DEPARTMENT OF THE TREASURY

Agency Financial Report

Fiscal Year 2015

November 16, 2015

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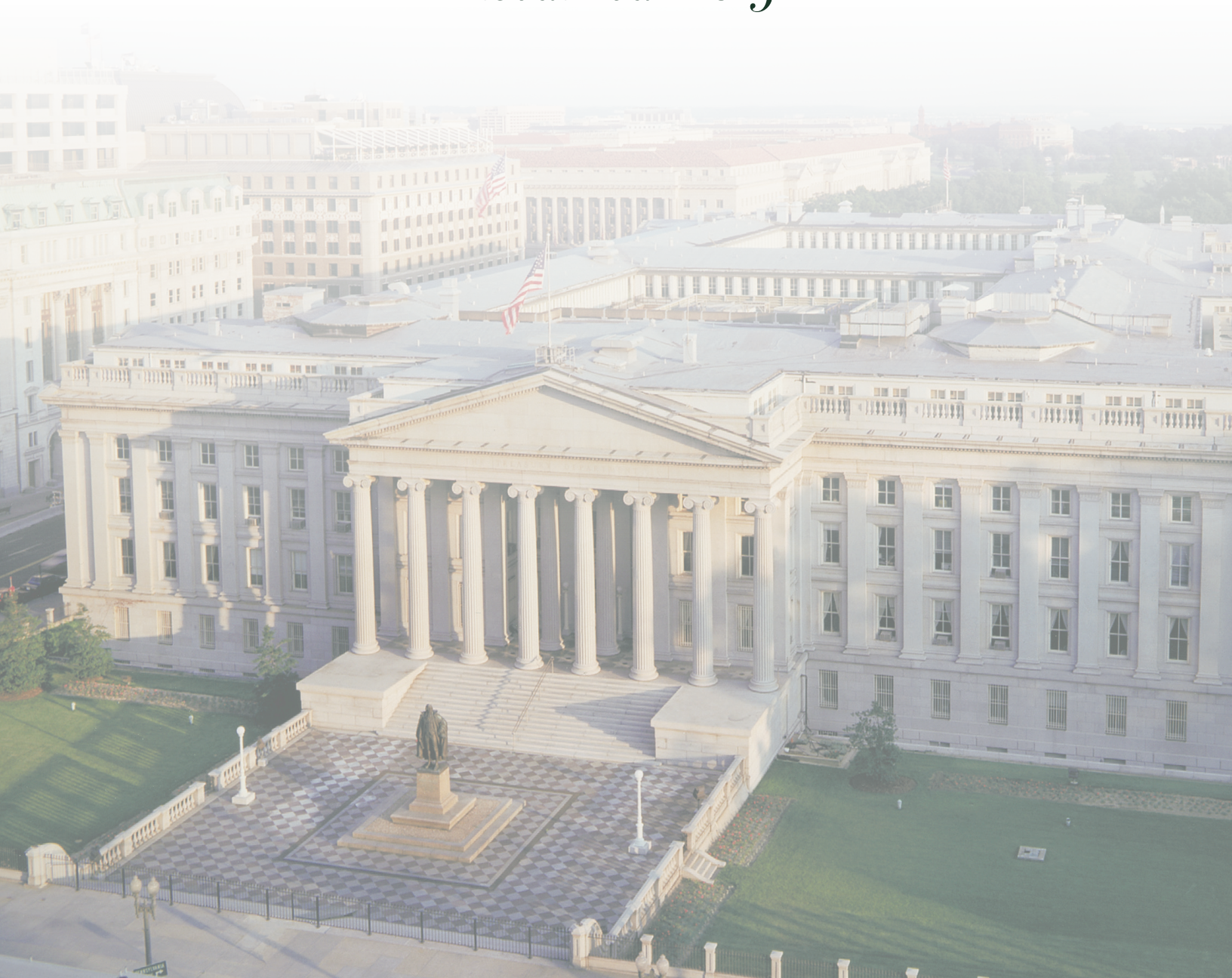
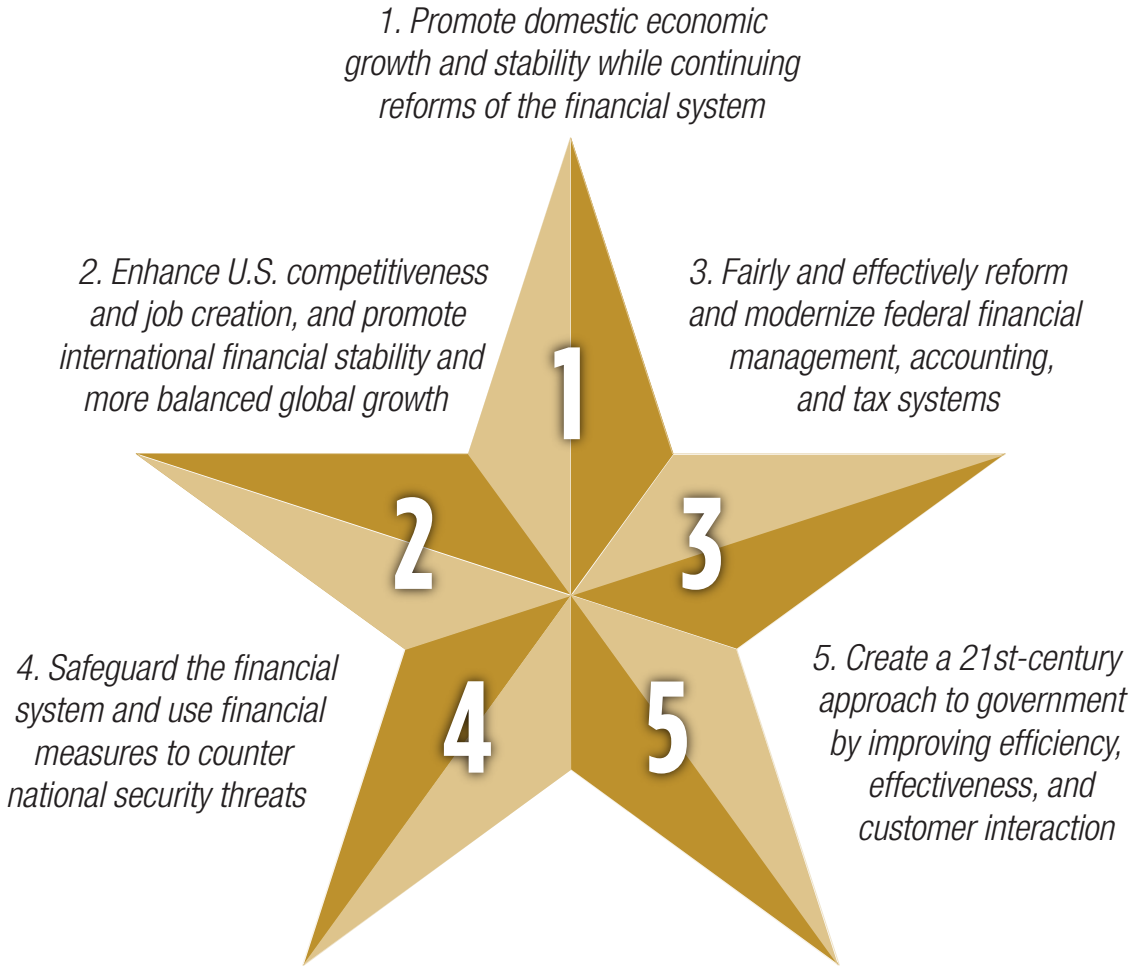


Department of the Treasury Mission Statement

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

Treasury's Strategic Goals



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MESSAGE FROM THE SECRETARY OF THE TREASURY

As we issue the *Agency Financial Report* for the Department of the Treasury (Treasury or the Department) this year, we celebrate the fifth anniversary of two important pieces of legislation that have helped the U.S. economy move forward from the 2008 financial crisis: the *Small Business Jobs Act of 2010* and the *2010 Dodd-Frank Wall Street Reform and Consumer Protection Act*. These two pieces of landmark legislation demonstrate the enormously positive impact that cooperation between Congress and the Executive Branch can have on our country. Treasury has been proud to play its part in implementing programs under these laws that have brought stability to the financial markets and economic security and growth to the American people.

Though we remain focused on steering the United States to a stronger economic future, Treasury also acts as a leader in addressing critical international issues. The world witnessed the effectiveness of economic sanctions in advancing key national security objectives when Iran agreed to a Joint Comprehensive Plan of Action (JCPOA) that will curb its nuclear program in exchange for the lifting of specific, nuclear-related sanctions. In addition, over the course of this year, we have successfully advanced U.S. growth priorities with the Group of 20 (G-20) and outlined a new framework for financing development throughout the world. Finally, as the President charts a new course for U.S. relations with Cuba, Treasury played a leading role through the revision of long-standing regulations with a goal of further engaging and empowering the Cuban people.

Even as we contributed in innovative ways to domestic and international growth and stability, we continued to fulfill our core mission to manage the U.S. Government's finances effectively. This year, we embraced our new role as co-lead with the Office of Management and Budget (OMB) in implementing *the Digital Accountability and Transparency Act of 2014* (DATA Act), which will usher in a new era of federal financial accountability to the American people. Despite severely reduced funding levels, the IRS also successfully administered the first tax season in which the *Affordable Care Act* (ACA)'s individual mandate was in effect.

To maintain our course, we must address key challenges that could hinder our ability to build on these successes. Now that Congress passed and the President signed legislation to fund the government and increase the debt limit for the next two years, we will focus on working with Congress to secure the funding necessary to administer the country's tax code effectively and provide the level of service taxpayers expect from their government. In addition, we continue to monitor cyber threats and are actively working to promote improvements in cybersecurity across the financial sector. Within Treasury, in FY2015, we established the Office of Risk Management and the position of Chief Risk Officer to emphasize the identification and mitigation of all types of risk. In addition, we will focus on a comprehensive set of management priorities, including improving the way the Department hires and engages employees. Without highly qualified and motivated employees, we cannot succeed in our mission.

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

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

Jacob J. Lew
Secretary of the Treasury
November 16, 2015

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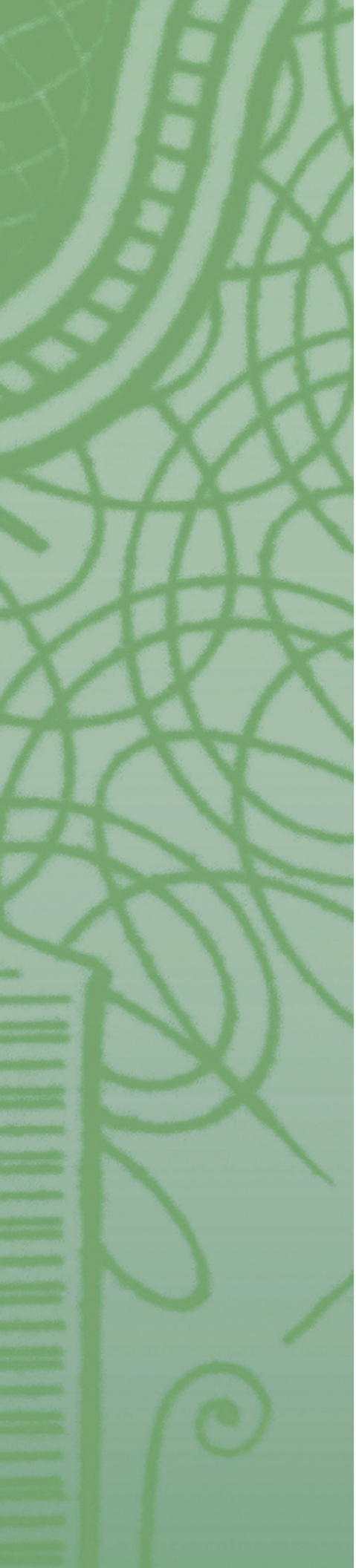
PART 1:

Management's Discussion and Analysis (Unaudited)



INTRODUCTION

This *Agency Financial Report (AFR) for Fiscal Year (FY) 2015* presents the Department of the Treasury's (Treasury or the Department) financial information relative to its vital mission and the stewardship of the resources entrusted to us. It also highlights Treasury's priorities, accomplishments, and challenges in implementing programs to promote conditions that enable economic growth and stability at home and abroad, protect the integrity of the financial system, and effectively manage the U.S. Government's finances and resources.

