and subordinated debt pursuant to the Emergency Capital Investment Program, and $0.4 billion and $0.5 billion of common stock warrants for the Payroll Support to Aviation Workers program as of September 30, 2023 and 2022, respectively (refer to Note 10).

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

	Fair Value Measurement of Other Investments, Net as of September 30, 2023			
Investment Type (in millions)	**Level 1**	**Level 2**	**Level 3**	**Total**
Foreign Investments	**$ 3,703**	**$ -**	**$ -**	**$ 3,703**
COVID-19 Investments (Note 10)	**-**	**-**	**2,913**	**2,913**
Other Investments	**55**	**-**	**3**	**58**
Total Fair Value Measurements	**$ 3,758**	**$ -**	**$ 2,916**	**$ 6,674**

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

The following table provides a roll forward of our investment balances as of September 30, 2023 and 2022:

(in millions)	2023	2022
Beginning Balance	**$ 6,799**	$ 6,164
Acquisition of Investments[(1)]	**6,677**	21,343
Sale/Repayment of Investments[(2)]	**(6,598)**	(12,208)
(Loss)/Gain on Sales/Dispositions	**(143)**	(943)
Valuation Adjustments[(3)]	**(10)**	(7,436)
Change in Accrued Dividend/Interest Income and Other	**(51)**	(121)
Ending Balance	**$ 6,674**	$ 6,799

(1) Acquisition of investments decreased primarily due to the Emergency Capital Investment Program and foreign investments activity of $8.0 billion and $6.7 billion, respectively

(2) The significant changes in sale/repayment of investments are primarily related to foreign investments activity.

(3) The change in valuation adjustments primarily include $5.6 billion and $1.5 billion of fair value adjustments in the Emergency Capital Investment Program (refer to Note 10) and foreign investments activity, respectively.

14. PROPERTY, PLANT, AND EQUIPMENT, NET

As of September 30, 2023 and 2022, Property, Plant, and Equipment, Net consisted of the following:

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

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

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

The following table provides a reconciliation of total PP&E and accumulated depreciation for the fiscal years ended September 30, 2023 and 2022:

	2023			2022		
(in millions)	PP&E	Accumulated Depreciation	Net PP&E	PP&E	Accumulated Depreciation	Net PP&E
Balance Beginning of Year	$ 9,158	$ (6,086)	$ 3,072	$ 8,854	$ (5,858)	$ 2,996
Capitalized Acquisitions	670	(1)	669	597	-	597
Dispositions	(309)	277	(32)	(293)	286	(7)
Depreciation Expense	-	(446)	(446)	-	(514)	(514)
Other	(7)	-	(7)	-	-	-
Balance at End of Year	$ 9,512	$ (6,256)	$ 3,256	$ 9,158	$ (6,086)	$ 3,072

HERITAGE ASSETS

We have 15 heritage assets, of which five are considered multi-use, for FY 2023 and 2022. The Treasury Complex (Main Treasury Building and Annex), declared a national historical landmark in 1972, is treated as a multi-use heritage asset, along with the collection of artifacts within, and is expected to be preserved indefinitely. The buildings that house the Mint in Denver, San Francisco, Fort Knox, and West Point are also multi-use heritage assets and included on the National Register of Historic Places. Additionally, the Mint maintains heritage assets consisting of four coin collections and six collections of historical artifacts. They include various coins produced over the years, furniture and equipment used in Mint's facilities, and examples of the coin manufacturing process. These items are collection-type assets that are maintained for exhibition and are preserved indefinitely because of their historical, cultural, educational, or artistic importance.

15. Non-Entity vs. Entity Assets

Non-entity assets are those that we hold and manage on behalf of the General Fund but are not available for our use. The table below shows our total assets, segregated between non-entity and entity, as of September 30, 2023 and 2022:

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

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

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

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

16. Federal Debt and Interest Payable and Related Liabilities

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

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

Federal Debt and Interest Payable as of September 30, 2023 and 2022 is as follows:

Held by Other Federal Agencies (Intra-Governmental) (in millions)	2023	2022
Beginning Balance	$ **6,593,327**	$ 6,104,279
New Borrowings - Net of Repayments	**209,705**	489,048
Subtotal at Par Value	**6,803,032**	6,593,327
Premium	**39,179**	88,757
Debt Principal Not Covered by Budgetary Resources (Note 19)	**6,842,211**	6,682,084
Interest Payable Covered by Budgetary Resources	**36,787**	35,277
Total	$ **6,878,998**	$ 6,717,361

Held by the Public (in millions)	2023	2022
Beginning Balance	$ **24,299,193**	$ 22,282,900
New Borrowings - Net of Repayments	**2,030,949**	2,016,293
Subtotal at Par Value	**26,330,142**	24,299,193
(Discount)	**(118,729)**	(71,681)
Debt Principal Not Covered by Budgetary Resources (Note 19)	**26,211,413**	24,227,512
Interest Payable Covered by Budgetary Resources	**116,722**	81,183
Total	$ **26,328,135**	$ 24,308,695

Federal Debt Held by Other Federal Agencies

Certain federal agencies are allowed to invest excess funds in debt securities we issue on behalf of the U.S. government. The terms and the conditions of debt securities we issue allow the U.S. government to meet its cash needs. The vast majority of debt securities are non-marketable securities issued at par value, but others are issued at market prices and interest rates that reflect market terms. The average intra-governmental interest rate for debt held by the federal entities, excluding Treasury Inflation-Protected Securities (TIPS) and Floating Rate Notes (FRNs), for FY 2023 and 2022 was 2.7 percent and 2.3 percent, respectively. The average intra-governmental interest rate on TIPS for FY 2023 and 2022 was 1.1 percent and 1.0 percent, respectively. The average interest rate on FRNs for FY 2023 and 2022 was 5.4 percent and 3.0 percent, respectively. The average interest rate represents the original issue weighted effective yield on securities outstanding at the end of the fiscal year.

The federal debt also includes intra-governmental marketable debt securities that certain agencies are permitted to buy and sell on the open market. The debt federal agencies held at par value (not including premium/discount or interest payable) as of September 30, 2023 and 2022 is as follows:

(in millions)		2023		2022
Social Security Administration	$	**2,816,655**	$	2,838,279
Office of Personnel Management		**1,141,290**		1,120,736
Department of Defense Agencies		**1,734,130**		1,528,954
Department of Health and Human Services		**358,353**		349,663
All Other Federal Entities — Consolidated		**752,604**		755,695
Total Federal Debt Held by Other Federal Agencies	$	**6,803,032**	$	6,593,327

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

FEDERAL DEBT HELD BY THE PUBLIC

Federal Debt Held by the Public at par value (not including premium/discount or interest payable) as of September 30, 2023 and 2022 consisted of the following:

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

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

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

We also issue TIPS that have interest and redemption payments tied to the Consumer Price Index (CPI) for all Urban Consumers, a widely used measurement of inflation. We adjust the principal for TIPS daily over the life of the security based on the CPI for all Urban Consumers. At maturity, TIPS are redeemed at the inflation-adjusted principal amount, or the original par value, whichever is greater. TIPS pay a semi-annual fixed rate of interest applied to the inflation-adjusted principal. The average interest rate on TIPS represents the stated interest rate on the inflation-adjusted principal, adjusted by any discount or premium on securities outstanding as of the end of the fiscal year. The inflation-adjusted TIPS principal balance of federal debt held by the public included inflation of $362.3 billion and $336.1 billion as of September 30, 2023 and 2022, respectively.

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

Federal Debt Held by the Public includes federal debt held outside of the U.S. government by individuals, corporations, FRBs, state and local governments, foreign governments, and central banks. As of September 30, 2023, the FRB's SOMA had total holdings of $2.8 trillion which: *(i)* excluded $2.1 trillion in Treasury securities used in overnight reverse repurchase transactions, and *(ii)* excludes $26.8 billion lent to dealers and not collateralized by other Treasury securities. As of September 30, 2022, the FRB's SOMA had total holdings of $2.7 trillion which: *(i)* excluded $2.9 trillion in Treasury securities used in overnight reverse repurchase transactions, and *(ii)* includes a net of $3.7 billion held by the FRB as collateral for securities lending activities. For the years ended September 30, 2023 and 2022, we incurred interest expense of $105.1 billion and $114.7 billion, respectively, related to Treasury securities held by the FRBs.

We issue non-marketable securities at either par value or at an amount that reflects a discount or a premium. The average interest rate on the non-marketable securities represents the original issue weighted effective yield on securities outstanding as of September 30, 2023 and 2022. Non-marketable securities are issued with a term of on demand out to 40 years. In FY 2020, we expanded our non-marketable securities to include a new special non-marketable Treasury security, known as a Special Purpose Vehicle (SPV) security. We issued these securities to SPVs, which were established by the Federal Reserve to implement its emergency lending facilities under Section 13(3) of the *Federal Reserve Act* to respond to the COVID-19 pandemic (refer to Note 10). An SPV security is a demand deposit certificate of indebtedness for which interest accrues daily and is paid at redemption. The total amount of SPV securities redeemed in FY 2023 and 2022 was $4.0 billion and $7.0 billion, respectively; including $477 million and $122 million in capitalized interest, respectively. There were no issuances of SPV securities in FY 2023 and 2022. As of September 30, 2023 and 2022, the total amount of SPV securities outstanding was $11.9 billion and $15.4 billion, respectively.

STATUTORY DEBT LIMIT

The statutory debt limit is the total amount of money that the U.S. government is authorized to borrow to meet its existing legal obligations, with certain adjustments. Outstanding debt obligations subject to the debt limit were $33.1 trillion and $30.9 trillion as of September 30, 2023 and 2022, respectively. Congress has provided us with statutory authority to take certain extraordinary measures in the event that the public debt nears the debt limit and a delay in raising the debt limit occurs. These measures authorize us to deviate from our normal debt management operations – which include the investment (or non-investment) of trust fund balances in Treasury securities – to avoid exceeding the debt limit. We undertake these measures to meet the U.S. government's obligations as they come due without exceeding the debt limit.

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

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

A delay in raising the debt limit occurred during the period August 2, 2021 through December 15, 2021, at which time Treasury departed from its normal debt management operations and undertook extraordinary actions to avoid exceeding the debt limit. On October 14, 2021, Congress enacted the *Bipartisan Budget Act of 2019* (P.L. 117-50), raising the debt limit by $480 billion, from $28.401 trillion to $28.881 trillion. As this raise in the debt limit provided only a temporary reprieve, we continued the use of extraordinary measures to meet U.S. government obligations without exceeding the debt limit. On December 16, 2021, Congress enacted P.L. 117-73, raising the debt limit by $2.5 trillion, from $28.881 trillion to $31.381 trillion allowing Treasury to discontinue the use of extraordinary measures and resume normal debt management operations. On December 16, 2021, we restored uninvested principal totaling $326.7 billion, of which $262.0 billion was restored to the G Fund and $64.7 billion was restored to the OPM administered Civil Service Fund. We also restored foregone interest totaling $1.1 billion, of which $812.3 million was restored to the G Fund on the next interest payment date of December 17, 2021, and $322.4 million was restored to the OPM funds on the next semi-annual interest payment date of December 31, 2021.

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

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

17. OTHER FEDERAL DEBT AND INTEREST PAYABLE

Through FFB, we have outstanding borrowings and related accrued interest owed to the Civil Service Fund. At September 30, 2023 and 2022, FFB had outstanding borrowings of $5.5 billion and $4.9 billion, inclusive of $35 million and $31 million of accrued interest payable, respectively. The outstanding borrowings at September 30, 2023, had stated interest rates that ranged from 2.25 percent to 3.00 percent per annum, and an effective interest rate of 2.51 percent. The outstanding borrowings at September 30, 2022, had stated interest rates that ranged from 2.25 percent to 2.88 percent per annum, and an effective interest rate of 2.53 percent. Maturity dates ranged from June 30, 2024, to June 30, 2035, for outstanding borrowings at September 30, 2023, and from June 30, 2023, to June 30, 2029, for outstanding borrowings at September 30, 2022.

As an extraordinary measure undertaken during the January through June 2023 period of delay in raising the statutory debt limit (refer to Note 16), on May 25, 2023, through FFB, we exchanged $1.9 billion of non-Treasury debt securities that did not count against the debt limit, for an equivalent amount of Treasury debt securities held by the Civil Service Fund that did count against the debt limit. FFB used the Treasury debt securities it received from the Civil Service Fund to repay $1.9 billion of outstanding principal borrowings, including interest, owed to the Fiscal Service. The Fiscal Service then extinguished the Treasury debt securities it received from FFB, which thereby helped Treasury remain below the debt limit.

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

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

A reconciliation of the combined actuarial pension liability for the D.C. Federal Pension Fund and the Judicial Retirement Fund as of September 30, 2023 and 2022 is as follows:

(in millions)	2023	2022
Beginning Liability Balance	**$ 8,461**	$ 8,010
Pension Expense:		
Normal Cost	**7**	7
Interest on Pension Liability During the Year	**77**	67
Actuarial (Gains) Losses During the Year:		
From Experience	**359**	384
From Discount Rate Assumption Change	**27**	194
From Other Economic Assumption Changes	**420**	326
From Non-Economic Assumption Changes	**-**	28
Total Pension Expense	**890**	1,006
Less Amounts Paid	**(571)**	(555)
Ending Liability Balance	**$ 8,780**	$ 8,461

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

Additional Information ($ in millions):		D.C. Federal Pension Fund	Judicial Retirement Fund	2022 Total
Amount Received from the General Fund	$	540$	19$	559
Annual Rate of Investment Return Assumption		0.87% - 3.21%	0.87% - 3.21%	
Future Annual Rate of Inflation and Cost-Of-Living Adjustment:				
Police Officers		2.15%	N/A	
Firefighters		2.15%	N/A	
Teachers		2.14%	N/A	
Judicial		N/A	1.88%	
Future Annual Rate of Salary Increases:				
Police Officers		2.15%	N/A	
Firefighters		2.20%	N/A	
Teachers		2.30%	N/A	
Judicial		N/A	1.26%	

19. Liabilities

Liabilities Not Covered by Budgetary Resources

As of September 30, 2023 and 2022, liabilities not covered by budgetary resources consisted of the following:

(in millions)	2023	2022
Intra-Governmental Liabilities Not Covered by Budgetary Resources		
Federal Debt Principal, Premium/Discount (Note 16)	$ **6,842,211**	$ 6,682,084
Other Intra-Governmental Liabilities	**73**	75
Total Intra-Governmental Liabilities Not Covered by Budgetary Resources	**6,842,284**	6,682,159
Federal Debt Principal, Premium/Discount (Note 16)	**26,211,413**	24,227,512
Other Payables	**5**	5
Other Liabilities	**1,083**	1,078
Total Liabilities Not Covered by Budgetary Resources	**33,054,785**	30,910,754
Total Liabilities Covered by or Not Requiring Budgetary Resources	**3,437,144**	3,080,358
Total Liabilities	$ **36,491,929**	$ 33,991,112

Other Liabilities

The "*Other*" line item within "*Other Liabilities*" displayed on the Consolidated Balance Sheets consists of liabilities that are covered by, not covered by, and not requiring budgetary resources. The "*Other*" line item within "*Other Liabilities*" at September 30, 2023 and 2022, consisted of the following:

	2023			2022		
(in millions)	Current	Non-Current	Total	Current	Non-Current	Total
Intra-Governmental						
Accounts Payable	$ **820**	$ **-**	$ **820**	$ 855	$ -	$ 855
Advances From Others and Deferred Revenue	**627**	**-**	**627**	27	-	27
Other Accrued Liabilities	**1,366**	**59**	**1,425**	611	58	669
Total Intra-Governmental	$ **2,813**	$ **59**	$ **2,872**	$ 1,493	$ 58	$ 1,551
Other Than Intra-Governmental						
Federal Employee Benefits Payable	$ **32**	$ **579**	$ **611**	$ 29	$ 592	$ 621
Unfunded Leave	**666**	**-**	**666**	648	1	649
Advances From Others and Deferred Revenue	**1,889**	**-**	**1,889**	1,164	-	1,164
Accrued Funded Payroll and Leave	**765**	**-**	**765**	664	-	664
Other Liabilities Without Related Budgetary Obligations	**370**	**28**	**398**	316	28	344
Other Liabilities With Related Budgetary Obligations	**870**	**206**	**1,076**	604	-	604
Liability for Non-Fiduciary Deposit Funds and Clearing Accounts	**5,534**	**-**	**5,534**	5,729	-	5,729
Other Accrued Liabilities	**-**	**2**	**2**	-	1	1
Total Other Than Intra-Governmental	$ **10,126**	$ **815**	$ **10,941**	$ 9,154	$ 622	$ 9,776

20. NET POSITION

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

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

APPROPRIATIONS RECEIVED

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

TRANSFERS TO THE GENERAL FUND AND OTHER

The amount reported as "*Transfers to the General Fund and Other*" on the Consolidated Statements of Changes in Net Position includes the following for the years ended September 30, 2023 and 2022:

(in millions)		2023		2022
Categories of Transfers to the General Fund and Other				
Interest Revenue	**$**	**(50,959)**	$	(49,204)
Increase in Liquidation Preference of GSEs Preferred Stock and Valuation Changes (Note 11)		**(16,690)**		(2,860)
COVID-19 Non-Entity (Revenue)/Cost (Note 10)		**(1,263)**		1,945
Downward Re-estimates of Credit Reform Subsidies		**(112)**		(1,349)
U.S. Quota in the IMF - Valuation Upward/(Downward) Adjustment		**942**		(3,177)
Other		**(962)**		(1,123)
Total	**$**	**(69,044)**	$	(55,768)

Included in "*Transfers to the General Fund and Other*" is accrued interest revenue on inter-agency loans held on behalf of the U.S. government. We report a corresponding amount on the Consolidated Statements of Net Cost under "*Non-Entity Costs: Less Interest Revenue from Loans*." Eliminations between our bureaus reduce the amount reported on the Consolidated Statements of Net Cost. Also included is the increase in liquidation preference in the GSE Senior Preferred Stock investments and annual valuation adjustment. Our *"COVID-19 Non-Entity (Revenue) Cost"* relates to notes receivable and common stock warrants received pursuant to the CARES Act, CAA, and ARP. The credit reform downward re-estimate subsidies transferred to the General Fund is driven by a change in forecasted future cash flows. Additionally, there are unrealized gains and losses recognized on the U.S. Quota in the IMF due to SDR exchange rate fluctuation.

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

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

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

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

Intra-Departmental Costs/Revenues

We report intra-departmental costs/revenues from providing goods and/or services on a reimbursable basis among our sub-organizations as costs by providing sub-organizations and as revenues by receiving sub-organizations. We recognized intra-departmental imputed costs, such as un-reimbursed payments made from the Treasury Judgment Fund on our behalf, on the Consolidated Statements of Net Cost of $1.2 billion and $1.4 billion during FY 2023 and 2022, respectively. Accordingly, we eliminated such costs or revenues in the consolidation process.

Intra-governmental Costs

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

In certain cases, other federal agencies incur costs that are directly identifiable to our operations. In accordance with SFFAS No. 4, as amended, we recognize identified costs paid on our behalf by other agencies. The imputed intra-governmental financing sources we currently recognize include the actual cost of future benefits for the federal pension plans, and the Federal Employees Health Benefits Program that other federal entities pay on our behalf. We reflect the funding for these costs as costs on the Consolidated Statements of Net Cost, and as imputed financing sources on the Consolidated Statements of Changes in Net Position. Costs other agencies pay on our behalf were $1.1 billion and $0.8 billion for the fiscal years ended September 30, 2023 and 2022, respectively.

CONSOLIDATED STATEMENTS OF NET COST PRESENTATION

Basis of Presentation

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

Non-Entity Costs and Revenues

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

Non-entity other federal costs shown on the Consolidated Statements of Net Cost for the fiscal years ended September 30, 2023 and 2022 consisted of the following:

(in millions)	2023	2022
Credit Reform Interest on Uninvested Funds (Intra-Governmental)	**$ 11,860**	$ 12,699
Judgment Claims and Contract Disputes	**1,814**	2,170
Resolution Funding Corporation	**920**	920
Legal Services Corporation	**580**	529
Corporation for Public Broadcasting	**535**	485
All Other Payments	**147**	377
Total	**$ 15,856**	$ 17,180

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

For Fiscal Year Ended September 30, 2023

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

(a) *The total $60.4 billion of the Economic Program net costs DO reported consisted of $61.8 billion of net costs from ORP: $49.4 billion for Coronavirus State and Local Fiscal Recovery Funds, $8.7 billion for Emergency Rental Assistance, $1.8 billion for Local Assistance and Tribal Consistency Fund, $1.3 billion for State Small Business Credit Initiative, and $0.6 billion for other COVID-19 relief programs (refer to Note 10); and $1.7 billion in net costs from IAP; partially offset by $3.7 billion of net income from ESF. The remaining net costs consisted of net costs from other DO programs or offices.*

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

For Fiscal Year Ended September 30, 2023

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

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

For Fiscal Year Ended September 30, 2022

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

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

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

For Fiscal Year Ended September 30, 2022

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

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

Net Adjustments to Unobligated Balance, Brought Forward, October 1

Net adjustments to unobligated balance, brought forward, October 1 as of September 30, 2023 and 2022 consisted of the following:

(in millions)	2023	2022
Unobligated Balance, Brought Forward From Prior Year	**$ 405,219**	$ 489,160
Adjustments to Budgetary Resources Made During Current Year		
Downward Adjustments of Prior Year Undelivered Orders	**2,785**	1,329
Downward Adjustments of Prior Year Delivered Orders	**4,676**	19,123
Other Adjustments	**3,104**	(20,074)
Unobligated Balance From Prior Year Budget Authority, Net (Discretionary and Mandatory)	**$ 415,784**	$ 489,538

The decrease in *Unobligated Balance, Brought Forward From Prior Year Budget Authority, Net* is primarily the result of $157.6 billion of FY 2022 obligation activity related to the execution of CARES Act, CAA, and ARP funded programs (refer to Note 10). These unobligated balances were partially offset by a $78.2 billion increase in resources carried forward from the *Inflation Reduction Act*.

Undelivered Orders

Undelivered orders represent goods and services ordered and obligated which have not been received. This includes any orders for which we have paid in advance, but for which delivery or performance has not yet occurred. The decrease in *Undelivered Orders - Paid* as of September 30, 2023, primarily reflects the use of COVID-19 financial assistance by recipients for covered eligible costs incurred in response to the pandemic (refer to Note 10). The decrease in *Undelivered Orders - Unpaid* as of September 30, 2023, primarily reflects the amounts associated with those COVID-19 financial assistance programs that have been fully disbursed as of September 30, 2023 (refer to Note 10). Undelivered orders as of September 30, 2023 and 2022 consisted of the following:

	2023			2022		
(in millions)	Federal	Non-Federal	Total	Federal	Non-Federal	Total
Paid	**$ 666**	**$ 189,195**	**$ 189,861**	$ 38	$ 225,181	$ 225,219
Unpaid	**1,099**	**23,523**	**24,622**	830	26,416	27,246
Undelivered Orders at the End of the Year	**$ 1,765**	**$ 212,718**	**$ 214,483**	$ 868	$ 251,597	$ 252,465

Contributed Capital

Contributed capital represents the current year authority and prior year balances of amounts actually transferred through non-expenditure transfers to miscellaneous receipt accounts of the General Fund to repay a portion of a capital investment or transfer seigniorage and numismatic profits. Contributed capital for the fiscal years ended September 30, 2023 and 2022 was $0 million and $114 million, respectively.

TERMS OF BORROWING AUTHORITY USED

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

AVAILABLE BORROWING

The available borrowing authority and related changes in available borrowing authority as of and for the fiscal years ended September 30, 2023 and 2022 are shown below:

(in millions)	2023	2022
Beginning Balance	**$ 7,180**	$ 6,117
Current Authority[1]	**1,000**	5,513
Borrowing Authority Withdrawn	**-**	(59)
Borrowing Authority Converted to Cash	**(502)**	(4,391)
Ending Balance	**$ 7,678**	7,180

(1) The significant decrease in borrowing authority is primarily related to lower downward reestimates for COVID related loans (refer to Note 10).

RECONCILIATION OF THE PRESIDENT'S BUDGET

The Budget of the United States (also known as the President's Budget), with actual numbers for FY 2023, was not published at the time that these financial statements were issued. We expect OMB to publish the FY 2025 President's Budget in February 2024, and will be available from the U.S. Government Publishing Office. The following chart displays the differences between the Combined Statement of Budgetary Resources (SBR) in the FY 2022 AFR and the actual FY 2022 balances included in the FY 2024 President's Budget.

Reconciliation of FY 2022 Combined Statement of Budgetary Resources to the FY 2024 President's Budget

(in millions)	Budgetary Resources	New Obligations and Upward Adjustments	Outlays (net of offsetting collections)	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources (SBR) Amounts	$ 1,341,796	$ 936,577	$ 893,311	$ (65,142)	$ 828,169
IRS non-entity tax credit payments and other outlays not in SBR [1]	344,825	344,825	338,267	-	338,267
Tax and Trade Bureau (TTB) non-entity collections for Puerto Rico not in SBR	414	414	414	-	414
Expired funds in SBR	(836)	-	-	-	-
Non-Treasury offsetting receipts	-	-	-	(35)	(35)
Non-Budgetary Financing Disbursements, net[2]	-	-	(4,722)	-	(4,722)
Prior Year Adjustment on FRF not in President's Budget	4	4	-	-	-
Prior Year Adjustments on ORP not in President's Budget	(129,076)	(129,076)	-	-	-
Other	-	(1)	(3)	(5)	(8)
President's Budget Amounts	**$ 1,557,127**	**$ 1,152,743**	**$ 1,227,267**	**$ (65,182)**	**$ 1,162,085**

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

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

Legal Arrangements Affecting Use of Unobligated Balances

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

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

23. Sources and Disposition of Custodial Revenue

We collect the majority of federal revenue from income and excise taxes. The table below shows collection activity, by revenue type and tax year, for the fiscal years ended September 30, 2023 and 2022:

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

(1) The significant decrease in the FRB deposit of excess earnings is primarily due to increased interest rates and impacts on the FRB's interest income and expense, which has affected the FRB's surplus (refer to Note 1AB).

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

AMOUNTS PROVIDED TO FUND THE U.S. GOVERNMENT

For the fiscal years ended September 30, 2023 and 2022, collections of custodial revenue transferred to other federal entities were as follows:

(in millions)	2023	2022
General Fund	**$ 4,059,898**	$ 4,390,703
Other Federal Agencies	**1,264**	1,384
Total	**$ 4,061,162**	$ 4,392,087

FEDERAL TAX REFUNDS AND OTHER PAYMENTS

Federal tax refunds and other payments include amounts paid to taxpayers who have paid more than the actual taxes they owe, as well as payments for various refundable tax credits. The CARES Act, CAA, and ARP included provisions to help stimulate the economy through economic impact payments (including recovery rebate credits) (refer to Note 10). In FY 2023 and 2022, the IRS disbursed $2.0 billion and $13.1 billion, respectively, of payments to eligible taxpayers based upon the criteria in each Act. Refunds and other payments, by revenue type and tax year, were as follows for the years ended September 30, 2023 and 2022:

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

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

24. FUNDS FROM DEDICATED COLLECTIONS

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

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

Bureau	Fund Code	Fund Title/Description
Exchange Stabilization Fund (ESF)		
ESF	020X4444	Exchange Stabilization Fund
Public Enterprise/Revolving/Trust Revolving Funds		
BEP	020X4502	Bureau of Engraving and Printing Fund
Mint	020X4159	United States Mint Public Enterprise Fund
OCC	020X8413	Assessment Funds
IRS	020X4413	Federal Tax Lien Revolving Fund
FinCEN	020X4394	Financial Integrity Fund
Other FDC Funds		
Fiscal Service	020X5080	Gifts to Reduce Public Debt
Fiscal Service	020X5081	Presidential Election Campaign
Fiscal Service	020X8625	Gulf Coast Restoration Trust Fund
Fiscal Service	020X8902	Esther Cattell Schmitt Gift Fund
Fiscal Service	5805585001	Travel Promotion Fund, Corp for Travel Promotion
Fiscal Service	580X5585	Travel Promotion Fund, Corp for Travel Promotion
Fiscal Service	020X5581	HOPE Reserve Fund
Fiscal Service	0205445002	Debt Collection Special Fund
Fiscal Service	0205445003	Debt Collection Special Fund
Fiscal Service	020X5445	Debt Collection Special Fund
Fiscal Service	0207/85445	Debt Collection Special Fund
Fiscal Service	0208/95445	Debt Collection Special Fund
Fiscal Service	0209/05445	Debt Collection Special Fund
Fiscal Service	0200/15445	Debt Collection Special Fund
Fiscal Service	020X5680	Guam World War II Claims Fund
Fiscal Service	0205680001	Taxes, Duties and Fees, Guam World War II Claims Fund
DO	020X8790	Gifts and Bequests Trust Fund
IRS	020X5510	Private Collection Agent Program
IRS	020X5433	Informant Reimbursement
IRS	020X5622	Special Compliance Personnel Program Account
OFR	020X5590	Financial Research Fund
TEOAF	020X5697	Treasury Forfeiture Fund
CDFI	020X8524	Capital Magnet Fund

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

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

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

INTRA-GOVERNMENTAL INVESTMENTS IN TREASURY SECURITIES

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

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

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

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

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

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

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

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

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

(in millions)	Exchange Stabilization Fund	Public Enterprise/ Revolving/ Trust Revolving Funds	Other FDC Funds	Combined FDC Funds	Eliminations between FDC Funds	2022 Consolidated FDC Funds
ASSETS						
Intra-Governmental:						
Fund Balance	$ -	$ 1,587	$ 1,821	$ 3,408	$ -	$ 3,408
Investments, Net	18,401	2,225	4,143	24,769	-	24,769
Other Assets	-	4	-	4	-	4
Total Intra-Governmental	18,401	3,816	5,964	28,181	-	28,181
Other Than Intra-Governmental						
Cash, Foreign Currency, and Other Monetary Assets	166,412	-	12	166,424	-	166,424
Taxes, Interest, and Other Receivables, Net	-	113	126	239	-	239
Advances and Prepayments	-	2	-	2	-	2
Other Investments, Net	3,796	20	-	3,816	-	3,816
Property, Plant, and Equipment, Net	-	993	20	1,013	-	1,013
Other Assets	-	1,026	842	1,868	-	1,868
Total Other Than Intra-Governmental	170,208	2,154	1,000	173,362	-	173,362
Total Assets	$ 188,609	$ 5,970	$ 6,964	$ 201,543	$ -	$ 201,543
LIABILITIES						
Due To the General Fund	$ -	$ -	$ 728	$ 728	$ -	$ 728
Other	-	33	848	881	-	881
Total Intra-Governmental	-	33	1,576	1,609	-	1,609
Other Than Intra-Governmental						
Other Payables	404	137	76	617	-	617
Special Drawing Right Certificates Issued to the Federal Reserve	5,200	-	-	5,200	-	5,200
Allocation of Special Drawing Rights	147,009	-	-	147,009	-	147,009
Other	-	674	975	1,649	-	1,649
Total Other Than Intra-Governmental	152,613	811	1,051	154,475	-	154,475
Total Liabilities	152,613	844	2,627	156,084	-	156,084
Net Position						
Unexpended Appropriations	200	-	-	200	-	200
Cumulative Results of Operations	35,796	5,126	4,337	45,259	-	45,259
Total Liabilities and Net Position	$ 188,609	$ 5,970	$ 6,964	$ 201,543	$ -	$ 201,543

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

(in millions)	Exchange Stabilization Fund	Public Enterprise/ Revolving/ Trust Revolving Funds	Other FDC Funds	Combined FDC Funds	Eliminations between FDC Funds	2022 Consolidated FDC Funds
Statement of Net Cost						
Gross Cost	$ 24,750	$ 6,865	$ 1,346	$ 32,961	$ -	$ 32,961
Less: Earned Revenue	(20,126)	(7,223)	(384)	(27,733)	-	(27,733)
Gains/Losses on Pension, ORB, or OPEB Assumption Changes	-	(29)	-	(29)	-	(29)
Total Net Cost of (Revenue From) Operations	$ 4,624	$ (387)	$ 962	$ 5,199	$ -	$ 5,199
Statement of Changes in Net Position						
Cumulative Results of Operations:						
Beginning Balance	$ 40,420	$ 4,888	$ 3,870	$ 49,178	$ -	$ 49,178
Individual Income Tax	-	-	21	21	-	21
Intra-Governmental Non-Exchange Revenue	-	-	432	432	-	432
Donations and Forfeitures of Cash/Equivalent	-	-	721	721	-	721
Transfers In/Out Without Reimbursement	(95)	(114)	(482)	(691)	-	(691)
Donation/Forfeiture of Property	-	-	172	172	-	172
Imputed Financing Sources	-	64	7	71	-	71
Transfers to the General Fund and Other	95	(99)	558	554	-	554
Net Revenue (Cost) of Operations	(4,624)	387	(962)	(5,199)	-	(5,199)
Net Change in Cumulative Results of Operations	(4,624)	238	467	(3,919)	-	(3,919)
Ending Balance	$ 35,796	$ 5,126	$ 4,337	$ 45,259	$ -	$ 45,259

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

The Reconciliation of Net Cost of Treasury Operations and Non-Entity Costs (referred to as "Net Cost" for purposes of this note) to Agency Outlays, Net (referred to as "Net Outlays" for purposes of this note) depicts the difference between proprietary information and budgetary accounting information. Proprietary financial accounting information is intended to depict the U.S. government's financial operations and financial position presented on an accrual basis in accordance with GAAP. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. In contrast, we use budgetary accounting information for planning and control purposes, and it includes net outlays that reflect both the receipt and use of cash, as well as reporting of the federal deficit. "*Agency Outlays, Net*" also includes $116.7 billion and $81.2 billion of interest accrued on outstanding public debt as of September 30, 2023 and 2022, respectively; as well as $189.9 billion and $28.7 billion of net amortization of discounts on outstanding public debt as of September 30, 2023 and 2022, respectively. These amounts represent non-cash outlays that have not yet been disbursed. The reconciliation of Net Cost (presented on an accrual basis) and Net Outlays (presented on a budgetary basis) reflects the relationship between proprietary accounting and budgetary information. The reconciliation serves not only to identify costs paid in the past and those that will be paid in the future, but also to assure integrity between financial and budgetary accounting. The following is a description of principal transactions that result in differences between our proprietary net costs and budgetary net outlays:

- Non-Entity Activity – Represents activity related to assets that we hold and manage on behalf of the General Fund but are not available for our use. We removed this activity from Net Cost through inclusion of change in asset activity, however, it has no impact on either Net Cost or Net Outlays and must be included as an Other Reconciling Item.
- Accrued Liabilities on Federal Debt – Represents, among other things, accrued interest and discount on federal debt that has been recorded by Fiscal Service and only impacts the Statement of Changes in Net Position. We removed this activity from Net Cost through inclusion of change in liability activity, however, it has no impact on either Net Cost or Net Outlays and must be included as an Other Reconciling Item.
- Intradepartmental Eliminations – Represents intra-agency activity that is included in our Net Outlays, which is presented on a combined basis. As we report Net Cost on a consolidated basis, we exclude this intra-agency activity. To reconcile between combined and consolidated amounts, we must remove intra-agency transactions and only present activity with other federal agencies and with the public.