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

For FY 2015, Treasury used the alternative approach identified in the Office of Management and Budget's (OMB) Circular A-136 to produce its Performance and Accountability Reports, which consists of three reports.

FY 2015 Performance Report Title	Delivery Date	Website Location
Agency Financial Report	November 16, 2015 *(Anticipated)*	http://www.treasury.gov/about/budget-performance/annual-performance-plan/Pages/default.aspx
Annual Performance Report *(submitted with the Department's congressional Budget Justification)*	February 1, 2016	http://www.treasury.gov/about/budget-performance/Pages/cj-index.aspx
Summary of Performance and Financial Information (Citizens' Report)	February 15, 2016	http://www.treasury.gov/about/budget-performance/annual-performance-plan/Pages/default.aspx

WHAT'S IN THIS DISCUSSION?

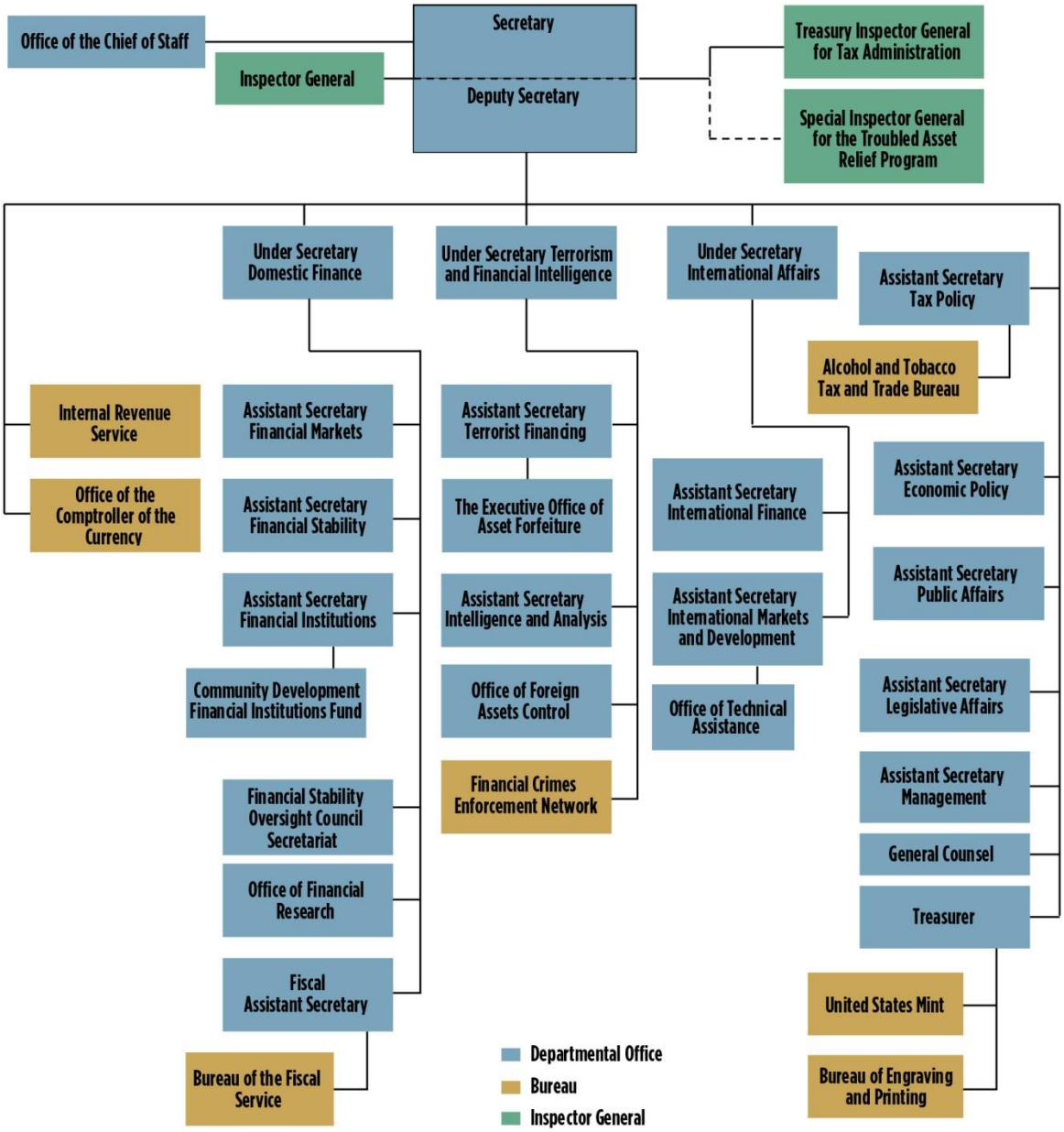
The *Management's Discussion and Analysis* is required supplementary information to the financial statements and provides a high-level overview of Treasury's performance, organized into the following sections:

- The *Organization* section describes how Treasury is structured, including descriptions of its bureaus and offices.
- The *Treasury Strategic Framework* section outlines Treasury's current strategic goals, objectives, agency priority goals (APGs), and organizational performance management practices.[1]
- The *Performance Overview* section summarizes FY 2015 performance for each strategic goal, including selected accomplishments and key data. Four-year trends are analyzed using colored arrows, with the arrow (up, down, or side-to-side) indicating the direction and the color (red, yellow, or green) indicating the desirability of the result.
- The *Summary of Management and Performance Challenges* highlights cross-cutting issues encountered.
- The *FY 2016 Outlook* section highlights planned next steps to advance Treasury's strategic priorities.
- The *Financial Highlights* section analyzes key financial data, including Treasury's balance sheet, net cost, budgetary resources, and revenue received.
- The *Management Assurances* section provides the Secretary's Assurance Statement related to the Federal Managers' Financial Integrity Act. This section also describes the Department's efforts to ensure that Treasury's financial management systems comply with applicable accounting principles, internal control standards, and requirements.

[1] Access current and past strategic plans at http://www.treasury.gov/about/budget-performance/strategic-plan/Pages/index.aspx and APGs at http://www.performance.gov/agency/department-treasury?view=public#apg

ORGANIZATION

Treasury is organized into the Departmental Offices, seven bureaus, and three inspectors general. The Departmental Offices are primarily responsible for policy formulation, while the bureaus are the operating units of the organization.[2]



[2] In addition to the listed organizations, the Office of Risk Management, created in FY 2015, and the Office of Small and Disadvantaged Business Utilization report to the Deputy Secretary. Learn more about Treasury's bureaus and offices on the following pages and at http://www.treasury.gov/about/organizational-structure/Pages/default.aspx. For financial reporting purposes, the Departmental Offices includes the entities described in the following section, the various funds and programs managed by them (referenced in Part 2 of this report), and the Federal Financing Bank (FFB).

DEPARTMENTAL OFFICES

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

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

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

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

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

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

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

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

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

BUREAUS

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

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

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

The Bureau of the Fiscal Service (Fiscal Service) provides central payment services to federal program agencies, operates the U.S. Government's collections and deposit systems, provides government-wide accounting and reporting services, manages the collection of delinquent debt owed to the U.S. Government, borrows the money needed to operate the U.S.

Government through the sale of marketable, savings, and special-purpose U.S. Treasury securities (including the state and local government series), and accounts for and services the public debt.

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

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

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

TREASURY STRATEGIC FRAMEWORK

The Government Performance and Results Act (GPRA) of 1993 and the *GPRA Modernization Act of 2010* establish the need for agencies to identify performance goals, report progress against targets, and conduct data-driven reviews. When done well, these practices serve two key purposes for stakeholders within and outside of the organization: to assess the organization's health and impact and to inform decision-making and strategy, including effective resource allocation. In this spirit, Treasury developed a strategic framework supported by best-in-class organizational performance practices to ultimately help achieve its strategic goals.

TREASURY ORGANIZATIONAL PERFORMANCE REVIEW CYCLE

Treasury's organizational performance reviews provide a regular forum for open dialogue and coordination between Department and bureau and office leadership, bringing together different perspectives to set and align priorities, identify and solve problems, review agency performance goals, and drive results. The cycle integrates statutory requirements to conduct quarterly performance reviews of agency goals and a Strategic Objective Annual Review (SOAR), which analyzes cross-cutting performance and designates a set of strategic objectives as making "Noteworthy Progress" or as a "Focus Area for Improvement."

	Fall	Winter	Spring	Summer
Focus	Bureau-level Performance	Department-level Performance (SOAR)	Bureau-level Performance	Performance-based Budget
Goals/ Outcomes	• Gain a shared understanding of previous year's progress at the bureau/office level • Identify and align priorities • Recognize successes	• Evaluate cross-agency progress toward strategic objectives • Identify issues to discuss with OMB at FedStat (a new annual review with OMB)	• Assess progress on priorities • Surface problems or assistance needed • Discuss solutions • Recognize successes	• Connect priorities to future funding • Understand performance impacts

In addition to these department-level reviews, bureaus and offices validate performance data each quarter and many run their own internal performance reviews.

FY 2014-2017 Strategic Framework

The strategic framework comprises the Department's FY 2014-2017 strategic goals and objectives and FY 2014-2015 Agency Priority Goals (APGs), which align to specific objectives. All bureaus and offices align their programs and performance within this framework.

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

PERFORMANCE OVERVIEW

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

Strategic Objective 1.1: Promote savings and increased access to credit and affordable housing options

Strategic Objective 1.2: Wind down emergency financial crisis response programs

Strategic Objective 1.3: Complete implementation of financial regulatory reform initiatives, continue monitoring capital markets, and address threats to stability

Strategic Objective 1.4: Facilitate commerce by providing trusted and secure U. S. currency, products, and services for use by the public

INCREASED ACCESS TO CREDIT AND SAVINGS

The Small Business Jobs Act of 2010 (Jobs Act), which celebrates its fifth anniversary this year, has produced impressive results. The law created the State Small Business Credit Initiative (SSBCI), which is charged with increasing the availability of credit for small businesses and generating jobs and other economic development benefits for states. Because of the program's success, Treasury seeks to reauthorize it through FY 2023. Since its passage, SSBCI has supported more than 12,400 private sector loans or investments to small businesses and helped create or retain more than 140,000 jobs, as reported by the small businesses who received the loans and investments.[3] As of June 30, 2015, approximately $1.26 billion of $1.46 billion total funds available for disbursement have been provided to the states.[4] As of December 2014, states had expended $864 million of these funds to leverage $6.4 billion in new lending or investing.

The Jobs Act also created the Community Development Financial Institutions (CDFI) Bond Guarantee Program, which is administered by the CDFI Fund. Bonds issued under the program support CDFI lending activity in underserved communities by providing a source of long-term capital. Under FY 2013 and 2014 authority, Treasury provided four bond guarantees, which supported eight bond loans totaling $525 million. On September 29, 2015, Treasury announced that an additional nine bond loans, totaling $327 million, were guaranteed in FY 2015.

Helping Americans save—for retirement and other goals—is a top priority for Treasury. Millions of workers in America either do not have access to an employer-sponsored retirement plan or lack options to save for retirement. In December 2014, Treasury began the initial pilot phase of *my*RA, or *my* Retirement Account, that makes saving for retirement simple, safe, and affordable. In addition, Treasury continued to lead the administration's efforts to help Americans have the financial information and skills they need to make sound choices in a complex financial system by chairing the interagency Financial Literacy and Education Commission and receiving important recommendations from the President's Advisory Council on Financial Capability for Young Americans. Additionally, Treasury worked closely with the Department of Education to improve the federal student loan system.

ECONOMIC RECOVERY AND STABILITY

FY 2015 also marked the fifth anniversary of the most far-reaching and comprehensive financial reforms since the Great Depression: the *2010 Dodd-Frank Wall Street Reform and Consumer Protection Act* (Dodd-Frank Act). During the darkest moments of the 2008 financial crisis, the U.S. economy was contracting at the fastest rate in 50 years. By early 2009, companies were shedding more than 800,000 jobs a month and, eventually, the unemployment rate reached 10 percent. The crisis demonstrated that excessive risk-taking, low levels of capital, unsafe lending practices, and inadequate oversight within the financial system can have a real impact on the lives of all Americans. By enacting the

[3] SSBCI December 2014 Annual Report
[4] SSBCI June 2015 Quarterly Report

Dodd-Frank Act, the U.S. Government set out to reform Wall Street to be more stable, transparent, and focused on serving customers.

Five years later, with nearly all of the major rules written, the financial system is safer, stronger, and more resilient. The economy is growing and unemployment rate has dropped to 5.0 percent as of November 2015.[5] Regulators have modern, common-sense tools to protect taxpayers, and banks have more capital to cover potential losses. And since financial crises do not respect national borders, Treasury is working through the Group of 20 (G-20) and Financial Stability Board (FSB) to make sure that the Department's high standards are implemented globally. This year, the FSB will finalize a new international standard on total loss absorbing capacity (TLAC) for globally systemically important banks and standards for higher loss absorbing capacity for globally systemically important insurers.

Additionally, the emergency financial crisis response programs continue to wind down effectively. In December 2014, the Troubled Asset Relief Program (TARP) fully liquidated its investment in Ally Financial and realized cumulative receipts of $19.6 billion ($2.4 billion more than invested). The ultimate cost to taxpayers of TARP programs dropped from the FY 2009 estimate of $341.0 billion to $37.2 billion as of September 2015. TARP's foreclosure prevention programs provided more than 1.5 million homeowners with permanent mortgage modifications, which equates to approximately $38.7 billion in realized monthly mortgage payment savings for these homeowners.

Monitoring for new risks to the financial system and the broader economy remains a top priority for Treasury and other regulators. For example, on October 15, 2014, the U.S. Treasury market experienced significant volatility. To better understand the sources of that volatility, Treasury, the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of New York, the Securities and Exchange Commission, and the Commodity Futures Trading Commission conducted an analysis and issued a joint report in July 2015. The report analyzed a host of factors, including changes in global risk sentiment and investor positions, and those related to the evolution of Treasury market structure, in an effort to explain the events of that day. Treasury will continue to work with partners, including through the Financial Stability and Oversight Council (FSOC), to monitor the financial system and investigate any potential threats to financial stability.

THE FUTURE OF CURRENCY

During the summer of 2015, Secretary Lew announced that the $10 bill, the first in a new family of notes, will undergo a redesign and that a woman's portrait will be featured on U.S. paper currency for the first time in more than a century.[6] The newly designed note is also expected to incorporate a raised tactile feature that increases accessibility and usability for the blind and visually impaired community. As part of his announcement, the Secretary asked Americans to engage in the redesign process by weighing in on whose portrait should be featured and how currency can honor the country's rich history of democracy. Treasury received more than 1.5 million responses from the public to date through face to face meetings, roundtables, town halls, Twitter, Instagram, Facebook, emails, and handwritten letters.

The Department is also working to evaluate the future of coins. The U.S. Mint provided research to Congress on potential alternative metals for coins that could drive down metal costs.

FACILITATION OF COMMERCE

Treasury plays an important role in facilitating commerce for certain industries, such as the alcoholic beverage industry, that rely on Treasury's approval to enter the market. As these industries continue to expand, particularly in the small winery, brewery, and spirits areas, new businesses that are qualified to operate are waiting longer for permits. Further, increased demand for approvals of alcohol beverage labels and formulas, and declining resources to manage the approval

[5] U.S. Bureau of Labor Statistics, November 6, 2015 release.
[6] Access https://www.thenew10.treasury.gov/ for more information.

processes, has required Treasury to work to fundamentally reshape these programs. Processing times for these approvals have also increased in recent years, which impede compliant commerce for industry members, and are particularly detrimental to small business. Recent efforts to reduce processing times—including an expanded list of label revisions allowable without new approval—have been outpaced by industry growth.

KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 12	FY 13	FY 14	FY 15	4-yr Trend	FY 15 Target	Result vs Target
Percentage of CDFI Program loans & investments originated to eligible distressed communities or underserved populations by dollar amount (%) (Domestic Finance - CDFI Fund)	84.9	77.1	70.8	80.1	↔	60.0	Exceeded
Manufacturing costs for currency – dollar costs per thousand notes produced (BEP)	43.3	50.5	42.0	43.62	↔	55.0	Exceeded
Seigniorage per dollar issued (Mint)	.21	.24	.37	.49	↑	.24	Exceeded
Percent of permit applications processed within service standards (TTB)	61	50	58	47	↓	85	Not Met
Percent of label and formula applications processed within service standards (TTB)	83	49	67	75	↓	85	Not Met

Explanation of Results

Percentage of CDFI Program loans & investments originated to eligible distressed communities or underserved populations by dollar amount (Domestic Finance - CDFI Fund)
This measure demonstrates the impact of CDFI awardees in serving eligible distressed communities and underserved populations by lending reported during the program year. By regulation, all certified CDFIs must originate 60 percent or more of their loans and investments in eligible distressed census tracts or to underserved populations. The target is a threshold that must be met or exceeded, recognizing the need for CDFIs to balance their mission to service distressed communities and underserved populations with safety and soundness considerations. The increase over the prior year was due to full adoption of the 2010 five-year American Community Survey (ACS) data to define eligible distressed census tracts (the prior year reporting allowed the use of either 2000 decennial data or the five-year ACS data).

Manufacturing costs for currency – dollar costs per thousand notes produced (BEP)
This measure calculates the actual manufacturing cost for currency notes, which includes direct labor costs, the cost of raw materials used, and related manufacturing overhead charges. The FY 2015 cost of manufacturing was lower than anticipated due to savings resulting from increased volume and decreased spoilage.

Seigniorage per dollar issued (Mint)
This measure calculates the difference between the face value and the cost of minting and issuing circulating coins. Seigniorage per dollar issued is the seigniorage generated from each dollar of circulating coinage face-value shipped to Federal Reserve Banks. FY 2015 results exceeded the target and prior year performance due to a 24 percent increase in circulating shipment volumes coupled with a 9 percent reduction in general and administrative costs.

Percent of permit applications processed within service standards (TTB)
This measure indicates how often TTB processes permit applications within the established customer service standards, which are reviewed annually for new businesses seeking to engage in alcohol or tobacco manufacturing or distribution to ensure timely market entry for qualified individuals. As the majority of permit applications are filed electronically, TTB implemented system enhancements in FY 2015 to reduce bottlenecks in the approval process. However, the volume of applications, particularly in the manufacturing segments of small wineries, breweries, and distilleries, offset gains and resulted in continued processing delays.

Percent of label and formula applications processed within service standards (TTB)
This measure indicates how often TTB processes alcohol beverage label and formula applications within the customer service standards established for the respective programs to improve consistency and reliability for the business community served. Service standards are annually reviewed and updated to account for various factors, including workload and resources. Though TTB achieved substantial improvement in performance in the last two years, performance remains below target as TTB efforts to manage the volume of submissions by reducing filing requirements associated with label and formula approval have been offset by increased applications due to industry growth.

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

Strategic Objective 2.1: Promote free trade, open markets, and foreign investment opportunities

Strategic Objective 2.2: Protect global economic and financial stability and press for market-determined foreign exchange rates

Strategic Objective 2.3: Advance U.S. economic, financial, and national security goals by leveraging multilateral mechanisms
*Identified as a **Focus Area for Improvement** in FY 2015 due mainly to external factors slowing progress, specifically securing congressional approval of the International Monetary Fund (IMF) Reform package.*

Strategic Objective 2.4: Provide technical assistance to developing countries working to improve public financial management and strengthen their financial systems
*Identified as making **Noteworthy Progress** in FY 2015 due to the Office of Technical Assistance's (OTA) reputation in program management and the results of recently completed projects, particularly in Latin America where OTA helped to establish Latin America's first Tax Inspector General.*

PROGRESS TOWARD BALANCED GROWTH

Leveraging multilateral mechanisms, Treasury made progress enhancing global economic growth prospects by securing commitments from the G-20 countries at the Brisbane Leaders' Summit in November 2014 to boost near-term demand through comprehensive growth strategies and to establish the Global Infrastructure Hub to increase global investment. The plan's emphasis on comprehensive growth strategies to boost demand over the near-term reflected an important U.S. policy priority. Additional commitments to boost growth have been secured through the G-20 process in 2015.

In addition, Treasury defined the policy framework for development finance for the next 15 years by successfully negotiating the adoption of the *Addis Ababa Action Agenda* at the Third International Conference on Financing for Development in July 2015. The conference provided a forum to promote a modern and updated approach to development finance, including a bold vision for achieving a prosperous, inclusive, and sustainable world free from extreme poverty. It also provided the financing framework for the *2030 Agenda for Sustainable Development* adopted by world leaders in September 2015. The 2030 agenda includes 17 development goals in the areas of domestic resource mobilization, private sector investment, combatting illicit finance, sustainable infrastructure, improved data, maternal and child health, and others.

With the United States Trade Representative (USTR), Treasury co-leads the negotiation of financial services chapters of free trade agreements. In June 2015, Congress passed Trade Promotion Authority (TPA), which granted the President the authority to negotiate trade deals that will then be considered by Congress under an expedited approval process. Notable progress was made promoting free trade and open markets by reaching agreement on the largest regional trade accord in history, the Trans-Pacific Partnership (TPP) agreement, and by advancing the Transatlantic Trade and Investment Partnership and the broader U.S. trade agenda.

EFFORTS TO PROMOTE GLOBAL STABILITY

Treasury protects and supports American economic prosperity by strengthening the external environment for U.S. growth, preventing and mitigating global financial instability, and managing key global challenges. New commitments secured from China at the June 2015 Strategic and Economic Dialogue (S&ED) will lead to implementation of economic reforms and pro-market policies that will create new opportunities and a more level playing field for U.S. workers and firms. They also included commitments from China on the negotiation of international export credit disciplines, exchange rate policy and transparency, market access for U.S. high-technology goods and services, and expanded participation in China's markets by U.S. financial services providers. Further commitments were secured during the

September 2015 State Visit of China's president in the areas of development finance and foreign investment policy. These commitments will serve to protect global economic and financial stability.

Additionally, Treasury continued efforts with European counterparts to encourage institutional development in the euro area and remained engaged with the International Monetary Fund (IMF) to monitor progress toward economic stabilization in vulnerable countries like Ukraine and Greece. In May 2015, the U.S. Agency for International Development (USAID) and the Hashemite Kingdom of Jordan (Jordan) signed a third sovereign loan guarantee agreement that will help Jordan continue to provide critical services to its citizens and support specific economic reforms to promote economic stability and growth. These guarantees, which Treasury helped to design, have proven successful in supporting Jordan's reform efforts during a time of regional instability.

International Leadership and Assistance

Treasury continues to engage with G-20 members to leverage the FSB to collective advantage, supporting the FSB's objectives of greater financial stability, strong, sustainable, and balanced growth, and a level playing field for firms both in the United States and globally. Progress was made on the key objectives for global regulatory reform set out at the Pittsburgh Summit in 2009, including: building more resilient financial institutions with higher capital requirements and better quality capital; making the over-the-counter (OTC) derivatives markets safer and more transparent; addressing the risks posed by the largest, most complex financial institutions; and monitoring potential emerging threats to financial stability.