For the fiscal years ended September 30, 2023 and 2022, the Reconciliation of Net Cost of Treasury Operations and Non-Entity Costs to Agency Outlays, Net consisted of the following:

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

(in millions)	Intra-Governmental	Other Than Intra-Governmental	2022 Total
Total Net Cost of Treasury Operations and Non-Entity Costs	$ 194,394	$ 683,733	$ 878,127
Components of Net Operating Cost Not Part of Budgetary Outlays:			
Liquidation Preference of GSEs Preferred Stock and Valuation Changes (Notes 11 and 20)	-	2,860	2,860
Property, Plant, and Equipment Depreciation Expense and Dispositions (Note 14)	-	(521)	(521)
Unrealized Valuation (Loss) on Special Drawing Rights (Note 5)	-	(473)	(473)
Unrealized Valuation (Loss) and Sales/Dispositions (Loss) on Investments (Note 13)	-	(8,379)	(8,379)
Year-End Credit Reform Subsidy Accrual Re-Estimates	-	(804)	(804)
Adjustments to Prior Year Credit Reform Re-Estimates accrual	-	1,163	1,163
Increase/(Decrease) in Assets:			
Loans and Interest Receivable (Notes 3, 7, and 10)	(182,515)	(2,549)	(185,064)
Advances to Trust Funds (Note 3)	(44,080)	-	(44,080)
Due From the General Fund (Note 4)	2,254,486	-	2,254,486
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	-	420,257	420,257
Advances and Prepayments (Note 10)	-	(30,892)	(30,892)
Other Assets	42	382	424
(Increase)/Decrease in Liabilities:			
Federal Debt and Interest Payable (Notes 4 and 16)	(492,153)	(1,983,477)	(2,475,630)
Liability for Restoration of Federal Debt Principal and Interest (Notes 4 and 16)	60,562	157,035	217,597
Due To the General Fund - Excludes Custodial Liability Activity (Note 4)	(185,470)	-	(185,470)
Other Liabilities	1,339	(3,240)	(1,901)
Other Financing Sources:			
Imputed Costs	(780)	-	(780)
Total Components of Net Operating Cost Not Part of Budgetary Outlays	1,411,431	(1,448,638)	(37,207)
Components of Budgetary Outlays That Are Not Part of Net Cost:			
Acquisition of Property, Plant and Equipment (Note 14)	-	597	597
Acquisition of Other Investments, Net (Note 13)	-	21,343	21,343
Sale/Repayment of Other Investments, Net (Note 13)	-	(12,208)	(12,208)
Other Financing Sources:			
Transfers (In)/Out Without Reimbursement	147	-	147
Total Components of Budgetary Outlays That Are Not Part of Net Cost	147	9,732	9,879
Other Reconciling Items:			
Distributed Offsetting Receipts	-	(65,142)	(65,142)
Non-Entity Activity	53,405	-	53,405
Accrued Liabilities on Federal Debt	(4,882)	-	(4,882)
Other	781	(1,476)	(695)
Intradepartmental Eliminations	(5,316)	-	(5,316)
Total Other Reconciling Items	43,988	(66,618)	(22,630)
Agency Outlays, Net	$ 1,649,960	$ (821,791)	$ 828,169

26. Schedule of Fiduciary Activity

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

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

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

Schedule of Fiduciary Activity

	2023			2022		
(in millions)	Payment of Unclaimed Monies Fund	All Other Fiduciary Funds	Total Fiduciary Funds	Payment of Unclaimed Monies Fund	All Other Fiduciary Funds	Total Fiduciary Funds
Fiduciary Net Assets, Beginning of the Year	**$ 974**	**$ 144**	**$ 1,118**	$ 890	$ 154	$ 1,044
Increases:						
Contributions to Fiduciary Net Assets	**55**	**1,429**	**1,484**	84	1,096	1,180
Total Increases	**55**	**1,429**	**1,484**	84	1,096	1,180
Decreases:						
Disbursements to and on behalf of beneficiaries	**-**	**(1,435)**	**(1,435)**	-	(1,106)	(1,106)
Total Decreases	**-**	**(1,435)**	**(1,435)**	-	(1,106)	(1,106)
Net Increase (Decrease) in Fiduciary Assets	**55**	**(6)**	**49**	84	(10)	74
Fiduciary Net Assets, End of Year	**$ 1,029**	**$ 138**	**$ 1,167**	$ 974	$ 144	$ 1,118

Schedule of Fiduciary Net Assets

	2023			2022		
(in millions)	Payment of Unclaimed Monies Fund	All Other Fiduciary Funds	Total Fiduciary Funds	Payment of Unclaimed Monies Fund	All Other Fiduciary Funds	Total Fiduciary Funds
Fiduciary Net Assets						
Fund Balance with Treasury	$ 1,029	$ 137	$ 1,166	$ 974	$ 143	$ 1,117
Investments in Treasury Securities	-	1	1	-	1	1
Total Fiduciary Assets	1,029	138	1,167	974	144	1,118
Total Fiduciary Net Assets	$ 1,029	$ 138	$ 1,167	$ 974	$ 144	$ 1,118

27. COMMITMENTS AND CONTINGENCIES

LEGAL CONTINGENCIES

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

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

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

Pending Legal Actions

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

- *GSE Related Cases:* A number of cases were filed in the U.S. Court of Federal Claims and U.S. District Courts in which the plaintiffs allege, among other things, that the U.S. government took their property, breached contractual rights of preferred and common stockholders, and breached fiduciary duties when the third amendments to the SPSPAs between us and each GSE were executed in August 2012 (refer to Note 11). In the U.S. Court of Federal Claims, the plaintiffs seek just compensation and other damages from the U.S. government. With respect to certain cases pending before the U.S. Court of Federal Claims, the U.S. government's motion to dismiss was granted with respect to certain claims and denied with respect to certain other claims. The U.S. Court of Appeals for the Federal Circuit dismissed all of the claims. Certain plaintiffs filed petitions for a writ of certiorari with the Supreme Court, which were denied. While most of the cases brought before the U.S. Court of Federal Claims have been dismissed, some are still pending. In the U.S. District Courts, the plaintiffs seek to set aside the third amendments to the SPSPAs as well as damages, and in some cases an injunction that (i) results in changes to Treasury's liquidation preference, or (ii) converts Treasury's senior preferred stock to common stock. Following the Supreme Court's decision in June 2021, the Court left open the possibility that the plaintiffs may be entitled to retrospective relief if the unconstitutional provision inflicted "compensable harm". The Fifth and Eighth Circuit Courts of Appeals remanded cases to the U.S. District Court for the Southern District of Texas and the U.S. District Court for the District of Minnesota, where plaintiffs filed amended complaints alleging that the unconstitutional provision inflicted "compensable harm." In the Southern District of Texas litigation, plaintiffs also added claims that FHFA's funding structure violates the Appropriations Clause of the U.S. Constitution. The U.S. District Court for the Southern District of Texas dismissed the amended complaint, and the Fifth Circuit Court of Appeals affirmed the dismissal. The U.S. District Court for the District of Minnesota also dismissed the amended complaint, and that case is now again pending at the Eighth Circuit Court of Appeals. The Sixth Circuit Court of Appeals remanded a case to the U.S. District Court for the Western District of Michigan to determine if the unconstitutional provision inflicted "compensable harm," while rejecting claims that an FHFA director had been serving in violation of the Appointments Clause of the U.S. Constitution. The plaintiffs filed a petition for a writ of certiorari with the Supreme Court regarding the Appointments Clause claim, which was denied. On remand, plaintiffs are seeking to amend their complaint to add claims that FHFA's funding structure violates the Appropriations Clause of the U.S. Constitution. A case in the Eastern District of Pennsylvania remains in litigation, and a motion to dismiss is pending. We are unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss in these cases at this time.

- *Adam Steele, Brittany Montrois, and Joseph Henchman v. United States:* The plaintiffs filed a class claim in the U.S. District Court for the District of Columbia seeking refunds of all user fees paid, plus interest, to obtain a preparer tax identification number (PTIN). Additionally, the plaintiffs seek to force IRS to cease charging a user fee to obtain a PTIN and asking for more information than is necessary to issue a PTIN. On June 1, 2017, the U.S. District Court for the District of Columbia found for the plaintiffs in the previously mentioned matters, and the U.S. government appealed. In March 2019, the U.S. Court of Appeals for the District of Columbia Circuit reversed the lower court's opinion and determined that IRS is entitled to charge a PTIN user fee. The case was remanded back to the lower court to determine whether the amount of the fees previously charged was appropriate. As of September 30, 2023 and 2022, the Department has determined the likelihood of an unfavorable outcome as reasonably possible and estimated a potential loss within a range of $0 to $246 million and $0 to $230 million, respectively.

- *American Recovery and Reinvestment Tax Act of 2009 (ARRA) Cases:* A number of cases were filed in the U.S. Court of Federal Claims alleging that the U.S. government violated statutory and regulatory mandates to make proper payments to plaintiffs under ARRA, Section 1603, for having placed certain energy properties into service. On October 28, 2016, the U.S. Court of Federal Claims entered judgment against the U. S. in the amount of $207 million in one of the cases. The U.S. government appealed the judgment, and on July 27, 2018, the Federal Circuit reversed the trial court's decision, vacated judgment, and remanded the case to the U.S. Court of Federal Claims for reassignment to a new judge. The case remains in litigation. As of September 30, 2023 and 2022, we have determined there is a reasonably possible likelihood of an unfavorable outcome in some of the cases totaling approximately $265 million, respectively.

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

- *Anonymous Whistleblower v. United States*: A number of whistleblower cases were filed in the U.S. Tax Court under seal, appealing the denial of an award by the IRS Whistleblower Office. The anonymous claimants allegedly provided confidential information about tax fraud committed by a taxpayer to the IRS. The U.S. Tax Court is currently holding these cases in abeyance until it can coordinate their resolution under the Multiple Whistleblower Rule. As of September 30, 2023, the Department has determined there is probable likelihood of an unfavorable outcome in these cases is a combined award of $71 million.

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

OTHER COMMITMENTS AND CONTINGENCIES

Loan Commitments

Through the FFB, we make loan commitments with federal agencies, or private sector borrowers with loans guaranteed by federal agencies, to extend them credit for their own use (refer to Notes 1Q and 3). As of September 30, 2023 and 2022, we had remaining loan commitments totaling $132.6 billion and $34.7 billion, respectively. During FY 2023, the FFB recognized additional loan commitments with the Federal Deposit Insurance Corporation and the Farm Credit System Insurance Corporation that permit FFB to issue loans up to a specified amount of $100 billion and $10 billion, respectively.

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

Multilateral Development Banks

On behalf of the U.S., we have subscribed to shares of certain MDBs, of which some shares represent capital commitments that are callable under certain limited circumstances to meet the obligations of the respective MDB. There has never been, nor is there anticipated, a call on the U.S. commitment for these subscriptions. As of September 30, 2023 and 2022, U.S. callable capital in MDBs was as follows:

(in millions)	2023	2022
Inter-American Development Bank	**$ 49,181**	$ 49,181
International Bank for Reconstruction and Development	**49,206**	47,785
Asian Development Bank	**18,701**	18,701
African Development Bank	**8,177**	7,321
European Bank for Reconstruction and Development	**3,055**	3,055
North American Development Bank	**1,530**	1,530
Multilateral Investment Guarantee Agency[(1)]	**315**	315
Total	**$ 130,165**	$ 127,888

(1) Both FY 2023 and 2022 include commitments of $22 million for the undisbursed portion of the subscription to paid-in capital investments.

Terrorism Risk Insurance Program

Congress originally enacted the *Terrorism Risk Insurance Act* in November 2002, to address market disruptions resulting from terrorist attacks on September 11, 2001. Most recently, the *Terrorism Risk Insurance Program Reauthorization Act of 2019* (P.L. 116-94) extended the Terrorism Risk Insurance Program (TRIP) until December 31, 2027. The TRIP helps to ensure available and affordable commercial property and casualty insurance for terrorism risk, and simultaneously allows private markets to stabilize. The authority to pay claims under the TRIP is activated when the Secretary (in consultation with the Secretary of the Department of Homeland Security and the Attorney General of the United States) certifies an “act of terrorism.” In the event of certification of an “act of terrorism,” insurers may be eligible to receive reimbursement from the U.S. government for associated insured losses – assuming an aggregate insured loss threshold (“program trigger”) has been reached – once a particular insurer has satisfied its designated deductible amount. For calendar years 2023 and 2022, the program trigger amount was $200 million. Insurance companies and the U.S. government will share insured losses above insurer deductibles. The TRIP includes both mandatory and discretionary authority for Treasury to recoup federal payments made under the TRIP through policyholder surcharges under certain circumstances, and contains provisions designed to manage litigation arising from or relating to a certified act of terrorism. There were no claims under the TRIP as of September 30, 2023 or 2022.

Exchange Stabilization Agreement

The North American Framework Agreement (NAFA), which we signed in 1994 and renew annually, is implemented by Treasury through the Exchange Stabilization Agreement (ESA) with Mexico. Treasury, through the ESF, offers Mexico a swap line with drawings contingent on certain conditions being met. Effective November 30, 2018, an amended and restated ESA increased the potential size of the swap line from $3.0 billion to $9.0 billion. The amounts and terms (including the assured source of repayment) of any swap arrangement under the NAFA and/or the ESA will have to be negotiated and agreed to before any actual drawing can occur. There were no drawings outstanding on the ESF swap line as of September 30, 2023 and 2022.

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

To prepare the *Financial Report of the U.S. Government* (Financial Report), federal agencies submit to Fiscal Service a trial balance containing financial statement account ending balances and activity. Fiscal Service uses this trial balance information to reclassify agencies' account balances and activity in a manner that conforms to the format of the financial statement presentation in the Financial Report. Our reclassified financial statements—including the Reclassified Statement of Net Cost and Reclassified Statement of Operations and Changes in Net Position—are accessed using the Government-wide Treasury Account Symbol Adjusted Trial Balance System. Fiscal Service eliminates all intragovernmental balances and activity between federal agencies in generating the Financial Report consolidated financial statements. This note depicts how our AFR Consolidated Statement of Net Cost and Consolidated Statement of Changes in Net Position are adjusted to derive the Financial Report reclassified financial statements prior to the elimination of intragovernmental balances and prior to the aggregation of repeated Financial Report line items. A copy of the FY 2022 Financial Report can be found on the Fiscal Service website and a copy of the FY 2023 Financial Report will be posted to the site as soon as it is released.

Consolidated Statement of Net Cost
For the Fiscal Year Ended September 30, 2023

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	Other than Dedicated Collections (with Eliminations)	Eliminations between Dedicated and Other than Dedicated	Total (in millions)	Reclassified Financial Statement Line
COST OF TREASURY OPERATIONS:							
Total Program Gross Costs	$ 118,317	$ 34,106	$ -	$ 78,227	$ -	$ 112,333	Non-Federal Gross Costs
							Intra-governmental Costs
		286	-	2,260	-	2,546	Benefit Program Costs
		99	-	1,006	-	1,105	Imputed Costs
		402	-	1,385	210	1,577	Buy/Sell Cost
		91	-	-	-	91	Purchase of Assets
		-	-	131	-	131	Federal Securities Interest Expense
		3	-	-	3	-	Borrowing and Other Interest Expenses
		-	-	9	-	9	Borrowing Losses
		19	-	597	-	616	Other Expenses (without Reciprocals)
		(91)	-	-	-	(91)	Purchase of Assets Offset
		809	-	5,388	213	5,984	*Total Intra-governmental Costs*
Total Program Gross Costs	**118,317**	**34,915**	**-**	**83,615**	**213**	**118,317**	**Total**
Total Program Earned Revenues	(40,225)	(35,900)	-	(962)	-	(36,862)	Non-Federal Earned Revenue
							Intra-governmental Revenue
		(55)	-	(671)	(206)	(520)	Buy/Sell Revenue
		(811)	-	-	(811)	-	Federal Securities Interest Revenue Including Associated Gains and Losses
		-	-	(2,746)	(2)	(2,744)	Borrowing and Other Interest Revenue
		-	-	(1)	-	(1)	Borrowing Gains
		(98)	-	-	-	(98)	Collections Transferred in to a TAS Other Than the General Fund of the U.S. Government - Exchange
		(964)	-	(3,418)	(1,019)	(3,363)	*Total Intra-governmental Earned Revenue*
Total Program Earned Revenues	**(40,225)**	**(36,864)**	**-**	**(4,380)**	**(1,019)**	**(40,225)**	**Total**
Loss on Pension, ORB, or OPEB Assumption Changes	443	(4)	-	447	-	443	Non-Federal Gross Costs
Total Net Cost of Treasury Operations	**78,535**	**(1,953)**	**-**	**79,682**	**(806)**	**78,535**	**Total**

Consolidated Statement of Net Cost
For the Fiscal Year Ended September 30, 2023

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	Other than Dedicated Collections (with Eliminations)	Eliminations between Dedicated and Other than Dedicated	Total (in millions)	Reclassified Financial Statement Line
NON-ENTITY COSTS:							
Federal Debt Interest	$ 871,019	$ -	$ -	$ 674,988	$ -	$ 674,988	Interest on Debt Held by the Public (Non-Federal)
		-	-	197,122	1,091	196,031	Federal Securities Interest Expense (Federal)
Total Federal Debt Interest	871,019	-	-	872,110	1,091	871,019	*Total*
Restoration of Foregone Federal Debt Interest	3,292	-	-	3,009	-	3,009	Interest on Debt Held by the Public (Non-Federal)
		-	-	283	-	283	Federal Securities Interest Expense (Federal)
Total Restoration of Foregone Federal Debt Interest	3,292	-	-	3,292	-	3,292	*Total*
Less Interest Revenue from Loans	(47,745)	-	-	7	-	7	Borrowing losses (Federal)
							Intra-governmental Revenue
		-	-	(47,750)	-	(47,750)	Borrowing and Other Interest Revenue (Federal)
		-	-	(2)	-	(2)	Borrowing Gains
		-	-	(47,752)	-	(47,752)	*Total Intra-governmental Earned Revenue*
Total Less Interest Revenue from Loans	(47,745)	-	-	(47,745)	-	(47,745)	*Total*
Other Federal Costs, Net	15,856	96	-	4,299	-	4,395	Non-Federal Gross Costs
							Intra-governmental Costs
		-	-	55	-	55	Buy/Sell Cost
		-	-	11,860	-	11,860	Borrowing and Other Interest Expenses
		-	-	11,915	-	11,915	*Total Intra-governmental Costs*
		(198)	-	(256)	-	(454)	Buy/Sell Revenue (Federal)
Total Other Federal Costs, Net	15,856	(102)	-	15,958	-	15,856	*Total*

Consolidated Statement of Net Cost
For the Fiscal Year Ended September 30, 2023

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	Other than Dedicated Collections (with Eliminations)	Eliminations between Dedicated and Other than Dedicated	Total (in millions)	Reclassified Financial Statement Line
GSEs Non-Entity Revenue, Net	(16,690)	-	-	(16,690)	-	(16,690)	Non-Federal Earned Revenue
COVID-19 Non-Entity (Revenue) Cost, Net	(1,263)	-	-	(1,050)	-	(1,050)	Non-Federal Gross Costs
		-	-	(213)	-	(213)	Non-Federal Earned Revenue
Total COVID-19 Non-Entity Cost (Revenue), Net	(1,263)	-	-	(1,263)	-	(1,263)	*Total*
Other, Net	(920)	45	-	1	-	46	Non-Federal Gross Costs
		-	-	(2)	-	(2)	Non-Federal Earned Revenue
		-	-	(964)	-	(964)	Buy/Sell Revenue (Federal)
Total Other, Net	(920)	45	-	(965)	-	(920)	*Total*
Total Net Non-Entity Costs	823,549	(57)	-	824,697	1,091	823,549	**Total**
		77	-	239,689	-	239,766	Non-Federal Gross Costs (1)
Total Net Cost of Treasury Operations and Non-Entity Costs	**$ 902,084**	**$ (1,933)**	**$ -**	**$ 1,144,068**	**$ 285**	**$ 1,141,850**	**Total Net Cost (1)**

(1) Includes income tax credits of $239.8 billion, which are reported on the Treasury Statement of Custodial Activity within the "Less Refunds and Other Payments" line item. These costs are reported as part of net cost on the reclassified financial statements for the purpose of presenting these costs in the manner presented in the Financial Report.

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

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	Other than Dedicated Collections (with Eliminations)	Eliminations between Dedicated and Other than Dedicated	Total (in millions)	Reclassified Financial Statement Line
STATEMENT OF CHANGES IN NET POSITION							
UNEXPENDED APPROPRIATIONS							
Beginning Balance	$ 785,961	$ 200	$ -	$ 785,761	$ -	$ 785,961	Net Position, Beginning of Period
Appropriations Received	845,087	-	-	845,087	-	845,087	Appropriations Received as adjusted
Appropriations Transferred In/Out	(21)	-	-	(21)	-	(21)	Non-Expenditure Transfers-In of Unexpended Appropriations and Financing Sources
Other Adjustments	(5,301)	-	-	(5,301)	-	(5,301)	Appropriations Received as adjusted
Appropriations Used	(907,340)	-	-	(907,340)	-	(907,340)	Appropriations Used
Net Change in Unexpended Appropriations	(67,575)	-	-	(67,575)	-	(67,575)	Total
Total Unexpended Appropriations	**718,386**	**200**	**-**	**718,186**	**-**	**718,386**	**Total**
CUMULATIVE RESULTS OF OPERATIONS							
Beginning Balance	69,821	45,259	-	24,562	-	69,821	Net Position, Beginning of Period
Appropriations Used	907,340	-	-	907,340	-	907,340	Appropriations Expended
Non-Exchange Revenue	550	436	-	-	-	436	Collections Transferred Into a TAS Other Than the General Fund of the U.S. Government
		103	103	-	-	-	Accruals for entity amounts to be collected in a TAS other than the General Fund of the US Government - Nonexchange
		23	-	-	-	23	Individual Income Tax and Tax Withholdings
		90	-	1	-	91	Other Taxes and Receipts
		285	-	-	285	-	Federal Securities Interest Revenue Including Associated Gains and Losses (Non-Exchange)
Total Non-Exchange Revenue	550	937	103	1	285	550	*Total*

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

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	Other than Dedicated Collections (with Eliminations)	Eliminations between Dedicated and Other than Dedicated	Total (in millions)	Reclassified Financial Statement Line
Donations and Forfeitures of Cash/Equivalent	28	28	-	-	-	28	Other Taxes and Receipts
Transfers In/Out Without Reimbursement	(1,122)	106	106	-	-	-	Appropriation of Unavailable Special or Trust Fund Receipts Transfers-In
		(106)	(106)	-	-	-	Appropriation of Unavailable Special or Trust Fund Receipts Transfers-Out
		-	-	1	1	-	Non-expenditure Transfers-In of Unexpended Appropriations and Financing Sources
		(1)	-	-	(1)	-	Non-expenditure Transfers-Out of Unexpended Appropriations and Financing Sources
		6	-	999	1,000	5	Expenditure Transfers-In of Financing Sources
		(1,232)	-	(2)	(1,000)	(234)	Expenditure Transfers-Out of Financing Sources
		-	-	150	150	-	Non-expenditure Transfers-In of Financing Sources - Capital Transfers
		(150)	-	-	(150)	-	Non-expenditure Transfers-Out of Financing Sources - Capital Transfers
		3,566	3,565	1	2	-	Transfers-In Without Reimbursement
		(3,565)	(3,565)	(895)	(2)	(893)	Transfers-Out Without Reimbursement
Total Transfers In/Out Without Reimbursement	(1,122)	(1,376)	-	254	-	(1,122)	*Total*
Donation/Forfeiture of Property	714	714	-	-	-	714	Other Taxes and Receipts
Accrued Interest and Discount on Debt	70,342	-	-	70,342	-	70,342	Other Non-Budgetary Financing Sources for Debt Accruals/Amortization

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

AFR Financial Statement Line		Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	Other than Dedicated Collections (with Eliminations)	Eliminations between Dedicated and Other than Dedicated	Total (in millions)	Reclassified Financial Statement Line
Imputed Financing Sources		1,104	99	-	1,005	-	1,104	Imputed Financing Sources
Transfers to the General Fund and Other		(69,044)	-	-	(674)	-	(674)	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Government
			-	-	(70,830)	-	(70,830)	Non-Entity Collections Transferred to the General Fund
			996	-	20	-	1,016	Other Financing Sources with Budgetary Impact
			502	-	942	-	1,444	Other Taxes and Receipts
Total Transfers to the General Fund and Other		(69,044)	1,498	-	(70,542)	-	(69,044)	*Total*
Net Cost of Treasury Operations and Non-Entity Costs		(902,084)	1,933	-	(1,144,068)	(285)	(1,141,850)	Net Cost of Operations [2]
Net Change in Cumulative Results of Operations		7,828	3,833	103	(235,668)	-	(231,938)	Total
Total Cumulative Results of Operations	**$**	**77,649 $**	**49,092 $**	**103 $**	**(211,106)$**	**- $**	**(162,117)**	**Total**
STATEMENT OF CUSTODIAL ACTIVITY								
Sources of Custodial Revenue								
Individual Income and FICA Taxes	$	4,111,955 $	77 $	- $	4,111,878 $	- $	4,111,955	Individual Income Tax and Tax Withholdings
Corporate Income Taxes		456,941	-	-	456,941	-	456,941	Corporation Income Taxes
Estate and Gift Taxes		35,434	-	-	35,434	-	35,434	Estate and Gift Taxes
Excise Taxes		92,344	-	-	92,344	-	92,344	Excise Taxes
Railroad Retirement Taxes		7,218	-	-	7,218	-	7,218	Other Taxes and Receipts
Unemployment Taxes		7,947	-	-	7,947	-	7,947	Unemployment Taxes
Deposit of Earnings, Federal Reserve System		581	-	-	581	-	581	Other Taxes and Receipts
Fines, Penalties, Interest and Other Revenue		8,680	-	-	8,680	-	8,680	Other Taxes and Receipts

(2) Includes income tax credits of $239.8 billion, which are reported on the Treasury Statement of Custodial Activity within the "Less Refunds and Other Payments" line item. These tax credits are reported as part of net cost on the reclassified financial statements for the purpose of presenting these costs in the manner presented in the Financial Report.

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

AFR Financial Statement Line	Amounts (in millions)	Dedicated Collections Combined	Dedicated Collections Eliminations	Other than Dedicated Collections (with Eliminations)	Eliminations between Dedicated and Other than Dedicated	Total (in millions)	Reclassified Financial Statement Line
Less Refunds and Other Payments	(659,569)	-	-	(380,195)	-	(380,195)	Individual Income Tax and Tax Withholdings
		-	-	(35,013)	-	(35,013)	Corporation Income Taxes
		-	-	(158)	-	(158)	Unemployment Taxes
		-	-	(2,658)	-	(2,658)	Excise Taxes
		-	-	(1,766)	-	(1,766)	Estate and Gift Taxes
		-	-	(13)	-	(13)	Other Taxes and Receipts
Total Less Refunds and Other Payments	(659,569)	-	-	(419,803)	-	(419,803)	*Total*
Non-Cash Accrual Adjustment	(53,696)	-	-	(53,988)	-	(53,988)	Other Taxes and Receipts
		-	-	(7)	-	(7)	Excise Taxes
		-	-	299	-	299	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Gov't
Total Non-Cash Accrual Adjustment	(53,696)	-	-	(53,696)	-	(53,696)	*Total*
Disposition of Custodial Revenue							
Amounts Provided to Fund Non-Federal Entities	(369)	-	-	(369)	-	(369)	Other Taxes and Receipts
Amounts Provided to Fund the Federal Government	(4,061,162)	-	-	(4,059,898)	-	(4,059,898)	Non-Entity Collections Transferred to the General Fund
		-	-	(1,264)		(1,264)	Collections Transferred to a TAS Other Than the General Fund of the U.S. Government
Total Amounts Provided to Fund the Federal Government	(4,061,162)	-	-	(4,061,162)	-	(4,061,162)	*Total*
Non-Cash Accrual Adjustment	53,696	-	-	53,701	-	53,701	Accrual for Non-Entity Amounts to be Collected and Transferred to the General Fund of the U.S. Gov't
		-	-	(5)	-	(5)	Accrual of Collections Yet to be Transferred to a TAS Other Than the General Fund of the U.S. Gov't
Total Non-Cash Accrual Adjustment	53,696	-	-	53,696	-	53,696	*Total*
Total Statement of Changes in Net Position and Statement of Custodial Activity	**$ 796,035**	**$ 49,369**	**$ 103**	**$ 746,769**	**$ -**	**$ 796,035**	**Total Reclassified Statement of Operations and Changes in Net Position**

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

INTRODUCTION

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

OTHER CLAIMS FOR REFUNDS

We estimated that $2.4 billion and $3.4 billion as of September 30, 2023 and 2022, respectively, may be payable as other claims for tax refunds. This estimate represents amounts (principal and interest) that we may pay for claims pending judicial review by the federal courts or internally, by Appeals. In FY 2023, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts and appeals courts is $1.1 billion and $1.3 billion, respectively. In FY 2022, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts and appeals courts was $2.1 billion and $1.3 billion, respectively. To the extent judgments against the government in these cases prompt other similarly situated taxpayers to file similar refund claims, these amounts could become significantly greater.

IRS FEDERAL TAXES RECEIVABLE, NET

In accordance with SFFAS No. 7, some unpaid tax assessments do not meet the criteria for financial statement recognition. Internal Revenue Code (IRC) 6201 authorizes and requires us to make inquiries, determinations, and assessments of all taxes that taxpayers have not duly paid (including interest, additions to the tax, and assessable penalties) under the law. Unpaid assessments result from taxpayers filing returns without sufficient payment, as well as from tax compliance programs such as examination, under-reporter, substitute for return, and combined annual wage reporting. We also have authority to abate the paid or unpaid portion of an assessed tax, interest, and penalty. Abatements occur for a number of reasons and are a normal part of the tax administration process. Abatements may result in claims for refunds or a reduction of the unpaid assessed amount.

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

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

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

The components of the total unpaid assessments at September 30, 2023 and 2022, were as follows:

(in millions)		2023	2022
Total Unpaid Assessments	$	**574,000** $	602,000
Less Compliance Assessments		**(94,000)**	(88,000)
Write-Offs		**(76,000)**	(77,000)
Gross Federal Taxes Receivable		**404,000**	437,000
Less Allowance for Doubtful Accounts		**(222,000)**	(201,000)
Federal Taxes Receivable, Net	$	**182,000** $	236,000

In FY 2023, total unpaid assessments include $116 billion of non-delinquent taxes receivable in IRC 965(h) tax, which is collectible based on the type of taxpayer and the financial health of large dollar businesses. The non-delinquent IRC 965 (h) component refers to taxpayers who elected to pay their IRC 965(h) tax on an eight-year installment schedule.

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU

As an agent of the U.S. government and as authorized by 26 USC, the TTB collects excise taxes from alcohol, tobacco, firearms, and ammunition industries. In addition, the TTB collects special occupational taxes from certain alcohol and tobacco businesses. During FY 2023 and 2022, TTB collected approximately $18.1 billion and $19.6 billion in taxes, interest, and other revenues, respectively. TTB also collects federal excise taxes on certain articles produced in Puerto Rico and the U.S. Virgin Islands, and imported into the U.S. In accordance with 26 USC 7652, such taxes collected on rum imported into the U.S. are "covered over" or paid into the treasuries of Puerto Rico and the U.S. Virgin Islands.

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

DEFERRED MAINTENANCE AND REPAIRS

In FY 2023 and 2022, we had no material amounts of deferred maintenance and repair costs to report on vehicles, buildings, heritage assets, and structures we owned.

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

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

LAND

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

The estimated land acreage for operational use as of September 30, 2023 and 2022, was as follows:

(in acreage)	2023	2022
Beginning Balance	**279**	175
Increase in land for operational use	-	104
Total Land	**279**	279

STATEMENT OF BUDGETARY RESOURCES DISAGGREGATED BY TREASURY REPORTING ENTITY

The following tables provide the Statement of Budgetary Resources for the fiscal years ended September 30, 2023 and 2022 disaggregated by Treasury reporting entity rather than by Treasury major budget account, since we manage our budget at the reporting entity level.

Fiscal Year 2023 Combining Statement of Budgetary Resources Disaggregated by Sub-organization Accounts

(in millions):		Bureau of Engraving & Printing	Bureau of the Fiscal Service	Departmental Offices (a)	Fin. Crimes Enforcement Network	Internal Revenue Service
BUDGETARY RESOURCES						
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$	839 $	1,818 $	329,345 $	93 $	80,933
Appropriations (discretionary and mandatory)		-	901,800	5,279	190	11,422
Borrowing authority (discretionary and mandatory)		-	-	1,000	-	-
Spending authority from offsetting collections (discretionary and mandatory)		975	334	6,058	24	150
Total Budgetary Resources	$	1,814 $	903,952 $	341,682 $	307 $	92,505
STATUS OF BUDGETARY RESOURCES						
New obligations and upward adjustments	$	923 $	902,115 $	28,606 $	210 $	16,526
Unobligated balance, end of year:						
Apportioned, unexpired accounts		800	1,722	262,288	92	75,071
Exempt from apportionment, unexpired accounts		-	2	107	-	7
Unapportioned, unexpired accounts		91	93	50,062	-	612
Unexpired unobligated balance, end of year		891	1,817	312,457	92	75,690
Expired unobligated balance, end of year		-	20	619	5	289
Unobligated balance, end of year		891	1,837	313,076	97	75,979
Total Status of Budgetary Resources	$	1,814 $	903,952 $	341,682 $	307 $	92,505
OUTLAYS, NET, AND DISBURSEMENTS, NET						
Outlays, net (discretionary and mandatory)	$	61 $	901,405 $	13,814 $	166 $	15,204
Distributed offsetting receipts		-	(50,710)	(9,010)	-	(53)
Agency Outlays, Net (Discretionary and Mandatory)	$	61 $	850,695 $	4,804 $	166 $	15,151
Disbursements, net (mandatory)	$	- $	- $	(4,228)$	- $	-

(a) *Of the $342 billion of Total Budgetary Resources for DO, ORP, GSE, ESF and IAP had $9 billion, $254 billion, $46 billion and $15 billion, respectively. The remainder is spread throughout other offices.*

Fiscal Year 2023 Combining Statement of Budgetary Resources Disaggregated by Sub-organization Accounts

(in millions):	U. S. Mint	Office of the Comptroller of the Currency	Alcohol and Tobacco Tax and Trade Bureau	Budgetary	Non-Budgetary
BUDGETARY RESOURCES					
Unobligated balance from prior year budget authority, net (discretionary and mandatory)	$ 896	$ 1,852	$ 8	$ 415,578	$ 206
Appropriations (discretionary and mandatory)	-	-	149	918,840	-
Borrowing authority (discretionary and mandatory)	-	-	-	-	1,000
Spending authority from offsetting collections (discretionary and mandatory)	4,674	1,169	9	13,143	250
Total Budgetary Resources	$ 5,570	$ 3,021	$ 166	$ 1,347,561	$ 1,456
STATUS OF BUDGETARY RESOURCES					
New obligations and upward adjustments	$ 4,749	$ 1,208	$ 159	$ 953,089	$ 1,407
Unobligated balance, end of year:					
Apportioned, unexpired accounts	821	-	5	340,770	29
Exempt from apportionment, unexpired accounts	-	1,813	-	1,929	-
Unapportioned, unexpired accounts	-	-	-	50,838	20
Unexpired unobligated balance, end of year	821	1,813	5	393,537	49
Expired unobligated balance, end of year	-	-	2	935	-
Unobligated balance, end of year	821	1,813	7	394,472	49
Total Status of Budgetary Resources	$ 5,570	$ 3,021	$ 166	$ 1,347,561	$ 1,456
OUTLAYS, NET, AND DISBURSEMENTS, NET					
Outlays, net (discretionary and mandatory)	$ 70	$ (26)	$ 138	$ 930,832	$ -
Distributed offsetting receipts	-	-	-	(59,773)	-
Agency Outlays, Net (Discretionary and Mandatory)	$ 70	$ (26)	$ 138	$ 871,059	$ -
Disbursements, net (mandatory)	$ -	$ -	$ -		$ (4,228)

Fiscal Year 2022 Combining Statement of Budgetary Resources Disaggregated by Sub-organization Accounts

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

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

Fiscal Year 2022 Combining Statement of Budgetary Resources Disaggregated by Sub-organization Accounts

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

PART 3:

OTHER INFORMATION (UNAUDITED)


THE TREASURY DEPARTMENT

SECTION A: SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

The following tables summarize the results of our financial statement audit, as well as management's assurances regarding conformance with the *Federal Managers' Financial Integrity Act of 1982* (FMFIA) and compliance with the *Federal Financial Management Improvement Act of 1996* (FFMIA).

SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion: Unmodified
Restatement: No

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

SUMMARY OF MANAGEMENT ASSURANCES

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA SECTION 2)

Statement of Assurance: Unmodified

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA SECTION 2)

Statement of Assurance: Unmodified

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0

CONFORMANCE WITH FMFIA SECTION 4

Statement of Assurance: Federal systems conform, except for instances of nonconformance with financial management system requirements

Nonconformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Fiscal Service's Cash Management Information Systems [1]	1	0	1	0	0	0
IRS's Unpaid Tax Assessments [1]	1	0	0	0	0	1
IRS's Information System Controls [1]	1	0	0	0	0	1
Total nonconformances	3	0	1	0	0	2

[1] Refer to Independent Auditors' Report in Part 2 of this report.

COMPLIANCE WITH FFMIA SECTION 803(a)

	Agency	Auditor
1. Federal Financial Management System Requirements	Lack of compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	No lack of compliance noted	No lack of compliance noted
3. U.S. Standard General Ledger (USSGL) at Transaction Level	No lack of compliance noted	No lack of compliance noted

FMFIA AND FFMIA REQUIREMENTS

The FMFIA requires agencies to establish and maintain internal controls to ensure that federal programs operate efficiently, effectively, and in compliance with laws and regulations. The Secretary must evaluate and report annually on (a) whether there is reasonable assurance that the Agency's controls are achieving their intended objectives, and (b) material weaknesses in the Agency's controls (FMFIA Section 2). Additionally, the Secretary must evaluate and report separately on whether the Agency's financial management systems comply with government-wide requirements (FMFIA Section 4). The FFMIA requires agencies to implement and maintain financial management systems that substantially comply with federal financial management systems requirements, applicable federal accounting standards, and the USSGL at the transaction level. The requirements of the FMFIA serve as an umbrella under which other reviews, evaluations, and audits should be coordinated and considered to support management's assertion about the effectiveness of internal control over operations, reporting, and compliance with laws and regulations.

As of September 30, 2023, we had no material weaknesses under Section 2 or Section 4 of the FMFIA. However, as of the end of FY 2023, we had two instances of nonconformance with the federal financial management systems requirements of Section 4 of the FMFIA, compared to three instances of nonconformance in FY 2022, and four instances of nonconformance at the end of FY 2021. In FY 2023, we were successful in remediating one component of the Fiscal Service's significant deficiency related to its cash management systems and, in FY 2022, we successfully remediated the other component of this significant deficiency related to the Fiscal Service's debt management systems, thereby resolving one instance of nonconformance in each of FY 2023 and FY 2022.

The two remaining instances of nonconformance is a result of the IRS's significant deficiency which relates to deficiencies in unpaid tax assessments and information system controls. These two remaining instances of nonconformance constitute a lack of compliance with federal financial management system requirements, as reported above under FFMIA Section 803(a). Refer to the section in Part 1 entitled *Systems, Controls and Legal Compliance* and the section in Part 2 entitled *Independent Auditors' Report* for additional information on the nonconformance issues.

SECTION B: TAX GAP AND TAX BURDEN

TAX GAP

The gross tax gap is the amount of true tax liability for a given tax year not paid voluntarily and/or timely. Tax gap estimates provide insight on the level of overall non-compliance during the relevant tax periods and under the Internal Revenue Code (IRC) provisions in effect at the time. They also provide the Internal Revenue Service (IRS) with periodic appraisals about the nature and extent of noncompliance for use in formulating tax administration strategies.

The IRS develops tax gap estimates on a periodic basis. A particular challenge for tax gap estimation is the time it takes to collect certain compliance data, especially data on underreporting that come from completed audits. This results in a timing difference between when the compliance behavior occurred and the development of tax gap estimates. The most recent tax gap estimates cover Tax Years (TY) 2014 - 2016 and were published in October 2022. The IRS produces annual tax gap projections to provide more current tax gap information. In October 2023, the IRS issued tax gap projections for TY 2020 and 2021.