While Treasury made progress on several key international issues, evolving global geopolitical and financial crises and slowing economic growth in key regions and countries required Treasury to respond nimbly to immediate priorities, leaving less time for longer-term goals. Compounding these external challenges, Congress again failed, in FY 2015, to approve the 2010 IMF Quota and Governance Reforms and provide sufficient support for multilateral assistance priorities. This strains the ability of the United States to lead in these institutions and can adversely impact the willingness of other countries to engage in advancing U.S. priorities.

Despite these challenges, Treasury continues to provide critical technical assistance to finance ministries and central banks in developing countries. In FY 2015, Treasury's Office of Technical Assistance (OTA) successfully completed several projects in Latin America to provide regional models of excellence in public financial management. For example, Treasury's assistance enabled the establishment of the first tax inspector general within the Colombian government, now seen as a leader and model for surrounding countries. In FY2015, OTA also continued to provide technical assistance to the Ukrainian government as part of the U.S. Government's rapid response to stabilize the banking sector and strengthen government finances.

Key Performance Data Highlights

Measure (Responsible Bureau/Office)	FY 12	FY 13	FY 14	FY 15	4-yr Trend	FY 15 Target	Result vs Target
Timely review of Committee for Foreign Investment in the U.S. (CFIUS) cases (%) (International Affairs)	N/A	100	100	100	⬌	100	Met
Impact of Technical Assistance Programs - Changes that result from project engagement – 5 point scale (International Affairs)	3.1	3.0	2.9	2.9	⬇	3.1	Not met
Traction of Technical Assistance Programs – scope and intensity of engagement – 5 point scale (International Affairs)	3.9	3.8	3.7	3.8	⬌	3.6	Exceeded
Explanation of Results							

Timely review of CFIUS cases (%) (International Affairs)
By statute and regulation, CFIUS must complete its consideration of a covered transaction within 75 days of acceptance of a notice regarding the transaction, except for transactions that the parties have voluntarily withdrawn. The 100 percent result for FY 2015 reflects that CFIUS timely reviewed all such notified transactions for national security concerns and concluded action transactions after determining there were no unresolved national security concerns.

Impact and Traction of Technical Assistance Programs (International Affairs)
Traction is the degree to which OTA's foreign counterparts are engaging proactively and constructively with OTA advisors, particularly at the working level. Traction was relatively high during the reporting period. Impact measures the extent to which a project is achieving the intermediate goals and ultimate outcomes described in the project's terms of reference and work plan during the fiscal year – such as passage of law or regulation, an increase in government revenues, an improvement in a government's credit rating, or a reduction in financial crimes. The impact measure is primarily a function of the extent to which OTA's foreign counterparts actually make use of OTA's technical advice and is dependent on a range of factors not within OTA's control, including the policy and political environment, the commitment of in-country actors to reform, overall economic conditions, and in some cases, the country's security environment. Taken together, these factors resulted in a lower average score during this reporting period. OTA is sometimes called upon to engage in countries where US foreign policy and national security interests are compelling but where the overall political economy and security environment is especially challenging and impact is hard to achieve. Sustaining traction in these difficult assistance projects is a mark of the program's strength. It should also be noted that relatively minor deviations from the baseline target are to be expected in assigning an aggregate numerical value to a program that consists of many individual projects – the traction and impact figures above are the average of more than 150 individual project ratings – implemented over multiple countries with different policy and political environments.

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

Strategic Objective 3.1: Improve the efficiency and transparency of federal financial management and government-wide accounting
*Identified as a **Focus Area for Improvement** in FY 2015 due to anticipated work that will be done in FY 2016 to implement the DATA Act and USAspending.gov improvements.*

Strategic Objective 3.2: Improve the disbursement and collection of federal funds and reduce improper payments made by the U.S. Government

Strategic Objective 3.3: Pursue tax reform, implement the Patient Protection and Affordable Care Act and Foreign Account Tax Compliance Act, and improve the execution of the tax code

INNOVATIONS IN FEDERAL FINANCIAL MANAGEMENT

Treasury constantly seeks to lead the government in modernizing federal financial management. As a co-lead with OMB in implementing the *Digital Accountability and Transparency Act of 2014* (DATA Act), Treasury engaged with communities that create and use federal financial data to make it more transparent and available to the American people.[7] Once implemented, the DATA Act will make federal spending data more accessible, searchable, and reliable. In FY 2015, Treasury and OMB published new data standards based on public input that will help improve the quality of federal spending data and enable agencies to use common standards when reporting information. Treasury is also developing resources to support federal agencies in adopting the data standards and increasing spending transparency based on the DATA Act requirements. Treasury will continue to engage the public in the development of new online tools to support greater access to data and, by May 2017, further improve data accuracy on USAspending.gov.

The amount of college debt increased substantially in recent years, and the United States needs a world-class student lending system on par with its higher education system. To develop new solutions to this growing problem, the Department of Education partnered with Treasury to launch a pilot in February 2015 that allows Treasury to work directly with defaulted student loan borrowers. The pilot will yield valuable data and first-hand experience with the collections process, which should provide a better understanding of best practices and how to improve borrower outcomes.

[7] For more information on Treasury's efforts to implement the DATA Act, access https://www.usaspending.gov/Pages/Data-Act.aspx.

FISCAL RESPONSIBILITY

Treasury is entrusted with managing the nation's finances, collecting money and making payments on behalf of the United States. Treasury also determines and executes a borrowing strategy that meets the federal government's needs at the lowest cost over time. Furthermore, Treasury accounts for, and reports on, the U.S. Government's finances to the American people. Sound financial management enables the continual operation of essential government services.

In May 2015, Treasury changed its cash management policy to hold a higher level of cash to cover one week of average disbursements in the case of events that limit market access, such as cyberattacks or natural disasters. This change was based on a review of policies, recommendations from the Treasury Borrowing Advisory Committee, and an assessment of emerging threats.

Treasury also made strides in facilitating agencies' compliance with the *Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA). In FY 2015, Treasury enhanced its systems to allow for real-time matching of payments against death and vendor data. In addition, the incorporation of Privacy Act-restricted data improved vendor data matching and reduced false positives by 99.8 percent. Treasury also improved its analytics capabilities and developed agency-specific reports that provide a particular agency or program within the agency a high-level summary of statistical observations that may contribute to improper payments. These reports provide a means to inform agency management about these observations and to determine whether or not the observations call for a more in-depth analytical project in partnership with the agency, to assess the issue, determine root cause, and develop internal control methodologies to eliminate the issue in the future.

Despite this progress, challenges inhibiting eligibility verification remain, specifically in gaining access to additional data sources that will help prevent improper payments. To help mitigate some of these challenges, the *FY 2016 President's Budget* included a number of legislative proposals that would, if enacted by Congress, provide Treasury with additional tools to combat waste and fraud as well as greater authority to take actions that will prevent payment errors and improve compliance.

TAX REFORM AND ADMINISTRATION

Pursuing tax reform remains a top priority for Treasury, along with implementing tax provisions of the *Affordable Care Act* (ACA) and the *Foreign Account Tax Compliance Act* (FATCA) and administering the existing tax code fairly and effectively. In FY 2015, Treasury continued negotiating and signing FATCA agreements. At the end of FY 2015, there were 76 signed agreements, including 30 signed during the year, and an additional eight agreements in substance were reached. In July 2015, Treasury finalized the first-ever comprehensive tax treaty between the United States and Vietnam, which represents a significant step in expanding the U.S. tax treaty network (pending Senate approval).

To bring better transparency to the tax system and improve enforcement, Treasury successfully persuaded the Organization for Economic Cooperation and Development (OECD) to adopt the U.S. model to tighten the net on tax evaders. As part of the *FY 2016 President's Budget*, Treasury also introduced annual revenue proposals to Congress, including 27 new proposals. *The Administration's Fiscal Year 2016 Revenue Proposals* included an international tax reform section addressing inversions and 45 proposals for business tax reform. Finally in this area, TTB worked with the Department of Homeland Security's (DHS) Customs and Border Protection and other law enforcement partners to address illicit trafficking of products through customs bonded warehouses and foreign trade zones. TTB also plans to complete full integration into the International Trade Data System to improve excise tax enforcement efforts.

Despite these successes, effective tax administration grows more challenging every year due to the worsening IRS funding situation. In the past five years, IRS funding has been reduced by $1.2 billion, causing the IRS to implement severe

controls on all expenditures. These controls, which include restrictions on staff replacement, led to a reduction of almost 15,500 full-time employees since FY 2010. The funding constraints also significantly affected the IRS's ability to modernize infrastructure and adequately staff systems. By prioritizing resources, the IRS delivered another successful filing season in 2015 in terms of return processing: opening on schedule and implementing new provisions of FATCA and ACA. The IRS also issued nine out of ten refunds in less than 21 days. The filing season was more challenging in terms of customer service, which is discussed further under Goal Five.

The IRS also dedicated significant resources to address tax fraud, resulting in the successful recovery of $813 million in 2015 and leading to a public-private partnership with software developers, banks, and other industries to identify and enact a series of steps to further protect taxpayers from tax-related identity theft in 2016. In 2015, through September, the IRS rejected or suspended the processing of 4.5 million suspicious returns and stopped 1.2 million confirmed identity theft returns, totaling $7.2 billion. Additionally, through September, the IRS stopped $2.3 billion worth of refunds in other types of fraud, totaling $9.5 billion defended against confirmed fraudulent returns.

KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 12	FY 13	FY 14	FY 15	4-yr Trend	FY 15 Target	Result vs Target
Percentage of Treasury payments and associated information made electronically (%) (Fiscal Service)	88.3	92.5	94.4	94.8	↑	94.9	Not Met
Percentage of total dollar amount of U.S. Government receipts collected electronically (%) (Fiscal Service)	97.0	97.0	98.0	98.0	↑	98.0	Met
Percentage of individual returns processed electronically (IRS)	80.5	82.5	84.1	85.3	↑	84.6	Exceeded
Taxpayer Self-Assistance Rate (IRS)	78.5	83.3	84.7	88.7	↑	85.0	Exceeded

Explanation of Results

Percentage of Treasury payments and associated information made electronically AND Percentage of total dollar amount of U.S. Government receipts collected electronically (Fiscal Service)
Fiscal Service has been promoting the Paperless Treasury initiative for several years in an effort to disburse payments, as well as receive and settle collections, through electronic means. Fiscal Service will expand the number of digital wallet providers and online bill payment agencies and will work with partner agencies to identify the best tools and strategies for transitioning more of their customers to electronic alternatives.

Percentage of individual returns processed electronically (IRS)
The number of electronically filed individual tax returns divided by the total individual returns filed. The IRS exceeded its FY 2015 target and FY 2014 performance for individual returns processed electronically. This increase is attributed to taxpayers' increasing use of tax software and tax preparers to file their tax returns. The IRS will continue to process individual returns as efficiently as possible to meet future plans.

Taxpayer Self-Assistance Rate (IRS)
The percentage of taxpayer assistance requests resolved using self-assisted automated services. In FY 2015, the Taxpayer Self-Assistance Rate was at an all-time high of 88.7 percent, which was 3.7 percent above target and 4.0 percent more than FY 2014. The increase was due to taxpayers' use of Web Services, particularly the "Where's My Refund" application. The IRS will continue to promote the web-first strategy to taxpayers, offering a more convenient, efficient, and effective way to meet their needs.