Measuring and reporting on taxpayer compliance related to various tax provisions is inherently complex and challenging. As a result, the IRS develops estimates of the tax gap in order to measure overall compliance with the current tax system. The IRS also undertakes analyses of compliance behavior with respect to specific tax provisions, such as refundable and non-refundable tax credits. The IRS enforcement strategies and legislative proposals are influenced by its National Research Program (NRP), which involves conducting detailed audits of a statistically representative sample of taxpayers to estimate compliance with individual income tax provisions and provides data on misreporting on voluntarily filed returns. To provide greater reliability and precision of the compliance estimates, the IRS groups multiple years of data together. This results in a timing difference between the time period from which the IRS generates the reported data and issues the report. Misreporting can be in favor of the taxpayer or the government, although estimates indicate that the majority of misreporting is associated with tax underreporting. Underreporting can manifest as either understatements of the liability due at the time the taxpayer files the return, the taxpayer claiming and receiving an excessive refund, or a combination of both.

Tax Gap Projections

The projected gross tax gap for TY 2021 is $688 billion. The net tax gap is the gross tax gap less tax that the IRS projects will be subsequently paid, either voluntarily but late, or collected as a result of IRS administrative and enforcement activities. In effect, the net tax gap is the portion of the gross tax gap that will not be paid. We project that $63 billion of the gross tax gap will eventually be paid, resulting in a net tax gap of $625 billion.

The tax gap projections separate noncompliance into components by the type of tax and source of noncompliance. The three primary sources of noncompliance that result in payment of less than the tax owed are:

(i) the non-filing tax gap ($77 billion): the tax not paid on time by those who do not file required returns on time;
(ii) the underreporting tax gap ($542 billion): the net understatement of tax on timely filed returns; and
(iii) the underpayment tax gap ($68 billion): which is the amount of tax reported on timely filed returns that is not paid on time.[1]

[1] *Detail may not add to the total due to rounding.*

We also group the gross tax gap projections by type of tax: individual income tax ($520 billion), corporate income tax ($45 billion), employment tax ($118 billion), and estate tax ($4 billion).[2]

TAX GAP MAP: TAX GAP PROJECTIONS FOR TAX YEAR 2021 (EXCERPT) ($ IN BILLIONS)

Total True Tax Liability	Tax Paid Voluntarily & Timely	Gross Tax Gap: Nonfiling	Gross Tax Gap: Underreporting	Gross Tax Gap: Underpayment	Gross Tax Gap	Enforced & Other Late Payments	Net Tax Gap (Tax Not Collected)
$4,565	$3,877	$77	+ $542	+ $68	= $688	− $63	= $625
By Type of Tax							
Individual Income Tax $2,721	Individual Income Tax $2,201	Individual Income Tax $67	Individual Income Tax + $396	Individual Income Tax + $57	Individual Income Tax = $520	Individual Income Tax − $45	Individual Income Tax = $475
			Business Income $182; Non-Business Income $110; Credits $51; Income Offsets [1] $26; Filing Status $8; Other Taxes [2] $5; Unallocated Marginal Effects [3] $15				
Corporation Income Tax $304	Corporation Income Tax $259	Corporation Income Tax #	Corporation Income Tax + $40	Corporation Income Tax + $5	Corporation Income Tax = $45	Corporation Income Tax − $8	Corporation Income Tax = $37
			Large Corpo-rations $19; Small Corpo-rations $21				
Employment Tax $1,455	Employment Tax $1,337	Employment Tax [4] $9	Employment Tax + $105	Employment Tax + $4	Employment Tax = $118	Employment Tax − $6	Employment Tax = $112
			Self-Employ-ment Tax $68; FICA & Unollected FICA TAX $36; FUTA $1				
Estate Tax $21	Estate Tax $17	Estate Tax $2	Estate Tax + $1	Estate Tax + $2	Estate Tax = $4	Estate Tax − $3	Estate Tax = $1

Notes:

**Totals include Excise Tax*

 # - No estimate

Detail may not add to totals due to rounding.

(1) Includes adjustments, deductions, and exemptions.

(2) Includes the Alternative Minimum Tax and taxes reported in the "Other Taxes" section of the Form 1040 except for self-employment tax and unreported Social Security and Medicare tax (which are included in the employment tax gap projections).

(3) The difference between: (1) the projection of the individual income tax underreporting tax gap where underreported tax is calculated based on all misreporting combined and, (2) the projection of the individual income tax underreporting tax gap based on the sum of the tax gaps associated with each line item where the line-item tax gap is calculated based on the misreporting of that item only. There may be differences if the marginal tax rates are different in these two situations.

(4) Self-employment tax only.

[2] *These projections are excerpted from the tax gap "map" shown below; the full version can be found in https://www.irs.gov/pub/irs-pdf/p5869.pdf.*

Tax Gap Data and Methodology Limitations

Given the complexity of the tax systems and available data, we cannot use a single approach to estimate each component of the tax gap. Each approach is subject to measurement or non-sampling error; the component estimates that are based on samples are also subject to sampling error. The individual income tax NRP compliance studies are the foundation for the individual income tax underreporting tax gap estimates and projections. For the individual income tax underreporting tax gap, we use a statistical adjustment to adjust for measurement errors that result when we do not detect some existing noncompliance during an audit.[3] We use other statistical techniques to control for bias in estimates based on corporate operational audit data. Due to the heterogenous nature of the estimation methodology, we do not report standard errors, however, the user should be mindful of these limitations when using these estimates. In addition to sampling error and measurement error, there is estimation error and coverage error. The estimates do not fully represent noncompliance in some components of the tax system, particularly as it relates to corporation income tax, income from flow-through entities, foreign or illegal activities, digital assets, and pandemic credits, because compliance data are lacking. Since the underreporting projections assume compliance rates have not changed from the prior TY 2014 - 2016 tax gap estimates, they are subject to the same data limitations as those tax gap estimates. The projections are also subject to projection error.

Individual Income Tax Underreporting Tax Gap Projections for Tax Year 2021

The projections in the table below provide a breakout of the components of the individual income tax underreporting tax gap, which is the largest single contributor to the gross tax gap. For each income component, we show the component's share of both the gross tax gap and the individual income tax underreporting tax gap. Business income accounts for 46 percent of the total individual income tax underreporting tax gap for TY 2021. This primarily consists of nonfarm proprietor income (28 percent); income from flow-through entities--partnerships, S corporations, and estates and trusts (10 percent); rent and royalty income (6 percent); and farm income (2 percent).

[3] See https://www.irs.gov/pub/irs-pdf/p5869.pdf for more details.

INDIVIDUAL INCOME TAX UNDERREPORTING TAX GAP PROJECTIONS BY SOURCE: TAX YEAR 2021 [(1)] ($ IN BILLIONS)

Tax Return Line Items		Tax Gap	Share of Gross Tax Gap	Share of Individual Income Tax Underreporting Tax Gap
Gross Tax Gap	**$**	**688**	**100%**	**N/A**
Individual Income Tax Underreporting Tax Gap	**$**	**396**	**58%**	**100%**
Items Subject to Substantial Information Reporting and Withholding	**$**	**9**	**1%**	**2%**
Wages, salaries, tips	$	9	1%	2%
Items Subject to Substantial Information Reporting	**$**	**22**	**3%**	**6%**
Interest income		1	(2)	(2)
Dividend income	$	2	(2)	(2)
State income tax refunds	$	(2)	(2)	(2)
Pension & annuities	$	9	1%	2%
Unemployment Compensation		2	(2)	1%
Taxable Social Security benefits	$	9	1%	2%
Items Subject to Some Information Reporting	**$**	**94**	**14%**	**24%**
Partnership, S-Corp, Estate & Trust, etc.	$	41	6%	10%
Alimony income		(2)	(2)	(2)
Capital Gains	$	53	8%	13%
Items Subject to Little or No Information Reporting	**$**	**167**	**24%**	**42%**
Form 4797 income	$	6	1%	2%
Other income	$	20	3%	5%
Nonfarm proprietor income	$	110	16%	28%
Farm income	$	6	1%	2%
Rents and royalties	$	25	4%	6%
Total Credits	**$**	**51**	**7%**	**13%**
Child Tax Credit and Additional Child Tax Credit	$	18	3%	5%
EITC	$	27	4%	7%
Education Credits	$	3	(2)	1%
All Other Credits	$	2	(2)	1%
Other Taxes	**$**	**5**	**1%**	**1%**
Unallocated Marginal Effects	**$**	**15**	**2%**	**4%**
Income Offsets (Adjustments, Deductions, Exemptions)	**$**	**26**	**4%**	**7%**
Filing Status	**$**	**8**	**1%**	**2%**

[(1)] *These figures will be updated as more complete compliance data becomes available.*

[(2)] *Less than 0.5 percent or $0.5 billion.*

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

Individual Income Tax Credits

The IRS is responsible for administering 21 refundable and non-refundable individual income tax credits, including the Earned Income Tax Credit (EITC), American Opportunity Tax Credit (AOTC), Additional Child Tax Credit (ACTC), and Net Premium Tax Credit (PTC). Total tax credits account for 13 percent of the individual income tax underreporting tax gap. EITC accounts for 7 percent of the individual income tax underreporting tax gap, followed by the refundable and non-refundable Child Tax Credit (CTC) (5 percent), and the refundable and non-refundable education credits (1 percent).

Relationship of Tax Compliance Estimation to Improper Payments

The *Payment Integrity Improvement Act* (PIIA) includes specific reporting requirements for payment programs that are determined to be susceptible to significant improper payments. The focus of PIIA, as well as related guidance from the Office of Management and Budget (OMB), is on implementing internal controls to prevent and detect improper payments. PIIA does not take into consideration all aspects of administering tax provisions in a system that relies heavily on voluntary reporting. In keeping with PIIA requirements, the IRS reports improper payment (*i.e.,* overclaim) estimates for four refundable tax credits, the EITC, AOTC, ACTC and net PTC, deemed susceptible to significant improper payments (refer to Part 3, Section D: *Payment Integrity*, of this report).

The IRS follows the practice of reporting improper payment estimates largely because refundable tax credits may result in a payment to the taxpayer in excess of tax liability. It can be challenging to distinguish between the portion of a credit that offsets an individual tax liability versus the portion that is refundable. Determining the impact of a refundable tax credit depends on multiple variables, including other return elements and information the taxpayer provides, some of which are unrelated to the refundable tax credit in question.

The same features of the tax system and taxpayer behaviors that create the compliance problems with refundable tax credits also create the risk of noncompliance with other tax provisions. Several credits enacted by Congress to promote social and economic objectives (*e.g.*, assisting particular groups of individuals or businesses) have eligibility rules that are complex and often lead to high overclaim rates.

Tax refunds, which constitute a transfer of cash from the federal government to a taxpayer, are an integral part of the tax system as a whole. The IRS tax gap estimation process measures compliance with the current tax system and always includes noncompliance with refundable and non-refundable tax credits. Whether a tax credit results in a refund instead of a reduction in tax liability depends on all of the taxpayers' characteristics, such as income, deductions, and other credits claimed, and is not simply driven by the credit itself.

The IRS's risk assessments on refundable tax credits have consistently concluded that overclaims are not rooted in internal control deficiencies, but instead are due to the complexities of verifying eligibility, including unavailability of relevant third-party data, for refundable tax credits within the time periods the tax system prescribes. Consequently, errors in taxpayer claims for credits are the result of factors beyond our control under current law and existing authority, and are therefore, more appropriately included in the analysis of tax compliance.

Refundable Tax Credits and the Challenges of Compliance

Refundable tax credits (RTC) generally have different eligibility rules, often relating to personal family and living arrangements, which determine eligibility. Complexity in the form of differing rules is a contributor to tax credit errors. Additionally, these credits are difficult for the IRS to verify due to the lack of available and relevant third-party data. Much of the information necessary to validate the accuracy of an RTC claim before issuing a tax refund is not comprehensively available in any U.S. government database.

The complexity of eligibility rules for refundable tax credits contributes to the compliance burden for taxpayers and administrative costs for the IRS. These rules differ by credit and are often complex because they must address complicated family relationships and residency arrangements to determine eligibility. The relatively high overclaim error rates for these credits are a result, in part, of this complexity. In some cases, due also in part to the complex rules, overclaims by an ineligible taxpayer could go to another family member who is eligible for, but fails to claim, the credit. The lack of third-party data to verify eligibility requirements for these refundable credits complicates the IRS's ability to administer the credits. Such data may not exist, may be unreliable or inaccurate, or may be reported to the IRS too late to be useful during tax return processing. The IRS also has limited authority to correct mismatches at filing and traditionally used audits to correct errors, which increases taxpayer burden. The IRS runs various automated checks of certain data on a tax return before paying a refund but is otherwise limited in its ability to question and correct the taxpayer's claim. The IRS continually looks for complete and accurate data sources to verify eligibility for claimed refundable credits to reduce the burden on compliant taxpayers.

Faced with the complexities of claiming certain refundable credits, many potential credit recipients seek help filing their tax returns from paid preparers. One-half of taxpayers claiming refundable credits use paid preparers. Unenrolled return preparers, who prepare a significant number of EITC returns, are not subject to the same level of training and certification requirements as other tax professionals and have higher error rates for EITC returns than taxpayers who prepare their own returns or who hire enrolled return preparers. Preparer education and outreach are major components of the IRS's overall strategy to address the tax gap and to reduce errors. The IRS's education and outreach efforts seek to inform preparers about the availability of the credits and about the eligibility requirements that taxpayers must meet to claim the credits. The IRS uses many communication vehicles to send important and useful messages to the return preparer community.

The IRS has a responsibility to detect and address errors and misreporting on tax returns, including those claiming refundable credits. The IRS frequently enhances filters and other detection tools to improve the accuracy of tax returns and reduce taxpayer burden, but in some instances, enforcement activities must take place. The IRS rejects millions of electronically filed returns claiming refundable credits for a variety of reasons, such as missing forms, incorrect Social Security numbers (SSNs), or if another taxpayer has claimed the same child. Most taxpayers can correct their electronic returns and successfully re-file with little burden. In some cases, a taxpayer must print and submit a paper return, resulting in refund delays. Despite the compliance burden and costs to the government associated with these refundable tax credits, the burden to taxpayers may be lower than with other payment or benefit programs. For example, tax credit recipients can self-certify eligibility; they do not need to meet with caseworkers, or submit upfront documentation as is required with some direct service anti-poverty programs, such as with the Supplemental Security Income or Temporary Assistance for Needy Families programs. Increasing pre-refund screening for eligibility would increase the administrative costs for refundable tax credits and may discourage eligible taxpayers from claiming the credits.

The IRS may initiate a correspondence audit if it identifies, through its scoring and selection process, potential noncompliance with eligibility requirements. The IRS conducts most refundable credit audits before it issues a refund, meaning the IRS holds the credit refund until the taxpayer substantiates eligibility. The IRS sends a letter to the taxpayer requesting documentation showing that the taxpayer meets credit eligibility requirements. In addition to the refund delay, taxpayers face the burden of gathering and sending in the requested information. In FY 2023, the IRS conducted 273,909 refundable credit audits, the majority through correspondence audits. However, over-reliance on audits to resolve basic errors results in interest costs by delaying the issuance of refunds to taxpayers, and can lead to fewer taxpayers receiving credits and deductions for which they are eligible and thus decrease accuracy in tax administration, whereas focusing on helping taxpayers submit accurate filings upfront will increase payment accuracy while reducing administrative burdens for the IRS and the tax filer. Moving forward, the IRS intends to reduce the number of audits specifically focused on refundable credits while also expanding outreach, helping taxpayers get it right at the point of filing, and stepping-up enforcement activities that focus on unscrupulous preparers that contribute to noncompliance in this domain.

TAX BURDEN

The Internal Revenue Code (IRC) creates the basis for a progressive tax system that applies higher rates of taxation to progressively higher levels of income. The amount of taxable income can be adjusted through the application of exemptions and deductions, which influence the amount of taxes taxpayers owe. In addition, many taxpayers qualify for one or more refundable tax credits, which collectively have a significant impact on tax administration, federal tax revenues, and refund payments.

The IRS measures tax liability by income level for individuals, and by revenue and assets for corporations. Using these data, it is possible to illustrate how tax liability rises with increases in Adjusted Gross Income (AGI) for individuals (Figures 1.1 and 1.2 and Table 1). Similar data for corporations shows the tax burden based on the percentage of taxable income (Figure 2 and Table 2). This information is the most recent data available for individuals (TY 2021) and corporations (TY 2020).

Individual Income Tax Liability

FIGURE 1.1: AVERAGE AGI REPORTED AND AVERAGE INDIVIDUAL INCOME TAX LIABILITY FOR TY 2021

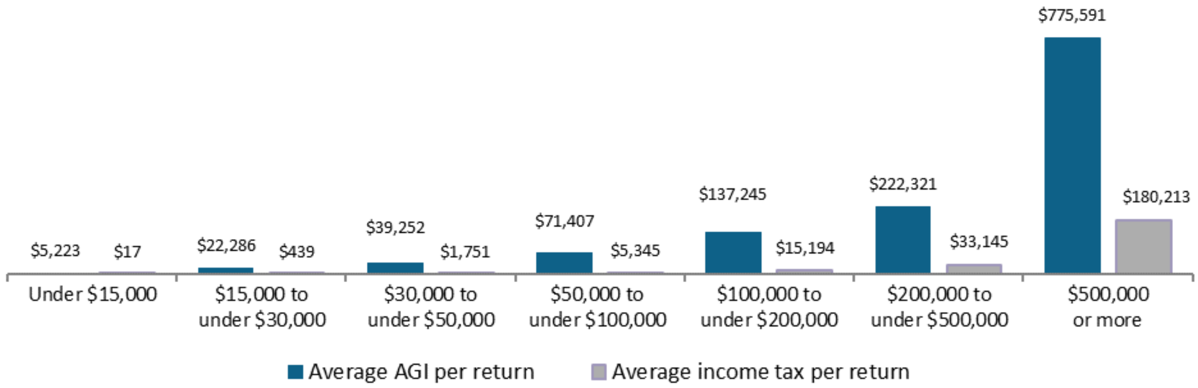

FIGURE 1.2: INDIVIDUAL INCOME TAX LIABILITY AS A PERCENTAGE OF AGI FOR TY 2021

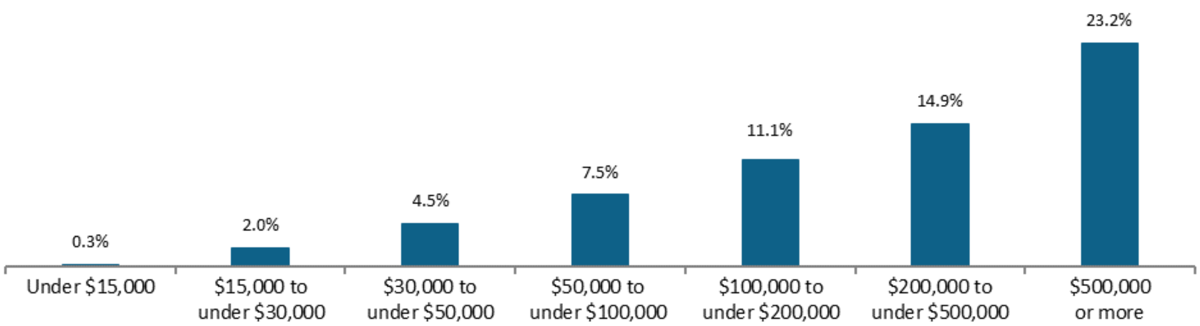

TABLE 1: INDIVIDUAL INCOME TAX DATA BY AGI FOR TY 2021

Adjusted Gross Income (AGI)	Number of taxable returns (in thousands)	AGI (in millions)	Total income tax (in millions)	Average AGI per return (in whole dollars)	Average income tax per return (in whole) dollars)	Income tax as a percentage of AGI
Under $15,000	30,714 $	160,421 $	535 $	5,223 $	17	0.3%
$15,000 under $30,000	27,410	610,846	12,033	22,286	439	2.0%
$30,000 under $50,000	28,926	1,135,403	50,662	39,252	1,751	4.5%
$50,000 under $100,000	37,547	2,681,108	200,702	71,407	5,345	7.5%
$100,000 under $200,000	24,180	3,318,595	367,380	137,245	15,194	11.1%
$200,000 under $500,000	3,728	828,814	123,563	222,321	33,145	14.9%
$500,000 or more	7,888	6,117,860	1,421,518	775,591	180,213	23.2%
Total	**160,393 $**	**14,853,047 $**	**2,176,393**			

All negative AGI under $15,000 are treated as zero-dollar amount.

Corporation Tax Liability

FIGURE 2: CORPORATION TAX LIABILITY AS A PERCENTAGE OF TAXABLE INCOME FOR TY 2020

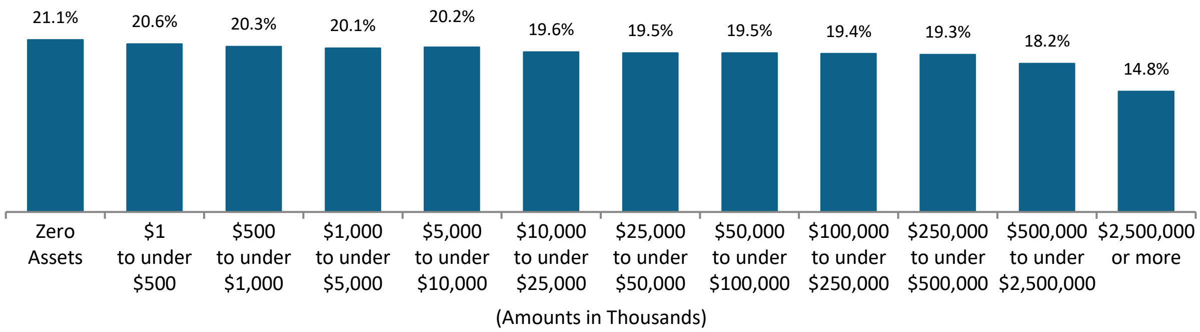

TABLE 2: CORPORATION TAX DATA BY TOTAL ASSETS FOR TY 2020

Total Assets (in thousands)	Income subject to tax (in millions)	Total income tax after credits (in millions)	Percentage of income tax after credits to taxable income
Zero Assets	$ 21,064	$ 4,439	21.1%
$1 under $500	6,908	1,426	20.6%
$500 under $1,000	4,364	886	20.3%
$1,000 under $5,000	21,444	4,312	20.1%
$5,000 under $10,000	13,079	2,640	20.2%
$10,000 under $25,000	19,851	3,900	19.6%
$25,000 under $50,000	17,342	3,389	19.5%
$50,000 under $100,000	19,750	3,854	19.5%
$100,000 under $250,000	33,865	6,584	19.4%
$250,000 under $500,000	32,033	6,189	19.3%
$500,000 under $2,500,000	117,758	21,388	18.2%
$2,500,000 or more	1,472,847	217,604	14.8%
Total	**$ 1,780,305**	**$ 276,611**	

Section C: Management and Performance Challenges and Treasury Response

In accordance with the *Reports Consolidation Act of 2000*, the Inspectors General are required to identify specific management and performance challenges we face. At the end of each fiscal year, the Treasury Office of Inspector General (OIG) and Treasury Inspector General for Tax Administration (TIGTA) send an update of these management challenges to the Secretary and cite any new challenges for the upcoming fiscal year. The Special Inspector General for the Troubled Asset Relief Program (SIGTARP) identifies its management or performance challenges for the Office of Financial Stability (OFS) separately in its quarterly report to Congress. This section contains the OIG and TIGTA identified management and performance challenges and management's response.

TREASURY INSPECTOR GENERAL MANAGEMENT CHALLENGES

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

October 10, 2023

INFORMATION MEMORANDUM FOR SECRETARY YELLEN

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

SUBJECT: Management and Performance Challenges Facing the Department of the Treasury (OIG-CA-24-001)

In accordance with the Reports Consolidation Act of 2000, we are providing you with our perspective on the most serious management and performance challenges facing the Department of the Treasury (herein "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 operating in an uncertain environment. 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, as well as its impacts on related workforce and workstreams. The new challenge considers factors beyond Treasury's control and their impact on Treasury's operations.

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

We identified challenges based on the threat they pose to Treasury's mission and stakeholders' interests. We also acknowledge the Department's accomplishments and efforts over the past year to address critical matters as noted within each challenge. While the national emergency declaration for the COVID-19 pandemic ended in May 2023, Treasury programs established to support the pandemic are in various stages of maturity and continue to pose challenges for Treasury. As noted throughout this memorandum, Treasury will need to continue to act swiftly and draw on its existing resources to meet economic needs.

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

cc: Anna Canfield Roth
Assistant Secretary for Management

Challenge 1: COVID-19 Pandemic Relief (Repeat)

The COVID-19 pandemic continues to affect the health and economic stability of communities worldwide and thus the Department of the Treasury's (hereinafter Treasury or the Department) responsibilities and workloads are still enormously expanded. Specifically, Treasury has been instrumental to the implementation of economic relief provisions of the *Coronavirus Aid, Relief, and Economic Security Act*[1] (CARES Act), the *Consolidated Appropriations Act, 2021*[2] (CAA, 2021), the *American Rescue Plan Act of 2021*[3] (ARP), and the *Consolidated Appropriations Act, 2023*[4] (CAA, 2023). Treasury is tasked with disbursing over $655 billion[5] in aid to more than 30,000 recipients, including state, local, territorial, and tribal government entities, in a relatively short period of time and with limited staffing. As such, the Department established the Office of Recovery Programs (ORP) to implement Treasury's COVID-19 pandemic programs. A Chief Recovery Officer, who is the lead administrator and the principal advisor to the Treasury Secretary and Deputy Secretary on pandemic programs, leads the office. With ORP leading, the Department implemented multiple pandemic programs and is now challenged with managing those programs in different stages of maturity. In addition, Treasury must carry the administrative and monitoring responsibilities in its role resolving Single Audit Act findings and potentially serving as cognizant agency for a significant number of entities[6] in compliance with the Office of Management and Budget's (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. [7]

Pandemic Programs- End of Period of Performance

For pandemic programs near the end of the period of performance, Treasury faces challenges (1) closing out awards, (2) resolving Single Audit Act findings, (3) maintaining internal control, guidance, and methodologies for oversight of funds disbursed, (4) collecting high quality, reliable data, and (5) sustaining operations with limited funding. The pandemic programs near maturity or in the close out phase include the Payroll Support Programs (PSP), Coronavirus Economic Relief for Transportation Services (CERTS), the Coronavirus Relief Fund (CRF), and the first Emergency Rental Assistance Program (ERA1).

<u>Payroll Support Programs</u>

To maintain pay and benefits of airline industry workers, Treasury implemented PSP1 authorized under the CARES Act for up to $32 billion of direct financial assistance for passenger air carriers, cargo air carriers, and contractors. Financial support for air carrier workers was extended twice by CAA, 2021 and ARP, which provided additional assistance to passenger air carriers and contractors up to $16 billion (PSP2) and $15 billion (PSP3), respectively. Using existing resources and contractor support, Treasury disbursed a total of approximately $58.9 billion, as of June 30, 2023, to air carriers and contractors under all three payroll support programs. My office has completed 10 audits of recipients' certified financial data provided to Treasury in applications for a PSP1 award. Our audits identified approximately $1.37 million in questioned costs/improper payments. It is important for Treasury to recoup these payments and to obtain support

[1] Public Law 116-136 (March 27, 2020)
[2] Public Law 116-260 (December 27, 2020)
[3] Public Law 117-2 (March 11, 2021)
[4] Public Law 117-328 (December 29, 2022)
[5] Amount excludes Economic Impact Payments distributed by the Internal Revenue Service and support to small businesses under the Paycheck Protection Program administered by the Small Business Administration.
[6] Single Audit Act of 1984 (P.L 98-502; October 19, 1984), as amended by the Single Audit Act Amendments of 1996 (P.L 104-156; July 5, 1996
[7] https://www.ecfr.gov/current/title-2/part-200

documentation to confirm awarded amounts for the hundreds of other recipients that have not yet been audited. My office will continue audits of PSP1 recipients' certifications and initiate audits of certifications submitted by PSP2 recipients in fiscal year 2024. It is incumbent upon the Department to maintain strong internal controls over recipients' compliance with signed terms and conditions for receiving financial assistance.

Coronavirus Economic Relief for Transportation Services

Congress expanded financial support to non-air carrier transportation service providers under the 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. Treasury disbursed approximately $1.97 billion to 1,464 recipients as of February 3, 2023. The CERTS period of performance ended on October 22, 2022. During the close out phase of this program, Treasury should maintain strong internal controls to ensure compliance with grant agreements. Although there is no mandate directing my office to audit CERTS recipients, we are currently auditing Treasury's administration of the program.

Coronavirus Relief Fund

The $150 billion CRF, established under Title VI of the *Social Security Act*, as amended by Title V of the CARES Act, continues to be a large endeavor for both the Department and my office. The Department disbursed the entire $150 billion in direct payments to states, units of local government, the District of Columbia, U.S. territories, and tribal governments. Disbursement of funds was a complicated undertaking given the number of recipients at varying levels of government and other payment requirements of the CARES Act. Although Treasury is authorized to make payments, the CARES Act assigned Treasury OIG with responsibility for monitoring and oversight of the receipt, disbursement, and use of funds. Additionally, my office has authority to recoup funds if it is determined that recipients fail to comply with uses of funds for COVID-19 related costs under Section 601 (d), "Use of Funds," of the *Social Security Act*, as amended.[8]

The Department also has a fundamental role to clarify its policy[9] over the uses of funds when interpretation matters arise. As of September 30, 2023, recipients are still in the process of reporting on and closing out their awards, and questions may arise that require interpretation.

My office has completed desk reviews[10] of CRF recipients and has identified approximately $2 billion in questioned costs, which will require interpretation of Treasury's policy to determine eligibility of those expenditures and whether funds should be returned or recouped. The quarterly reporting for the

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[8] Section 601 (d), Use of Funds, recipients shall use the 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. The period of performance end date of the CRF was extended through December 31, 2021 by the Consolidated Appropriations Act, 2021. The period of performance end date for Tribal entities was further extended to December 31, 2022 by the State, Local, Tribal, and Territorial Fiscal Recovery, Infrastructure, and Disaster Relief Flexibility Act, Division LL of the Consolidated Appropriations Act, 2023, P.L. 117-328,
December 29, 2022, 136 Stat. 4459.

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

[10] The CARES Act assigned the Department of the Treasury Office of Inspector General with responsibility for compliance monitoring and oversight of the receipt, disbursement, and use of CRF payments. The purpose of a desk review is to perform monitoring procedures of the prime recipient's receipt, disbursement, and use of CRF proceeds as reported in the grants portal on a quarterly basis.

CRF will end with the third quarter of calendar year 2023, making it critical that Treasury provide as much clarity as possible for ensuring recipients understand the compliance requirements and are accountable and transparent in how they report uses of funds. My office has received over 400 complaints regarding recipient, and in some instances sub-recipient, uses of CRF proceeds and approximately 300 of these complaints require continued collaboration between the Department and my office. In addition, Treasury's responsibilities to provide management responses to Single Audit Act findings for the CRF within required timeframes is a challenge given limited resources and funding.

First Emergency Rental Assistance Program (ERA1)

To assist vulnerable households at risk of housing instability, Congress established the first of two ERA programs, ERA1, in CAA, 2021 availing about $25 billion to households in need. Division N, Title V, Subtitle A, of CAA, 2021, created ERA1 and requires that my office conduct monitoring and oversight of the receipt, disbursement, and use of ERA1 funds. As of June 22, 2023, Treasury disbursed $24.98 billion of the $25 billion appropriated by CAA, 2021 for ERA1. Treasury disbursed ERA1 funds to states (including Washington, DC), U.S. territories, tribal governments (with a provision for the Department of Hawaiian Home Lands), and units of local government with populations of 200,000 or greater to pay for rent, utilities, and other housing-related expenses and arrears through September 30, 2022. With ERA1 disbursements complete and the end of the period of performance for these awards, Treasury faces challenges administering the closeout process and resolving Single Audit Act findings associated with hundreds of eligible grantees and related sub-recipients. To date, my office has received more than 3,500 complaints from the public concerning ERA usage, expediency of payments to beneficiaries, and potential improper payments. Treasury will need to work with my office to recoup ERA funds not used for allowable purposes.

Pandemic Programs- Ongoing Period of Performance

For programs where the period of performance and administration is ongoing, Treasury faces challenges (1) ensuring proper allocation and distribution of funds, (2) developing and maintaining internal control, guidance, and methodologies and procedures for monitoring and reporting, (3) finding and/or maintaining qualified staff needed to administer and monitor programs, (4) collecting high-quality, reliable data, (5) resolving Single Audit Act findings, (6) remediating and recouping funds, and (7) sustaining operations with limited funding. These programs include the second Emergency Rental Assistance Program (ERA2), the Homeowner Assistance Fund (HAF), the Coronavirus State and Local Fiscal Recovery Funds (SLFRF), the State Small Business Credit Initiative (SSBCI), the Emergency Capital Investment Program (ECIP), and the Community Development Financial Institutions (CDFI) Fund's Equitable Recovery Program (ERP).

Second Emergency Rental Assistance (ERA2) and Homeowner Assistance Funds

With ARP, Congress established a second ERA program, ERA2, to provide additional assistance to vulnerable households at risk of housing instability, availing over $21.55 billion to households in need. For ERA2, as of June 22, 2023, Treasury disbursed $20.94 billion of the $21.55 billion appropriated in ARP. Similar to ERA1, ERA2 provides funding for eligible renter households' rent, utilities, and other housing-related expenses and arrears, but ERA2 does not include tribal governments as eligible grantees. ERA2 funds are to remain available until September 30, 2027. While CAA, 2021 requires that my office conduct monitoring and oversight of the receipt, disbursement, and use of ERA1 funds, ARP does not require my office to monitor ERA2. ERA2 disbursements are ongoing and Treasury faces challenges in maintaining internal control and establishing guidance and methodologies for monitoring, reporting, and oversight of funds disbursed. In addition, the lack of consistent quality, reliable grantee disbursement data and an adequate workforce impedes Treasury's ability to perform proper monitoring and recoupment functions. Further, Treasury faces challenges resolving Single Audit Act findings associated with hundreds of eligible grantees and related sub-recipients. To date, my office has received more than 3,500 complaints from the public concerning ERA usage, expediency of payments to beneficiaries, and potential improper payments. Treasury will need to work with my office to recoup ERA funds not used for allowable purposes.

In addition to ERA2, ARP created HAF to prevent mortgage delinquencies, defaults, foreclosures, loss of utility services, and displacement by covering mortgage-related expenses, utility expenses, and arrears for homeowners experiencing financial hardship after January 21, 2020. Treasury has implemented the HAF program and as of July 2023, disbursed more than $9.8 billion of the $9.9 billion authorized to states (including the District of Columbia and Puerto Rico), tribal governments (including the Department of Hawaiian Home Lands), Guam, American Samoa, the U.S. Virgin Islands, and the Commonwealth of the Northern Mariana Islands. The funds are available until September 30, 2025.

The ERA and HAF programs are fully implemented and, while Treasury has issued relevant guidance for each of the programs, it is essential its program offices continue to respond to recipients to clarify guidance and to provide insight into the eligible uses of the funds Treasury distributed. Clear and timely responses to recipient questions is critical in enabling program recipients to administer their programs and disburse funds to households effectively.

Coronavirus State and Local Fiscal Recovery Funds

The SLRF provisions of ARP provide state, local, U.S. territorial, and tribal governments another $350 billion under the Coronavirus State Fiscal Recovery Fund and the Coronavirus Local Fiscal Recovery Fund (together referred to as SLFRF); $10 billion under the Coronavirus Capital Projects Fund (CPF); and $2 billion under the Local Assistance and Tribal Consistency Fund (LATCF). Administering SLFRF requires recipients to obligate funds by December 31, 2024 and expend all obligations by December 31, 2026, except as noted below for the Surface Transportation projects and Title I. This poses challenges given the volume of recipients that Treasury must oversee that include all 50 states, U.S. territories, tribal governments, local government recipients with population sizes of 250,000 or more, and approximately 26,000 Non-Entitlement Units (NEU) of Local Governments that received funding through a state or U.S. territory. States and U.S. territories were required to establish a process for NEUs to provide pre-pandemic budget and other critical information and documentation before distributing funds. In addition to the volume of NEUs for Treasury to oversee, reconciliation between states' and U.S. territories' disbursements to NEUs and recipient performance reporting may be challenging. That is, performance reporting for NEU funding is the responsibility of the NEUs and not the states and U.S. territories where accountability for the disbursement of funds resides. Furthermore, due to increased pandemic funding, many NEUs are required to have a Single Audit or alternate compliance examination engagement over which Treasury may have agency cognizance or oversight. As a result, Treasury will face challenges with ongoing compliance monitoring of SLFRF recipients and related administrative issues.

While Treasury has built the Treasury Recovery Award Management System for recipient communication and reporting, there are still challenges obtaining sufficient quality data from SLFRF, CPF, and LATCF recipients. For SLFRF recipients, Treasury allows for lengthy narrative responses as part of the data collection that may be more cumbersome to review and lack critical details. Confirming data quality and providing timely data to the public and oversight community has been challenging for Treasury. To effectively administer and monitor recipients' compliance, Treasury must have access to sufficient data that accurately reflects how recipients have expended pandemic awards. While progress has been made, it is critical that Treasury continue to refine mechanisms to ensure the data is complete, accurate, reliable, and transparent in reflecting how recipients have expended pandemic awards. Treasury will need to continue to collect sufficient and timely data for monitoring recipients' compliance with pandemic programs, and to ensure remediation and recoupment actions occur, as appropriate. Additionally, while much of Treasury's pandemic funding has been distributed, Treasury must deliver the remaining CPF and LATCF funds through fiscal year 2024, ensuring accurate allocations and award distributions, and timely obligations.

Treasury ORP initially had difficulty finding specialized staff to administer and monitor the SLFRF program and faces ongoing challenges to recruit and retain staff as the program matures. Treasury has also been challenged with compliance report review backlogs and vast testing workloads. As discussed in more detail under the Accountability and Transparency section below, Treasury faces future funding challenges to support ORP operations, to include ongoing administration of the SLFRF program and recipient monitoring. An additional challenge for Treasury has been coordinating with other Federal Agencies, such as Federal Emergency Management Agency, the Department of Transportation, and the Department of Housing and Urban Development to develop regulations and update reporting guidance for SLFRF recipients. In August 2023, Treasury published an interim rule for guidance to ensure that recipients are aware of the additional SLFRF allowable uses of funds for emergency disaster relief and infrastructure projects, in accordance with program flexibilities provided under Division LL of the CAA, 2023 legislation. While provisions in the interim rule became effective September 20, 2023, Treasury will need to consider additional feedback through fiscal year 2024. Consistent with the existing SLFRF eligible uses, recipients must obligate funds for the new SLFRF eligible uses by December 31, 2024. Recipients must expend SLFRF funds obligated to provide emergency relief from natural disasters by December 31, 2026. Recipients must expend SLFRF funds obligated for Surface Transportation projects and Title I projects by September 30, 2026.