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

Strategic Objective 4.1: Identify priority threats to the financial system using intelligence analysis and outreach to the financial sector

*Identified as making **Noteworthy Progress** in FY 2015 due to the progress made in applying little-used authorities to share information and implementing the new business system and advanced algorithms to identify targets and pursue enforcement actions as a result of the intelligence.*

Strategic Objective 4.2: Develop, implement, and enforce sanctions and other targeted financial measures

*Identified as making **Noteworthy Progress** in FY 2015 due to the Joint Comprehensive Plan of Action signed in FY 2015 and the new regulations regarding Cuba sanctions*

Strategic Objective 4.3: Improve the cybersecurity of our nation's financial sector

*Identified in FY 2015 as making **Noteworthy Progress** due to the significant progress made in coordinating and engaging with industry and as a **Focus Area for Improvement** due to ever-evolving threats and complexities in sharing information.*

Strategic Objective 4.4: Protect the integrity of the financial system by implementing, promoting, and enforcing anti-money laundering and counterterrorism financing standards

Aligned APG: Focus Enforcement on High-Priority Threats Using Proactive Analysis

IMPROVED PROTECTION OF THE FINANCIAL SYSTEM

Treasury works to protect the integrity of the financial system and advance key national security and foreign policy objectives through outreach, coordination, and collaboration with public and private sector partners; regulation, enforcement, financial intelligence analysis; and targeted financial activities and measures. One of Treasury's FY 2014-2015 Agency Priority Goals (APGs) was to use proactive analytics to focus enforcement on high-priority threats. By focusing on this APG, Treasury implemented advanced analytics capabilities and improved the use and sharing of information on threats to the financial system. In FY 2015, FinCEN initiated daily tactical reporting to law enforcement, foreign partners, and the intelligence community through the use of new information technology capabilities. By developing and employing business rules in a modernized system, FinCEN automatically screened Bank Secrecy Act (BSA) reports daily on topics of national security concern, including terrorist financing, cyber threats, and Ukraine kleptocracy. As a result of the efforts, FinCEN quadrupled the intelligence products provided and increased completed enforcement actions in FY 2015, compared to FY 2014.

FinCEN also moved the global community forward on anti-money laundering and counter-terrorism financing policies and coordinated multi-lateral efforts to support Ukraine's efforts to recover misappropriated assets. FinCEN issued the first civil enforcement action against a virtual currency exchanger, Ripple Labs, for willfully violating the BSA.

EFFECTIVENESS OF SANCTIONS PROGRAMS

Through a steady campaign to expose Iran's deceptive activities in the financial arena, Treasury isolated Iran's banks from the world's financial centers, wounding its trade and financial strength. Since 2010, these and other efforts led to the diplomatic process that produced the Joint Comprehensive Plan of Action in July 2015. This plan will ensure Iran's nuclear program remains exclusively peaceful and, in turn, will lift specified nuclear-related sanctions on Iran upon verification from the International Atomic Energy Agency that Iran has implemented key nuclear commitments. This success proves that smart, creative, persistent financial efforts, when backed by the superb support of the U.S. intelligence community, can change behavior.

In December 2014, the President announced a set of diplomatic and economic changes to chart a new course in U.S. relations with Cuba and further engage and empower the Cuban people. Treasury and the Department of Commerce published revised *Cuban Assets Control Regulations and Export Administration Regulations*, effective in January 2015, that will facilitate travel to Cuba for authorized purposes, approve processing of certain financial transactions, and allow other activities in the areas of telecommunications, financial services, trade, and shipping. In September 2015, Treasury

and Commerce announced additional amendments to the Cuba sanctions regulations. These regulatory changes build upon the January amendments and will further facilitate the normalization process between Cuba and the United States.

FINANCIAL SECTOR CYBER SECURITY

Cyber threats are vast and evolving—not just increasing in number, but also in types of incidents and means for intrusion. The prevalence of cyber risks creates a persistent and complex challenge for financial institutions spanning the sector. The financial costs of cyber-attacks are real and increasing; disruption of business, erosion of customers, loss of revenue, reputational damage and loss of confidence, and theft of intellectual property are just a few ways cyber-attacks hurt the financial system.

As the Sector Specific Agency for Financial Services, defined under Presidential Policy Directive 21, *Critical Infrastructure Security and Resilience*, Treasury participates in interagency and cross-sector initiatives and plays a key role in managing responses to disruptive events. While Treasury's sector-specific responsibilities include all hazards, whether natural or man-made, in recent years the Department has increasingly focused on promoting improvements in cybersecurity across the financial sector. In FY 2015, Treasury worked with industry to organize cybersecurity initiatives on a national level using the following themes: baseline protections, information sharing, and response and recovery.

In February 2015, the President signed an executive order encouraging and promoting the sharing of cybersecurity threat information within the private sector and between private and government entities. Treasury assisted DHS in promoting information sharing and analysis and worked this year to automate the information-sharing process.

To enable effective incident response, Treasury established and convened the first-ever meetings of the Financial and Banking Information Infrastructure Committee at the principal level and spearheaded the development of tabletop exercises to test cyber-incident response processes. In FY 2015, Treasury hosted three cyber-related exercises with more than 25 public and private sector organizations.

Protecting Treasury's infrastructure is critical to maintaining a secure financial infrastructure. Consequently, Treasury fully committed to OMB's government-wide cyber-sprint and created an internal cyber dashboard to monitor progress and potential threats. As of August 2015, Treasury met OMB's requirement for strong authentication of users with privileged access and was considered a top-performing federal agency for cybersecurity cross-agency priority goal.

KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 12	FY 13	FY 14	FY 15	4-yr Trend	FY 15 Target	Result vs Target
Percentage of users finding that the financial intelligence collected by FinCEN pursuant its regulations provides valuable information to safeguard the financial system, combat money laundering, and counter terrorist financing	90	80	81	83	↓	82	Exceeded
Impact of TFI programs and activities – 10 point scale (TFI)	8.1	8.3	8.5	8.8	↑	8.5	Exceeded

Explanation of Results

Percentage of users finding that the financial intelligence collected by FinCEN pursuant its regulations provides valuable information to safeguard the financial system, combat money laundering, and counter terrorist financing (FinCEN)
Survey data that looks at the value of FinCEN data, such as whether the data (1) provided unknown information, (2) supplemented or expanded known information, (3) verified information, (4) helped identify new leads, (5) opened a new investigation or examination, (6) supported an existing investigation or examination, or (7) provided information for an investigative or examination report. While the FY 2015 results remain lower than the FY 2012 level, FinCEN exceeded its target of 82 percent and the results have increased steadily for the past three years. FinCEN introduced a new query tool late in FY 2013 that changed how users access financial intelligence products. While this new tool provides enhanced search capabilities, it appears that limited training opportunities for users in FY 2013 caused a drop in results. As a result, since FY 2013, FinCEN has placed greater

emphasis on both in-person and on-line training that will better assist users and continue to improve performance in this area.

Impact of TFI programs and activities (TFI)
There are several things that account for TFI's increase in program impact and activities to include the signed Joint Comprehensive Plan of Action in FY 2015 that implements sanctions relief to Iran in exchange for Iran taking steps to ensure a peaceful nuclear program, as well as the new regulations regarding Cuba sanctions. Additionally, TFI has advanced the rulemaking process for Beneficial Ownership, and TFI has continued funding Third Party Money Laundering cases and their operational needs.

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

Strategic Objective 5.1: Increase workforce engagement, performance, and diversity by instilling excellence, innovation, and inclusion in Treasury's organizational culture and business practices

Strategic Objective 5.2: Support effective, data-driven decision-making and encourage transparency through intelligent gathering, analysis, sharing, use, and dissemination of information

Strategic Objective 5.3: Promote efficient use of resources through shared services, strategic sourcing, streamlined business processes, and accountability
*Designated as a **Focus Area for Improvement** in FY 2015 due to the challenges facing Treasury shared service providers and the anticipated efforts in the coming year to standardize products and services.*

Strategic Objective 5.4: Create a culture of service through relentless pursuit of customer value
Aligned APG: Increasing IRS Self-Service Options for Taxpayers

PURSUIT OF BEST-IN-CLASS BUSINESS PRACTICES

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

During FY 2015, Treasury advanced several leading management practices. Treasury continued the workforce planning effort that began in FY 2014 and will focus next on the cybersecurity workforce. Treasury also established the Office of Risk Management, headed by the Chief Risk Officer, and Treasury's Deputy Secretary established the Treasury Risk Management Committee, which she co-chairs with the Chief Risk Officer, and introduced a more robust risk discussion in Treasury's organizational performance reviews for leaders from different areas to surface potential risks and identify effective mitigation actions.

EMPLOYEE ENGAGEMENT

Recent events, including the cybersecurity breaches at the Office of Personnel Management (OPM) and sustained fiscal uncertainty, test employees' morale and ability to remain engaged. Fortunately, 94 percent of the Treasury responses to the Federal Employee Viewpoint Survey reflect that employees remain willing to put in extra effort to get a job done and 88 percent are constantly looking for ways to do their jobs better. In FY 2015, Treasury remained committed to fostering an environment where leaders and employees feel encouraged to focus on important principles of good government and empowered to take action. Treasury has institutionalized a focus on employee engagement by adopting an annual engagement program cycle of data-based action planning, program implementation, and periodic performance reviews. Additionally, the management offices responsible for individual and organizational performance management policy and implementation created the Performance Alignment Work Group to further improve alignment of individual actions to organizational results within Treasury.

Treasury also continued to foster an environment where every employee feels equally valued. In FY 2015, more than 200 supervisors and managers participated in a cultural transformation effort focused on diversity and inclusion principles.

Human capital issues, including diversity and inclusion, were regular topics at the organizational performance reviews and remain a top priority for Treasury leadership.

SERVICE TO CUSTOMERS

In Treasury's efforts to lead more efficient practices in government, Treasury expanded its customer base for shared administrative services this year to include the Department of Housing and Urban Development and DHS. While this is an indicator of the high quality of Treasury's products and services, customer feedback indicates that their needs and expectations vary greatly. Consequently, Treasury is working to improve communications and standardize services, products, and processes to sustain the cost efficiencies of the model and improve customer satisfaction.

Few government agencies have greater interaction with the American people than the IRS, and providing top quality service to taxpayers, including helping them understand and meet their tax obligations, remains a central focus for the IRS. That is why Treasury's second FY 2014-2015 APG focused on increasing self-service options for taxpayers, who increasingly expect on-demand web-based interactions. In FY 2015, the IRS continued to invest in and prioritize online services to meet taxpayer demand for anytime, anywhere, any-device access, delivering innovative digital interactions and enhanced support and communication with the tax community and government partners.

Online service options cost comparatively less and have a greater capacity to assist larger numbers of taxpayers than other service channels. At the same time, the IRS recognizes that telephone contact remains a critical and preferred mechanism for many taxpayers and, consequently, committed as many resources as possible in FY 2015 to maintaining telephone service at acceptable levels. As referenced earlier in this report, between FY 2010 and FY 2015, Congress cut the IRS budget by more than $1.2 billion, which represents a cut of nearly 10 percent in nominal dollars and more than 17 percent with inflation. This impacted the IRS's ability to serve taxpayers, contributing to the level of service falling to 38.1 percent in FY 2015. The IRS also experienced increased call volume in FY 2015 and issued 17.6 million disconnects, which are automatic call terminations by the IRS after a fixed waiting period. These "courtesy" disconnects are designed to limit excessive wait time and direct callers to alternative service channels.

Increasing the use of online services, however, results in additional challenges. In May 2015, the IRS determined that unauthorized third parties used taxpayers' personal information obtained from sources outside of the IRS to access its "Get Transcript" application by using stolen information to clear the application's multi-step user authentication process. The required prior personal knowledge about the taxpayer included social security number, date of birth, filing status, street address, and answers to several identity verification questions typically known only to the taxpayer. The IRS believes some of this information may be used to file fraudulent tax returns during the upcoming 2016 filing season. Immediately after this incident, the IRS suspended the "Get Transcript" application and contacted impacted taxpayers, directing them to identity theft protection tools available through the IRS and credit-monitoring services made available at the IRS's expense. The IRS also flagged impacted accounts in its core processing system to protect taxpayers moving forward. Securing systems and protecting taxpayers' personal information continues to be a top priority for Treasury.

Despite the threat of identity theft, taxpayers' demand for self-service and electronic service options continues to increase. The IRS plans to create a more secure online environment by focusing on developing and maintaining strong authentication and identity management capabilities. In addition, the IRS provides year-round assistance through outreach and education programs, tax forms and publications, and toll-free call centers, taxpayer assistance centers, volunteer income tax assistance sites, and tax counseling for the elderly sites.

KEY PERFORMANCE DATA HIGHLIGHTS

Measure (Responsible Bureau/Office)	FY 12	FY 13	FY 14	FY 15	4-yr Trend	FY 15 Target	Result vs Target
Federal Employee Viewpoint Survey (FEVS) Engagement Index – 1 to 100 (%) (Management)	70	68	66	66	↓	67	Not Met
Treasury-wide Footprint in Thousands of Sq. Ft. (Management)	37,998	37,320	36,418	35,439	↓	36,031	Exceeded
Customer Service Representative Level of Service (%) (IRS)	67.6	60.5	64.4	38.1	↓	38.0	Exceeded

Explanation of Results

Federal Employee Viewpoint Survey (FEVS) Engagement Index – 1 to 100 (%) (Management)
The FEVS Engagement Index denotes the extent to which employees are engaged in their work and motivated by their organization's leadership. Treasury's Engagement Index remained constant at 66 percent from 2014 to 2015. Eight out of eleven Treasury components increased their Engagement Index by 1 to 5 points from 2014 to 2015. Because of IRS's size, however, a decline of 1 point in its Engagement Index neutralized the effect of other bureau increases.

Treasury-wide Footprint in Thousands of Sq. Ft. (Management)
This measures the total square footage occupied by Treasury's owned and leased buildings. The Department's real property footprint was reduced by an estimated three percent (almost one million square feet) during FY 2015. The reduction was achieved through better use of existing office space, consolidations and co-locations, increased use of telework, and the implementation of new space design standards that use a reduced footprint to optimally right-size the portfolio consistent with Department mission and essential program needs. The Department projects that the footprint will be reduced by another 600,000 square feet in FY 2016.

Customer Service Representative Level of Service (%) (IRS)
This measure is defined as the number of toll free callers that either speak to a Customer Service Representative or receive information messages divided by the total number of attempted calls. In FY 2015, the Customer Service Representative Level of Service (LOS) target was lowered due to decreased resources and staffing and a projected increase in the number of ACA inquiries. During the filing season, the level of service was 37.4 percent; however, the overall fiscal year target was exceeded by 0.1 percent. FY 2015 Assistor Calls Answered decreased 21 percent and automatic disconnections based on wait times increased 11.6 percent when compared to FY 2014. Through extensive communication, the IRS encourages taxpayers to use the Web or automated tools and alternate channels to resolve their concerns.

SUMMARY OF MANAGEMENT AND PERFORMANCE CHALLENGES

Several cross-cutting challenges were in identified and discussed in Treasury's FY 2015 organizational performance reviews that affect efforts to achieve its strategic priorities:

- **Changing international conditions and evolving threats:** As previously discussed, evolving and unpredictable global economic and geopolitical conditions affect Treasury's negotiations and program implementation. The nature of the threats that Treasury faces in the cybersecurity, anti-money laundering, and terrorist financing realms are also fast-growing and constantly changing. Additionally, while the economy has largely recovered, Treasury must remain vigilant to new threats to financial stability and economic growth.
- **Uncertain fiscal and legislative environments:** The pattern of continuing resolutions and the potential for a lapse in appropriations constrains Treasury's ability to plan strategically, impacts its ability to effectively manage the country's debt, and reduces the level of service to taxpayers. Additionally, reauthorization of certain programs and congressional approval of key reforms would enable Treasury to better achieve U.S. objectives but is difficult to predict and, consequently, to plan for its execution.
- **Increased expectations and demand:** Treasury has, in recent years, been asked to lead government-wide implementation of new laws and policies (such as ACA and DATA Act), including the launch of innovative new tools and pilots, while adjusting to reduced resources and staffing levels.
- **Effectiveness of the hiring process:** The federal hiring process poses challenges to Treasury organizations aiming to quickly recruit and hire top talent. Treasury seeks skills that are in high demand in the private sector, which has more flexibility in hiring practices and incentives.

- **Availability of data and analytic capability:** Reliance on third party or private sector analysis poses a risk to the quality of the analysis and recommendations that Treasury provides to senior government officials. Treasury faces challenges in its efforts to improve decision-making by reducing reliance on third-party analysis. Additionally, Treasury is structured and, in some cases, statutorily required, to protect data. Reshaping Treasury's ability to meet increasing calls in recent years to share data across organizations may require additional infrastructure and staff.

In addition to the performance challenges discussed above and in previous sections of this report, OIG and TIGTA have identified the most significant management and performance challenges facing the Department, in accordance with the Reports Consolidation Act of 2000.[8] These challenges do not necessarily indicate deficiencies in performance; some represent inherent risks that require continuous monitoring. Refer to *Section C* of *Part 3, Other Information*, for a detailed discussion of these challenges, including Treasury's progress toward addressing them.

OIG-IDENTIFIED TREASURY-WIDE MANAGEMENT CHALLENGES

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

TIGTA-IDENTIFIED IRS MANAGEMENT CHALLENGES

- Security for Taxpayer Data and IRS Employees
- Implementing ACA and Other Tax Law Changes
- Tax Compliance Initiatives
- Fraudulent Claims and Improper Payments
- Achieving Program Efficiencies and Cost Savings
- Improving Tax Systems and Online Services
- Providing Quality Taxpayer Service Operations
- Globalization
- Taxpayer Protection and Rights
- Human Capital

[8] SIGTARP does not provide an annual report to the Secretary because it provides oversight over a program that spans multiple agencies.

FY 2016 OUTLOOK

In considering the challenges and risks to successful mission delivery facing the Department, Treasury identified several initiatives to pursue in FY 2016, including **two new agency priority goals (APGs) for FY 2016-2017**:

- Increase secure self-service options for taxpayers **(FY 2016-2017 APG led by the IRS)**.
- Develop and promote financial transparency policies and their adoption by leading, in collaboration with OMB, the government-wide implementation of the DATA Act **(FY 2016-2017 APG led by the Fiscal Assistant Secretary)**.
- Continue Treasury's efforts to expand access to credit and bring private capital back into the housing market by completing comprehensive housing finance reform; securing the reauthorization of the SSBCI and CDFI Bond Guarantee programs; and expanding access to long-term savings opportunities for more Americans by continuing to improve the *my*RA program and increase its enrollments.
- Secure congressional approval of the 2010 IMF quota and governance reform proposal and confirmations of nominations to ensure stable and effective U.S. representation at International Financial Institutions.
- Present to the President key findings and potential opportunities to improve the student loan collections process for defaulted borrowers.
- Secure the funding necessary for the IRS to maintain a balanced enforcement program and deliver the web-first service model.
- Increase coordination and information sharing efforts across government and private sectors to protect the stability of the financial system and the interests of American citizens.
- Partner with OMB and the General Services Administration to increase the flexibility with which agencies can acquire and share data sets and analytic capability.
- Transform the Departmental Offices' hiring process using Lean Six Sigma process improvement methodologies, providing best practices for other organizations and making Treasury more competitive as an employer.

FINANCIAL HIGHLIGHTS – FINANCIAL OVERVIEW

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

The chart below presents changes in key financial statement line items as of and for the fiscal year ended September 30, 2015 compared to September 30, 2014.

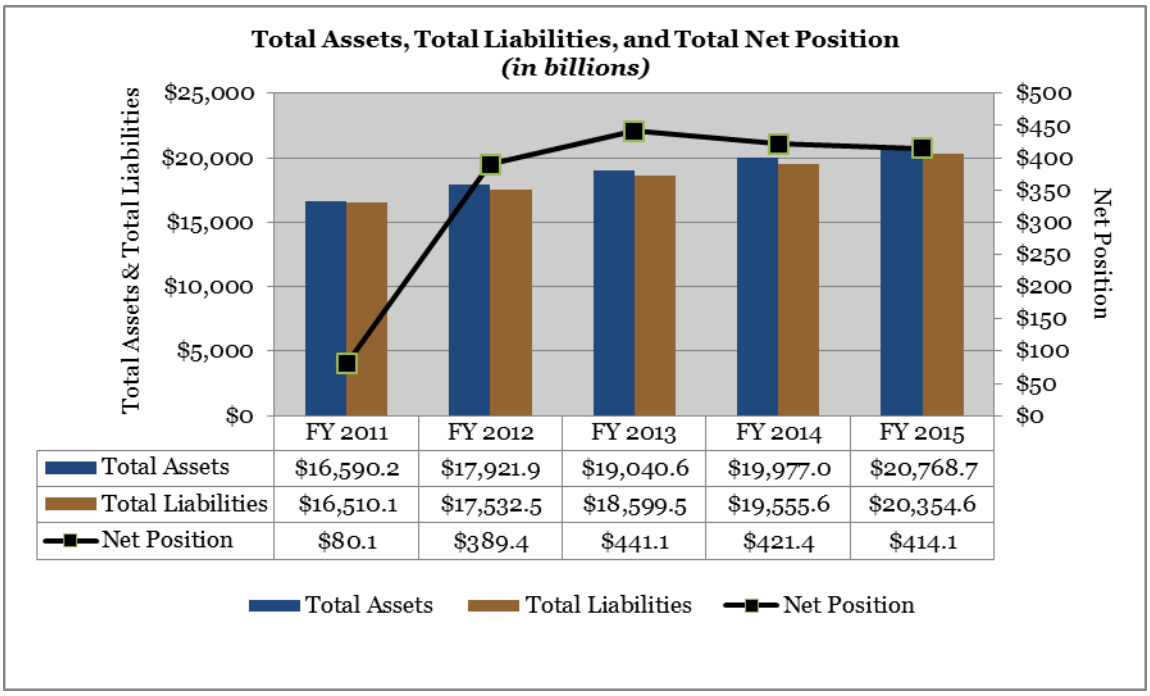
Summary Financial Information *(dollars in billions)*

		2015		2014		$ Change	% Change
Total Assets	$	**20,768.7**	$	19,977.0	$	791.7	4.0%
Total Liabilities	$	**20,354.6**	$	19,555.6	$	799.0	4.1%
Total Net Position	$	**414.1**	$	421.4	$	(7.3)	(1.7)%
Total Net Cost of Treasury Operations	$	**23.5**	$	23.9	$	(0.4)	(1.7)%
Net Federal Debt Interest Costs	$	**367.3**	$	394.8	$	(27.5)	(7.0)%
GSEs Non-Entity Revenue, Net	$	**(30.8)**	$	(28.1)	$	(2.7)	9.6%
Total Net Cost of Treasury Operations and Non-Entity Costs	$	**374.9**	$	404.0	$	(29.1)	(7.2)%
Total Budgetary Resources	$	**800.0**	$	841.8	$	(41.8)	(5.0)%
Agency Outlays, Net	$	**370.2**	$	337.7	$	32.5	9.6%
Net Revenue Received (Custodial)	$	**3,024.0**	$	2,816.2	$	207.8	7.4%

Financial Overview. The Department's financial performance as of and for the fiscal year ended September 30, 2015, reflects several major trends. Most significantly, the outstanding federal debt, including interest, rose by $330.4 billion to $18.2 trillion. The Department also incurred a liability at September 30, 2015 totaling $350.7 billion in connection with extraordinary debt management measures undertaken by the Department during a delay in raising the statutory debt limit (referred hereinafter as "Delay"). Specifically, these measures included, among other things: *(i)* suspending investments in Treasury debt securities by the Government Securities Investment Fund of the Federal Employees' Retirement System Thrift Savings Plan (TSP), Civil Service Retirement and Disability Trust Fund (Civil Service Fund), and the Postal Service Retiree Health Benefits Fund (Postal Benefits Fund); and *(ii)* redeeming early a certain amount of Treasury debt securities held by the Civil Service Fund. The $350.7 billion liability reflects the Department's obligation by statute as of September 30, 2015, to restore to the funds the accumulated principal balance of Treasury debt securities bearing the same interest rates and maturity dates that would have been invested by these funds had the Delay not occurred (uninvested principal), as well as pay these funds the related lost interest on the uninvested principal.