With the overlap of CRF, SLFRF, CPF, and LATCF recipients, we expect that there may be continued confusion between the uses of funds requirements and reporting mechanisms that may be a challenge for recipients. Given the volume of recipients and varying requirements under these programs, Treasury will need to ensure that there are sufficient resources for the remaining distribution of funds and ongoing monitoring of recipient reporting and compliance with terms and conditions for funds received. Furthermore, with the level of funding under both CRF and SLFRF, Treasury may have agency cognizance over many smaller local governments (particularly NEUs) and tribal governments now required to have Single Audits. To minimize recipient burden, Treasury developed alternate reporting requirements for smaller SLFRF recipients, which would otherwise be subject to Single Audit. In the Compliance Supplement for 2023, Treasury provides the option of an alternate compliance examination engagement for SLFRF recipients meeting certain eligibility requirements. Treasury worked with OMB and the audit community to find a solution for receiving these non-audit reports. The Federal Audit Clearinghouse, which operates on behalf of OMB to support oversight and assessment of federal award audit requirements and maintain a public database of completed audits, is now receiving these alternate compliance examination reports for fiscal year 2022, and will continue to do so going forward. Single Audit and alternative compliance examination procedures are relatively new to 25,000 SLFRF recipients, so there will continue to be more guidance and oversight required of Treasury.

State Small Business Credit Initiative

The SSBCI, which was originally created in the *Small Business Jobs Act of 2010*[11] to increase availability of credit for small businesses, ended in 2017. However, Section 3301 of ARP reauthorized SSBCI and provided $10 billion in funding for the program. Under SSBCI, participating states, U.S. territories, and tribal governments may obtain funding for programs that partner with private lenders to extend credit to small businesses. Additionally, ARP modified SSBCI in ways including the following set-asides: (1) $500

[11] Public Law 111-240 (September 27, 2010)

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. As a result of the debt ceiling crisis, the *Fiscal Responsibility Act of 2023*[12] rescinds $150 million from the SSBCI program. As of July 2023, out of $8 billion in approved applications in the capital program, Treasury has distributed $2.45 billion to 64 states, U.S. territories, and Tribal governments.

Treasury faces challenges as it continues to administer the program through the approval of applications, distribution, and monitoring of the funds. Primary oversight of the use of SSBCI funds is the responsibility of the participating state, U.S. territory, or Tribal government. The participants are responsible for providing Treasury with quarterly assurances that their programs approved for SSBCI funding comply with program requirements. In November 2022, Treasury issued its *SSBCI Capital Program National Compliance Standards* to set forth recommended practices to support participating jurisdictions in implementing their SSBCI capital programs.[13] These standards compliment the SSBCI Capital Program Policy Guidelines, which require certifications from lenders, investors, borrowers, and investees for each SSBCI-supported transaction.[14] Certifications include information on conflicts of interest and use of proceeds among other things. The guidelines also state that participating jurisdictions should, as part of their compliance monitoring procedures and as appropriate to the requirements of a specific certification, establish a process to determine whether the required certifications have been properly documented. However, Treasury does not require participating jurisdictions to independently verify the representations made by the authorized representative of the small business borrower or investee. Relying on the participating jurisdictions to ensure that required certifications are collected could lead to Treasury not (1) identifying non-compliant recipients, (2) holding recipients accountable for SSBCI-supported transactions, and/or (3) properly remediating and recouping funds.

Additionally, under the SSBCI program, an Allocation Agreement establishes the terms and conditions for participating jurisdictions to receive capital funds. The Allocation Agreement, in part, requires a participating jurisdiction to promptly notify Treasury in writing if there has been any material adverse change in the condition, financial or otherwise, or operations of the participating jurisdiction that may affect its approved programs. As noted in our previous Management Challenges Letter, Treasury still needs to define what constitutes a material adverse change that may affect the participating jurisdictions' approved programs. Treasury may have difficulty collecting high quality, reliable data and monitoring the recipients' use of funds. Further, Treasury must ensure proper allocation and distribution of funds in compliance with the multiple set-asides of the program. Therefore, Treasury must continue to develop and maintain internal controls, program guidance, and methodologies and procedures for monitoring and reporting the use of SSBCI funding. Treasury must also be cognizant of possible additional reductions in the funding of the program, which could impact their ability to maintain qualified staff needed to administer and monitor programs and sustain operations.

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[12] Public Law 118-5 (June 3, 2023)
[13] *SSBCI Capital Program National Compliance Standards.* U.S. Department of the Treasury. November 17, 2022.
[14] *SSBCI Capital Program Policy Guidelines*, U.S. Department of the Treasury, November 10, 2021, and as amended August 16, 2023.

Emergency Capital Investment Program

As authorized under CAA, 2021, Treasury has invested $8.57 billion in 175 CDFIs[15] and Minority Deposit Institutions, which is all of the capital available for investment under ECIP, providing capital to low-to-moderate income community financial institutions that support small businesses and consumers. Originally, Treasury experienced challenges in fully implementing ECIP. As reported in our audit of ECIP's implementation, Treasury had not completed key documentation, such as policies and procedures to include a post-investment compliance and monitoring plan to fully implement and administer investments.[16] With all allowable investments made, *The Fiscal Responsibility Act of 2023*, enacted on June 3, 2023, rescinded the funding that was available for a second investment round. After the implementation audit, Treasury provided policies and procedures related to the ECIP. It is imperative that Treasury implement and uphold policies and procedures to govern its post–investment activities.

Participants in the ECIP are required to calculate and provide their baseline amount of qualified lending through an Initial Supplemental Report. This baseline will be used to calculate the dividend or interest rates applicable to each participant in accordance with the Rate Reduction Incentive Guidelines and the ECIP legal agreements. In June 2023, Treasury provided waivers for certain ECIP recipients, removing the requirement in the ECIP Securities Purchase Agreement for attestation from their independent auditor that the processes and controls used to generate the Supplemental Reports are satisfactory for 2022. This change potentially lowers the reliability of self-reported data. Also in June 2023, Supplemental Reporting deadlines were extended for progress reports from certain ECIP recipients because Treasury had not yet received final approval on the forms and instructions. Treasury also extended 2022 quarterly reporting to August 17, 2023 and first and second 2023 quarterly reporting to September 1, 2023. Treasury needs to implement planned controls to ensure that investments provide the intended benefits. Accountability and transparency are crucial for the integrity of the program.

CDFI Equitable Recovery Program

On April 10, 2023, the CDFI Fund announced the awarding of $1.75 billion of the $3 billion authorized under CAA, 2021 for the CDFI Fund Equitable Recovery Program (CDFI ERP). Awards granted under ERP are intended for low- or moderate-income minority communities that have significant unmet capital or financial services needs and were disproportionately impacted by the COVID-19 pandemic.

The CDFI Fund is in the process of adapting existing policies and procedures, compliance monitoring tools, and data collection forms that have been successfully used to monitor the CDFI Fund's other programs to effectively monitor the CDFI ERP Awards.

In addition, the CDFI Fund plans to implement designation of minority lending institutions (MLI) as defined under the CAA, 2021 separately from the award of ERP funds. The CDFI Fund requested public comment on the criteria that will be used to designate a certified CDFI as a MLI from July 28, 2022, to November 25, 2022. As noted within the CDFI ERP Notice of Funds Availability, this criterion was not used as part of the CDFI ERP award process. Going forward, Treasury has a lengthy period of performance for award recipients, so there is much work to be done overseeing the CDFI ERP awards and determining next steps regarding the new MLI certification.

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[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.

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

Accountability and Transparency

In the context of this overarching challenge, we recognize the breadth and scope of Treasury's responsibilities as it impacts programs, operations, and activities regardless of jurisdictional oversight boundaries. Along with administering and delivering economic relief, Treasury must manage the unprecedented oversight of the pandemic relief funding. As noted above, Treasury is evaluating whether it will have cognizance over thousands of non-federal recipients of SLFRF and be required to carry out a larger administrative and monitoring role to ensure compliance under OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Among its responsibilities as a Federal awarding agency, Treasury must follow-up on Single Audit findings to ensure that recipients take appropriate and timely corrective action and issue management decision letters.[17] Many recipients are smaller governments, which for the first time are subject to Single Audit or the alternative compliance examination available to eligible recipients meeting eligibility requirements. Regardless of cognizance, Treasury will have to work with recipients to resolve Single Audit and alternative compliance examination findings specific to each of its pandemic relief programs. Given the anticipated budget shortfalls as noted below, carrying out this level of oversight of thousands of recipients will be very challenging for Treasury.

In addition to my office's ongoing work on pandemic programs, Treasury is subject to additional Congressional oversight bodies, the Special Inspector General for Pandemic Recovery (SIGPR),[18] Treasury Inspector General for Tax Administration, the Government Accountability Office (GAO), and the Pandemic Response Accountability Committee (PRAC). Treasury is also accountable for providing transparency over the expenditure of pandemic relief funds. Many reporting requirements of sections 15010 and 15011 of the CARES Act were extended under the CAA, 2021, PRAC amendments. Most notably, Treasury is responsible for reporting obligations and expenditures of large covered funds (over $150,000) to the PRAC. While my office continues to collect and report CRF data to the PRAC under an agreement with the Department, Treasury is responsible for reporting expenditures of its other pandemic relief programs. As noted above, data collection and quality are still challenges for Treasury under the various pandemic programs. The Department must balance its ongoing response to the financial impacts of the public health emergency with its responsibility to stakeholders for reporting and transparency.

While Treasury has leveraged its existing workforce, hired contractors, and obtained detailees from other Federal agencies to address the demands of the pandemic programs, it continues to face future funding challenges to carry out its expansive administrative and compliance monitoring role. For fiscal year 2023, Treasury ORP supported nine pandemic programs valued at over $648 billion for awards across 30,000 recipients. Total administrative budget for the year was $96.6 million.[19] At the same time Treasury worked to modify its operating model to rely on data-centric, risk-based monitoring and to minimize staffing to oversee the programs, Treasury is pro-actively working to reduce spending across the board on SLFRF and other impacted programs, as well as in central service areas to extend essential operations. However, this may not be enough to carry out the large-scale compliance monitoring responsibilities of SLFRF, CPF, ERA, HAF, and LATCF.

[17] 2 CFR § 200.521, "The management decision must clearly state whether or not the audit finding is sustained, the reasons for the decision, and the expected auditee action to repay disallowed costs, make financial adjustments, or take other action. If the auditee has not completed corrective action, a timetable for follow-up should be given..." (https://www.ecfr.gov/current/title-2/subtitle-A/chapter-II/part-200/subpart-F/subject-group- ECFR4424206eaecf751/section-200.521)
[18] SIGPR was authorized under the CARES Act to oversee loans, loan guarantees, and other investments provided by Treasury and must report to Congress quarterly on SIGPR's activities and Treasury's loan programs. SIGPR terminates five years after enactment of the CARES Act (March 27, 2025).
[19] https://home.treasury.gov/system/files/266/07A.-COVID-FY-2023-CJ.pdf

Going forward, Treasury may experience difficulties in balancing its ongoing pandemic oversight responsibilities and workloads while managing several ongoing challenges as described throughout this memorandum. While the COVID-19 pandemic national emergency declaration ended in May 2023, I remain mindful that both short-term and long-term challenges lay ahead for both Treasury and my office.

Challenge 2: Cyber Threats (Repeat)

Cybersecurity remains a long-standing and serious challenge facing the Nation and reported by GAO as a government-wide issue in its 2023 high-risk list published biennially.[20] A reliable critical infrastructure, including information systems and networks, is vital to our national security and economic stability. Cyber threats remain a persistent concern as Treasury's information systems are critical to the core functions of government and the Nation's financial infrastructure, along with the financial sector it oversees. As cyber threats continue to evolve and become more sophisticated, subtle, and easier to perform, Treasury must fortify and safeguard its internal systems and operations while modernizing and maintaining them. Although managing known risks is an ongoing challenge, Treasury must also be ready to reinforce and/or redirect cybersecurity efforts when unforeseen events occur, such as the COVID-19 pandemic, the on-going conflict in Ukraine,[21] or when serious flaws are discovered in software or systems that allow for remote administrative-level access.

Threat actors frequently exploit vulnerable networks or systems in a string of trusted connections to gain access to government systems. Organized hacking groups leverage published and unpublished vulnerabilities and vary their methods to make attacks hard to detect and even harder to prevent. Criminal groups and nation-states are constantly seeking to steal information; commit fraud; disrupt, degrade, or deny access to information systems; or infiltrate information systems and maintain a presence to enable future actions. Through information sharing, federal agencies are better prepared to thwart potential attacks to the cyber infrastructure of the Federal Government and the financial sector.

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

There is continuing concern over foreign adversaries creating and exploiting vulnerabilities in the Nation's supply chain for information and communication technology and services. Executive Order (EO) 13873, *Securing the Information and Communications Technology and Services Supply Chain*, was issued on May 15, 2019, to secure the supply technology and services chain by banning the import, use, or sale of technology or services designed, developed, manufactured, or supplied from persons or

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[20] GAO, *High-Risk Series: Efforts Made to Achieve Progress Need to Be Maintained and Expanded to Fully Address All Areas* (GAO-23-106203: April 20, 2023)

[21] A joint Cybersecurity Advisory was issued by the Cybersecurity and Infrastructure Security Agency to "warn organizations that Russia's invasion of Ukraine could expose organizations both within and beyond the region to increased malicious cyber activity. This activity may occur as a response to the unprecedented economic costs imposed on Russia as well as materiel support provided by the United States and U.S. allies and partners." (*Alert (AA22-110A) Russian State-Sponsored and Criminal Cyber Threats to Critical Infrastructure*; April 20, 2022)

companies that are owned or controlled by governments defined as hostile to the United States.[22] On May 10, 2023, this EO was extended again for 1 year.[23] There are risks that Treasury's systems and resources already in use, including critical infrastructure, contain components from sources that have yet to be designated as threats. Once a source is designated as such, repairs and/or upgrades of key system components may no longer be available. Therefore, there is risk of disruption of critical operations. The Department will need to continue to monitor developments in this area closely and plan for the possibility that its current supply chain may no longer be available.

Furthermore, EO 14028, *Improving the Nation's Cybersecurity,* issued on May 12, 2021, calls for federal agencies to update existing plans to prioritize resources for adoption and use of cloud technology and to adopt a zero-trust architecture,[24] among other things. To achieve the goals outlined in EO 14028, OMB issued M-22-09, *Moving the U.S. Government Toward Zero Trust Cybersecurity Principles*[25] to provide the strategy for achieving a zero-trust architecture, and require agencies to meet specific cybersecurity standards and objectives by the end of fiscal year 2024. OMB also issued M-22-18, *Enhancing the Security of the Software Supply Chain through Secure Software Development Practices*[26] to use only software that complies with secure software development standards. As mentioned above, Treasury management must be mindful that the efforts to secure Treasury's supply chain may hamper cloud adoption and the implementation of zero-trust architecture. In response to our fiscal year 2022 memorandum, Treasury reported the Enterprise Cyber Risk Management program enhanced the risk assessment process to identify compliance items separately from cybersecurity risk reporting, and continued to grow the Supply Chain Risk Management program.

We continue to remind the Department that, in addition to Treasury's own networks and systems, management must be cognizant of, and mitigate, the risks posed by attacks made against other federal and non-federal agencies and Treasury contractors and subcontractors. Threats and risks to third parties' networks and systems also pose risks to Treasury's networks and systems, due to interconnections with other federal, state, and local agencies, and service providers to conduct its business. Management must exercise due care when authorizing such internetwork connections and verify that third parties comply with federal policies and standards including any guidance issued to address new and/or expanded threats and risks. Management is also challenged with ensuring that critical data and information maintained by third-party cloud service providers are properly protected. Issues related to management of cloud systems were reported in four consecutive *Federal Information Security Modernization Act of 2014* (FISMA) audits (fiscal years 2015, 2016, 2017, and 2018),[27] with one repeat recommendation, related to third-party cloud service providers demonstrating FISMA compliance, remaining unimplemented as of fiscal year 2022. As of this letter, work is being performed to verify closure of the recommendation.

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

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[22] EO 13873, *Securing the Information and Communications Technology and Services Supply Chain* (May 15, 2019)
[23] *Message to the Congress on the Continuation of the National Emergency With Respect to Securing the Information and Communications Technology and Services Supply Chain* (May 10, 2023)
[24] 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.
[25] OMB M-22-09, *Moving the U.S. Government Toward Zero Trust Cybersecurity Principles* (January 26, 2022), (https://www.whitehouse.gov/wp-content/uploads/2022/01/M-22-09.pdf)
[26] OMB M-22-18, *Enhancing the Security of the Software Supply Chain through Secure Software Development Practices* (September 14, 2022), (https://www.whitehouse.gov/wp-content/uploads/2022/09/M-22-18.pdf)
[27] Public Law 113-283 (December 18, 2014)

national security. In this regard, the Office of Cybersecurity and Critical Infrastructure Protection coordinates Treasury's efforts to enhance the security and resilience of the financial services sector critical infrastructure and reduce operational risk including risks associated with cybersecurity. That said, Treasury and other federal agencies have yet to fully implement the National Institute of Standards and Technology (NIST) guidance to assist federal agencies in managing cybersecurity risks.[28] 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.[29] With respect to Treasury, GAO had recommended that steps be taken to consult with respective sector partners to develop methods for determining the level and type of adoption by entities across the financial services sector. In 2020, GAO recommended that Treasury track the content and progress of sector wide cyber risk mitigation efforts, and prioritize their completion according to sector goals and priorities in the sector-specific plan. Additionally, Treasury should update the financial services sector-specific plan to include specific metrics for measuring the progress of risk mitigation effects and information on the sector's ongoing and planned risk mitigation efforts.[30] However, as of January 2023, GAO reported Treasury had yet to develop methods to determine the level and type of framework adoption, stating that the voluntary nature of private sector participation in sector risk management agency activities affects the agency's ability to implement certain recommendations related to critical infrastructure protection. Treasury was planning implementation of a tool to track sector risks and mitigation efforts, but it was still in development. Lastly, Treasury reported to GAO that it did not believe it would be beneficial to update the sector-specific plan until the Department of Homeland Security completes its updates to the national plan and provides guidance on sector-specific plans.[31]

The Department reported in its response to last year's letter that it made strategic investments to evolve their cybersecurity infrastructure and bring it into alignment with zero-trust architecture requirements, and mitigate risks associated with the modern threat landscape. Treasury also reported a continued focus on network defense efforts for its High Value Assets.[32] While addressing increases in cyber threats, Treasury will need to continue to balance cybersecurity demands while maintaining and modernizing Information Technology (IT) systems. To this end, Treasury must ensure that cybersecurity is fully integrated into its IT investment decisions as discussed in Challenge 4.

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

Over the past year, the Office of Terrorism and Financial Intelligence (TFI) has remained dedicated to countering the ability of financial networks that support terrorists, organized transnational crime, weapons of mass destruction proliferators, and other threats to international security through intelligence analysis, sanctions, and international private-sector cooperation. As previously reported, identifying, disrupting, and dismantling these networks continue to be challenging. Additionally, criminals and other bad actors evolve and continue to develop sophisticated money laundering methods in an attempt to avoid detection.

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[28] NIST, *Framework for Improving Critical Infrastructure Cybersecurity* (Version 1.0, February 12, 2014; superseded by Version 1.1; April 16, 2018)
[29] GAO, *Critical Infrastructure Protection: Additional Actions Are Essential for Assessing Cybersecurity Framework Adoption* (GAO-18-211; February 18, 2018)
[30] GAO, *Critical Infrastructure Protection: Treasury Needs to Improve Tracking of Financial Sector Cybersecurity Risk Mitigation Efforts* (GAO-20-631; September 17, 2020)
[31]GAO, *Priority Open Recommendations: Department of the Treasury* (GAO-23-106469; July 7, 2023)
[32] 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.

TFI's authorities are key tools in implementing U.S. policy to pressure foreign countries and regimes, such as Russia, by using a variety of targeted financial measures to include designations and economic sanctions. TFI has significantly increased sanctions against Russia related to its actions against Ukraine and its other malign activities. TFI's counter-terrorism designations disrupt the financial networks that support terrorist organizations. Other TFI tools, such as diplomatic and private sector engagement, regulatory oversight, and intelligence analysis, also play an important role. Disrupting terrorist financing depends on a whole-of-government approach and requires collaboration and coordination within Treasury, other federal agencies, the private sector, and international partners.

Collaboration and coordination are key to successfully identifying and disrupting illicit financial networks and meeting TFI's mission. This effort requires effective and efficient working relationships among components within TFI and the Intelligence Community. In an effort to effectively implement U.S. policy and disrupt these financial networks, officials stated that TFI is moving towards a more collaborative approach to achieve its mission. Given Treasury's critical mission and its role to carry out U.S. policy, we continue to consider anti-money laundering and combating terrorist financing programs and operations as inherently high-risk.

Data privacy and information sharing are challenges for the Financial Crimes Enforcement Network (FinCEN), which has experienced unauthorized disclosures of *Bank Secrecy Act* (BSA) information.[33] FinCEN is required to maintain a highly secure database for financial institutions to report BSA information. FinCEN has previously identified that the success of that system depends on the financial sector's confidence that those reports are adequately protected, but unauthorized disclosures threaten to undermine that confidence. The challenge for FinCEN is to ensure the BSA information remains secure in order to maintain the confidence of the financial sector, while meeting the access needs of law enforcement, regulatory, and intelligence partners. FinCEN also faces an additional challenge, to develop and implement a new secure database for certain businesses to report their beneficial ownership information, as required by the *Corporate Transparency Act.*[34] FinCEN expects to implement the database in January 2024.

Challenge 4: Information Technology Acquisition and Project Management (Repeat)

The *Federal Information Technology Acquisition Reform Act*[35] (FITARA), enacted in December 2014, was the first major overhaul of federal IT management since the passage of the *Clinger- Cohen Act of 1996,* [36] which was designed to improve the Federal Government's acquisition and management of its resources to include IT investment. Among other things, it expanded the involvement of Chief Information Officers (CIO) of federal agencies in IT decision making, including annual and multi-year planning, programming, budgeting, execution, reporting, management, governance, and oversight functions. 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.

[33] Public Law 91-508 (October 26, 1970)
[34] Public Law 116-283 (January 1, 2021)
[35] Public Law 113-291 (December 19, 2014)
[36] Public Law 104-106 (February 10, 1996)

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.[37] In its April 2023 high-risk report, GAO acknowledged that the Federal Government has undertaken numerous initiatives to better manage the more than $100 billion that is invested annually in IT. However, GAO reported that federal IT investments too frequently fail to deliver capabilities in a timely manner. They also incur cost overruns or schedule slippages while contributing little to mission-related outcomes. These investments often lack disciplined and effective management in areas such as project planning, requirements definition, and program oversight and governance. GAO noted that Congress and OMB continue to demonstrate leadership commitment to ensuring agencies implement IT reform initiatives. Additionally, OMB and agencies made progress in implementing GAO's recommendations—73 percent of recommendations have been fully implemented, an increase from 65 percent reported in GAO's 2021 High-Risk List.[38] In general, GAO recommends that agencies should implement its 294 open recommendations related to improving the management of IT acquisitions and operations. For example, federal agencies should improve the effectiveness of agency CIOs, enhance IT workforce planning practices, and develop plans for modernizing or replacing legacy systems. GAO also calls on Congress to consider formalizing the federal CIO position and establishing responsibilities and authorities for government-wide IT management, which is an open recommendation for this high-risk area that GAO suggested in September 2022.[39]

The House Oversight and Accountability Committee worked with GAO to develop a scorecard to assess federal agencies' efforts in implementing FITARA by assigning a grade from A to F based on self-reported data at the agency level. Agencies are scored on areas of CIO authority enhancements, transparency and risk management, portfolio review, data optimization, software licensing, and modernizing government technology. Since the first scorecard was issued in November 2015, Treasury's overall FITARA score has wavered between a D- and a B. More recently, in December 2022, Treasury received a B for its FITARA implementation efforts. Areas needing most improvement were transparency and risk management (i.e. IT investment risk) and agency CIO authority enhancements. The latest scorecard currently features seven grading categories – down from eight categories on the December 2021 scorecard due to the sunsetting of the data center optimization category.

As of March 2023, Treasury reported that approximately $2.5 billion was spent on major IT investments, which is expected to increase. Additionally, approximately 38 percent of Treasury's total IT spending is on 62 major investments. Overall, approximately 87 percent of Treasury's total IT projects were on schedule and approximately 76 percent were within budget. Given this sizable investment, we are reporting the Department's IT acquisition and project management as an ongoing management and performance challenge distinct from Challenge 2 that addresses cybersecurity concerns. As of August 2023, Treasury's CIO assessed 44 IT investments as having moderately low or low risk to accomplishing their goals. Treasury's CIO also reported 17 IT projects as having medium risk to accomplishing their goals. 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.[40]

[37] GAO, *High- Risk Series, An Update* (GAO-15-290; February 11, 2015)

[38] GAO, *High-Risk Series, Dedicated Leadership Needed to Address Limited Progress in Most High-Risk Areas* (GAO-21-119SP: March 2021)

[39] GAO, *Chief Information Officers: Private Sector Practices Can Inform Government Roles* (GAO-22-104603: September 2022)

[40] 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.

Treasury's CIO noted one project, Wholesale Securities Services, as having a high-risk CIO summary investment rating. Treasury's Wholesale Securities Services includes the Financing Modernization project, a multi-year program to modernize the debt financing system to align with Treasury's strategic priorities and long-term business requirements. This modernization will include development of a new system to support operations, meet customer expectations, become current with existing technologies, manage technical debt, and improve the delivery of secure, flexible, and resilient financing services. The Bureau of the Fiscal Service (Fiscal Service) has implemented a Program Management Improvement Accountability Act Framework to improve transparency and accountability of project performance, including a monthly dashboard of key metrics on cost, schedule, scope, efficiency, and quality. In addition, Fiscal Service's Chief Information Security Officer is actively monitoring compliance with all Cyber Executive Orders and National Security Council accelerated timelines. Enterprise Architecture and Investment Sub-councils discuss the investment risks regularly and the ratings are also shared with Fiscal Service senior leadership to ensure transparency of the risk. If negative trends surface or persist, the Fiscal Service CIO and CFO have the ability to request an internal Fiscal Service "ChatStat"[41] to take swift action and address risks. ChatStats and related open action items are tracked on the Fiscal Service's Program Management Improvement Accountability Act Project Performance Dashboard.

An ongoing initiative to manage and monitor IT investments includes the government-wide adoption of the Technology Business Management (TBM) framework as reported in the fiscal year 2018 *President's Management Agenda: Modernizing Government for the 21st Century* (March 20, 2018). The TBM framework consists of layers that represent different views into IT costs and performance, enabling greater transparency into the true cost of IT and its value to the business. TBM is expected to improve IT spending data accountability and transparency, empowering agency executive suite leadership from across the enterprise to drive mission value and improve customer experience through technology.

Non-IT related acquisitions also require attention to ensure timely delivery and minimization of cost overruns for achieving cost savings. *The Program Management Improvement Accountability Act of 2016*[42] 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 currently estimated to cost $1.78 billion. However, this cost estimate will be updated to better reflect supply chain and industry labor limitations as well as additional costs incurred as the project progresses. In fiscal year 2023, estimates were $25.96 million for the next phase of the replacement facility project including the completion of the design, and architecture and engineering work for the new facility. The U.S. Army Corps of Engineers will award a construction contract for the replacement facility during fiscal year 2024 with construction expected to begin by fiscal year 2025. Until the estimated completion of the facility in 2027, BEP will need to ensure effective project oversight for 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.

[41] A ChatStat process is where investments or projects are formally reviewed to address negative performance trends or concerns, and to identify course-correction actions that are formally tracked. ChatStats are monitored monthly by Fiscal Service senior leadership until resolved.
[42] Public Law 114-264 (December 14, 2016)

Challenge 5: Climate Initiatives Risk (Repeat)

In January 2021, EO 14008, *Tackling the Climate Crisis at Home and Abroad*, identified the immediate need for comprehensive action to address the catastrophic impacts of climate change. EO 14008 emphasizes that U.S. leadership, and that of federal departments and agencies, will be required to significantly enhance global action and achieve the necessary policy outcomes on climate change. Furthermore, in May 2021, the White House introduced EO 14030, *Climate- Related Financial Risk*, which aims to: (1) advance consistent, clear, intelligible, comparable, and accurate disclosure of climate-related financial risk, including both physical and transition risks;[43]
(2) 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 (3) achieve the Administration's target of a net-zero emissions economy by no later than 2050. The Secretary of the Treasury, as the Chair of the Financial Stability Oversight Council (FSOC), will lead several efforts related to EO 14030. Taken together, these two EOs place an emphasis on ensuring climate change is at the forefront of U.S. foreign policy and national security; establishing a government-wide approach to the climate crisis; and bolstering the resiliency of our communities, States, Tribes, territories, and financial institutions to position the United States to lead the global economy to a more prosperous and sustainable future.

Treasury continues to play a significant role working with other federal agencies, foreign governments, and international financial institutions to stimulate global action on addressing climate change, promoting environmental justice, and addressing climate-related risks. In 2021, Treasury created a new Climate Hub and appointed a Climate Counselor to help set the strategic direction of its efforts to address climate change and coordinate across those efforts. The Treasury Climate Hub will coordinate and enhance existing climate-related activities by engaging the tools, capabilities, and expertise from across the Department, including officials from Domestic Finance, Economic Policy, International Affairs, and Tax Policy. With a view of all Treasury climate initiatives, the Hub will work to ensure that Treasury is prioritizing climate action. On July 27, 2023, Treasury announced the appointment of a new Climate Counselor.

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

[43] Physical risk refers to the harm to people and property arising from acute, climate-related disaster events such as hurricanes, wildfires, and floods as well as longer-term chronic phenomena such as higher average temperatures. Transition risk refers to stresses to certain institutions or sectors arising from the shifts in policy, consumer and business sentiment, or technologies associated with the changes necessary to limit climate change.

realities; and (5) providing, measuring, and accounting for a financial investment approach appropriate to the Department's climate objectives.

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

To meet the challenges relating to the types and quality of available data and measurement tools, the OFR is developing an interagency data and analytics platform – the Joint Analysis Data Environment (JADE). Based on a pilot program, JADE will provide FSOC member agencies with access to data, analytical software, and high-performance computing tools to allow users to jointly analyze financial stability risks and vulnerabilities. With an initial version now operational, the OFR will need to continue to expand JADE to evolve and include new data and allow access to other FSOC member agencies. Furthermore, OCC has implemented multiple initiatives to address climate-related financial risk. They have partnered with other federal banking regulators to work collaboratively in understanding the risks and continue to consider the comments received on the draft Principles for Climate-Related Financial Risk Management for Large Banks. OCC also engages with international groups such as the Network of Central Banks and Supervisors for Greening the Financial System, to share best practices and understand the development of climate-related financial risk management in the financial sector. Internally, OCC's Office of Climate Risk led by a Chief Climate Risk Officer assesses climate-related financial risks and advises management on OCC policy, banking supervision, and research. These collaborations will continue to be important for developing a common understanding of climate-related financial risks and their impact to ensure the continued safety and soundness of the banking system. OCC also continues to work with FSOC and other member agencies to understand the broader implications of climate-related financial risks and their potential impact on financial stability.

Challenge 6: Operating in an Uncertain Environment (New)

In assessing the Department's most serious challenges, we remain mindful of external factors and future uncertainties that affect its operations. These factors include, but are not limited to, the repeated cycle of budget and debt ceiling stopgaps, rising interest rates, and inflation. Congress has yet to resolve unfinished business when it comes to the Nation's debt, and the long-term sustainability of programs. Although legislation was passed to temporarily suspend the debt limit until January 1, 2025,[44] no long-term solution has been found. The impact of these challenges and their 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

[44] Public Law 118-5, (June 3, 2023)

role. It is essential that programs and reforms be managed and communicated effectively to achieve performance and accountability.

Debt Limit and the Budget

The debt limit—commonly called the debt ceiling— is the total amount of money that the U.S. government is authorized to borrow to meet its existing legal obligations. The amount is set by law and has been increased or suspended over the years to allow for the additional borrowing needed to finance the government's operations. Failing to increase or suspend the debt limit would have catastrophic economic consequences, as it would cause the government to default on its legal obligations. As experienced, even threats that the U.S. government may fail to meet its obligations have led credit agencies to downgrade the Federal Government's credit rating in 2011 and 2023, which increases borrowing costs and hurts the long-run budget. Until lawmakers enact legislation to raise or suspend the debt limit, Treasury must use its cash balance and the available extraordinary measures— special temporary strategies to handle cash and debt management—to fund ongoing government activities. The challenges Treasury generally faces with a debt limit impasse include the disruption of its prudent cash management policy implementation, uncertainty in the Treasury debt market, communicating and managing the economic impact, and diversion of resources.

Treasury's prudent cash balance policy is to maintain sufficient funds to cover at least the one-week-ahead cash need, including net fiscal outflows and the gross volume of maturing marketable debt. This policy is a risk-management tool to protect against potential interruptions to market access. However, because the debt limit constrains Treasury's borrowing, it can become impossible to comply with this policy during debt limit impasses. A cash balance below the policy level creates substantial risks in the event of unexpected adverse circumstances. These risks typically worsen as a debt limit impasse goes on and the cash balance declines towards zero. For example, on June 1, 2023, Treasury had an end-of-day cash balance of just $23 billion compared to a policy level that called for approximately $300 billion on that day (and an average balance in 2022 of more than $600 billion). Furthermore, once a debt limit impasse is resolved, Treasury must rapidly replenish its cash balance back towards the policy level, which can result in elevated volatility in the primary and secondary markets for bills. Also, actions to manage the amount of outstanding Treasury securities when outstanding debt is at or near the statutory limit can add uncertainty to the Treasury market. For example, during past debt limit impasses, Treasury has postponed auctions and dramatically reduced the amount of bills outstanding, which compromised the regularity of auctions and the certainty of supply, on which Treasury relies to achieve the lowest borrowing cost over time.

As debt nears the limit, managing both debt and cash require more time and Treasury resources. Treasury's operational focus on the debt limit begins as early as 6 to 9 months before the debt limit is expected to be reached and increases as debt nears the limit. In 2023, while Congress deliberated on increasing the debt limit, Fiscal Service and the Office of Fiscal Projections implemented extraordinary measures to prevent the United States from defaulting on its obligations. Extraordinary measures included (1) suspending investments in the Government Securities Investments Fund of the federal employees' Thrift Savings Plan and Civil Service Retirement and Disability Fund (CSRDF), (2) redeeming certain investments held by CSRDF and Postal Service Retiree Health Benefits Fund earlier than normal, (3) suspending new issuances of State and Local Government Series securities, and (4) exchanging $1.9 billion of Treasury securities held by the CSRDF for securities issued by the Federal Financing Bank. These activities diverted time and Treasury resources from other cash and debt management issues and impacted people ranging from senior leaders to operational staff. This diversion of staff resources increases the risk in performing daily operational activity as normal processes are delayed and fewer staff resources are available for normal operational tasks. Estimates provided by Fiscal Service and the Office of Fiscal Projections, the entities primarily affected by the delays, indicated that these entities' personnel devoted approximately 7,730 hours to managing debt near the limit when delays in raising the debt limit occurred in 2023.

The Fiscal Responsibility Act of 2023, enacted on June 3, 2023, suspends the debt limit through January 1, 2025; increases the limit on January 2, 2025, to accommodate the obligations issued during the suspension period; and sets statutory caps on defense and non-defense discretionary spending for fiscal years 2024 and 2025. Specifically, discretionary budget authority will be capped at $1.59 trillion in 2024— a reduction of $12 billion compared to fiscal year 2023, which provides the first cut to base discretionary spending authority in more than a decade —and $1.61 trillion in 2025— an overall increase of 1% compared with fiscal year 2024. The legislation also includes a penalty for failure to enact regular appropriations by January 2024 in the form of one percent reductions to defense and nondefense spending levels (to take effect by April 30, 2024), which is intended to aid the budget process and deter excessive reliance on continuing resolutions; a similar penalty and timeline also apply for fiscal year 2025. Continued delays in enacting annual appropriations timely could have a negative impact on Treasury's operations. According to the DO fiscal year 2024 Congressional Budget Justification, the lack of adequate funding for inflationary increases and gradual reduction of full-time employee levels across Treasury policy offices, erodes DO's capacity to maintain support of fundamental DO mission areas. DO mission areas include maintaining the public debt, setting Treasury's strategy, and performing legal analysis on issues related to Treasury equities. Inflationary pressures lead to increased funding needs for programs and modernization efforts budgeted in prior years. Funding is needed to ensure that DO can sustain critical policy work necessary to maintain a strong economy and create economic growth and financial stability.

<u>Rising Interest Rates and Inflation</u>
Rising interest rates and lower bond ratings impact Treasury's costs to manage the Federal Government's finances and resources effectively. The increasing cost to service the federal debt makes these critical markets vulnerable to stresses, which could have significant consequences for economic growth and financial stability. With federal, state, and local government debt now exceeding $30 trillion, ensuring that these markets remain resilient is a critical component of sound fiscal policy.

The rapid increase in interest rates were a contributing factor to multiple bank failures in early 2023, resulting in a period of increased market volatility that threatened U.S. financial stability. When the Federal Reserve increased interest rates throughout 2022 and into 2023, some banks did not have sufficient liquidity to satisfy their obligations. Banks often invest the money received from demand deposits and checking and savings accounts in long-term assets with the intention that the interest rates on their long-term investments will exceed the interest rates paid to their customers resulting in a gain for the bank. However, the rapid pace of interest rate hikes resulted in many banks having to pay customers a higher interest rate while their funds were tied up in long-term investments that were paying lower interest rates. The result was some banks experienced a liquidity crisis. Because these banks did not have sufficient liquidity and access to capital, they failed. Sound banks were also adversely impacted, because the interest rate increases depreciated the value of their investment portfolios. As a result of the liquidity crisis, many banks have taken steps to strengthen their financial positions; however, they remain under pressure. Uncertainty regarding future interest rates continue to pose risk to banks. Treasury as a leading banking regulator, through OCC, must be mindful of these liquidity risks on the institutions they supervise and the broader U.S. financial system.