Additionally, the Department's "Total Net Cost of Treasury Operations and Non-Entity Costs" for fiscal year 2015 declined by $29.1 billion in fiscal year 2015 primarily stemming from non-entity activity, including $27.5 billion of lower net federal debt interest costs and $2.7 billion of higher revenue from the Department's investments in two Government-Sponsored Enterprises (GSEs) – Fannie Mae and Freddie Mac – pursuant to the Department's Senior Preferred Stock Purchase Agreements (SPSPAs), as amended. This was partially offset by a $2.1 billion increase in the net cost reflecting an accrual for the restoration of forgone federal debt interest recorded in connection with the Delay. The Department's 2015 financial performance also reflects the ongoing wind-down of the TARP credit programs, principally through sales of securities and principal repayments of loans made under these programs.

TARP's wind-down activity in fiscal year 2015 included, among other things, sales of equity investments in the Automotive Industry Financing Program and Capital Purchase Program. The continued wind-down of the TARP programs drove reductions in the subsidy costs associated with the remaining investments in these programs during fiscal year 2015 due to improved market conditions as reflected in the end-of-year reestimates. Subsidy costs recorded in connection with each credit program represent the difference between the projected costs of the program and the future cash flows anticipated to be generated by the program. Reestimates may occur due to changes in a program's estimated future cash flows caused by changes in market conditions and actual program performance, thereby resulting in an upward or downward reestimate in the credit program receivable to reflect an increase or decrease, respectively, in the estimated total cost of the program.



	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Total Assets	$16,590.2	$17,921.9	$19,040.6	$19,977.0	$20,768.7
Total Liabilities	$16,510.1	$17,532.5	$18,599.5	$19,555.6	$20,354.6
Net Position	$80.1	$389.4	$441.1	$421.4	$414.1

Figure 1

Total Assets of $20.8 trillion at September 30, 2015 consist of a receivable due from the General Fund of the U.S. government of $18.6 trillion, intra-governmental loans and interest receivable of $1.3 trillion, and fund balance and various other assets which totaled $829.9 billion (Figure 2).

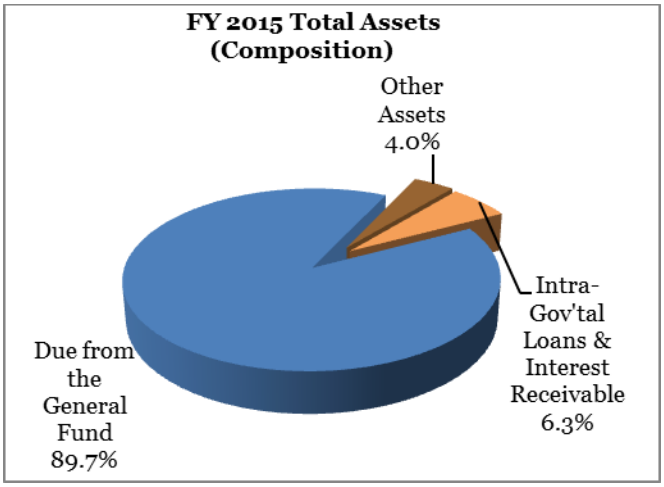


Figure 2

The $791.7 billion (or 4.0 percent) increase in total assets at the end of fiscal year 2015 over the prior year is primarily due to an increase in the "Due from the General Fund of the U.S. Government" account which corresponds to increases in the following liabilities: *(i)* a $330.4 billion increase in federal debt and related interest payable and (ii) a $350.7 billion additional liability for the restoration of federal debt principal and interest in connection with the Delay. The net addition to Treasury liabilities at September 30, 2015 caused a corresponding rise in the "Due from the General Fund of the U.S. Government" asset account which represents future funds required from the General Fund of the U.S. Government to pay borrowings from the public and other federal agencies.

Intra-governmental loans and interest receivable represent loans issued primarily by the Fiscal Service to other federal agencies for their own use or for the agencies to loan to private sector borrowers whose loans are guaranteed by the federal agencies. This receivable grew by $85.0 billion (or 7.0 percent) to $1.3 trillion at the end of fiscal year 2015 due to increased borrowings by various federal agencies – such as the Departments of Education and Agriculture – to fund their existing programs.

Other assets include, among other things, operating cash balances (held on behalf of the U.S. government), foreign currency investments and Special Drawing Rights (SDRs), as well as investments in, and credit program receivables due from, certain financial institutions for which the Department provides financial assistance in an effort to stabilize financial markets. Other assets increased by $24.4 billion primarily reflecting an increase in the U.S. government's operating cash balances. This increase was partially offset by a combination of: a reduction in investments, the ongoing wind-down of the TARP programs through sales of securities or principal repayments of loans made under these programs, and a reduction in the Department's reserve position in the International Monetary Fund due to loan repayments.

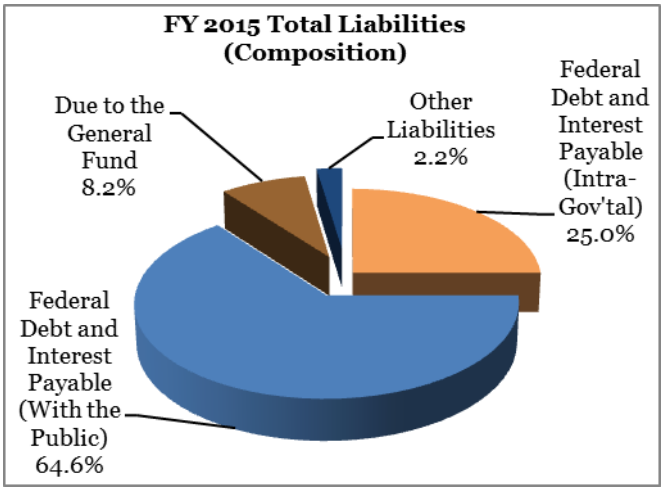
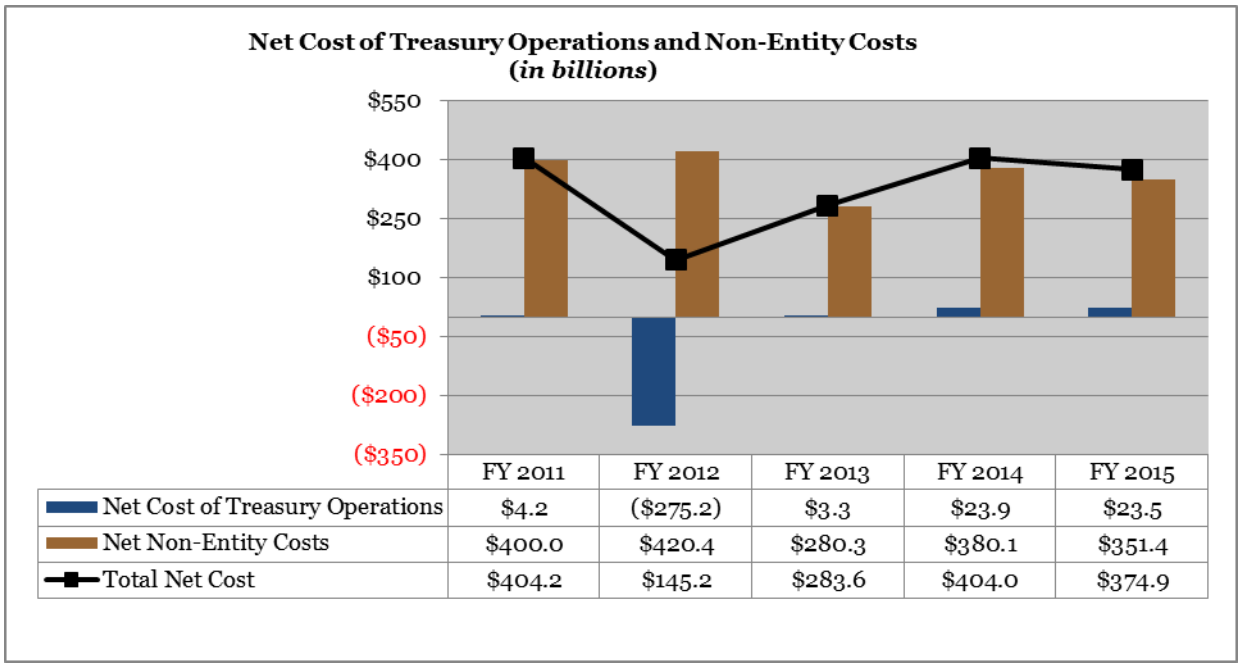


Figure 3

Total Liabilities of $20.4 trillion at September 30, 2015 principally consist of the federal debt held by the public (Figure 3), including interest, of $13.1 trillion, which were mainly issued as Treasury Notes and Bills. Liabilities also include intra-governmental liabilities totaling $6.9 trillion (of which $5.1 trillion represent principal and interest of federal debt in the form of Treasury securities held by federal agencies), and various other liabilities totaling $287.2 billion. The $799.0 billion (or 4.1 percent) increase in total liabilities at the end of fiscal year 2015 over the prior year is attributable to a $330.4 billion increase in federal debt, including interest, held by the public and federal agencies that was needed to finance the U.S. government's budget deficits. An additional $350.7 billion of the increase is attributable to a liability for restoration of federal debt principal and interest as of September 30, 2015. This liability relates to uninvested principal and interest owed to funds due to extraordinary measures taken by the Department during the Delay.

The increase in total liabilities is also attributable to a $124.0 billion increase in the "Due to the General Fund of the U.S. Government" account, primarily as a result of an increase in intra-governmental loans and interest receivable. The Department, through the Fiscal Service, accounts for and reports on the principal borrowings from and repayments to the General Fund, as well as the related interest due to the General Fund.

Total Net Position of $414.1 billion at September 30, 2015 represents the combined total of the Department's cumulative results of operations and unexpended appropriations at the end of the fiscal year. The $7.3 billion (1.7 percent) decrease in the net position at the end of fiscal year 2015 was principally attributable to $5.4 billion in unexpended appropriations primarily driven by a decrease in cancelation of expired funds associated with the TARP programs in fiscal year 2015 over the prior year.



	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Net Cost of Treasury Operations	$4.2	($275.2)	$3.3	$23.9	$23.5
Net Non-Entity Costs	$400.0	$420.4	$280.3	$380.1	$351.4
Total Net Cost	$404.2	$145.2	$283.6	$404.0	$374.9

Figure 4

Total Net Cost of Treasury Operations and Non-Entity Costs, as presented on the Department's Consolidated Statements of Net Cost, consists of the Net Cost of Treasury Operations and Net Non-Entity Costs (Figure 4). Net Cost of Treasury Operations represents the gross costs, net of earned revenues, incurred by the Department related to its own entity activities comprising both its operating bureaus and DO that are consolidated with the Department. Net Non-Entity Costs represent the gross costs, net of earned revenues, incurred by the Department on behalf of the U.S. government (or General Fund), and primarily include federal debt interest costs, net of GSE non-entity revenues. Total Net Cost of Treasury Operations and Non-Entity Costs totaled $374.9 billion and $404.0 billion for fiscal years 2015 and 2014, respectively, a decrease of $29.1 billion (or 7.2 percent) over the prior year. Net Cost of Treasury Operations and Net Non-Entity Costs contributed $0.4 billion and $28.7 billion, respectively to the year-over-year decrease in net costs.