TREASURY MANAGEMENT RESPONSE TO THE OFFICE OF INSPECTOR GENERAL (OIG) IDENTIFIED CHALLENGES

OIG Challenge 1 - COVID-19 Pandemic Relief (Repeat): ***The COVID-19 pandemic continues to affect the health and economic stability of communities worldwide and thus the Department's responsibilities and workloads are still enormously expanded. Specifically, Treasury has been instrumental to the implementation of economic relief provisions of various legislation. As such, the Department established the Office of Recovery Programs (ORP) to implement Treasury's COVID-19 pandemic programs. A Chief Recovery Officer, who is the lead administrator and the principal advisor to the Treasury Secretary and Deputy Secretary on pandemic programs, leads the office. With ORP leading, the Department implemented multiple pandemic programs and is now challenged with managing those programs in different stages of maturity. In addition, Treasury must carry the administrative and monitoring responsibilities in its role resolving Single Audit Act findings and potentially serving as cognizant agency for a significant number of entities in compliance with the Office of Management and Budget's (OMB) "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.***

Management's Response: As several of the pandemic programs near the end of their period of performance, we and ORP continue to work through the administrative management and monitoring challenges the size, complexity, and scope of the programs create. During FY 2023, ORP made significant improvement in developing internal controls and building out the people, policies, and systems to support recipient monitoring, audit resolution, remediation, and debt management capabilities. This includes:

- hiring and onboarding staff in a newly combined Audit and Compliance Resolution Team (ACT);
- developing and issuing policy and procedure documents for Single Audit resolution with a focus on cooperative audit resolution techniques to ensure we address root causes and recipients are ultimately positioned to achieve the intended purpose of their awards; and
- developing policy and functionality in the Treasury Recovery Award Management System (TRAMS) for improved recipient reporting, risk-based monitoring, and debt collection.

As part of the *Consolidated Appropriations Act, 2023*, we received "Administrative Flexibility" to use administrative funds from programs with sufficient funding to support programs with shortages. In addition, we received an annual appropriation of $12 million to support financial assistance programs. As a result, ORP made modest adjustments to the budget to improve program and recipient support through the intended period of performance.

In FY 2024, ORP will continue to work closely with recipients to provide technical assistance, address questions, and help recipients achieve success. Further, ORP is working closely with OMB and the Department of Health and Human Services to pilot new ways of reporting for tribes and other recipients in rural areas who may have access to lower quality broadband to improve customer service across programs. ORP expects to further support efforts like these, while continuing to monitor compliance across the population of over 30,000 recipients, engage with recipients to provide technical assistance, resolve outstanding recommendations in Single Audit findings, support promising practices, and share successes to promote peer learning across the programs.

We also improved the administration of several pandemic programs with ongoing periods of performance including:

- completing the Emergency Capital Investment program (ECIP) policies and procedures for asset management in early March 2023 with the Collection of Quarterly Supplemental Reports commencing in August;

- adapting existing policies and procedures, compliance monitoring tools, and data collection forms that we successfully used to monitor other CDFI programs, including the CDFI Equitable Recovery Program (ERP) Awards; and

- developing the ERP Compliance module in our Awards Management Information System. It will be fully implemented by summer 2024. The CDFI Fund currently administers other programs with equal or longer compliance periods than ERP.

OIG Challenge 2 - Cyber Threats (Repeat): ***Cybersecurity remains a long-standing and serious challenge facing the Nation and was reported by GAO as a government-wide issue in its 2023 high-risk list published biennially. A reliable critical infrastructure, including information systems and networks, is vital to our national security and economic stability. Cyber threats remain a persistent concern as Treasury's information systems are critical to the core functions of government and the Nation's financial infrastructure, along with the financial sector it oversees. As cyber threats continue to evolve and become more sophisticated, subtle, and easier to carry out, Treasury must fortify and safeguard its internal systems and operations while modernizing and maintaining them. Although managing known risks is an ongoing challenge, Treasury must also be ready to reinforce and/or redirect cybersecurity efforts when unforeseen events occur, such as the COVID-19 pandemic, the on-going conflict in Ukraine, or when serious flaws are discovered in software or systems that allow for remote administrative-level access. Furthermore, EO 14028, Improving the Nation's Cybersecurity, issued on May 12, 2021, calls for federal agencies to update existing plans to prioritize resources for adoption and use of cloud technology and to adopt a zero-trust architecture, among other things. To achieve the goals outlined in EO 14028, OMB issued M-22-09, Moving the U.S. Government Toward Zero Trust Cybersecurity Principles. In addition to Treasury's own networks and systems, management must be cognizant of, and mitigate, the risks posed by attacks made against other federal and non-federal agencies and Treasury contractors and subcontractors where interconnections with Treasury's networks and systems exist.***

Management Response: We have 20 High Value Assets (HVA) for which unauthorized access, use, disclosure, disruption, modification, or destruction could cause a significant impact to U.S. national security interests, foreign relations, the economy, public confidence, civil liberties, or public health and safety. We continue to focus on network defense efforts for these assets, which includes an increased emphasis on risk/vulnerability assessments as well as accelerated compliance with logging, encryption, and multi-factor authentication requirements. During FY 2023, we completed 10 HVA assessments to identify potential cyber risks/vulnerabilities in the systems architecture/processes. We also continued efforts to bring our 20 HVAs into compliance with Event Logging (EL) Tier 3 (EL3) advance maturity rating for logging as defined in OMB M-21-31, *Improving the Federal Government's Investigative and Remediation Capabilities Related to Cybersecurity Incidents*. As of September 2023, six HVAs (30 percent) comply with EL3 requirements, and we expect to achieve 80 percent compliance by the end of the calendar year.

In FY 2023, we made progress toward adopting a zero-trust architecture (ZTA) in response to EO 14028 and M-22-09 including:

- accelerating efforts to bring systems into compliance with federal ZTA mandates related to multi-factor authentication, encryption of data-at-rest, and encryption of data in-transit. We expect over 90 percent system compliance across all requirements by the end of the calendar year;

- implementing multifactor authentication within the identity pillar for 57 FISMA boundaries. As of September 2023, we conduct over 2 million multi-factor authentications on average every 30 days. This includes several high-profile public facing systems. These implementations strengthen systems security and prevent fraud by reducing the risk of credential theft;

- implementing data at rest encryption on 55 FISMA boundaries, and data in transit encryption on 39 boundaries, reducing the risk to the confidentiality and integrity of the data. Within the data tier, 37 systems have achieved the EL2 intermediate maturity rating for logging, introducing increased telemetry for security investigations and monitoring. In addition to implementing technical controls, we trained over 600 personnel on ZTA principles, and we are embedding architecture patterns into modernization efforts;

- modernizing the legacy Treasury Enterprise Federation Service (TEFS) to a new Treasury Enterprise Authentication Service (TEAS), providing improved functionality and user experience. We implemented 33 applications to the new TEAS platform to enforce multi-factor authentication across all users, with 33 additional applications currently in development and testing;

- successfully configuring the Treasury Derived Personal Identification and Validation Credential solution at the Office of the Comptroller of the Currency and the Treasury Inspector General for Tax Administration. We are piloting it at Departmental Offices to prepare for full deployment; and

- raising the percentage of Treasury endpoints that are covered by an EndPoint Detection Response (EDR) solution to 91.6 percent, making them compliant with EO 14028 EDR requirements. We are also initiating a multi-stage deployment of a Department-wide EDR solution, in coordination with the Cybersecurity and Infrastructure Security Agency (CISA). Pending an October 2023 contract action to procure additional software licenses, we expect approximately 95 percent of our endpoints will be covered and compliant by the end of the calendar year.

During FY 2023, we issued the Treasury Cloud Report which focuses on current cloud adoption within the financial services sector. This report highlights the potential benefits and challenges that the sector faces related to increased cloud adoption. The report identified six gaps the financial services sector and regulatory stakeholders must address.

Pursuant to our role as a sector risk management agency, we continue to advocate for financial sector entities to participate in CISA's Cyber Hygiene Vulnerability Scanning to receive timely notifications of vulnerable internet-facing systems, while contributing to summary reports regarding participating entities' vulnerability trends. Enrollment increased from 272 in October 2021 to 622 in August 2023, and participation continues to grow by 40 - 50 percent annually. We also contributed to the development of the Cross Sector Cyber Performance Goals, with significant input from the financial sector and independent regulators. Our ongoing work on this initiative will enhance the cybersecurity and resilience of the financial services sector's critical infrastructure.

We also participate on the Cloud and Artificial Intelligence Working Groups, which are currently undertaking two efforts to improve cyber security in the sector focused on cloud adoption and artificial intelligence. Alongside our Financial Services Sector Coordinating Council, Financial and Banking Information Infrastructure Committee (FBIIC), and cloud service provider stakeholders, we established a Cloud Executive Steering Group (CESG) to close the six gaps the Treasury Cloud Report identified, referred to above. We are also developing an effort focused on the benefits and challenges related to cybersecurity in the financial services sector, stemming from increased use of artificial intelligence.

The Bureau of the Fiscal Service's (Fiscal Service) Security Fusion Center (SFC) initiative plans to launch a centralized, intelligence-driven, and decision-making entity to correlate and enrich technical and non-technical threat information for actionable insights. The SFC will enable Fiscal Service to proactively identify, contain, mitigate, and recover from security-related incidents, and identify vulnerabilities and weaknesses, enabling Fiscal Service to apply countermeasures before exploits occur.

OIG Challenge 3 - Anti-Money Laundering/Terrorist Financing and Bank Secrecy Act Enforcement (Repeat): ***Over the past year, the Office of Terrorism and Financial Intelligence (TFI) has remained dedicated to countering the ability of financial networks that support terrorists, organized transnational crime, weapons of mass destruction proliferators, and other threats to international security through intelligence analysis, sanctions, and international private-sector cooperation. Identifying, disrupting, and dismantling these networks continue to be challenging. Additionally, criminals and other bad actors evolve and continue to develop sophisticated money laundering methods to avoid detection. TFI's authorities are key tools in implementing U.S. policy to pressure foreign countries and regimes, such as Russia, by using a variety of targeted financial measures to include designations and economic sanctions. Data privacy and information sharing are challenges for the Financial Crimes Enforcement Network (FinCEN), which has experienced unauthorized disclosures of Bank Secrecy Act (BSA) information. FinCEN is required to maintain a highly secure database for financial institutions to report BSA information. The success of that system depends on the financial sector's confidence that those reports are adequately protected, but unauthorized disclosures threaten to undermine that confidence. The challenge for FinCEN is to ensure the BSA information remains secure in order to maintain the confidence of the financial sector, while meeting the access needs of law enforcement, regulatory, and intelligence partners.***

Management's Response: We are working on several initiatives to continue to identify and disrupt illicit financial networks and meet other mission goals. TFI continues to implement the Economic Analysis Unit in the Office of Foreign Assets Control (OFAC) following the recommendation of Treasury's 2021 Sanctions Review. The unit incorporates into the sanctions decision-making process analysis of the anticipated economic implications of our actions, particularly the impact on sanctions targets, the U.S. economy, our allies, and other third parties. Incorporating this economic analysis helps ensure that the costs of actions fall on intended targets and that we minimize potential negative impact on others. Our effort will bolster this powerful enforcement tool while also building the necessary workforce to address more sophisticated illicit enterprises.

We continued to apply our economic tools and authorities against Russia due to its illegal invasion of Ukraine in 2022, with three key objectives: (1) depriving Russia of the enabling means necessary to wage war in Ukraine; (2) preventing Russia from projecting military power; and (3) deterring and denouncing Russian war crimes and human rights abuses in Ukraine. To achieve these objectives, we deployed well-established policy, enforcement, intelligence, and regulatory tools, including robust sanctions. Most notably, we worked with international partners to impose a price cap on Russian-origin oil, constituting 30–35 percent of the total Russian budget prior to the war. This coordinated action caused a reduction in Russia's overall oil revenues and a corresponding decrease in its budget. This resulted in undercutting Russia's military-industrial complex while also keeping global energy markets well supplied, avoiding damaging price spikes, and limiting Russia's ability to profit from its energy exports.

In addition, we addressed the illicit drug trade in fentanyl and other synthetic opioids by deploying a variety of tools to address the crisis both domestically and abroad. This included engaging foreign counterparts both bilaterally and multilaterally to expand international cooperation to disrupt all aspects of the supply chain and the flow of this deadly drug into the U.S. Efforts also included working closely with the private sector, which has played a significant role in identifying suspicious activity related to fentanyl and other opioids. This collaboration helped identify valuable leads for law enforcement investigations and led to successful prosecutions.

FinCEN has undertaken multiple workstreams to implement the *Corporate Transparency Act of 2020* (CTA), which aims to provide authorized stakeholders with beneficial ownership information (BOI) for the purpose of detecting, preventing, and punishing terrorism, money laundering and other misconduct through business entities. FinCEN is committed to ensuring that reporting entities are aware of their obligations and understand the types of BOI they need to report and when, so that the Beneficial Ownership IT System becomes a "database that is highly useful to national security, intelligence, and law enforcement agencies and federal functional regulators" as required by the CTA. FinCEN is finalizing regulation identifying who can access BOI, for what purposes, and how they may use it. This regulation will also outline the stringent security and confidentiality requirements applicable to each category of authorized stakeholder. Authorized stakeholders will receive access to the Beneficial Ownership IT System only after fulfilling these requirements. In addition, FinCEN is designing an audit and monitoring system to identify potential misuse of BOI by authorized users, which will be similar to the monitoring and inspection processes for BSA access that we are currently enhancing. In accordance with the requirements of the CTA, this system will include an annual audit by FinCEN of every local, Tribal, state, or federal law enforcement agency that has an MOU to access BOI to ensure that each agency has requested and used BOI appropriately. The Beneficial Ownership IT System supporting the CTA will also be accredited to the FISMA "High" standards.

TFI and FinCEN are committed to their roles in safeguarding BSA information as well as BOI. As FinCEN begins to collect BOI in 2024, and consistent with the purposes laid out in the CTA, FinCEN will provide external access to the Beneficial Ownership IT system only to specific authorized stakeholders who have a legitimate need to access the information. From a technical perspective, all of FinCEN's unclassified systems, including those that currently store BSA information and will store BOI, adhere to FISMA "High" standards. These standards require implementation of the highest level of security controls for a system at the unclassified level, to help protect against the loss of confidentiality, integrity, or availability of information. FinCEN continues to update its IT security program and controls to implement new guidance and directives, such as EO 14028 and CISA's Continuous Diagnostic and Mitigation program and Binding Operational Directives to maintain a strong security posture and address new emerging threats.

OIG Challenge 4 - Information Technology Acquisition and Project Management (Repeat): ***The Federal Information Technology Acquisition Reform Act (FITARA), enacted in December 2014, was the first major overhaul of federal Information Technology (IT) management since the passage of the Clinger-Cohen Act of 1996, which was designed to improve the federal government's acquisition and management of its resources to include IT investments. Among other things, it expanded the Chief Information Officers (CIO) of federal agencies involvement in IT decision making, including annual and multi-year planning, programming, budgeting, execution, reporting, management, governance, and oversight functions. While FITARA is intended for agencies to better manage their IT investments, implementation continues to be a government-wide challenge.***

Management Response: We have sought continual improvements to further refine our FITARA implementation and build a mechanism to deliver more effective department-wide IT acquisition strategy and outcomes. This includes process improvements that drive review of Bureau IT acquisitions to identify opportunities for more centralized procurement practices and further reduce department-wide acquisition duplication and waste. Key among these efforts is implementation of the PROTECTS acquisition vehicle, which is intended to ensure we can obtain cybersecurity goods and services more quickly, with less effort, and centrally, leveraging the buying power of the entire Department. We achieved several successes in service of our FITARA 2.0 goal, including:

- revising Office of the Chief Information Officer (OCIO) FITARA IT Acquisitions policy to require OCIO-level reviews that allow us to identify enterprise-wide service/support opportunities (i.e., cybersecurity);

- suspending a $188 million dollar IRS-specific Cybersecurity IT acquisition and incorporating its requirements into Treasury's existing enterprise PROTECTS acquisition vehicle;
- awarding an enterprise contract for Zscaler services, a critical element in supporting our zero trust requirements;
- completing our annual budget year 2025 (BY25) Capital Planning and Investment Control (CPIC) IT Investment submission. Reviewing and submitting 281 IT investments, with a total proposed IT budget of approximately $8.7 billion dollars; and
- maintaining our FITARA Scorecard of "B" as of Scorecard 16 published for September 2023.

We also continued to expand our enterprise TBM program this fiscal year by establishing the five-year TBM roadmap and completing several projects including:

- creating and improving IT investment project dashboards to improve our oversight of the IT projects' budget and schedule;
- completing a proof of concept of Cloud TBM reports for our Amazon cloud platform, setting the stage to improve the enterprise reporting of our Cloud Spend across all platforms in FY 2024;
- leveraging TBM reports, which provide IT spend data on IRA-funded IT investments, to assist IRS in restructuring its IT investment (for example, in BY25, IRS reported 15 major investments following the TBM framework, versus 123 IT investments in the past years.) TBM reports provide IT spend data on Inflation Reduction Act (IRA) funded IT investments;
- completing a proof of concept of Applications and Services TBM reports for Departmental Offices, setting the stage to implement Enterprise Applications and Services TBM reporting for all our bureaus in FY 2024; and
- streamlining the IT Spend reporting process between the Enterprise TBM system (Apptio) and CPIC system by completing integration between both systems; the Enterprise TBM system is now the source system for our IT Spend data published on the CPIC system and therefore OMB's IT Dashboard.

In September 2023, Fiscal Service completed the first phase of implementing the Program Management Improvement Accountability Act Framework, a large step towards strengthening program and project management accountability, transparency, capabilities, and skillsets across the bureau. The framework will be fully implemented in December 2023. This capability gives the Fiscal Service the necessary transparency on project and incremental delivery health through data-driven and qualitative assessments of scope, quality, cost, and schedule performance. This information also provides Fiscal Service's CIO a more comprehensive, proactive view into investment risks, which is reflected in the Bureau Investment Risk Rating promoted to Treasury monthly.

In January 2023, Fiscal Service strengthened the business case and technical solution review process at the sub-council advisory level to ensure alignment with strategic priorities, including cyber executive orders and the National Security Council's accelerated timelines, IT strategy/enterprise architecture, and FITARA. Fiscal Service's governance sub-councils for system architecture and enterprise investment regularly review and discuss the Financing Modernization program risks and progress. The Financing Modernization work is fully compliant with all cyber executive orders and the National Security Council timelines.

Fiscal Service continues to redirect business lines away from Large-Scale Programs (LSPs) and "big bang" modernization to embrace smaller, incrementally delivered value through an Indefinite Sustainability Model. Fiscal Service continues work to ensure transparency and accountability using the Program Management Improvement Accountability Act (PMIAA) framework as development in the Financing Modernization program progresses. Once the PMIAA implementation is complete in FY 2024, Fiscal Service will focus efforts to improve governance board visibility into results management (giving a full life-cycle view of investment results).

The BEP continues its efforts to replace its Washington, D.C. facility with a new facility via a formal project governance and change management structure with stakeholders, including the Department, the Federal Reserve Board, and the U.S. Army Corps of Engineers (USACE). The BEP is also effectively partnering with the USACE to perform multiple third-party cost, schedule, and risk assessments to validate the project budget, contingency amounts, schedule, and known risks. The BEP anticipates it will complete the project design and receive formal governance approval to award a construction contract in FY 2024. The current schedule anticipates construction will be completed by the end of calendar year 2027.

OIG Challenge 5 - Climate Initiatives Risk (Repeat): ***In January 2021, EO 14008, Tackling the Climate Crisis at Home and Abroad, identified the immediate need for comprehensive action to address the catastrophic impacts of climate change. EO 14008 emphasizes that U.S. leadership, and that of federal departments and agencies, will be required to significantly enhance global action and achieve the necessary policy outcomes on climate change. Treasury continues to play a significant role working with other federal agencies, foreign governments, and international financial institutions to stimulate global action on addressing climate change, environmental justice, and climate change-created economic and financial crises. In 2021, Treasury created a new Climate Hub and appointed a Climate Counselor to coordinate and lead many of its efforts to address climate change. In October 2021, the Financial Stability Oversight Council (FSOC) issued its Report on Climate-Related Financial Risk, as mandated by EO 14030. The report highlights challenges in efforts to comprehensively understand and address climate-related financial risk. Those challenges include the types and quality of available data and measurement tools, the ability to assess climate-related financial risks and vulnerabilities, and the incorporation of these risks into management practices and supervisory expectations as appropriate.***

Management Response: We continue to make progress on the Climate Action Plan. Some of the activities that promote the progress of the plan include:

- FSOC continues to use its Climate-related Financial Risk Committee (CFRAC) as a forum to facilitate member agencies' efforts to advance the recommendations in the Report on Climate-Related Financial Risk. The CFRAC also promotes interagency information sharing, coordination, and capacity-building on climate-related financial risk; facilitates the development of common approaches and standards; and fosters communication across FSOC members, including via dedicated working groups on data, scenario analysis, and risk assessment.

- The OFR and FSOC continue to prioritize the development of the JADE, including onboarding FSOC member agencies during the fall (2023) and winter (2024). JADE will offer scalable, high-performance computing with analytical software and support for programming languages such as R and Python in a cloud-based environment with analysis-ready data.

- We continue our active involvement in international circles that are investigating climate-related financial risks and developing recommendations to address them. This includes involvement in the Network of Central Banks and Supervisors for Greening the Financial System, and the Financial Stability Board.

- In FY 2023, we released two new learning modules focused on climate change through our Integrated Talent Management system. Our Climate Literacy Work Group (CLWG) partnered with the National Oceanic and Atmospheric Administration to develop the "Climate 101" employee training presentation open to all staff to gain an understanding of the basics and background of climate change. We also established the "Climate Focused Management" module, which was specifically developed by and for our manufacturing bureaus, the U.S. Mint and the Bureau of Engraving and Printing. The CLWG will continue to expand the climate literacy program in FY24 to ensure a climate-ready workforce.

- We are actively making efforts to convert our fleet from gas-powered vehicles to electric vehicles (EV) as well as plug-in hybrid EVs. We are also taking steps to install electric vehicle supply equipment (EVSE) infrastructure (charging stations) required to power EV fleet vehicles. The EV and EVSE initiatives demonstrate our commitment to meeting the requirements of EO 14057, *Catalyzing Clean Energy Industries and Jobs Through Federal Sustainability*.

- We hired a dedicated Climate Change and Sustainability Specialist who is tasked with overseeing all aspects of Treasury's initiatives relating to Carbon-Pollution Free Electricity; Zero Emissions Fleet Vehicles; and Net Zero Emissions Buildings, Campuses, and Installations; and facilitating additional climate-related projects and initiatives across the Department. Additionally, we filled our Department Fleet Manager position, thereby ensuring continuity of the EV Strategic Program and EV goals as outlined in EO 14057.

- The OCC established and staffed its Office of Climate Risk and completed climate-related financial risk management discovery reviews of banks with over $100 billion in total consolidated assets. This provided OCC with an in-depth understanding of these banks' practices on a wide range of areas pertaining to climate-related financial risk management such as corporate governance, reporting, metrics, data, risk identification and management, and scenario analysis.

- OCC will be leading the Risk Assessment Working Group of the FSOC CFRAC and will start the climate-related financial risk management reviews of banks or foreign banking organizations with over $100 billion in total consolidated assets to develop a deeper understanding of banks' climate risk profiles and the banks' progress on the management of climate-related financial risks for safety and soundness.

OIG Challenge #6 - Operating in an Uncertain Environment (New): ***In assessing the Department's most serious challenges, we remain mindful of external factors and future uncertainties that affect its operations. These factors include, but are not limited to, the repeated cycle of budget and debt ceiling stopgaps, rising interest rates, and inflation. Congress has yet to resolve unfinished business when it comes to the Nation's debt, and the long-term sustainability of programs. The impact of these challenges and their 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 programs and reforms be managed and communicated effectively to achieve performance and accountability.***

Management Response: Domestic Finance staff consistently informs senior staff and the Secretary of projected key dates leading up to the point at which we will reach the debt subject to limit ("debt limit"), and the projected dates through which extraordinary measures would last. Throughout the debit limit crisis that lasted from January through early June 2023, Domestic Finance staff kept senior leaders including the Secretary informed about the impact on cash flows and balances, and debt issuances and market impacts. In addition, Fiscal Service took extraordinary actions consistent with relevant laws and regulations to avoid exceeding the debt limit. These actions included suspending investments to certain federal government accounts. The operational oversight of Domestic Finance offices enabled the Secretary to effectively communicate key deadlines to Congress, enabling it to pass a bill suspending the debt limit prior to the exhaustion of extraordinary measures.

On Saturday, June 3, 2023, the President signed into law the *Fiscal Responsibility Act of 2023*, which suspended the statutory debt limit through January 1, 2025. On Monday, June 5, 2023, Fiscal Service discontinued using extraordinary actions and resumed normal debt management operations. Between June 6, 2023, and June 30, 2023, Fiscal Service restored the uninvested principal and related interest to the federal government accounts affected by the extraordinary actions it took during the delay in raising the debt limit.

In response to market stress in March 2023, the OCC quickly invoked its market disruption protocols, which included daily monitoring of certain banks. The OCC immediately increased engagement across business lines and with other agencies to aggregate and report on risks and the impacts of those risks.

In addition, following the financial system stress beginning in March 2023, regulators with supervision authority over Silicon Valley Bank and Signature Bank published reports on lessons learned from those bank failures. Leveraging those key lessons, the OCC is conducting an assessment of its own supervision processes and identified areas where it can further enhance its processes. Work is underway to finalize action plans.

As part of the OCC's strategic plan, an initiative is underway focused on expanding information access and sharing across business units. This effort is geared toward developing an approach and piloting information sharing delivery methods. This will aid in accelerating information availability and conversation on emerging trends and risks being identified within different business units.

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION MANAGEMENT CHALLENGES

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

October 11, 2023

MEMORANDUM FOR SECRETARY YELLEN

Heather Hill

FROM: Heather M. Hill
Acting Inspector General

SUBJECT: Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2024

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

Each year, TIGTA evaluates IRS programs, operations, and management functions to identify the most vulnerable areas in the Nation's tax system. The passage of the Inflation Reduction Act of 2022 (IRA)[2] on August 16, 2022, significantly impacted the IRS by providing the opportunity and funding to transform all aspects of its operations over the next decade. The IRS issued a long-term Strategic Operating Plan (SOP) on April 6, 2023, that outlines its vision for the future of tax administration. Achieving the five objectives reflected in the SOP, through a series of initiatives and projects, will be the central challenge confronting the IRS for the foreseeable future. These transformation efforts are a significant undertaking that impact all the management challenges discussed in this memorandum.

[1] 31 U.S.C. § 3516(d) (2006).

[2] Public Law No. 117-169, 136 Stat. 1818.

For Fiscal Year (FY) 2024, we have identified the IRS's top management and performance challenges as:

- Managing IRA Transformation Efforts;
- Tax Law Changes;
- Taxpayer Service;
- Human Capital;
- Information Technology Modernization;
- Protection of Taxpayer Data and IRS Resources;
- Tax Compliance and Enforcement;
- Tax Fraud and Improper Payments; and
- Taxpayer Rights.

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

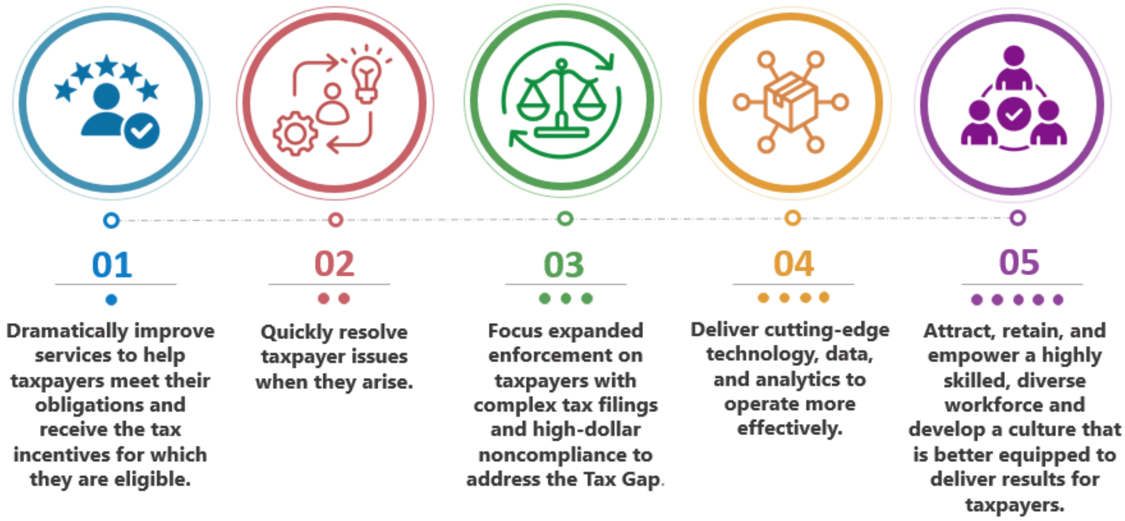
MANAGING IRA TRANSFORMATION EFFORTS

The IRA legislation appropriated almost $80 billion to the IRS through September 30, 2031, to improve taxpayer service, update its computer systems, and increase compliance and enforcement actions against high-income taxpayers and large corporations. After the passage of the IRA, the IRS was required to develop a SOP detailing how resources will be spent over the next decade. When it was released on April 6, 2023, the SOP indicated that the IRA created a historic opportunity for the IRS to transform the administration of the tax system. The SOP outlines the IRS's transformation mission as:

> *We will make it easier for taxpayers to meet their tax responsibilities and receive tax incentives for which they are eligible. We will adopt a customer-centric approach that dedicates more resources to helping taxpayers get it right the first time, while addressing issues in the simplest ways appropriate. We will address noncompliance, using data and analytics to expand enforcement in certain segments. We will become an employer of choice across government and industry. These changes will enable us to serve all taxpayers more equitably and in the ways they want to be served.*

The SOP is structured to achieve five objectives, which will be accomplished through a series of initiatives and projects aligned to each objective.

Figure 1: IRS Objectives of its IRA Strategic Operating Plan



Source: TIGTA graphic based on review of the IRS's IRA SOP.

Managing the transformation efforts will be a significant challenge for the IRS because the SOP was predicated on the provision of sufficient annual funding. In addition, TIGTA has previously raised concerns about the many challenges the IRS has faced when implementing large-scale transformation projects. The Commissioner of Internal Revenue stated that "the IRS's plan for IRA implementation assumed the IRA funds will support the transformation efforts, while day-to-day operations would continue to be supported by annual appropriations." However, within months of laying out its transformation vision, the IRS has already seen cuts to its funding.

With the passage of the Fiscal Responsibility Act of 2023,[3] which increased the Federal debt limit, approximately $1.4 billion of the IRA funding available for enforcement was rescinded. In addition to this rescission, an agreement was reached to potentially reduce the IRS's annual appropriations in FYs 2024 and 2025 by $10 billion each year. This change would represent a 79 percent reduction relative to the Congressional Budget Office's projection of the IRS's discretionary budget authority over those two fiscal years. The reduction in funding, which appears possible based on an agreement reached with passage of the Fiscal Responsibility Act, will impact the IRS's ability to use IRA funds as intended and instead force the IRS to shift these funds to maintain current operations.

If the IRS continues to receive reductions to its funding over the next decade, it will have to make difficult decisions on what to prioritize when making improvements to its operations and the way in which it serves taxpayers. The IRS has historically struggled to fulfill long-term plans to transform the organization. While some of this can be attributed to the continually changing budget environment, the IRS has also not effectively managed the process. For instance, in 2015, the IRS laid out its vision for the Future State of the IRS, with six stated themes to achieve its goals before merging the Future State into the IRS's strategic plan in 2018. At the request of Congress, the Government Accountability Office reviewed the Future State and found that it was unclear how implementation of the Future State via the IRS Strategic Plan would occur or when it would be completed.

[3] Public Law No. 118-5 137 Stat. 10.

The IRS has also had difficulty implementing large scale projects within the Information Technology function, leading to cost overruns, late deliverables, and inefficient use of funds. For example, the IRS's Customer Account Data Engine 2 (CADE 2) program involves major changes to core IRS tax processing systems. The IRS began developing CADE 2 in 2009; however, the Government Accountability Office reported that the IRS's CADE 2 development has taken much longer and cost significantly more than originally planned.[4]

The implementation of the IRA will challenge the IRS to ensure the proper balance of improving services to taxpayers, expanding enforcement, and modernizing its information technology. In addition, the IRS will need to ensure that it uses this increased funding in the most effective manner. TIGTA will continue to provide oversight work that addresses all five of the previously mentioned IRA SOP objectives. The oversight work conducted will provide external stakeholders insight into how well the IRS is achieving each of its stated goals over the next 10 years.

TAX LAW CHANGES

The annual filing season is a critical time for the IRS because it is when most individuals file their income tax returns and contact the IRS if they have questions about specific tax laws or filing procedures. Errors in the IRS's tax return processing systems may delay tax refunds, affect the accuracy of taxpayer accounts, or result in incorrect taxpayer notices. One of the continuing challenges that the IRS faces each year in processing tax returns is the implementation of new tax law changes as well as changes resulting from expired tax provisions. Legislative actions generating the changes often occur late in the year, shortly before the filing season begins.

For example, the IRA contains 36 tax provisions that affect individual and business taxpayers. Twenty of these tax provisions required the IRS to implement changes related to tax return processing for Processing Year 2023. This required the IRS to create or revise tax forms, instructions, and publications; update computer programming to process tax returns affected by the provisions; and communicate and provide guidance to taxpayers and tax professionals on the tax law changes.[5]

The IRS used several established processes to immediately begin the task of tracking and implementing the 36 tax provisions. This included creating an implementation oversight office to work across the IRS overseeing the implementation efforts. Additionally, the IRS created the IRA 2022 Tax Provision Implementation Office, which is primarily responsible for overseeing the implementation of the tax provisions. As of May 2023, the IRS created or revised 71 tax products impacting Processing Year 2023.

Most IRA tax provisions affect future tax years. However, a small number of provisions affected individual tax filers for Tax Year (TY) 2022. Figure 2 identifies the three provisions most relevant to the 2023 Filing Season and provides the estimated tax impact for each provision for Calendar Years 2023 through 2026.[6]

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[4] TIGTA, Report No. 2023-20-006, *Annual Assessment of the IRS's Information Technology Program for Fiscal Year 2022* (Apr. 2023).
[5] TIGTA, Report No. 2024-408-004, *Inflation Reduction Act: Assessment of Implementation of Processing Year 2023 Tax Provisions* (Oct. 2023).
[6] TIGTA, Report No. 2023-40-029, *Interim Results of the 2023 Filing Season* (May 2023).

Figure 2: Summary of IRA Provisions Affecting the 2023 Filing Season

Provision	Overview of Related Provisions	Tax Impact Calendar Years 2023 - 2026
Energy Efficient Home Improvement Credit (13301)	Renamed and replaced the existing Nonbusiness Energy Property Credit and extended the credit through December 31, 2032.	$5.9 billion
Residential Clean Energy Credit (13302)	Renamed and replaced the existing Residential Energy Efficient Property Credit and increased the credit rate to 30 percent for property placed into service beginning in TY 2022.	$6.9 billion
Clean Vehicle Credit (13401)	Renamed and replaced the existing Qualified Plug-In Electric Drive Motor Vehicle Credit. For TY 2022, transition rules for the requirement that qualifying vehicles must undergo final assembly in North America apply for vehicles placed into service on or after August 16, 2022.	$1.8 billion

Source: The IRA and the Joint Committee on Taxation JCX-18-22.

Actions are underway to implement the 16 tax provisions of the IRA that become effective during Processing Years 2024 through 2028. As of June 2023, the IRS had identified 68 tax products affected for future processing years related to these provisions, including 25 tax forms, 41 instructions, and two publications. The actions include efforts to implement processing controls for the clean vehicle credits and elective payments for energy property and electricity produced from certain renewable resources. TIGTA plans to continue to monitor the implementation during Processing Year 2024.

The 2023 Filing Season was also impacted by several tax provisions in the Consolidated Appropriations Act, 2021 and the American Rescue Plan Act of 2021 (ARPA) that expired at the end of Calendar Year 2022.[7] The ARPA modified several credits, including the Child and Dependent Care Credit (CDCC) and Child Tax Credit (CTC). The ARPA expanded the CTC to provide taxpayers the ability to receive up to one half of the estimated TY 2021 CTC in advance payments between July and December 2021.

TIGTA reported that the IRS created an automated process to recalculate the CTC, including the amount of advance payments posted to a taxpayer's tax account.[8] This process identified 3.8 million tax returns that contained a discrepancy between the IRS calculated CTC amount and the amount claimed by the taxpayer that required resolution. Further, the IRS developed a process in response to TIGTA's concerns to identify undeliverable advance payments that occurred after taxpayers filed their TY 2021 tax return. As of October 2022, the IRS reissued payments to 7,877 taxpayers totaling $5.4 million.

The ARPA also temporarily expanded the CDCC, making it fully refundable for taxpayers whose main home was in the United States for more than one-half of the year. The legislation also temporarily expanded the eligibility rules and the amount of Earned Income Tax Credit (EITC) for taxpayers with no qualifying children. In 2022, TIGTA reported on a number of weaknesses in the controls over the processing of CDCC

[7] Pub. L. No 116-260, 132 Stat. 1182, and Pub. L. No. 117-2, 135 Stat. 4 (codified in scattered sections of 7, 12, 15, 19, 20, 26, 29, 42, and 45 U.S.C.), respectively.
[8] TIGTA, Report No. 2023-47-035, *American Rescue Plan Act: Review of the Reconciliation of the Child Tax Credit* (June 2023).

claims.[9] In a follow-up audit, TIGTA determined that IRS management needs to take additional actions to address prior agreed to recommendations.[10] As a result, TIGTA made additional recommendations for the IRS to improve its processing of the CDCC and EITC.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act[11] contains numerous tax-related provisions impacting individuals and businesses and appropriates approximately $750 million in additional funding to the IRS to administer and oversee these provisions. The CARES Act allows employers, including self-employed taxpayers, to defer deposits of the employer's share of Social Security tax. Employers can defer the full amount of the employer's share of the Social Security tax while self-employed taxpayers can defer 50 percent of the total Social Security tax. TIGTA determined that the IRS developed processes to systemically identify tax accounts with an unpaid December 2021 Social Security tax deferral and manually adjust the tax accounts.[12] However, due to limited resources, the IRS was unable to develop programming to adjust accounts systemically that did not timely pay the Social Security tax deferral. As a result, TIGTA estimates $108 million in potential penalties and interest were not assessed on approximately 67,000 tax accounts.

The implementation of significant legislative mandates will continue to be a challenge for the IRS to address when preparing for the processing of tax returns during future filing seasons.

TAXPAYER SERVICE

Voluntary tax compliance is closely linked to the customers' experience and the services provided, and survey results reported in Calendar Year 2019 showed that the IRS's customer service lags behind service provided by other Government agencies and the private sector.[13] The Taxpayer First Act (TFA), signed into law on July 1, 2019, required the IRS to submit a written comprehensive customer service strategy to Congress.[14] In January 2021, the IRS submitted its Taxpayer Experience Strategy (TXS) and its plans for the creation of the Taxpayer Experience Office (TXO).

TIGTA reported that the IRS developed plans to implement the TXS but can more effectively monitor its progress in its implementation.[15] IRS management indicated its ability to hire staff for the new office was materially limited until the FY 2022 Federal budget was passed in March 2022. As of February 2023, the TXO was not fully staffed, and it had not tracked and monitored the implementation of TXS capabilities; developed a detailed implementation plan for the top prioritized TXS capabilities; updated the *TXS Roadmap*.; or developed performance measures.

The IRS business units continue to implement many initiatives that make up the TXS capabilities, but the TXO has not overseen the organization's progress. According to TXO management, their goal was to be

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

[10] TIGTA, Report No. 2023-47-037, *American Rescue Plan Act: Assessment of the Expanded Child and Dependent Care and Earned Income Tax Credits* (June 2023).

[11] Pub. L. No. 116-136, 134 Stat. 281 (codified as amended in scattered sections of 2, 5, 12, 15, 20, 21, 29, 42, and 45 U.S.C.).

[12] TIGTA, Report No. 2023-46-030, *Recurring Identification Is Needed to Ensure That Employers Full Pay the Deferred Social Security Tax* (May 2023).

[13] American Customer Satisfaction Index, *ACSI Federal Government Report 2018* (2019), and Forrester Research, Inc., *The US Federal Customer Experience Index* (June 11, 2019).

[14] Pub L. No. 116-25, 133 Stat. 981 (codified in scattered sections of 26 U.S.C.).

[15] TIGTA, Report No. 2023-15-028, *Plans Were Made to Implement the Taxpayer Experience Strategy, but Progress Is Not Monitored* (May 2023).

fully staffed by March 2023, at which time they planned to establish details of the day-to-day operations and the oversight of the implementation of the TXS. However, TXO management stated that the TXO's future direction could change based on the IRS's implementation of the IRA, and that it may take until the end of Calendar Year 2023 to be fully staffed.

The IRS has long recognized that improving customer service to taxpayers in underserved communities is a key component of a voluntary tax system and began taking steps to make improvements as an organizational priority before the enactment of the TFA. Some of these efforts were designed to assist taxpayers in specific underserved communities, while other efforts are more broadly focused on larger segments of the taxpayer population, which often include taxpayers in underserved communities. Figure 3 lists the underserved communities identified in the TXS.

Figure 3: TXS Underserved Communities

TXS identifies the following as underserved communities:	
Taxpayers with disabilities[16]	Taxpayers with limited English proficiency
Elderly taxpayers[17]	Native American communities
Low-income taxpayers[18]	Members of the armed forces
Taxpayers living in rural communities[19]	International taxpayers

Source: TFA Report to Congress.

TIGTA reported that the TXS included details about how the IRS would implement service improvements for two of the eight underserved communities, but the IRS has not yet developed detailed plans to address the other six communities, nor has it created a comprehensive agencywide strategy to implement and monitor service improvements.[20] The TXS included service improvement strategies for taxpayers with limited English proficiency and international taxpayers. However, the TXS strategies for the remaining six communities were all similarly generically worded to conduct focused research to learn more about the communities and to work with partners.

There is a risk that the IRS will not use resources optimally when assisting underserved communities because the IRS could duplicate its efforts if it does not determine how communities overlap. Additionally, initiatives focused solely on specific underserved communities may not be as effective in increasing voluntary compliance or reducing taxpayer burden because they may address only one issue for taxpayers that have multiple common issues.

In December 2022, we reported that the IRS inventories of unprocessed tax returns would not return to pre-Coronavirus Disease 2019 (COVID-19) pandemic levels by the end of Calendar Year 2022 and

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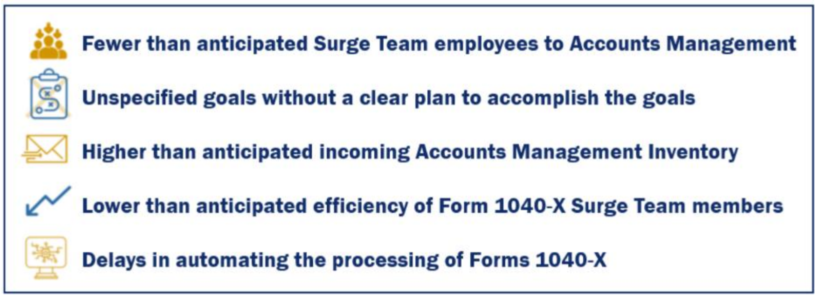
[16] The taxpayers with disabilities community includes taxpaying populations needing special assistance due to sight, hearing, dexterity, limited mobility, and cognitive challenges.
[17] The IRS defines elderly taxpayers as those who are age 60 or older.
[18] Low-income taxpayers generally make $60,000 or less per year.
[19] Rural communities are populations of 500 or less persons per square mile.
[20] TIGTA, Report No. 2023-15-027, *Services to Underserved Communities Have Been Ongoing; However, an Agencywide Strategy Has Not Been Developed* (May 2023).

subsequently reported that backlogs of tax returns and account work remained for the 2023 Filing Season.[21]

Further, in May 2023, TIGTA identified the following contributing factors to the remaining backlogs in the Accounts Management function, which is responsible for assisting individual and business taxpayers with tax law and tax account inquiries, including making adjustments to taxpayer accounts when necessary.

Figure 4: Factors Contributing to Remaining Inventory Backlogs



Source: TIGTA graphic based on findings identified during our review.

While the employees assigned to the Accounts Management function Surge Team contributed to the additional closures of its inventory, there were fewer employees available than anticipated. In addition, the loss of employees from other IRS functions resulted in an estimated $2.6 billion in potential lost or delayed revenue, due to fewer examination and collection cases being worked.

Further, the Form 1040-X, *Amended U.S. Individual Tax Return*, Surge Team's closure rates were less than one-half of the normal employees' closure rates. Automating the processing of these amended returns would reduce the burden on taxpayers waiting for their amended returns to be processed, and the benefits far outweigh the associated costs. For example, TIGTA estimated that the IRS would potentially save more than $322 million in yearly processing costs by automating the processing of Forms 1040-X. This is in addition to any interest saved.

During the 2023 Filing Season, the IRS made significant progress to reduce tax return inventories closer to pre-pandemic levels. For example, more than 2 million individual tax returns and transactions remained in inventory as of the end of Calendar Year 2022, compared to more than 8.4 million as of the end of Calendar Year 2021. IRS management stated that for the first time since the pandemic began, individual tax return processing and related activities were returning to normal timeliness goals. The IRS cleared the carryover inventory of unprocessed individual tax returns received during Calendar Year 2022 by February 2023.[22] However, as of July 2023, the IRS had more than 1.3 million individual and business paper returns received in Calendar Year 2023 waiting to be processed.

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[21] TIGTA, Report No. 2023-46-007, *Backlogs of Tax Returns and Other Account Work Will Continue Into the 2023 Filing Season* (Dec. 2022); TIGTA, Report No. 2023-46-026, *Additional Actions Are Needed to Reduce Accounts Management Function Inventories to Below Pre-Pandemic Levels* (May 2023).

[22] TIGTA, Report No. 2023-40-029, *Interim Results of the 2023 Filing Season* (May 2023).

Figure 5: Status of Paper Returns Waiting to Be Processed as of July 2023

Category	Returns			
	Individual	Business	Unspecified	Total
Received in Calendar Year 2023	548,251	760,405	16,217	1,324,873

Source: IRS Submission Processing Weekly Inventory Report, as of July 21, 2023.

The IRS assists millions of taxpayers via its website (IRS.gov), telephone, and social media platforms as well as face-to-face assistance at its Taxpayer Assistance Centers (TAC), Volunteer Income Tax Assistance sites, and Tax Counseling for the Elderly sites. During the 2023 Filing Season, the IRS saw improvement in its Level of Service (*i.e.*, how many of those who call are able to speak to a Customer Service Representative) and wait times for its toll-free telephone lines when compared to the 2022 Filing Season. Figure 6 shows a comparison for Calendar Years 2022 and 2023.

Figure 6: Toll-Free Telephone Performance Statistics for Calendar Years 2022 and 2023

Statistics	Filing Season	
	2022	2023
Assistor Calls Answered	5,429,000	8,951,000
Level of Service	15.5%	82.8%
Average Speed of Answer (Minutes)	28	4
Level of Access[23]	29.4%	51.9%

Source: IRS management information reports (as of May 14, 2022, for Calendar Year 2022 and as of May 13, 2023, for Calendar Year 2023) and TIGTA analysis of the reports.

In addition to providing service to taxpayers over the telephone, the IRS also plans to assist approximately 2.7 million taxpayers at its TACs in FY 2023. This is an increase of 97 percent from the number of taxpayers the IRS assisted during FY 2022.[24] Figure 7 shows the number of contacts by product line at the TACs for FYs 2022 and 2023.

[23] The Level of Access is computed by taking the sum of Assistor Calls Answered and Automated Calls Answered divided by the Total Dialed Number Attempts Open Hours. TIGTA developed this metric; it is not an official IRS statistic. As noted in TIGTA, Report No. 2019-40-041, *Telephone Performance Measures Do Not Provide an Accurate Assessment of Service to Taxpayers* (June 2019), the IRS's Level of Service measure does not reflect overall call demand for telephone assistance. We also reported that the IRS's measure was not consistent with access measures reported by other types of organizations that operate toll-free help lines, such as the Social Security Administration and tax agencies in the States of California, Georgia, and New York.

[24] TIGTA, Report No. 2023-40-029, *Interim Results of the 2023 Filing Season* (May 2023).

Figure 7: TAC Contacts for FYs 2022 and 2023

Contacts/Product Lines	Fiscal Year 2022 Actual	Fiscal Year 2023 Projections
Tax Account Contacts	745,000	1,801,000
Form Contacts	52,000	61,000
Other Contacts	552,000	790,000
Tax Law Contacts	8,000	18,000
Totals	**1,357,000**	**2,670,000**

Source: IRS management information reports. Numbers shown are rounded.

However, insufficient staffing continues to result in the TACs not being open to provide taxpayer assistance. As of May 2023, the IRS reported that 22 of the 363 TACs were closed due to a lack of staffing. IRS management cautioned that the operating status of the TACs can vary day-to-day due to illness, staff leaving, or staff taking other positions within the IRS. For example, as of May 2023, 157 of the 363 TACs the IRS operated were staffed with one or two IRS employees. Similar to prior filing seasons, the IRS continues to use its appointment service for all TACs. However, in February 2023, in an effort to further assist taxpayers, the IRS announced special Saturday hours at more than 40 locations for face-to-face help between February and May with no appointments required.

In addition, digital communications have the potential to allow the IRS to more efficiently and effectively communicate with taxpayers. The Taxpayer Digital Communication (TDC) program is intended to enable taxpayers and tax professionals to interact with the IRS electronically. It is designed to facilitate quick and secure sharing of files and documents online by IRS employees and taxpayers, instead of waiting for physical mail, traveling to pick up documents, or requiring in-person interactions. Accordingly, the use of digital communications should allow IRS employees to resolve taxpayer issues more efficiently.

However, the IRS could do more to plan and implement a TDC program that meets taxpayers' needs. For example, the IRS did not proactively identify IRS functions or operations for which digital communication may have provided sizable benefits for both taxpayers and IRS employees. Rather, any IRS program, function, or business unit wishing to explore a digital communication installation was allowed to express interest. TIGTA also reported that there is a need for the IRS to establish an office that can more readily provide oversight and coordination between the business units involved in the implementation and operation of the TDC installations and the Information Technology organization.[25]

As the IRS implements initiatives related to the IRA, it must continue to focus its efforts on improving service to taxpayers, including innovative ways to simplify or eliminate processes that unnecessarily burden taxpayers.

[25] TIGTA, Report. No. 2023-30-003, *More Should Be Done to Expand and Increase Use and Availability of the IRS's Taxpayer Digital Communication Tools* (Nov. 2022).

HUMAN CAPITAL

Human capital remains a serious, underlying issue with wide-ranging implications for both the IRS and taxpayers. From FYs 2010 to 2020, the number of IRS employees decreased significantly. During this period, the IRS's budget decreased approximately $1 billion, or 8 percent, from $12.5 billion in FY 2010 to $11.5 billion in FY 2020, affecting its ability to hire employees to replace those who left. The IRS ended FY 2020 with slightly more than 80,000 employees, a 15 percent decline from just over the 94,000 employees in FY 2010. At a time when the IRS is taking on the enormous challenge of implementing the IRA, the recruitment of new employees and retention of existing employees are critical to ensuring a quality workforce capable of meeting the needs of the American public. As stated in its IRA SOP, IRS employees in the future will require a broader foundation of core competencies. The IRS envisions a greater number of data scientists as it becomes a data-centric organization. To address increasingly complex tax filings, the IRS indicated in the future its compliance functions will rely on specialized teams who respond to increasingly complex filings.

According to its IRA SOP, the IRS plans to hire approximately 29,500 employees in FYs 2023 and 2024 due to funding provided by the IRA. In its FY 2024 budget request, the IRS indicated it has experienced significant staff attrition over the past 10 years, with a loss of over 10,000 positions since 2012, predominantly within the compliance function. According to data provided by the IRS, approximately 15,000 employees had retired or separated during FY 2022. In addition, the IRS's budget request stated that an estimated 63 percent of the IRS's employees will be eligible for retirement in the next five years, and its current attrition rate is nearly 26 percent higher than the average for Federal agencies. The IRS indicated that approximately 21,000 employees will be eligible to retire by the end of FY 2023. These employees will take with them valuable knowledge of IRS systems, procedures, and information on day-to-day operations. The IRS will be challenged to recruit, quickly hire, onboard, and train the large number of individuals with the appropriate core competencies to replace both its planned staff attrition and increased staffing levels provided by the IRA.

Federal agencies can use special payment incentives to recruit and retain employees, and to fill mission-critical skill gaps. However, TIGTA reported that the IRS has used these incentives on only a limited basis.[26] Between FYs 2019 and 2022, the IRS issued recruitment, retention, or relocation incentive payments to 1,466 employees from various non-IT organization business units, totaling just over $1.5 million. However, the vast majority of these payments, approximately $900,000, were retention incentives issued in FY 2020 to 1,435 employees returning to work during the start of the COVID-19 pandemic. As part of its expanded hiring efforts, the use of special payment incentives could assist the IRS to fill mission-critical positions and reduce the challenges of hiring and retaining employees.

In addition, the IRS piloted the use of Critical Position Pay Authority in response to prior TIGTA recommendations. Specifically, in March and June 2019, the IRS submitted six requests (through the Department of the Treasury) to the Office of Personnel Management to hire or retain Senior Executive Service positions designated as mission critical. It took almost three years from the initial drafting of the business case to receive approval for all six hiring requests. As a result, the IRS does not have plans to continue the use of Critical Position Pay Authority.

[26] TIGTA, Report No. 2023-10-043, *Expanded Use of Special Payment Incentives Could Help Improve Recruitment and Retention Efforts* (Aug. 2023).

TIGTA also reported that the IRS can improve its process to help prevent the loss of mission-critical skills and knowledge due to attrition, reorganization, or promotional moves for experienced employees to share knowledge and experience with newer employees.[27] In FY 2017, the IRS implemented the enterprise-wide Knowledge Management program to capture, share, and apply employee knowledge to enhance learning, performance, collaboration, and decision-making. TIGTA surveyed nearly 6,300 IRS employees to gauge the effectiveness of the enterprise-wide Knowledge Management program. Some of those surveyed expressed concerns about locating pertinent information on the program website. Also, some of the employees who located the site found the information hard to use and lacking in relevant information. Additionally, employees designated as subject matter experts were sometimes unhelpful due to their limited experience level. A successful Knowledge Management program allows experienced employees to share knowledge and experience with newer employees in a format that is effective and efficient. This will be an important tool for the IRS as it continues to onboard new employees.

The IRS will continue to be challenged to have the right people in the right place at the right time. Budget constraints, legislative changes, and economic shifts can create unforeseen challenges for the IRS in addressing its long-term human capital issues.

INFORMATION TECHNOLOGY MODERNIZATION

Successful modernization of systems and the development and implementation of new information technology applications are critical to meeting the IRS's evolving business needs and enhancing services provided to taxpayers. Modernization is necessary to deliver efficient taxpayer services and enforcement with enhanced user experiences.[28] The IRS uses different legacy case management systems that vary widely in complexity, size, and customization to support tax administration. According to the IRS's IRA SOP, it uses some of the oldest information systems in the Federal Government. The IRS indicated that it uses more than 600 applications, many of them more than 20 years old.[29] The IRS's goal is to retire the Business and Individual Master Files by FYs 2027 and 2028, respectively.

Modernizing the IRS's computer systems has been a persistent challenge for many years and will likely remain a challenge for the foreseeable future. The IRA SOP calls for a modern data architecture with a common platform to be more technologically efficient and improve the IRS's ability to resolve taxpayer issues. This is a significant challenge and requires updating programming and the replacing legacy systems. According to the IRS's plan, the Enterprise Case Management (ECM) platform will be modernized by FY 2025 to allow for the decommissioning of many legacy applications. In its summary of the IRS's IRA SOP, the Congressional Research Service stated that the IRS's use of the $4.8 billion provided by the IRA for modernization is arguably central to the entire IRS strategic vision and serves as the foundation for planned improvements in taxpayer service and enforcement.[30] In its IRA SOP, the IRS indicates that 35 of its 42 initiatives are dependent on its objective to deliver cutting-edge technology, data, and analytics.

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[27] TIGTA, Report No. 2023-30-024, *The Knowledge Management Program Will Benefit From Addressing User Concerns and Improving Performance Measures and Controls Over Employee Costs* (May 2023).

[28] TIGTA, Report No. 2023-20-006, *Annual Assessment of the IRS's Information Technology Program for Fiscal Year 2022* (Apr. 2023).

[29] Publication 3744, *Internal Revenue Service Inflation Reduction Act Strategic Operating Plan FY 2023-2031*, (Rev. 4-2023).

[30] Congressional Research Service, *The Internal Revenue Service's Strategic Operating Plan to Spend $79 Billion in Inflation Reduction Act Funding* (May 2, 2023).

While modernizing its systems to enhance the user experience, the IRS must incorporate operational security measures. Recent cybersecurity incidents underscore the importance of increased visibility before, during, and after an incident. Information from audit logs on Federal information systems is invaluable in the detection, investigation, and remediation of cyber threats. Failure to capture and review audit trails for all systems with access to sensitive data prevents the IRS from assuring it can safeguard taxpayer data. In addition, without fully operational audit trails, unauthorized accesses, misuse, and theft of taxpayer data and Personally Identifiable Information could be occurring in IRS applications without detection.

The IRS's ability to provide high-quality taxpayer service and maintain the integrity of the tax system requires modern, secure, and nimble operations as well as a sustained and talented workforce. Many emerging trends offer challenges and opportunities for the IRS, including changes in the taxpaying public and its expectations, technological disruptions, shifts in the workforce, and an increasingly globalized and interconnected world. Successful modernization of systems and the development and implementation of new information technology applications will continue to be a critical challenge for the IRS to meet its evolving business needs and enhance services provided to taxpayers.

PROTECTION OF TAXPAYER DATA AND IRS RESOURCES

The IRS relies extensively on computerized systems to support its financial and mission-related operations. Without effective security controls, computer systems are vulnerable to human errors or actions committed with malicious intent. People acting with malicious intent can use their access to obtain sensitive information, commit fraud and identity theft, disrupt operations, or launch attacks against other computer systems and networks. These threats to computer systems and related critical infrastructure can come from sources that are internal or external to an organization. Internal threats include equipment failures, human errors, and fraudulent or malicious acts by employees or contractors. External threats include the ever-growing number of cyberattacks that can come from a variety of sources, such as individuals, groups, and countries that wish to do harm to an organization's systems or steal an organization's data. The IRS indicated that it observes and mitigates more than 1.4 billion cyberattacks annually, including denial-of-service attacks, intrusion attempts, probes or scans, and other unauthorized connectivity attempts.[31]

According to the IRS, its future vision is to provide taxpayers and tax professionals access to information online to view their account; make changes; interact with the IRS; and manage preferences for payments, refunds, and communications.[32] This future vision will challenge the IRS to ensure taxpayer privacy and security are safeguarded. Identity and access management is a fundamental and critical information technology capability ensuring that the right people have the right access to the right resources at the right time. If an unauthorized access occurs, it could result in substantial harm to systems and a loss of public confidence in the IRS.

In June 2021, for the first time ever, the IRS began outsourcing digital identity assurance by contracting with a private company under the Secure Access Digital Identity program. Since that time, the IRS has faced increased pressure to use a Government solution, specifically Login.gov, even though its service is not consistent with Digital Identity Guidelines provided under the National Institute of Standards and Technology. Accepting a reduction of standards for the sake of using a Government solution that does not

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

[32] Publication 3744, *Internal Revenue Service Inflation Reduction Act Strategic Operating Plan FY 2023-2031*, (Rev. 4-2023).

currently provide the same level of effectiveness as a private contractor could have significant, negative impacts in the public's trust in the security of their data with the IRS.

The IRS established a Continuous Diagnostics and Mitigation Program, which includes managing "who is on the network" through identity and access management and privileged account management tools. TIGTA identified areas of improvement related to the access management system.[33] Specifically, TIGTA reviewed vulnerability scans for both on-premise and off-premise cloud-based servers and determined that the off-premise server vulnerability scans had limited risk severity (*e.g.*, critical, high, medium, low) and no historical aging information, such as first seen and last seen dates. In December 2022, TIGTA verified the cloud service provider upgraded its server vulnerability reporting to include aging and risk severity level information.

TIGTA also found that the remediation of on-premise server vulnerabilities is not consistently or accurately tracked with plans of action and milestones or risk-based decisions as required. The IRS created two plans of action and milestones eight and 21 months after the vulnerabilities were identified, instead of within 60 days from identification, as required. Errors in reporting and tracking vulnerability remediation may further expose systems and data by allowing internal and external actors more time to exploit known vulnerabilities.

The IRS's ECM system is designed to modernize and consolidate legacy case management systems across the IRS. The ECM system processes and stores sensitive information within the IRS, providing restricted access to IRS employees via the Internet. The ECM system is a hybrid cloud system, with components residing on IRS premises and in the cloud hosted by an outside service provider.

However, TIGTA determined that the ECM system did not consistently meet cloud security requirements. Specifically, the IRS did not timely prepare or fully prepare action plans to address identified security risks.[34] In addition, ECM system production servers residing in the cloud lacked required malicious code protection. Further, the IRS did not timely remediate 24 high- and two medium-risk vulnerabilities for the ECM system. Control weaknesses within the ECM system can pose a substantial risk to taxpayer records currently residing in the system. The potential harm includes breach, unauthorized access, and disclosure of taxpayer information.

Vulnerabilities that have been previously used to exploit public and private organizations are a frequent attack vector for malicious cyber actors of all types. The Department of Homeland Security issued a directive that focuses on vulnerabilities that are active threats and should be Federal agencies' top priority. However, TIGTA reported that from September through December 2022, there were between 494 and 5,976 assets with known exploited vulnerabilities past the remediation period.[35] TIGTA was unable to determine the status of each asset with a vulnerability because information in the IRS's system is not reliable. In addition, the IRS is not following established guidance on isolating or removing all vulnerable assets from its network. Ineffective tracking and untimely remediation of known exploited vulnerabilities increases the risk to the overall security of IRS assets and allows affected assets to become targets of

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[33] TIGTA, Report No. 2023-20-013, *The IRS Implemented the Business Entitlement Access Request System; However, Improvements Are Needed* (Mar. 2023).

[34] TIGTA, Report No. 2023-20-018, *The Enterprise Case Management System Did Not Consistently Meet Cloud Security Requirements* (Mar. 2023).

[35] TIGTA, Report No. 2023-20-048, *Known Exploited Vulnerabilities That Remain Unremediated Could Put the IRS Network at Risk* (Aug. 2023).

external exploitation with the intent to steal taxpayer data. In addition, failure to isolate or remove vulnerable assets from the network increases the risk of malicious attacks.

The IRS is required to create and store backups of both business and individual tax records to ensure that these records are available to conduct business, document IRS activities adequately, and protect the interests of the Federal Government and the American taxpayers. However, TIGTA reported significant deficiencies in the IRS's handling of microfilm backup cartridges containing sensitive taxpayer data.[36] Specifically, TIGTA reported that annual inventories have not been performed to account for microfilm cartridges. As a result of the lack of adequate inventory controls, the IRS cannot account for thousands of microfilm cartridges containing millions of sensitive business and individual tax account records. The personal taxpayer and tax information included on these backup cartridges is key information that can be used to commit tax refund fraud identity theft. In addition, these cartridges are not adequately safeguarded to limit access to this information.

In addition to safeguarding taxpayer data, the IRS also faces the daunting task of protecting its employees and facilities. Threats and assaults directed at IRS employees, facilities, and infrastructure impede the effective and safe administration of the Federal tax system and the IRS's ability to collect tax revenue. TIGTA reviewed the IRS's process for implementing security countermeasures for identified vulnerabilities and found that it did not ensure that minimum physical security countermeasures were tracked and considered.[37] The IRS does not consistently use a centralized system to track physical security countermeasure recommendations, approvals, implementation actions, and associated costs. As a result, TIGTA was unable to determine the status of all current recommended physical security countermeasures in some of the IRS facilities reviewed.

Although threats over the past year have been at or below five-year averages, many of the provisions of the IRA that could generate additional threats, such as attempts to collect tax liabilities and additional enforcement contacts with taxpayers, have not yet been instituted by the IRS. After passage of the IRA, threats directed at the IRS and its employees received additional media attention. As a result, the Commissioner of Internal Revenue announced efforts to perform a comprehensive review of existing IRS safety and security measures. In July 2023, the Commissioner announced a policy change that ended most unannounced visits to taxpayers by IRS personnel, in part to enhance the overall safety for IRS employees. Threats and assaults directed at IRS employees, facilities, and infrastructure impede the effective and safe administration of the Federal tax system and the IRS's ability to collect tax revenue.

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

TAX COMPLIANCE AND ENFORCEMENT

[36] TIGTA, Report No. 2023-IE-R008, *Sensitive Business and Individual Tax Account Information Stored on Microfilm Cannot Be Located* (Aug. 2023).
[37] TIGTA, Report No. 2022-10-046, *The Process for Tracking Physical Security Weaknesses Identified in IRS Facilities Does Not Ensure That Vulnerabilities Are Properly Addressed* (Sept. 2022).

One of the IRS's key responsibilities is to ensure that taxpayers comply with the tax law. Sustaining and improving taxpayer compliance is important because small declines in compliance cost the Nation billions of dollars in lost revenue and shift the tax burden from those who do not pay their taxes to those who pay their taxes on time every year. The difference between the estimated amount of tax legally owed by a taxpayer and the amount they voluntarily and timely pay for a tax year is known as the Tax Gap, which gives a broad
view of the Nation's compliance with Federal tax laws. The IRS estimated that the gross annual Tax Gap for TYs 2014 to 2016 was $496 billion per year, and projects that for TYs 2017 to 2019, it will increase to $540 billion per year.[38] The IRS's Tax Gap estimate for TYs 2014 through 2016 indicates that approximately 80 percent of the gross Tax Gap results from the underreporting of tax liabilities on filed returns, representing the highest potential for noncompliance.[39] New and evolving issues, such as virtual currencies and abusive tax schemes, will also contribute to the Tax Gap.

However, the IRS does not use Tax Gap estimates to determine where its Examination functions should allocate resources in its work planning.[40] IRS management informed TIGTA that ongoing research on complex areas of noncompliance and planned future changes to the Tax Gap methodology should make the Tax Gap more useful for informing resource allocation decisions through enterprise examination planning.

Further, TIGTA reported that the IRS could take actions to improve Tax Gap estimates.[41] For example, the IRS has not developed estimates for certain aspects of the Tax Gap, and some sources of noncompliance may not be reflected in the Tax Gap estimates. In addition, although the Tax Gap identifies certain known limitations, it does not identify what actions, if any, are being taken to address other excluded areas of noncompliance such as those associated with foreign activities and digital assets. The IRS also does not have formalized processes for internal or external review of its Tax Gap estimates. Internal reviews are performed at various points in the estimation process. However, these reviews are not documented and do not allow for any oversight. The absence of formal guidance for the internal and external review processes creates the potential for unidentified errors that could affect the quality of the estimates. Additionally, the lag time between the tax years used for the estimates and the year the estimates are published limits their usefulness.

Reductions to IRS enforcement function staffing levels over the last decade have also affected the total enforcement revenue collected. A reduction in the number of enforcement function employees may affect the IRS's ability to maintain sufficient audit coverage of entities and individuals contributing the most to the Tax Gap and limit its efforts to collect the taxes taxpayers acknowledge they owe but have not paid.[42]

The IRS estimates that, with existing hiring actions and expected attrition, the Large Business and International (LB&I) Division could hire approximately 450 positions and the
Small Business/Self Employed (SB/SE) Division could hire approximately 2,300 positions without exceeding

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[38] TIGTA, Report No. 2023-10-025, *Planning Efforts to Hire Employees Who Conduct Audits of High Earners and Large Businesses Could Be Improved* (June 2023).
[39] Publication 5365, *Tax Gap Estimates for Tax Years 2014-2016* (Rev. 10-2022).
[40] TIGTA, Report No. 2023-30-008, *Opportunities Exist for the IRS to Develop a More Coordinated Approach to Examination Workplan Development and Resource Allocation* (Feb. 2023).
[41] TIGTA, Report No. 2023-10-016, *Actions Are Needed to Improve the Completeness, Development, and Review of IRS Tax Gap Estimates* (Mar. 2023).
[42] TIGTA, Report No. 2023-10-025, *Planning Efforts to Hire Employees Who Conduct Audits of High Earners and Large Businesses Could Be Improved* (June 2023).

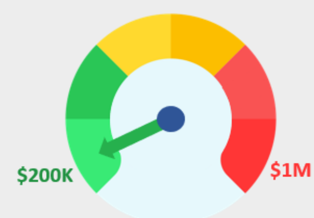
their authorized staffing levels. However, the hiring surge of 10,000 employees to assist in reducing the tax return filing backlog for the Wage and Investment Division's Submission Processing and Accounts Management functions has prevented the LB&I and SB/SE Divisions from hiring more employees to increase audits of high earners. Further, the LB&I and SB/SE Divisions have not maintained their ideal staffing levels with normal attrition and the hiring of new employees to replace those who have left the business units. The IRS's IRA SOP estimates that, through the end of FY 2024, approximately 8,700 of the approximately 29,500 employees funded by the IRA are planned for enforcement business units.

In addition, the SB/SE Division's Fiscal Year 2023 Examination Plan showed no significant increase in the number of high-income individual audits. Additionally, the LB&I Division's resource allocation plan is not detailed enough for TIGTA to assess the IRS's intended efforts to examine high-income individuals with the increased enforcement funding.

Further, the IRS does not have a unified or updated definition for individual high-income taxpayers. The definition varies according to context as different programs are designed to address compliance coverage across different parts of the filing population.

The IRS's current examination activity code uses $200,000 as the main threshold to measure high-income returns. Consequently, the IRS needs an updated high-income taxpayer definition and examination code to better identify and track examination results and manage examination priorities.

Research shows that audits have a strong, positive impact on reporting compliance.[43] However, TIGTA reported that the IRS does not have a multiyear Examination Strategic Plan for allocating resources. The IRS has a general five-year strategic plan with broad goals for the agency; however, the strategic plan does not contain the detail needed for the compliance functions, such as Examination, to most effectively allocate resources. Creating a multiyear, comprehensive Examination Strategic Plan would provide IRS management with clear direction on how to allocate Examination resources.[44]



The Tax Reform Act of 1976 used a $200,000 threshold to measure high-income returns. This amount is equivalent to more than $1 million in 2023. The IRS still uses $200,000 as the default high-income threshold.

Notably, the Secretary of the Treasury directed the Commissioner of Internal Revenue to ensure that small businesses and households earning $400,000 or less will not see audit rates increase relative to historical levels due to IRA funding. Instead, the IRS plans to use IRA funding to focus on high-dollar noncompliance. However, TIGTA reported that the IRS's efforts for training new hires do not appear to be fully leveraging this expertise.[45] The IRS treats this training as specialized and only offers it when necessary for employees auditing in this specialized area. Commensurate with the new funding, the IRS needs to change its training paradigm and expose new hires to the types of issues associated with high-income taxpayer returns. For example, the IRS indicated that the IRA funding will allow it to hire and train more specialists

[43] *The Impact of the IRS on Voluntary Tax Compliance: Preliminary Empirical Results*, by Alan H. Plumley, Technical Advisor, IRS National Headquarters Office of Research, National Tax Association 95th Annual Conference on Taxation, Orlando, Florida, November 14 - 16, 2002.
[44] TIGTA, Report No. 2023-30-008, *Opportunities Exist for the IRS to Develop a More Coordinated Approach to Examination Workplan Development and Resource Allocation* (Feb. 2023).
[45] TIGTA, Report No. 2023-30-054, *The IRS Needs to Leverage the Most Effective Training for Revenue Agents Examining High-Income Taxpayers* (Aug. 2023).

such as accountants, attorneys, engineers, economists and data specialists. According to the IRS, these resources will enhance its enforcement activities for emerging issues such as digital assets and international issues.

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

TAX FRAUD AND IMPROPER PAYMENTS

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

Identity theft tax refund fraud involves the use of another person's name and Taxpayer Identification Number[46] to file a fraudulent tax return reporting false income and withholding to receive a fraudulent tax refund. The IRS continues to increase the number of fraudulent tax returns detected and stopped from entering the tax processing system (*i.e.*, rejecting e-filed tax returns and preventing paper tax returns from posting).[47] For the 2023 Filing Season, the IRS used 260 filters to identify potential identity theft tax returns and prevent the issuance of fraudulent refunds. In comparison, the IRS used 168 filters for the 2022 Filing Season. These filters incorporate criteria based on characteristics of confirmed identity theft tax returns, including amounts claimed for income and withholding, filing requirements, prisoner status, taxpayer age, and filing history. Tax returns identified by these filters are held during processing until the IRS can verify the taxpayer's identity. As of May 2023, the IRS reported that it identified nearly 2.4 million tax returns with refunds totaling approximately $13.8 billion for additional review as a result of the identity theft filters. As of that same date, the IRS had confirmed 87,591 tax returns as fraudulent and prevented the issuance of $1.2 billion in fraudulent refunds.

Improper payments (*i.e.*, payments that should not have been made, were made in an incorrect amount, or were made to an ineligible recipient) continue to be a challenge facing the IRS. TIGTA found that for FY 2022, the IRS was largely compliant with the reporting requirements contained in the Payment Integrity Information Act of 2019.[48] While largely compliant, the IRS has not met the Act's goal of reducing overall improper payment rates to less than 10 percent.[49] The IRS estimates it issued approximately $26 billion in potentially improper payments in FY 2022. As shown in Figure 8, this represents a significant loss to the Federal Government.

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[46] A nine-digit number assigned to taxpayers for identification purposes. Depending upon the nature of the taxpayer, it can be an Employer Identification Number, a Social Security Number, or an Individual Taxpayer Identification Number.

[47] TIGTA, Report No. 2023-40-029, *Interim Results of the 2023 Filing Season* (May 2023).

[48] Pub. L. No. 116-117, 134 Stat. 113.

[49] TIGTA, Report No. 2023-40-032, *Fiscal Year 2022 Improper Payment Reporting Requirements Were Largely Met; However, Improper Payment Estimates Are Less Precise* (May 2023).

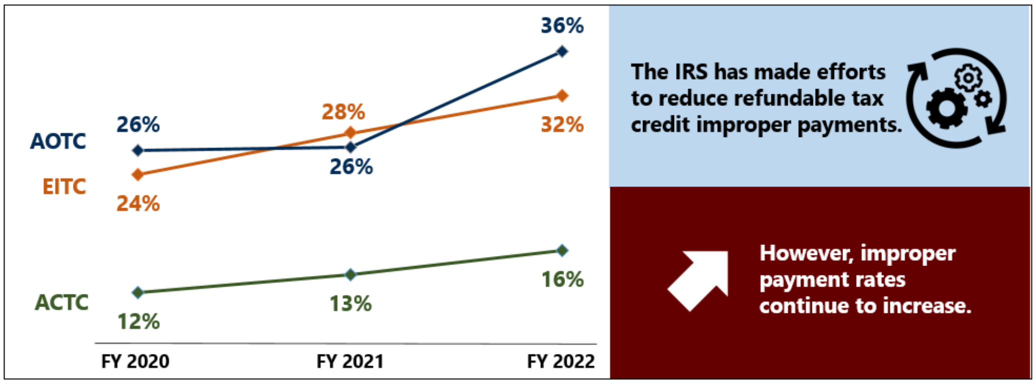
Figure 8: IRS Estimated FY 2022 Improper Payments and Rates[50]

Program	Estimated Improper Payment Rate	Total Payments	Estimated Improper Payments
Earned Income Tax Credit (EITC)	32%	$57.5 billion	$18.2 billion
Additional Child Tax Credit (ACTC)	16%	$32.8 billion	$5.2 billion
American Opportunity Tax Credit (AOTC)	36%	$5.6 billion	$2.0 billion
Net Premium Tax Credit (Net PTC)[51]	27%	$2.1 billion	$0.6 billion

Source: FY 2022 Department of the Treasury Agency Financial Report.

The IRS has implemented a number of initiatives to help reduce refundable tax credit improper payment rates, yet rates remain persistently high. For example, estimates of improper payment rates have risen since FY 2020. Figure 9 shows the improper payment rates for EITC, ACTC, and AOTC for the last three fiscal years.

Figure 9: FYs 2020 – 2022 Improper Payment Rates



Source: FYs 2020 - 2022 Department of the Treasury Agency Financial Reports.

However, refundable credit improper payments are not primarily the result of internal control weaknesses that the IRS can address. In addition to the lack of reliable, relevant, and timely third-party data, the Department of the Treasury Agency Financial Report indicates that eligibility rules differ for each credit and are often complex because they address complicated family relationships and residency arrangements to determine eligibility.

Other refundable credits, such as the Employee Retention Credit, present a unique risk to tax administration because taxpayers not only can have their tax reduced to zero but also receive a "refund" of excess credit. The unintended consequences of refundable credits are that they can result in the issuance of improper payments and can be the target of unscrupulous individuals. As such, they pose a significant risk as an avenue for those seeking to defraud the Government. Although the IRS continues to improve and expand its fraud detection and prevention processes, it must remain diligent as new schemes emerge each year.

TAXPAYER RIGHTS

As the IRS seeks to transform its operations and the way in which it interacts with taxpayers, it will need to

[50] For presentation purposes, the improper payment rates, total payments, and estimated improper payments as presented may be impacted by rounding. Further detail is available within the datasets found on www.paymentaccuracy.gov.
[51] The Net PTC is the amount of Premium Tax Credit minus the amount of Advance Premium Tax Credit. This is the first year the IRS has reported an improper payment rate for the Net PTC.

continue to work to ensure that all taxpayers are treated equitably. Concerns were previously raised about the equitable treatment of taxpayers, especially as it pertains to audit selection. In September 2023, the Commissioner of Internal Revenue acknowledged the disparity in a letter to the Chairman of the Senate Finance Committee, stating that the Treasury Department and IRS have validated recent research using race information, which demonstrates Black taxpayers are audited at three to five times the rate of non-Black taxpayers. The Commissioner in his letter further stated "we are making broad efforts to overhaul compliance efforts in a manner that robustly advances our commitment to fair, equitable, and effective tax administration." The Commissioner also laid out specific actions that the IRS will take this filing season to address the equitable treatment of taxpayers, noting a commitment to publicly report on the IRS's efforts.

Improper administration of the Internal Revenue Code can also result in increased taxpayer burden, especially for vulnerable taxpayers. For example, on December 4, 2015, the Fixing America's Surface Transportation (FAST) Act was signed into law.[52] The Act includes a provision that requires the IRS to use private collection agencies (PCA) to collect taxes on cases involving inactive tax receivables. On July 1, 2019, the TFA was signed into law, which amended some of the FAST Act requirements for the private debt collection program. The TFA contains adjustments to PCA case inventory intended to protect certain low-income taxpayers from being subject to PCA collections. However, TIGTA identified 14,141 taxpayers whose incomes fell beneath the threshold for PCA assignment after the law was put in place but whose accounts were not properly recalled. If the IRS does not recall the 14,141 low-income taxpayers from PCA inventory, it is potentially burdening these taxpayers by PCA attempts to collect on debts that are not legally collectible by the PCAs under the Internal Revenue Code.

The IRS must balance tax compliance activities to enforce the tax code while at the same time upholding taxpayer rights. The IRS continues to dedicate significant resources and attention to complying with the taxpayer rights provisions of the IRS Restructuring and Reform Act of 1998,[53] which requires TIGTA to audit certain taxpayer rights provisions and report whether the IRS complied with those provisions. While overall compliance has improved, TIGTA continues to identify areas in which the IRS can improve. For example, TIGTA evaluated whether the IRS complied with the filing of Notice of Federal Tax Liens and a taxpayer's right to elect a Collection Due Process hearing. However, TIGTA found that enforcement actions were not always suspended while taxpayers had the right to request a Collection Due Process hearing or while the taxpayer's appeal was pending.[54] In addition, the IRS did not always send copies of lien notices to the taxpayers' representatives as required.

Additionally, Collection Due Process hearing provisions are designed to give taxpayers an opportunity for an independent review to ensure that the levy action that has been proposed or the Notice of Federal Tax Lien that has been filed is warranted and appropriate. Similar to prior audits, TIGTA identified incorrect Collection Statute Expiration Date posting errors in sampled taxpayer cases. In some cases, the IRS incorrectly extended the time period, allowing the IRS additional time to collect delinquent taxes.[55]

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52 Pub. L. No. 114-94, 129 Stat. 1311.

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

54 TIGTA, Report No. 2023-30-057, *Fiscal Year 2023 Statutory Review of Compliance With Notice of Federal Tax Lien Filing Collection Due Process Procedures* (Sept. 2023).

55 TIGTA, Report No. 2023-10-038, *Review of the IRS Independent Office of Appeals Collection Due Process Program* (July 2023).

TIGTA also reported that the IRS can better comply with legal guidelines when issuing levies to seize taxpayers' assets.[56] TIGTA reviewed levies issued by the IRS for more than 2 million taxpayers during the period July 1, 2021, through June 30, 2022, and identified approximately 11,200 instances of noncompliance resulting in violations of taxpayers' rights and taxpayers being burdened.

When married taxpayers elect to file a joint income tax return, they are held jointly and individually responsible for the tax, interest, or penalties due on the joint return, even if they later separate or divorce (*i.e.*, one spouse can be held responsible for payment of all the tax due). The Internal Revenue Code provides an exception to joint and several liability (often referred to as "innocent spouse" relief). However, TIGTA reported that the IRS did not always protect taxpayer rights when working innocent spouse claims.[57] This included not fully developing the facts and circumstances in innocent spouse claims or providing specific guidance for employees related to equitable relief. In addition, the IRS did not timely close innocent spouse claims. Prior to the COVID-19 pandemic, innocent spouse claims already exceeded the IRS's 240-day closure goal, taking approximately one year to close. However, after the COVID-19 pandemic restrictions, the IRS took an average of 557 days (over 18 months) to close these cases.

With the additional IRA funding available and its plans for increasing its compliance efforts, the IRS must continue to remain vigilant in safeguarding the rights of taxpayers and promoting tax fairness.

CONCLUSION

This memorandum is provided as our annual summary of the most serious major management and performance challenges confronting the IRS in FY 2024. TIGTA's *Fiscal Year 2024 Annual Audit Plan* and *Fiscal Year 2024 Inspections and Evaluations Program Plan* contain our proposed reviews.

cc: Deputy Secretary of the Treasury
Assistant Secretary for Management
Deputy Chief Financial Officer
Commissioner of Internal Revenue

[56] TIGTA, Report No. 2023-30-066, *Fiscal Year 2023 Statutory Review of Compliance With Legal Guidelines When Issuing Levies* (Sept. 2023).

[57] TIGTA, Report No. 2024-300-001, *The Innocent Spouse Program Needs Improved Guidance for Employees and Increased Communication With Taxpayers* (Oct. 2023).

IRS MANAGEMENT RESPONSE TO TIGTA IDENTIFIED CHALLENGES FACING THE IRS FOR FISCAL YEAR 2024

The IRS appreciates TIGTA's management and performance challenges as valuable feedback to improving administrative processes and accomplishing our mission.

After enactment of the IRA, the IRS developed a detailed Strategic Operating Plan (SOP) that consists of five transformational objectives and 42 initiatives that the IRS will be working on through FY 2031 when the funding expires. In FY 2023, the IRS made progress on many areas highlighted in the SOP, and many more are in progress as the IRS works to modernize the way it serves taxpayers through improved technology, better service, and fairer enforcement. The IRS completed substantial work to advance the objectives and the performance goals of the SOP, but the IRS has sustained work ahead to build on these improvements.

TIGTA Challenge #1 - Managing IRA Transformation Efforts

The IRS is committed to implementing the IRA, which will ensure the proper balance of improving services to taxpayers, expanding enforcement, and modernizing its information technology. The SOP outlines how the IRS will deploy IRA investments to better serve taxpayers, tax professionals, and the broader tax ecosystem. Included in the plan is the IRS's IRA transformation vision to make it easier for taxpayers to meet their tax responsibilities and receive tax incentives for which they are eligible. There is a funding risk as Congress considers cutting IRA funding or reducing the annual appropriations because of the IRA funding. If the IRS does not receive the discretionary funding needed to maintain base operations, planned transformation will be in jeopardy. IRA funding will then be needed to support normal operations, or the IRS will not be able to deliver all improved services nor transform its information technology as outlined in the SOP. To make the SOP vision a reality, and to deliver on the commitments in the SOP, the IRS's new Transformation and Strategy Office is coordinating collaboration across the IRS and engaging in disciplined and transparent accountability processes. The Transformation and Strategy Office also supports IRS leadership by providing and maintaining a clear and effective governance and accountability structure; facilitating real-time, transparent enterprise prioritization, performance monitoring, and risk management; leading organization-wide capacity building and change management; supporting detailed execution planning and project management; and enhancing the IRS's culture and operations. The Chief Transformation and Strategy Officer leads these efforts, which an advisory committee coordinates to facilitate informed decision making by the Commissioner on issues related to strategic alignment and problem solving. The IRS recognizes that to achieve the agency's strategic objectives, it must complete significant and highly complex technology transformations. The additional multi-year funding the IRA provides marks a transformational moment for the IRS and an opportunity to impact the future of tax administration. The IRS has struggled for many years without sufficient resources to fulfill its important mission. During the next decade, this funding will help in many areas, including adding important resources for technology.

TIGTA Challenge #2 - Tax Law Changes

The IRA was the primary legislation affecting the 2023 filing season. While most IRA tax provisions will become effective during processing years 2024 - 2028, many actions are underway to implement the remaining 16 of the 36 tax provisions. As of July 2023, the IRS had identified 82 tax products affected by these provisions in future processing years, including 42 tax forms, 39 instructions, and one publication. The IRS also has efforts underway to implement processing controls for the provisions most relevant to the 2023 filing season, the clean vehicle credits, and elective payments for energy and electricity produced from certain renewable resources.

Significant legislative changes affected the Earned Income Tax Credit and Child and Dependent Care Tax Credits for Tax Year 2021, making them two of the largest refundable tax credits available to individuals. Of the nearly 12.7 million Tax Year 2021 returns that claimed self-only Earned Income Tax Credit, 99.94 percent were processed correctly (not potentially fraudulent or erroneous). Of the 5.5 million returns claiming the Child and Dependent Care Tax Credit, 99.99 percent were processed correctly.

The IRS improved its ability to administer the Child and Dependent Care Tax Credit by revising internal guidance; creating compliance filters; issuing Servicewide Electronic Research Program Alerts; revising Form 2441, Child and Dependent Care Expenses; elevating a legislative proposal to the Office of Tax Policy; and adding examples to Publication 503, Child and Dependent Care Expenses.

The IRS will also work with us to advance legislation to treat a tax return as 'filed' only when it is accepted. This would remove the legal risks associated with rejecting tax returns with conditions that indicate that the taxpayer is ineligible for refundable credits claimed on the return. If legislation is enacted, the IRS will determine the actions it will take. The IRS will conduct program assessments to ensure rules for selecting returns for review are accurate. The IRS will also examine the sample of returns identified to ensure taxpayers receive the correct Child and Dependent Care Credit and Earned Income Tax Credit.

The IRS has worked through many unique technical and procedural challenges to implement processes to ensure taxpayers paid their deferred Social Security tax as required by the CARES Act. When an employer or taxpayer did not pay or deposit the required deferral amount by the installment due dates, the IRS reversed the false credit on the applicable accounts. In some instances, this process created erroneous, duplicative reversals on some accounts. We manually reviewed and monitored these accounts, and used a tool to correct each of the 3,231 accounts. The IRS will ensure all applicable modules with unpaid deferred Social Security tax properly show the unpaid balances.

TIGTA Challenge #3 - Taxpayer Service

Providing quality Taxpayer Service is essential to the effective administration of a voluntary compliance system of taxation. TXO began operating in March 2022 and in its initial months of operation focused primarily on hiring staff and establishing the organization. While the TXO was building its organization, the President signed the IRA into law, which gave the IRS unprecedented levels of funding to transform the IRS.

The SOP supersedes all previous IRS strategic plan documents, including the Taxpayer Experience Strategy and Roadmap, but is based in part on insights from those prior plans. The SOP includes some of the foundations of the Taxpayer Experience Strategy and includes several strategic initiatives to help improve service to underserved communities. As part of the IRS transformation efforts under the SOP, the Chief Taxpayer Experience Officer will:

- track and regularly report on taxpayer experience improvements resulting from any responsibilities aligned to the TXO within the SOP, as well as other reporting requirements for agency Customer Experience offices; and

- work in conjunction with the Chief Transformation and Strategy Officer and other operating divisions throughout the IRS to implement new SOP initiatives to dramatically improve taxpayer services for all taxpayers, including those who are underserved.

In FY 2023, the TXO worked with business units across the IRS to improve the taxpayer experience. In support of the implementation of the Clean Energy credits, the TXO conducted focus groups to ensure business operations and decisions are informed by those they impact. Also, work is underway to deliver guidance in an accessible, timely and digestible manner through the TXO's efforts as the initiative lead for SOP initiative 1.7, *Provide earlier legal certainty*. The TXO is also working to ensure that underserved communities benefit from the increase in taxpayer service. To meaningfully improve taxpayer experience, it is essential that we bring service improvements to populations that have limited access to traditional support mechanisms. The TXO will lead the multilingual strategic initiative efforts for IRS in FY 2024. Through this initiative, efforts are underway to expand services and products in additional languages and conduct tailored outreach to segments of the population that have been identified as underserved. The TXO's role in ensuring the customer experience principles are infused within the SOP initiative efforts will improve compliance through the publication of clearer guidance, reduce the level of interaction required to resolve disputes, allow taxpayers to communicate in methods they prefer and reduce the overall burden on taxpayers as they voluntarily comply.

To ensure uniform processing, the IRS issued alerts to employees reiterating current operating procedures regarding receipt and screening of correspondence. The IRS also developed reports and updated the Internal Revenue Manual to improve efficiency in the process of re-routing correspondence. To help reduce inventory levels, the IRS hired over 200 clerks, and created surge teams to focus on the Form 1040-X, Amended U.S. Individual Income Tax Return inventory.

The IRS is developing a plan that balances streamlining the barred statutes paperwork process with accountability responsibilities to reduce the backlog of aged, barred statute cases. The IRS is reviewing the correspondence scanning process to determine if it needs additional high-speed scanners. Funding was also approved to evaluate the requirements to automate processing of Form 1040-X. This feasibility evaluation could take several years due to the complexity associated with Form 1040-X processing and work that must be done across multiple systems.

In addition, the IRS developed programming requirements to resolve the issue of generating transcripts for manual refunds less than $100, as well as programming requirements that will permit the systemic issuance of decedent refunds when the appropriate personal representative information has been updated. Programmers are conducting scope, feasibility and impact studies, and cost analysis to create a universal unassigned inventory system that streamlines the work distribution process.

Direct Hire and IRA Hiring Authorities in FY 2023 allowed the IRS to continue filling key positions focusing on customer service and taxpayer experience. Due to surge efforts almost 900 employees returned to address the backlog inventory. By February 2023, the IRS cleared unprocessed individual tax returns received in 2022 and reduced total inventory from Calendar year (CY) 2022 to CY 2023 (through September) by 63 percent. Remote Call Site employees volunteered to assist in reducing IRS 1040-X inventory.

The Taxpayer Digital Communications program represents a major IRS initiative to improve the IRS's ability to communicate securely, quickly and effectively with taxpayers. The Taxpayer Digital Communications' Secure Messaging installations allow IRS employees and taxpayers to correspond in a secure, authenticated environment that improves the IRS's ability to timely receive documentation and resolve cases. The IRS has achieved success with several secure messaging installations in prior fiscal years; however, the program struggled in FY 2022 and had only one new installation and an expansion of an existing installation. The program pace recovered in FY 2023, completing three new deployments. The Small Business/Self-Employed Field Collection, Small Business/Self-Employed Examinations, and Wage and Investments Error Resolution System all received new installations, enabling over 8,500 additional IRS employees and 1.75 million additional taxpayers to use the tool. The IRS currently has four deployments scheduled for FY 2024, which will add capabilities for over 18,000 IRS employees and up to 4.75 million additional taxpayers. When selecting new installations for prioritization, the IRS looks at a variety of factors, including the potential number of employees and taxpayers who can be served, and the scope and impact of the program requesting the new installation. The IRS seeks to strike a balance between meeting the needs of the broadest swaths of the population and ensuring that underserved taxpayer segments are also given due consideration. The IRS will continue to evaluate and improve the program moving forward through FY 2024, looking for opportunities to further integrate Taxpayer Digital Communications into other applications–for example, building on the successful addition of Secure Messaging to Online Account in FY 2023–and improving our capability to assess the impact and effect of Taxpayer Digital Communications on agency operations. Taxpayer Digital Communications will continue to be a high-value program, and the IRS will continue to look for opportunities to make it a more effective and more widespread tool in its customer service repertoire.

As of the end of the 2023 filing season the IRS received 137 million tax returns, of which 132 million (96.3 percent) were electronically filed. The IRS issued nearly 86 million refunds totaling $236.6 billion. The infusion of IRA funding enabled the IRS to provide taxpayers with a substantially better experience in the 2023 filing season than in previous years. The IRS is in the planning stages to ensure a successful 2024 filing season.

TIGTA Challenge #4 - Human Capital

Special payment incentives are just one tool available to the IRS to address the recruitment and retention of employees in mission-critical occupations. The IRS is working toward a comprehensive strategy for using financial incentives to recruit and retain mission-critical occupations.

The IRS Knowledge Management program serves an integral role for our operations through training support and delivery, technical support to employees, collaboration across business units, and technical support to the public through items published on IRS.gov. The IRS is committed to continue strengthening the Knowledge Management program and better capture, share, and apply employee knowledge to enhance learning, performance, decision-making and collaboration. The IRS continues efforts to collect and act on employees' feedback and concerns, as well as cost and performance data, to enhance tools such as the Virtual Library and other services offered through the Knowledge Management program.

TIGTA Challenge #5 - Information Technology Modernization

Since January 2023, the IRS has expanded the modernization efforts of e-filing Information Returns. Businesses are now able to file Form 1099 series income information returns free of cost, using a new online portal known as the Information Returns Intake System, reducing millions of paper Form 1099s. Also, it is important to note that taxpayers can now electronically file Form 1040-X, Amended U.S. Individual Income Tax Return, and for the first time can select direct deposit of any resulting refund.

With the expanded use of the Document Upload Tool, many taxpayers can now respond to certain IRS notices online for the first time this year. This new secure step will allow taxpayers or their tax professionals to electronically upload documents rather than mailing them, helping reduce time and effort with resolving tax issues. This potentially can help more than 500,000 taxpayers each year who receive notices, including military personnel serving in combat zone areas and recipients of important credits like the Earned Income Tax Credit and Child Tax Credit.

The IRS also expanded the multi-form, multi-solution scanning effort by deploying scanning solutions for Forms 1040 with up to 25 attachments. This is in addition to the Form 940, Employer's Annual Federal Unemployment Tax Return, and Form 941, Employer's Quarterly Federal Tax Return, which are currently being digitally scanned. Since the start of 2023, the IRS has already scanned more than 400,000 paper Form 940s.

In FY 2023, as part of the "Agent Desktop Modernization" effort, the IRS continued to implement a single desktop tool for IRS customer service agents to manage calls and chats. Efforts are underway to provide software/platform upgrades and new features that will enable agents to receive notifications when contacts transferred to them have been authenticated and allow them to access caller account information without re-authenticating.

As part of the implementation of Taxpayer First Act Sec. 2304, the IRS successfully delivered the automated electronic fingerprint solution (Fieldprint) after a three-year effort. The system communicates with the Federal Bureau of Investigations and allows applicants to schedule fingerprinting appointments, verify their identity, capture electronic fingerprints and manage payment collections.

Taxpayers can now use their Online Account to create a long-term payment plan, which provides them more flexibility to submit payment plans online. In the first month after deployment of this new functionality, taxpayers established nearly 11,000 payment agreements.

The IRS completed initial deployments modernizing the IRS network. The IRS needs more network resources to meet the demands of additional people tapping into new, high-bandwidth technologies. In FY 2023, the IRS deployed Enterprise Data Platform Release 2.2 and Release 2.3. Release 2.2 provided infrastructure capabilities for ingesting and processing data with complicated relationships while providing the ability to deliver queries using application programming interfaces and business intelligence tools. Release 2.3 provides the most current individual taxpayer data, which will enable programs such as Enterprise Case Management and IRA programs (e.g., Green Energy) to query taxpayer data, as well as have business intelligence tools on the Enterprise Data Platform for Individual Master File modernization programs.

TIGTA Challenge #6 - Protection of Taxpayer Data and IRS Resources

The IRS improved oversight of the Business Entitlement Access Request System, which we host, and the vulnerabilities remediation process. In FY 2023, the IRS Information Technology organization developed a Continuous Monitoring Report and summary, which includes monitoring information technology vulnerabilities per the Federal Risk and Management Program and Internal Revenue Manual 10.8.1 guidance. A monthly summary is submitted to the authorizing official that communicates the security posture of the Cloud system. Information Technology continues to review vulnerability scans for the Business Entitlement Access Request System servers monthly, document the scan results, monitor progress toward remediation, and create a Plan of Action and Milestones, when finding remediation cannot be completed within the required time frames in accordance with IRS policy. It is important to note that the Business Entitlement Access Request System has not had any additional overdue vulnerabilities or overdue Plan of Action and Milestones.

The IRS is actively working to ensure the Enterprise Case Management system consistently meets cloud security requirements. IRS updated Internal Revenue Manual 10.8.1 to align with NIST guidelines for malicious code protection requirements for Linux servers. The Web Integration Services Division identified and implemented malicious code protection on all Enterprise Case Management servers in the cloud to meet malicious code policy requirements. In addition, the IRS will monitor Enterprise Case Management privileged user activity logs and regularly disable inactive privileged accounts in accordance with agency security requirements.

In addition, the IRS will follow the timeframes set forth in Cybersecurity and Infrastructure Security Agency's Known Exploited Vulnerability Catalog to ensure timely remediation of all known exploited vulnerabilities. The IRS will update relevant processes and procedures to reflect the applicable date in the asset and vulnerability repository, inclusive of signature changes and associated dates applicable to the remediation time frame. Finally, the IRS will finalize the standard operating procedures regarding internal vulnerability management and update the Internal Revenue Manual accordingly.

The IRS continues to use the Countermeasure Tool as a centralized location to manage and track security-related recommendations, which allows for a better assessment of the IRS's current security posture and demonstrates compliance with departmental security guidelines. The tool allows the IRS to strategically manage security resources, track decisions, actions taken, implementation costs and the mitigation or acceptance of risks. On a weekly basis, the IRS uploads completed Facility Security Assessments from the Department of Homeland Security Federal Protective Service Modified Infrastructure Survey Tool database into the Countermeasure Tool and tracks recommended countermeasures in the Countermeasure Tool until it completes a new risk assessment. In addition, the IRS ensures the Physical Security Specialist and Security Section Chief complete and certify Facility Security Compliance Assessments. Upon completion, the countermeasure recommendations are automatically generated in the Countermeasure Tool.

The IRS is required to create and store backups of both business and individual tax records to ensure that these records are available to conduct business, document IRS activities adequately, and protect the interests of the federal government and American taxpayers. To account for backup microfilm cartridges, the IRS sent an IRS-wide alert to employees in February 2023, with instructions on how to document reasons when they cannot locate microfilm, and added procedures to the Internal Revenue Manual in June 2023. The IRS modified its vendor contract in April 2023, requiring the IRS to be notified one month before microfilm backup cartridges must be shipped to the Federal Records Center. Additionally, the IRS revised desk procedures to set a notification for eleven months after the last year/data type microfilm shipment has been made to a campus. This reminder will allow one month for IRS to prepare the microfilm for shipment to the Federal Records Center in a timely manner. Further, the IRS will perform quarterly reviews of active microfilm work to ensure shipments are completed in a timely manner.

The IRS is taking a detailed inventory of all microfilm tapes at the Tax Processing Centers. In addition, the IRS will complete written annual reconciliation reports at each location and report discrepancies to management. Through the inventory process, the IRS will identify microfilm cartridges eligible for destruction and will initiate the destruction process for these cartridges. The IRS is also completing detailed inventories of the microfilm repositories, including reconciliations of vendor logs and shipments from closed Tax Processing Centers. The IRS will develop a microfilm request log template to be used for consistency and which will be accessible for periodic review. The IRS is contracting with a vendor to review, label, re-box and repackage the microfilm stored at the IRS's Bloomington National Distribution Center. After repackaging to meet Federal Records Center requirements, the cartridges will be shipped for archiving. The IRS will develop and implement a process for conducting periodic reviews of unfilled microfilm requests to identify actions needed to address the reason(s) for the unfulfillment. The IRS also will review annually the accuracy and completeness of microfilm request logs.

TIGTA Challenge #7 - Tax Compliance and Enforcement

Audits of high-income taxpayers and efforts to address abusive syndicated conservation easement transactions are two examples of the IRS's ability to respond flexibly to critical areas in meeting strategic priorities. The IRS established the Joint Strategic Emerging Issues Team, consisting of representatives from business units, Chief Counsel, and other supporting organizations, to address significant compliance risks.

Recruitment and hiring are foundational to the IRS's ability to provide taxpayers with quality service and fair enforcement. With the passage of the IRA, the IRS sees tremendous opportunities to dramatically increase enforcement hiring in the coming years. The SOP includes in its focus a robust suite of hiring initiatives, including hiring within the IRS's compliance functions. The IRS is coordinating yearly hiring planning, improving communication channels across business units and increasing staff and other resources to increase hiring capacity and enable the IRS to process all hiring as and when requested. Effective employee training is also fundamental to the agency's ability to fairly enforce tax laws. The IRS is developing a comprehensive plan to train new hires and existing employees that will examine high-income taxpayers. As the IRS continues to transform its training programs, the agency will ensure that existing knowledge and experience will be considered and incorporated into curriculum design and creation and provided to those revenue agents whose job duties include examining high-income taxpayers.

The IRS is committed to continuously improving the tax gap estimates. The IRS released the annual tax gap report in October 2023, providing projections for tax years 2020 and 2021. The IRS also addressed the timeliness of the tax gap reports by starting a cadence of annual updates of projections (with periodic updates of estimates) as part of the Statistics of Income release schedule. Tax gap projections for TY 2022 will be developed in FY 2024 and included in the Statistics of Income release schedule for fall 2024. The IRS Office of Research, Applied Analytics, and Statistics will research hard-to-detect areas of noncompliance during FY 2024, with the goal of enhancing future tax gap reporting.

TIGTA Challenge #8 - Tax Fraud and Improper Payments

Reducing improper payments (i.e., payments that should not have been made, made in an incorrect amount, or made to an ineligible recipient) continues to be a challenging priority for the IRS. Although the IRS was largely compliant with the reporting requirements contained in the Payment Integrity Information Act of 2019, the IRS still has not satisfied the Act's goal to reduce improper payment rates to less than 10 percent for the Earned Income Tax Credit, the Additional Child Tax Credit, the American Opportunity Tax Credit and the Net Premium Tax Credit. Reducing improper payment rates to less than 10 percent would require significant restructuring of the tax credit programs and legislative action.

Further, the ARP temporarily expanded both the Child and Dependent Care Tax Credit and the Child Tax Credit. Under this act, both tax credits became fully refundable and had their income phase-out limits increased; and the Child Tax Credit saw changes to its eligibility requirements to allow more taxpayers to claim the credit. The unintended consequence of refundable credits is that they can result in the issuance of improper payments and can be the target of unscrupulous individuals.

Reasons causing the increase in improper payment rates are not the result of internal control weaknesses, but are due to factors outside the IRS's control, such as the complex eligibility rules, which are different for each tax credit and often involve reconciling complicated family relationships and residency arrangements.

The IRS is realigning resources internally to accelerate progress toward its strategic priorities. In FY 2024, the IRS will reduce the number of correspondence audits focused specifically on certain refundable tax credits, such as the Earned Income Tax Credit, American Opportunity Tax Credit, Net Premium Tax Credit, and Additional Child Tax Credit. Over-reliance on audits to resolve basic errors results in interest costs by delaying the issuance of refunds to taxpayers, and focusing on helping taxpayers submit accurate filings upfront will increase payment accuracy while reducing administrative burdens for the IRS and the taxpayer.

The IRS's strategy with respect to improper payments is to intervene early to ensure compliance with the law. In FY 2023, the IRS addressed improper payments through its compliance programs as well as through expansive outreach and education efforts to taxpayers and preparers. Programs that contribute to the IRS's strategy of identifying and reducing improper refund claims associated with various refundable tax credits include examination, math error notices, document matching, utilizing two- and ten-year bans, investigating identity theft and fraud, criminal investigations, and soft notices.

For the 2023 filing season, the IRS completed annual refresh of key identity theft models and modified existing filters to find potential identity theft tax returns and prevent the issuance of fraudulent tax refunds. The IRS holds tax returns identified by these filters during processing until the IRS can verify and confirm the taxpayer's identity to prevent the issuance of a fraudulent refund.

TIGTA Challenge #9 - Taxpayer Rights

The IRS collection programs are consistent with the taxpayer's statutory right to collection due process. Treasury Decision 8979 affirms that suspending levy actions is not required after the issuance of a Letter 3172, Notice of Federal Tax Lien and Your Rights to a Hearing Under Internal Revenue Code Section 6320. The IRS Automated Levy Programs continue during the Internal Revenue Code 6320 Collection Due Process appeal period, but the IRS generally suspends other types of levies. When a taxpayer requests and the IRS accepts a Collection Due Process hearing, the IRS suspends automated levies during the administrative or judicial appeal. In FY 2023, the IRS implemented automated levy corrective programing to ensure taxpayers receive a new Collection Due Process notice after the IRS makes an additional assessment.

In FY 2024, the IRS will:

- review guidance to address any inconsistencies in providing Collection Due Process lien notices to representatives;
- conduct a study of Collection Due Process levy hearing requests in both Field and Campus Collection to determine the average time frame from when it receives and uploads hearing requests into the tracking system. The results of the tracking system will assess if time frames are reasonable or need to be adjusted; and
- issue a reminder to Field Collection managers addressing their responsibilities related to violations of taxpayer rights and reporting potential violations.

The IRS has a commitment to taxpayer rights and to reinforce existing policies requiring staff to accurately input and review necessary actions. The IRS will develop a quality review plan for the restart of the Correspondence Production Services pilot program and ensure it mails the notices. The IRS will monitor this action as part of our internal management system of controls. In FY 2023, the IRS drafted supplemental training for processing staff to be delivered early in FY 2024.

The IRS remains committed to fair, equitable, and effective administration of the innocent spouse provisions. The IRS created the Centralized Innocent Spouse Operation to ensure it develops and resolves innocent spouse claims in a consistent manner. Quality reviews are performed regularly on Centralized Innocent Spouse Operation determinations. The accuracy of Centralized Innocent Spouse Operation determinations is supported by National Quality Review System data reflecting an FY 2022 overall accuracy of 95.83 percent. Internal Revenue Manual 25.15.3.9, Equitable Relief, provides employees detailed and specific equitable relief guidance and includes references to Internal Revenue Code Section 6015(f) and Revenue Procedure 2013-34. The IRS experienced challenges meeting the 240-day innocent spouse claim cycle time/closure goal. The COVID-19 pandemic and unanticipated attrition contributed to delays resolving innocent spouse inventory. Increasing staffing is a priority and has led to an innocent spouse inventory reduction and a decrease in cycle time. The IRS remains dedicated to meeting the 240-day innocent spouse closure goal.

SECTION D: PAYMENT INTEGRITY

We currently report erroneous payments for refundable tax credits (RTCs) within this section in accordance with the improper payment reporting requirements of the PIIA and OMB Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement* (OMB Appendix C) as well as part of the tax gap estimate program (see Part 3, Section B: *Tax Gap and Tax Burden*). However, we have long held that these RTCs are more appropriately addressed in the tax gap estimate. Improper payment reporting does not simultaneously provide a comprehensive understanding of the extent and nature of taxpayer compliance with Internal Revenue Code tax credit provisions needed for tax administration purposes. The IRS's tax gap estimate and ERM framework better equip the IRS to analyze and address noncompliance throughout the federal tax system. Focusing enforcement resources on the larger tax gap is a more efficient and cost-effective way to minimize the tax gap and maximize tax collections.

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Primary Causes of RTC Errors

- Complex statutory eligibility rules
- Inability to verify taxpayer-provided information prior to refunding due to lack of independent data sources
- Lack of correctable error authority
- Statutory requirement to issue tax refunds within 45 days of the filing deadline without paying interest

Moreover, internal control issues are not the root cause of RTC errors. Instead, they are the result of factors beyond the IRS's control, such as the statutory design of the RTCs, the complexity of the eligibility requirements, the reliance on taxpayers' self-certification of the accuracy of their returns, and the lack of third-party data for verification. GAO and TIGTA audits have concluded that RTC errors are largely due to the statutory design and complexity of the RTC programs, not internal control weaknesses, financial management deficiencies, or reporting failures as PIIA guidelines are intended to address. We continue to support the reporting of RTC errors as part of the tax gap estimate as a better reflection of how the IRS approaches taxpayer compliance relative to the U.S. tax system.

We refer to erroneous claims for RTCs as "overclaims" and improper payment rates as "error" rates. Accordingly, we report error rates as outlined in the PIIA and OMB Appendix C*,* for four refundable tax credits—the EITC, AOTC, ACTC, and net PTC—which have error rates similar in concept to "significant improper payments." Current and prior year Payment Integrity information can be accessed at https://paymentaccuracy.gov/.

Earned Income Tax Credit (EITC)

Congress enacted the EITC in 1975 through the *Tax Reduction Act* Public Law (P.L.) 94-12, as a temporary anti-poverty measure to offset inflation and rising Social Security payroll taxes. In addition to encouraging work and reducing dependence on cash welfare, the credit was also viewed as a means to encourage economic growth in the face of the 1974 recession and rising food and energy prices.[1] Since then, the EITC has undergone numerous legislative changes, most notably by the *Revenue Act of 1978* (P.L. 95-600), which made the EITC a permanent refundable tax credit. Congress believed the EITC would be an effective way to provide financial assistance to working families, with or without children, who might otherwise rely on government subsidized welfare payments.

[1] *Congressional Research Report, The Earned Income Tax Credit (EITC): A Brief Legislative History, March 20, 2018.*

American Opportunity Tax Credit (AOTC)

Education tax credits have generally been intended to provide federal financial assistance to students from middle-income families who may not benefit from other forms of traditional student aid.[2] Congress enacted the AOTC as part of the *American Recovery and Reinvestment Act of 2009* (P.L. 111-5) to replace the Hope Credit and to expand the education tax credit to lower- and upper-income students. The AOTC is a partially refundable tax credit that provides financial assistance to taxpayers (or their children) with qualified educational expenses who are pursuing a higher education. Like other education tax credits, the AOTC was enacted with the goal of making higher education more affordable.

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

Congress enacted the CTC to help ease the financial burdens for families with children as part of the *Taxpayer Relief Act of 1997* (P.L. 105-34). If the CTC exceeds the tax liability, taxpayers may receive some or all of the credit as a refund, known as the ACTC. Various legislative changes over the past 20 years have made significant changes to the CTC, which have expanded it from a generally non-refundable credit available only to the middle- and upper-middle class, to a partially refundable credit that more low-income families are eligible to claim. Notably, the *Tax Cuts and Jobs Act of 2017* (P.L. 115-97) doubled the CTC, increased the amount that taxpayers could claim as a refund, and allowed it to include more upper-middle class families. Further, the ARP (P.L. 117-2) made the CTC a fully refundable tax credit for TY 2021, increased the amount, and broadened the eligibility requirements.

Net Premium Tax Credit (PTC)

The PTC, created under the *Affordable Care Act of 2010* (P.L. 111-148), was designed to make health insurance more affordable for individuals and families with lower incomes and helps cover the premiums for their health insurance purchased through the Health Insurance Marketplace. The PTC program is operationally divided between the Department of Health and Human Services (HHS) and Treasury. The HHS, through the Centers for Medicare & Medicaid Services (CMS), administers advance payments to insurance providers on behalf of applicants/taxpayers through the federally facilitated exchange. These payments are referred to as advance payments of the Premium Tax Credit (advance PTC or APTC). We and the IRS administer the federal income tax return process where a tax credit (repayment or zero are other possibilities) is based on reconciliation of APTC amounts with final allowable PTC determined in tax filing. Payment of this credit is referred to as net PTC.

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[2] *Congressional Research Report, The American Opportunity Tax Credit: Overview, Analysis, and Policy Options, Updated June 4, 2018.*

REDUCING RTC ERRORS DIVERTS VALUABLE RESOURCES FROM OTHER TAX GAP ELEMENTS AND UNDERMINES THE STATUTORY PURPOSE OF THE CREDITS

Compliance with the improper payment legislation and OMB reporting guidance requires reducing each program's improper payment rate to 10 percent or less. Currently, the IRS must deploy a variety of costly enforcement tools, including audits, to verify the information on the tax return prior to paying tax refunds or collecting any tax due. In an FY 2020 study to reduce error rates to less than 10 percent, to meet PIIA compliance standards, the IRS estimated that it would need additional or reallocated resources of $2.5 billion to audit 4.2 million additional RTC returns in the pre-refund environment. If the IRS were to reallocate enforcement resources to be compliant with PIIA, a substantial loss in enforcement revenue, estimated at $6.4 billion, would result because the IRS would have to divert resources from programs with higher returns and tax gap elements to audits of RTC returns. To meet OMB's metric of reducing the improper payment rate to 10 percent or less for FY 2023, RTC programs would need to reduce erroneous payments by $17.3 billion, based on FY 2023 estimates. Table 2 illustrates this data. In addition, conducting pre-refund audits of millions of additional RTC claims would mean that refunds would be held up for millions of taxpayers whose returns contain no errors. These additional delays in refund receipt would interfere with achieving the statutory purpose of the credits for eligible claimants.

TABLE 1:

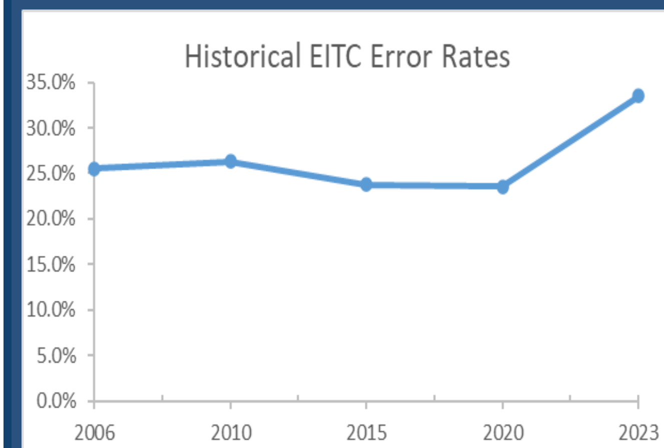
RTC Claims and Improper Payments, TY 2021[1] (dollars in billions)				Reduction of Improper Payments to 10% of claims value	
Program	Claims	Improper Payments	Improper Payment Rate [5]	10% of claims value	Reduction needed for ≤ 10%
EITC	$65.4	$21.9	33.5%	6.5	$15.4
ACTC[3]	3.8	0.5	14.5%	0.4	0.1
AOTC	5.2	1.7	31.6%	0.5	1.2
net PTC[4]	3.7	1.0	26.0%	0.4	0.6
Total	**$78.1**	**$25.1**	**32.1% [2]**	**$7.8**	**$17.3**

(1) *In FY 2023, we are reporting on claims and improper payments associated with tax year 2021 tax returns filed in 2022 and 2023.*
(2) *Total improper payments ÷ Total RTC claims ($25.1 ÷ $78.1).*
(3) *The ARP included a one-time, one-year amendment to the Internal Revenue Code of 1986, expanding the existing Child Tax Credit (CTC) laws for tax year 2021, which provided Child Tax Credit Improvements for TY (TY) 2021 (TY 2021 CTC). Total claimed under this new refundable CTC was $125.9 billion which includes advanced payments totaling $92.7 billion to eligible taxpayers from July to December 2021.*
(4) *Includes amounts for federal and state exchanges.*
(5) *Percentages may not calculate due to rounding.*

Table 1 provides the estimate of the improper payment rate for ACTC outlays, exclusive of TY 2021 CTC. TY 2021 CTC is structured and processed differently than any previous non-refundable CTC, as eligible taxpayers automatically received advance payments (unless they opted-out) and later had to reconcile the credit on their 2021 tax returns. Eligibility and other criteria for ACTC also changed significantly. The IRS designated and implemented TY 2021 CTC as part of the COVID-19 assistance programs; thus, the credit is similarly temporary in nature and has no basis for future improper payment estimates. To estimate improper payment rates for refundable tax credits, the IRS must perform comprehensive audits over a large sample of tax returns. Given the statutory timelines, IRS needs a minimum of three years to calculate an estimated improper payment rate for a given program, which in this case will be long after the TY 2021 CTC has ended.

As PTC has been determined to be susceptible to significant improper payments, we collaborated with HHS to develop a joint methodology for reporting improper payment information for PTC. We report net PTC for both the federal and state exchanges in Table 1 above. HHS reports APTC in its improper payment table within its AFR. Both departments disclose the combined advance and net PTC rates in their AFRs. To satisfy reporting to OMB and PaymentAccuracy.gov requirements, CMS reports disbursements/outlays, estimated error rate, and other data for APTC. The IRS similarly reports estimated overclaims and error rate for net PTC. The combined advance and net PTC rates are for informational purposes only and will not be included in either Department's overall improper payment rate or reported to PaymentAccuracy.gov. For TY 2021, CMS reported APTC outlays of $46.5 billion and improper payments of $271.8 million. For TY 2021, IRS reported net PTC claims of $2.0 billion and estimated improper payments of $512.7 million. The combined APTC and net PTC improper payment estimate is $784.5 million out of $48.5 billion total Premium Tax Credit outlays/claims, or 1.62 percent.[3]

The error rate for EITC has averaged 25.8 percent from FY 2006 to FY 2023 despite the ongoing base enforcement and EITC compliance strategies. The current improper payment statutory framework does not consider recoveries of improper payments as reductions to the error rate. Therefore, remediation efforts would need to be preventative in nature, which creates challenges given the tax framework and the need to process returns timely or incur interest payment obligations. Accordingly, all enforcement activity would need to be in the pre-refund environment to be counted as a reduction of errors. The control activities specific to reducing the improper payment rate to less than 10 percent are the same as those being deployed to reduce the RTC portion of the tax gap: additional audits, system buildouts or enhancements (upgrades), increased outreach, third-party databases to verify taxpayer data, and others. The IRS would have to increase these control activities significantly in an entirely pre-refund environment to reduce the erroneous RTC payments, which would come with highly diminishing returns. Refer to Table 2 for other tax administration strategies.



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Estimated Errors Have Averaged 25.8% Despite Efforts to Reduce Error Rates

EITC estimated error rates have ranged from 22.8 percent to 33.5 percent between FY 2006 and FY 2023, with an average annual error rate estimate of 25.8 percent.

The estimated improper payment rate for the EITC was 33.5 percent in FY 2023, which is not statistically different from the estimated rate of 31.6 percent for FY 2022. The estimated improper payment rate for the ACTC was 14.5 percent in FY 2023, which is not statistically different from the estimated rate of 15.8 percent for FY 2022. The estimated improper payment rate for the AOTC was 31.6 percent in FY 2023, which is not statistically different from the estimated rate of 36.1 percent for FY 2022. The estimated improper payment rate for the net PTC was 26.0 percent in FY 2023, which is not statistically different from the estimated rate of 27.4 percent for FY 2022. The sample precision margins at 95 percent confidence, for FY 2023 estimated rates are-+/- 6.11-percent for EITC, +/- 4.95 percent for ACTC, +/- 5.66 percent for AOTC, and +/- 5.14 percent for net PTC. The wider sample precision margins are the result of a reduction in the number of returns sampled that was necessitated by the significant reduction in the IRS's budget over the last decade along with the resulting decrease in the IRS's examination staff.

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

The IRS designed the initial TY 2019 NRP Individual Income Tax Reporting Compliance sample, upon which the FY 2023 estimates are based, to include the original sample of 10,954 returns, a 20 percent decrease compared to study years prior to the TY 2016 NRP sample. Due to a continued decline in enforcement staff, the IRS further reduced the sample to 4,000 returns, which were drawn from the original sample; these returns are representative of the entire sampling frame, including returns that did not claim RTCs subject to improper payments reporting. The differences in the EITC, ACTC, AOTC, and net PTC point estimates are not statistically significant because the FY 2022 estimates fall within the wider FY 2023 statistical margin of error. Accordingly, one cannot conclude that the true population estimated improper payment rates for EITC, ACTC, AOTC, or net PTC has changed based upon these samples.

TABLE 2:

Other Tax Administration Strategies	
Nationwide Tax Forum	The annual tax forum offers three full days of seminars with the latest news from the IRS leadership and experts. More than 8,300 preparers attended the presentations entitled, *Frequently Asked Questions about Due Diligence* and *Sailing Through Refundable Credits*.
Interactive Due Diligence Training Module	The training module on IRS.gov covers the technical aspects of the due diligence requirements. In FY 2023, more than 11,000 preparers received a certificate of completion.
Tax Preparer Toolkit	The Tax Preparer Toolkit on IRS.gov has resources to assist tax return preparers with the EITC, ACTC, AOTC, as well as other credits and tax benefits.
Software Developers Working Group	The IRS meets with members of tax preparation companies and software industry representatives to identify software enhancements that can help reduce errors taxpayers and paid preparers make and to assist paid preparers in meeting their due diligence requirements.
Filing Season Readiness Webinars	The IRS hosts discussions and provides instructions and demonstrations over the internet. In FY 2023, nearly 6,600 preparers attended the virtual webinar on refundable tax credit eligibility and due diligence requirements entitled, *Looking to Tax Year 2022: American Rescue Plan Tax Changes to Earned Income Tax Credit and Other Child-Related Credits*.
Tax Preparer Alerts	Alerts on IRS.gov provide return preparers with updated news and information on key refundable credit and return filing topics.
Refundable Credits Summit	In FY 2023, the IRS held its annual summit to provide a forum for interested internal and external stakeholders to discuss opportunities to reduce improper payments, ease taxpayer burden, and mitigate compliance risks.

SECTION E: CIVIL MONETARY PENALTIES INFLATION ADJUSTMENT

The *Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015* (2015 Act) amended the *Federal Civil Penalties Inflation Adjustment Act of 1990* (Inflation Adjustment Act), to improve the effectiveness of civil monetary penalties (CMPs) and to maintain their deterrent effect. The 2015 Act requires agencies to annually adjust the level of CMPs for inflation and report annually in AFRs. The 2015 Act requires that agencies make annual inflation adjustments based on annual OMB guidance and publish the latest penalty levels in the Federal Register no later than January 15 each year. The Inflation Adjustment Act and the 2015 Act exclude penalties under the IRC and the *Tariff Act of 1930*. The table below depicts the covered CMPs that are under our purview.

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range) [1]	Sub-Agency Bureau/ Entity	Location for Penalty Update Details
50 USC App. 16(b)(1) Trading with the Enemy Act, Section 16(b)	Sanctions violation	1917	2023	$105,083	DO (Office of Foreign Assets Control (OFAC))	88 Federal Register 2229 (January 13, 2023) https://www.govinfo.gov/content/pkg/FR-2023-01-13/pdf/2023-00593.pdf
50 USC 1705 International Emergency Economic Powers Act, Section 206	Sanctions violation	1977	2023	The greater of $356,579 or twice the value of the underlying transaction	DO (OFAC)	Same as above
18 USC 2339B(b) Antiterrorism and Effective Death Penalty Act of 1996	Sanctions violation	1996	2023	The greater of $94,127 or twice the amount of which a financial institution was required to retain possession or control	DO (OFAC)	Same as above
21 USC 1906(b) Foreign Narcotics Kingpin Designation Act, Section 807	Sanctions violation	1999	2023	$1,771,754	DO (OFAC)	Same as above
19 USC 3901-3913 Clean Diamond Trade Act	Sanctions violation	2003	2023	$16,108	DO (OFAC)	Same as above
50 USC 1701 - 1706 International Emergency Economic Powers Act	Failure to furnish information pursuant to 31 CFR 501.602 irrespective of whether any other violation is alleged	2008	2023	$27,520	DO (OFAC)	Same as above

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range) (1)	Sub-Agency Bureau/ Entity	Location for Penalty Update Details
50 USC 1701 - 1706 International Emergency Economic Powers Act	Failure to furnish information pursuant to 31 CFR 501.602 where OFAC has reason to believe that the apparent violation(s) involves a transaction(s) valued at greater than $500,000, irrespective of whether any other violation is alleged	2008	2023	$68,801	DO (OFAC)	Same as above
50 USC 1701 - 1706 International Emergency Economic Powers Act	Late filing of a required report, whether set forth in regulations or in a specific license, if filed within the first 30 days after the report is due	2008	2023	$3,439	DO (OFAC)	Same as above
50 USC 1701 - 1706 International Emergency Economic Powers Act	Late filing of a required report, whether set forth in regulations or in a specific license, if filed more than 30 days after the report is due	2008	2023	$6,881	DO (OFAC)	Same as above
50 USC 1701 - 1706 International Emergency Economic Powers Act	Late filing of a required report, whether set forth in regulations or in a specific license, if the report relates to blocked assets, an additional CMP for every 30 days that the report is overdue, up to five years	2008	2023	$1,377	DO (OFAC)	Same as above
50 USC 1701 - 1706 International Emergency Economic Powers Act	Failure to maintain records in conformance with the requirements of OFAC's regulations or of a specific license	2008	2023	$68,928	DO (OFAC)	Same as above
15 USC 6701 note Terrorism Risk Insurance Act, as amended	Civil Penalty	2002	2023	$1,643,738	DO (Federal Insurance Office)	88 Federal Register 16885 (March 21, 2023) https://www.govinfo.gov/content/pkg/FR-2023-03-21/pdf/2023-05769.pdf
12 USC 1829b(j) Bank Secrecy Act, as amended	Recordkeeping Violations for Funds Transfers	1988	2023	$24,793	FinCEN	88 Federal Register 3311 (January 19, 2023) https://www.govinfo.gov/content/pkg/FR-2023-01-19/pdf/2023-00943.pdf
12 USC 1955 Bank Secrecy Act, as amended	Willful/Grossly Negligent Recordkeeping Violations	1988	2023	$24,793	FinCEN	Same as above
31 USC 5318(k)(3)(C) Bank Secrecy Act, as amended	Failure to Terminate Correspondent Relationship with Foreign Bank	2001	2023	$16,771	FinCEN	Same as above

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range) [(1)]	Sub-Agency Bureau/ Entity	Location for Penalty Update Details
31 USC 5321(a)(1) Bank Secrecy Act, as amended	General Civil Penalty Provision for Willful Violations of Bank Secrecy Act Requirements	1986	2023	$67,544 to $270,180	FinCEN	Same as above
31 USC 5321(a)(5)(B)(i) Bank Secrecy Act, as amended	Foreign Financial Agency Transaction - Non-Willful Violation of Transaction	2004	2023	$15,611	FinCEN	Same as above
31 USC 5321(a)(5)(C)(i)(I) Bank Secrecy Act, as amended	Foreign Financial Agency Transaction - Willful Violation of Transaction	2004	2023	$156,107	FinCEN	Same as above
31 USC 5321(a)(6)(A) Bank Secrecy Act, as amended	Negligent Violation by Financial Institution or Non-Financial Trade or Business	1986	2023	$1,350	FinCEN	Same as above
31 USC 5321(a)(6)(B) Bank Secrecy Act, as amended	Pattern of Negligent Activity by Financial Institution or Non-Financial Trade or Business	1992	2023	$105,083	FinCEN	Same as above
31 USC 5321(a)(7) Bank Secrecy Act, as amended	Violation of Certain Due Diligence Requirements, Prohibition on Correspondent Accounts for Shell Banks, and Special Measures	2001	2023	$1,677,030	FinCEN	Same as above
31 USC 5330(e) Bank Secrecy Act, as amended	Civil Penalty for Failure to Register as Money Transmitting Business	1994	2023	$9,966	FinCEN	Same as above
12 USC 93(b) Section 5239(b) of the Revised Statutes	Tier 1 Violation of Various Provisions of the National Bank Act	1978	2023	$11,864	OCC	88 Federal Register 289 (January 4, 2023) https://www.govinfo.gov/content/pkg/FR-2023-01-04/pdf/2022-28539.pdf
12 USC 93(b) Section 5239(b) of the Revised Statutes	Tier 2 Violation of Various Provisions of the National Bank Act	1978	2023	$59,316	OCC	Same as above
12 USC 93(b) Section 5239(b) of the Revised Statutes	Tier 3 Violation of Various Provisions of the National Bank Act	1978	2023	$2,372,677	OCC	Same as above
12 USC 164 Section 5213 of the Revised Statutes	Tier 1 Violation of Reporting Requirements	1869[(2)]	2023	$4,745	OCC	Same as above
12 USC 164 Section 5213 of the Revised Statutes	Tier 2 Violation of Reporting Requirements	1869[(2)]	2023	$47,454	OCC	Same as above
12 USC 164 Section 5213 of the Revised Statutes	Tier 3 Violation of Reporting Requirements	1869[(2)]	2023	$2,372,677	OCC	Same as above
12 USC 481 Section 5240 of the Revised Statutes	Refusal of Affiliate to Cooperate in Examination (National Banks)	1864[(2)]	2023	$11,864	OCC	Same as above
12 USC 504 Section 29 of the Revised Statutes	Tier 1 Violation of Various Provisions of the Federal Reserve Act	1978	2023	$11,864	OCC	Same as above

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range) [1]	Sub-Agency Bureau/ Entity	Location for Penalty Update Details
12 USC 504 Section 29 of the Revised Statutes	Tier 2 Violation of Various Provisions of the Federal Reserve Act	1978	2023	$59,316	OCC	Same as above
12 USC 504 Section 29 of the Revised Statutes	Tier 3 Violation of Various Provisions of the Federal Reserve Act	1978	2023	$2,372,677	OCC	Same as above
12 USC 1817(j)(16) Section 7(j)(16) of the Federal Deposit Insurance Act	Tier 1 Violation of Change in Bank Control Act	1978	2023	$11,864	OCC	Same as above
12 USC 1817(j)(16) Section 7(j)(16) of the Federal Deposit Insurance Act	Tier 2 Violation of Change in Bank Control Act	1978	2023	$59,316	OCC	Same as above
12 USC 1817(j)(16) Section 7(j)(16) of the Federal Deposit Insurance Act	Tier 3 Violation of Change in Bank Control Act	1978	2023	$2,372,677	OCC	Same as above
12 USC 1818(i)(2) Section 8(i)(2) of the Federal Deposit Insurance Act	Tier 1 Violation of Law, Unsafe or Unsound Practice, or Breach of Fiduciary Duty	1978	2023	$11,864	OCC	Same as above
12 USC 1818(i)(2) Section 8(i)(2) of the Federal Deposit Insurance Act	Tier 2 Violation of Law, Unsafe or Unsound Practice, or Breach of Fiduciary Duty	1978	2023	$59,316	OCC	Same as above
12 USC 1818(i)(2) Section 8(i)(2) of the Federal Deposit Insurance Act	Tier 3 Violation of Law, Unsafe or Unsound Practice, or Breach of Fiduciary Duty	1978	2023	$2,372,677	OCC	Same as above
12 USC 1820(k)(6)(A)(ii) Section 10(k)(6)(A)(ii) of the Federal Deposit Insurance Act	Violation of Post-Employment Restrictions	2004	2023	$390,271	OCC	Same as above
12 USC 1832(c) Section 2 of Public Law 93-100	Violation of Withdrawals by Negotiable or Transferable Instrument for Transfers to Third Parties (National Banks)	1973	2023	$3,446	OCC	Same as above
12 USC 1832(c) Section 2 of Public Law 93-100	Violation of Withdrawals by Negotiable or Transferable Instrument for Transfers to Third Parties (Federal Savings Associations)	1973	2023	$3,132	OCC	Same as above
12 USC 1884 Section 5 of the Bank Protection Act of 1968	Violation of the Bank Protection Act	1968	2023	$345	OCC	Same as above
12 USC 1972(2)(F) Section 106(b)(2)(F) of the Bank Holding Company Act Amendments of 1970	Tier 1 Violation of Anti-Tying Provisions Regarding Correspondent Accounts, Unsafe or Unsound Practices, or Breach of Fiduciary Duty	1978	2023	$11,864	OCC	Same as above

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range) (1)	Sub-Agency Bureau/ Entity	Location for Penalty Update Details
12 USC 1972(2)(F) Section 106(b)(2)(F) of the Bank Holding Company Act Amendments of 1970	Tier 2 Violation of Anti-Tying Provisions Regarding Correspondent Accounts, Unsafe or Unsound Practices, or Breach of Fiduciary Duty	1978	2023	$59,316	OCC	Same as above
12 USC 1972(2)(F) Section 106(b)(2)(F) of the Bank Holding Company Act Amendments of 1970	Tier 3 Violation of Anti-Tying Provisions Regarding Correspondent Accounts, Unsafe or Unsound Practices, or Breach of Fiduciary Duty	1978	2023	$2,372,677	OCC	Same as above
12 USC 3110(a) Section 16(a) of the International Banking Act of 1978	Violation of Various Provisions of the International Banking Act (Federal Branches and Agencies)	1991	2023	$54,224	OCC	Same as above
12 USC 3110(c) Section 16(c) of the International Banking Act of 1978	Tier 1 Violation of Reporting Requirements of the International Banking Act (Federal Branches and Agencies)	1991	2023	$4,339	OCC	Same as above
12 USC 3110(c) Section 16(c) of the International Banking Act of 1978	Tier 2 Violation of Reporting Requirements of the International Banking Act (Federal Branches and Agencies)	1991	2023	$43,377	OCC	Same as above
12 USC 3110(c) Section 16(c) of the International Banking Act of 1978	Tier 3 Violation of Reporting Requirements of the International Banking Act (Federal Branches and Agencies)	1991	2023	$2,168,915	OCC	Same as above
12 USC 3909(d)(1) Section 910(d)(1) of the International Lending Supervision Act of 1983	Violation of International Lending Supervision Act	1983	2023	$2,951	OCC	Same as above
15 USC 78u-2(b) Section 21B(b) of the Securities Exchange Act of 1934	Tier 1 (natural person) Violation of Various Provisions of the Securities Act, the Securities Exchange Act, the Investment Company Act, or the Investment Advisers Act	1990	2023	$11,162	OCC	Same as above
15 USC 78u-2(b) Section 21B(b) of the Securities Exchange Act of 1934	Tier 1 (other person) Violation of Various Provisions of the Securities Act, the Securities Exchange Act, the Investment Company Act, or the Investment Advisers Act	1990	2023	$111,614	OCC	Same as above
15 USC 78u-2(b) Section 21B(b) of the Securities Exchange Act of 1934	Tier 2 (natural person) Violation of Various Provisions of the Securities Act, the Securities Exchange Act, the Investment	1990	2023	$111,614	OCC	Same as above

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range) [1]	Sub-Agency Bureau/ Entity	Location for Penalty Update Details
	Company Act, or the Investment Advisers Act					
15 USC 78u-2(b) Section 21B(b) of the Securities Exchange Act of 1934	Tier 2 (other person) Violation of Various Provisions of the Securities Act, the Securities Exchange Act, the Investment Company Act, or the Investment Advisers Act	1990	2023	$558,071	OCC	Same as above
15 USC 78u-2(b) Section 21B(b) of the Securities Exchange Act of 1934	Tier 3 (natural person) Violation of Various Provisions of the Securities Act, the Securities Exchange Act, the Investment Company Act, or the Investment Advisers Act	1990	2023	$223,229	OCC	Same as above
15 USC 78u-2(b) Section 21B(b) of the Securities Exchange Act of 1934	Tier 3 (other person) Violation of Various Provisions of the Securities Act, the Securities Exchange Act, the Investment Company Act, or the Investment Advisers Act	1990	2023	$1,116,140	OCC	Same as above
15 USC 1639e(k) Section 129E(k) of the Truth in Lending Act	First Violation - Violation of Appraisal Independence Requirements	2010	2023	$13,627	OCC	Same as above
15 USC 1639e(k) Section 129E(k) of the Truth in Lending Act	Subsequent Violations - Violation of Appraisal Independence Requirements	2010	2023	$27,252	OCC	Same as above
42 USC 4012a(f)(5) Section 102(f)(5) of the Flood Disaster Protection Act of 1973	Flood Insurance	1994	2023	$2,577	OCC	Same as above
12 USC 1464(v) Section 5(v) of the Home Owners' Loan Act	Tier 1 Reports of Condition - Savings Associations	1989	2023	$4,745	OCC	Same as above
12 USC 1464(v) Section 5(v) of the Home Owners' Loan Act	Tier 2 Reports of Condition - Savings Associations	1989	2023	$47,454	OCC	Same as above
12 USC 1464(v) Section 5(v) of the Home Owners' Loan Act	Tier 3 Reports of Condition - Savings Associations	1989	2023	$2,372,677	OCC	Same as above
12 USC 1467(d) Section 9(d) of the Home Owners' Loan Act	Refusal of Affiliate to Cooperate in Examination	1989	2023	$11,864	OCC	Same as above
12 USC 1467a(r) Section 10(r) of the Home Owners' Loan Act	Tier 1 Late/Inaccurate Reports (Savings and Loans)	1989	2023	$4,745	OCC	Same as above

Statutory Authority	Penalty (Name or Description)	Year Enacted	Latest Year of Adjustment (via Statute or Regulation)	Current Penalty Level ($ Amount or Range) [(1)]	Sub-Agency Bureau/ Entity	Location for Penalty Update Details
12 USC 1467a(r) Section 10(r) of the Home Owners' Loan Act	Tier 2 Late/Inaccurate Reports (Savings and Loans)	1989	2023	$47,454	OCC	Same as above
12 USC 1467a(r) Section 10(r) of the Home Owners' Loan Act	Tier 3 Late/Inaccurate Reports (Savings and Loans)	1989	2023	$2,372,677	OCC	Same as above
27 USC 218 Federal Alcohol Administration Act, as amended; Section 207 of the Alcohol Beverage Labeling Act of 1988, P.L. 100-690	Violation	1988	2023	$24,759	TTB	88 Federal Register 2228 (January 13, 2023) https://www.govinfo.gov/content/pkg/FR-2023-01-13/pdf/2023-00594.pdf
31 USC 333 Prohibition of Misuse of Department of the Treasury Names, Symbols, etc.	Misuse of Treasury name or symbol	1994	2023	$9,399	Department Wide	88 Federal Register 16885 (March 21, 2023) https://www.govinfo.gov/content/pkg/FR-2023-03-21/pdf/2023-05769.pdf
31 USC 333 Prohibition of Misuse of Department of the Treasury Names, Symbols, etc.	Misuse of Treasury name or symbol in broadcast or telecast	1994	2023	$46,989	Department Wide	Same as above
31 USC 3802 Program Fraud Civil Remedies Act	Program Fraud Civil Remedies Act	1986	2023	$9,399	Department Wide	Same as above

(1) Current penalty level amounts represent the maximum penalty amounts.

(2) For purposes of calculating the appropriate inflation factor, OMB's guidance issued February 24, 2016 uses the calendar year 1914 CMP Catch-Up Adjustment Multiplier for all penalties enacted prior to 1914.

SECTION F: GRANTS PROGRAMS

The summary table below shows the total number and balances of federal grants and cooperative agreements that we awarded for which closeout has not yet occurred and the period of performance has elapsed by more than two years.

CATEGORY	2-3 Years	4-5 Years	More than 5 Years
Number of Grants/Cooperative Agreements with Zero Dollar Balances	223	2	-
Number of Grants/Cooperative Agreements with Undisbursed Balances	118	1	-
Total Amount of Undisbursed Balances	**$ 2,208,001**	**$ 2,121**	**$ -**

The majority of these awards are with IRS's Volunteer Income Tax Assistance, Low Income Taxpayer Clinics, and Tax Counseling for the Elderly grant programs. The IRS continues to make the closeout of awards a priority every fiscal year. The IRS did see an increase in the number of expired grants and cooperative agreements with period of performance over two years from FY 2022 to FY 2023. Grant recipients have not correctly completed and submitted all progress reporting forms and financial forms in the Payment Management System which continues to be a challenge preventing closeout of awards. Other factors include competing priorities, employee turnover, and challenges associated with integrating a new grants management system. In addition, the Low Income Taxpayer Clinic grant cap was doubled after awards were granted based on the original amounts. This was a time-consuming process of soliciting requests and awarding additional funds. The program offices are reviewing closeout procedures and are dedicated to closing out the remaining accounts in FY 2024.

APPENDIX: GLOSSARY OF ACRONYMS

Abbreviation	Description
2015 Act	Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015
ACT	Audit and Compliance Resolution Team
ACTC	Additional Child Tax Credit
AFR	Agency Financial Report
AGI	Adjusted Gross Income
AMLA	Anti-Money Laundering Act of 2020
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
AOTC	American Opportunity Tax Credit
APG	Agency Priority Goal
APR	Annual Performance Report
APTC	Advance Payments of the Premium Tax Credit
ARC	Administrative Resource Center
ARP	American Rescue Plan Act of 2021
ARRA	American Recovery and Reinvestment Tax Act of 2009
ASM	Assistant Secretary for Management
BEP	Bureau of Engraving and Printing
BGP	Bond Guarantee Program
BOI	Beneficial Ownership Information
BSA	Bank Secrecy Act
BY25	Budget Year 2025
CAA	Consolidated Appropriations Act, 2021
CADE	Customer Account Data Engine 2
CAIA	Common Approach to Identity Assurance
CARES Act	Coronavirus Aid, Relief, and Economic Security Act
CDCC	Child and Dependent Care Credit
CDFI	Community Development Financial Institutions
CDFI RRP	CDFI Rapid Response Program
CDM	Continuous Diagnostics and Mitigation
CEG	Cyber Expert Group
CERTS	Coronavirus Economic Relief for Transportation Services
CESG	Cloud Executive Steering Group
CFE	Carbon-free electricity
CFIUS	Committee on Foreign Investment in the United States
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CFRAC	Climate-related Financial Risk Advisory Committee
CHIPS Act	CHIPS and Science Act
CIFS	Critical Individual Filing Season
CIO	Chief Information Officer
CISA	Cybersecurity and Infrastructure Security Agency

Abbreviation	Description
Civil Service Fund	Civil Service Retirement and Disability Trust Fund
CLWG	Climate Literacy Work Group
CMP	Civil Monetary Penalties
CMS	Centers for Medicare & Medicaid Services
Compliance Framework	FFMIA Compliance Determination Framework
COVID-19	Coronavirus Disease 2019
CPF	Coronavirus Capital Projects Fund
CPI	Consumer Price Index
CPIC	Capital Planning and Investment Control
CRF	Coronavirus Relief Fund
CRO	Chief Risk Officer
CSR	Customer Service Representative
CSRS	Civil Service Retirement System
CTA	Corporate Transparency Act of 2020
CTC	Child Tax Credit
D.C.	District of Columbia
D.C. Federal Pension Fund	D.C. Teachers', Police Officers', and Firefighters' Federal Pension Fund
DEIA	Diversity, Equity, Inclusion, and Accessibility
DO	Departmental Offices
DOL	Department of Labor
DPC	Treasury Derived Personal Identification and Validation Credential
ECIP	Emergency Capital Investment Program
ECM	Enterprise Case Management
EDR	EndPoint Detection Response
EEO	Equal Employment Opportunity
EFT	Electronic Funds Transfer
EIP	Economic Impact Payment
EITC	Earned Income Tax Credit
EO	Executive Order
ERA	Emergency Rental Assistance
ERC	Employee Retention Credit
ERM	Enterprise Risk Management
ESA	Exchange Stabilization Agreement
ESAPR	Enterprise Self-Assistance Participation Rate
ESF	Exchange Stabilization Fund
EV	Electric Vehicle
EVSE	Electric Vehicle Supply Equipment
Fannie Mae	Federal National Mortgage Association
FARS	Financial Analysis and Reporting System
FASAB	Federal Accounting Standards Advisory Board
FAST	Fixing America's Surface Transportation
FBIIC	Financial and Banking Information Infrastructure Committee

Abbreviation	Description
FCDA	Foreign Currency Denominated Assets
FCRA	Federal Credit Reform Act
FDC	Funds from Dedicated Collections
FECA	Federal Employees' Compensation Act
Federal Reserve Act	Federal Reserve Act of 1913
Federal Reserve Board or Board	Federal Reserve Board of Governors
FEGLI	Federal Employees Group Life Insurance
FEHBP	Federal Employees Health Benefits Program
FERS	Federal Employees' Retirement System
FEVS	Federal Employee Viewpoint Survey
FFB	Federal Financing Bank
FFMIA	Federal Financial Management Improvement Act of 1996
FHFA	Federal Housing Finance Agency
FICA	Federal Insurance Contributions Act
Financial Report	Financial Report of the U.S. Government
FinCEN	Financial Crimes Enforcement Network
Fiscal Service	Bureau of the Fiscal Service
FISMA	Federal Information Security Management Act
FITARA	Federal Information Technology Acquisition Reform Act
FIU	Financial Intelligence Unit
FMFIA	Federal Managers' Financial Integrity Act
FOMC	Federal Open Market Committee
FR System	Federal Reserve System
FRB	Federal Reserve Bank
FRBB	Federal Reserve Bank of Boston
FRBNY	Federal Reserve Bank of New York
Freddie Mac	Federal Home Loan Mortgage Corporation
FRN	Floating Rate Note
FTO	Fine Troy Ounce
FY	Fiscal Year
G Fund	Government Securities Investment Fund
G7	Group of Seven
G20	Group of 20
GAAP	Generally Accepted Accounting Principles
GAO	U.S. Government Accountability Office
GCF	Green Climate Fund
General Fund	General Fund of the U.S. Government
GPRA	Government Performance and Results Act
GSA	General Services Administration
GSE	Government Sponsored Enterprise
HAF	Homeowner Assistance Fund
HBCU	Historically Black College and University

Abbreviation	Description
HERA	Housing and Economic Recovery Act of 2008
HFA	Housing Finance Agency
HHS	Department of Health and Human Services
HQM	High-Quality Market Corporate Bond
HUD	Department of Housing and Urban Development
HVA	High Value Asset
IA	International Affairs
IAP	International Assistance Programs
IIJA	Infrastructure Investment and Jobs Act
IMF	International Monetary Fund
Inflation Adjustment Act	Federal Civil Penalties Inflation Adjustment Act of 1990
IRA	Inflation Reduction Act
IRC	Internal Revenue Code
IRS	Internal Revenue Service
IT	Information Technology
JADE	Joint Analysis Data Environment
Judicial Retirement Fund	District of Columbia Judicial Retirement and Survivors' Annuity Fund
LB&I	Large Business and International
LLC	Limited Liability Company
LOS	Level of Service
MALSPAM	Malicious Spam
MDB	Multilateral Development Bank
MDI	Minority Deposit Institution
MFA	Multi-Factor Authentication
MLF	Municipal Liquidity Facility LLC
MOU	Memorandum of Understanding
MSF	Main Street Facilities LLC
NAB	New Arrangements to Borrow
NAFA	North American Framework Agreement
NEU	Non-Entitlement Units
NIBP	New Issue Bond Program
NIST	National Institute of Standards and Technology
NRP	National Research Program
OCC	Office of the Comptroller of the Currency
OCIO	Office of the Chief Information Officer
OCRE	Office of Civil Rights and Equal Employment Opportunity
ODCP	Office of D.C. Pensions
ODEIA	Office of Diversity, Equity, Inclusion, and Accessibility
OFAC	Office of Foreign Assets Control
OFM	Office of Financial Markets
OFR	Office of Financial Research
OFS	Office of Financial Stability

Abbreviation	Description
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OMWI	Office of Minority and Women Inclusion
OPEB	Other Post-Employment Benefits
OPM	Office of Personnel Management
OPM Funds	Civil Service Fund and Postal Benefits Fund
ORB	Other Retirement Benefits
ORP	Office of Recovery Programs
OSPPI	Office of Strategy, Planning, and Performance Improvement
OTA	Office of Technical Assistance
OTC	Over-the-Counter
P.L.	Public Law
PCA	Private Collection Agencies
PIIA	Payment Integrity Information Act of 2019
PIK	Payment-in-Kind
PIO	Performance Improvement Officer
PMIAA	Program Management Improvement Accountability Act
Postal Benefits Fund	Postal Service Retiree Health Benefits Fund
PP&E	Property, Plant, and Equipment
PRAC	Pandemic Response Accountability Committee
PSP	Payroll Support Program
PSPA	Payroll Support Program Agreement
PTC	Premium Tax Credit
PTIN	Preparer Tax Identification Number
RPA	Robotic Process Automation
RRTA	Railroad Retirement Tax
RTC	Refundable Tax Credits
SARs	Suspicious Activity Reports
SB/SE	Small Business/Self Employed
SBLF	Small Business Lending Fund
SBR	Statement of Budgetary Resources
SDR	Special Drawing Rights
Secretary	Secretary of the Treasury
SEDI	Socially and Economically-Disadvantaged Individuals
SFC	Security Fusion Center
SFFAS	Statement of Federal Financial Accounting Standards
SIGPR	Special Inspector General for Pandemic Recovery
SIGTARP	Special Inspector General for the Troubled Asset Relief Program
SLFRF	Coronavirus State and Local Fiscal Recovery Funds
SLGS	State and Local Government Series
SOAR	Strategic Objective Annual Review
SOMA	System Open Market Account

Abbreviation	Description
SOP	Strategic Operating Plan
SPSPA	Senior Preferred Stock Purchase Agreements
SPV	Special Purpose Vehicle
SSBCI	State Small Business Credit Initiative
SSN	Social Security Number
TACs	Taxpayer Assistance Centers
TALF	Term Asset-Backed Securities II LLC
TARP	Troubled Asset Relief Program
TBM	Technology Business Management
TDC	Taxpayer Digital Communication
TEAS	Treasury Enterprise Authentication Service
TEOAF	Treasury Executive Office of Asset Forfeiture
TFA	Taxpayer First Act
TFI	Terrorism and Financial Intelligence
TFS	TIER Financial Statements
TGA	Treasury General Account
TIER	Treasury Information Executive Repository
TIGTA	Treasury Inspector General for Tax Administration
TIPS	Treasury Inflation-Protected Securities
TRAMS	Treasury Recovery Award Management System
TRIP	Terrorism Risk Insurance Program
TSP	Thrift Savings Plan
TTB	Alcohol and Tobacco Tax and Trade Bureau
TXO	Taxpayer Experience Office
TXS	Taxpayer Experience Strategy
TY	Tax Year
U.S.	United States
U.S. Mint	United States Mint
USACE	United States Army Corps of Engineers
USC	United States Code
USDA	United States Department of Agriculture
USPS	United States Postal Service
USSGL	United States Standard General Ledger
ZTA	Zero-Trust Architecture

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