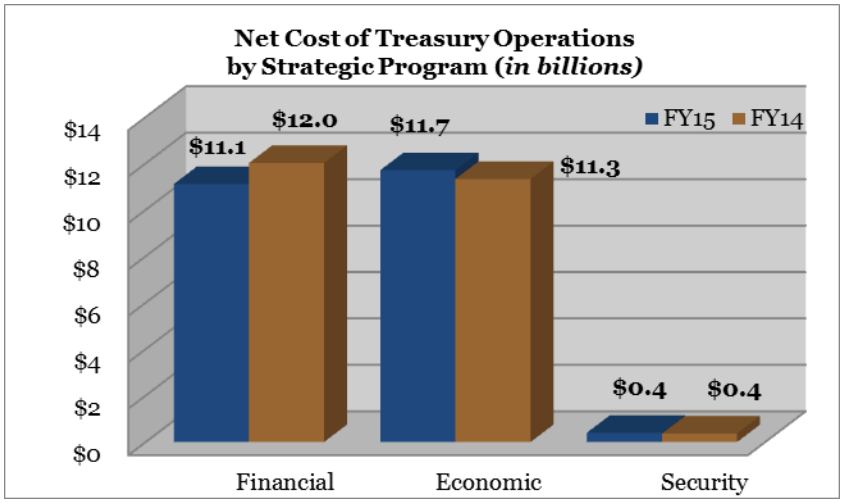


Figure 5

Net Cost of Treasury Operations is presented on the Department's Consolidated Statements of Net Cost by strategic program. There are three main categories of strategic programs presented – financial, economic, and security – as well as a management strategic program which is combined with the financial program due to the immateriality of the management program (Figure 5). The Department's Net Cost of Treasury Operations totaled $23.5 billion for 2015 compared to $23.9 billion for 2014. Treasury's net costs were relatively unchanged year over year, reflecting a slight decrease of $0.4 billion from the prior year.

Net Federal Debt Interest Costs primarily reflect interest expense on the federal debt. Federal interest costs decreased by $24.6 billion (or 5.7 percent) in fiscal year 2015 primarily attributable to reduced interest rates on Treasury Inflation-Protected Securities (TIPS) driven by declines in the Consumer Price Index. This cost for fiscal year 2015 excludes the $2.1 billion accrual for the restoration of forgone federal debt interest recorded in connection with the Delay and reported separately from Federal debt interest costs.

GSEs Non-Entity Revenue, Net totaled $30.8 billion for 2015 compared to $28.1 billion for 2014. The $2.7 billion increase in this net revenue in 2015 was primarily driven by growth in non-entity revenue from the Department's two GSE investments. This revenue growth is attributable to a $10.5 billion increase at the end of fiscal year 2015 in the fair value of the GSE investments, when compared to a $44.4 billion decline in fair value at the end of fiscal year 2014, primarily reflecting higher forecasted GSE earnings derived from guarantee fees, lower volatility and risk in the mortgage lending industry, and lower forecasted mortgage loan losses due to reduced credit risk assumed by the GSEs. Offsetting this revenue growth was a $52.1 billion year-over year decrease in senior preferred stock dividends received from the two GSEs attributable to lower earnings, coupled with a one-time benefit recognized in one of the GSE's historical earnings in fiscal year 2014 that did not recur in 2015.

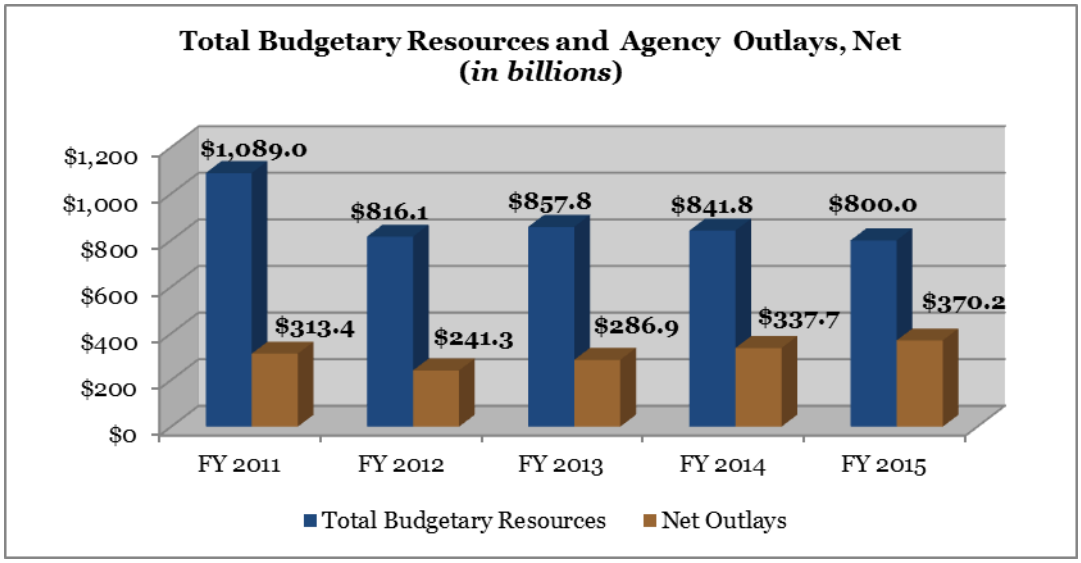


Figure 6

Total Budgetary Resources of $800.0 billion were lower in fiscal year 2015 (Figure 6) by $41.8 billion (or 5.0 percent) primarily due to a $37.0 billion decrease in appropriations and net unobligated balance from prior year budget authority, and a $4.5 billion decrease in spending authority from offsetting collections. These decreases are attributable to the wind-down of the TARP programs and budget reductions associated with other of the Department's programs.

Agency Outlays, Net of $370.2 billion were higher in fiscal year 2015 (Figure 7) by $32.5 billion (or 9.6 percent) primarily due to fewer collections in fiscal year 2015 from the wind-down of the TARP programs, coupled with reduced receipts of preferred stock dividends pursuant to the GSEs' SPSPA program. These receipts offset gross outlays for purposes of reporting net outlays and, thus, a reduction in these receipts in 2015 increased the amount of Agency Outlays, Net.

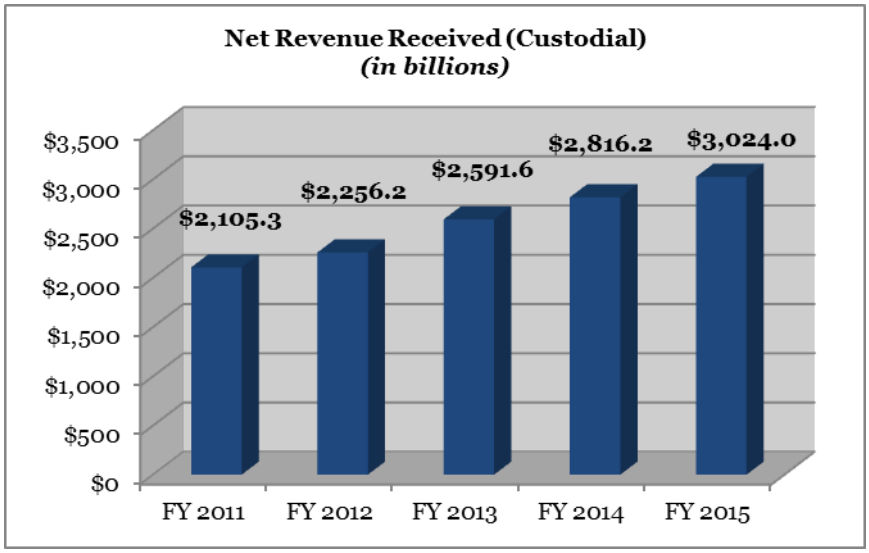


Figure 7

Net Revenue Received (Custodial), representing net revenue collected by Treasury on behalf of the U.S. government, includes various taxes, primarily income taxes, as well as user fees, fines and penalties, and other revenue. Over 90 percent of these revenues are related to income and social security taxes. Net revenue received was $3.0 trillion for fiscal year 2015, an increase of

$207.8 billion (or 7.4 percent) over the prior fiscal year. This increase is attributable mainly to an overall improvement in individual and corporate income tax collections.

MANAGEMENT ASSURANCES

The Secretary's Assurance Statement

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

Treasury provides assurance that the objectives of Section 2 of the FMFIA (Financial Reporting and Operations) have been achieved, except for the material weaknesses noted below. Treasury is in substantial conformance with Section 4 (Financial Management Systems) of the FMFIA. Also, in accordance with Office of Management and Budget Circular No. A-123, *Management's Responsibility for Internal Control, Appendix A, Internal Control over Financial Reporting*, Treasury provides qualified assurance that internal control over financial reporting was operating effectively based on the results of the assessment as of June 30, 2015. Treasury's financial management systems are not in substantial compliance with the *Federal Financial Management Improvement Act* (FFMIA) due to the Internal Revenue Service's (IRS's) material weakness related to unpaid tax assessments.

As of September 30, 2015, Treasury had two FMFIA material weaknesses as follows (with origination/planned resolution timeframes indicated):

Operations:

- Bureau of the Fiscal Service – Control Deficiencies in the Processes used to Prepare the Consolidated Government-wide Financial Statements (Fiscal Year 2001/2018)

Financial Reporting:

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

Treasury management remains dedicated to the resolution of these remaining weaknesses. Overall, Treasury continues to work to maintain high standards, eliminate internal control weaknesses, and meet federal financial management systems requirements.

Jacob J. Lew
Secretary of the Treasury
November 16, 2015

FMFIA

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

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

FMFIA requires agencies to evaluate and report on the effectiveness of controls over financial and operational reporting (FMFIA Section 2), and conformance with financial management systems requirements (FMFIA Section 4 and FFMIA) that protect the integrity of federal programs. Deficiencies that seriously affect an agency's ability to meet these objectives are deemed "material weaknesses."

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

The Department of Health and Human Services (HHS) and the Department of the Treasury each have responsibilities for ensuring payment accuracy in programs created under the Affordable Care Act. Performing comprehensive risk assessments is critical to establishing an effective program for achieving payment accuracy in future years. In fiscal year 2015, both Departments finalized plans for and began to perform comprehensive improper payment risk assessments to determine areas that might affect Advance Premium Tax Credit (APTC), Premium Tax Credit (PTC), Cost-sharing Reduction and Basic Health Plan payment accuracy. Both Departments are leveraging the same Federally Funded Research and Development Centers (FFRDC) to assist with conducting these risk assessments, which will facilitate interagency coordination and provide a comprehensive assessment of risk that takes into account activities by the health insurance marketplaces , HHS and IRS. An update on the status and preliminary results of the FFRDC supported risk assessments will be reported in the fiscal year 2016 AFR. In addition, both Departments have established internal controls to provide for effective program operations, reliable financial reporting, and compliance with laws and regulations.

As discussed in Section F of Part 3, Other Information, Treasury also performed a qualitative risk assessment for all refundable credits that included an initial assessment of risks and controls related to net PTC claimed on tax returns after reconciliation of APTC.

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

The Department continues to strengthen and improve the execution of the Treasury mission through the application of sound internal controls over financial reporting. In compliance with OMB Circular No. A-123, Appendix A, Treasury uses an extensive annual testing and assessment methodology that identifies and documents internal controls over financial reporting at the transaction level integrated with Government Accountability Office's *Standards for Internal Control In the Federal Government*. Treasury's bureaus and offices completed their testing and assessment of internal controls for material transactions as of June 30, 2015. Treasury provides qualified assurance that internal control over financial reporting was effective as of June 30, 2015, due to the IRS's unpaid tax assessments material weakness.

In conjunction with the Department's A-123, Appendix A, Fiscal Year 2015 Guidance and Implementation Plan, bureaus and offices documented their compliance with applicable laws and regulations. Based on these results, the Department is in compliance with applicable laws and regulations with the exception of the FFMIA as addressed in the Auditor's Report included in Part 2 of this AFR.

FFMIA AND FINANCIAL MANAGEMENT SYSTEMS

FFMIA

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

During fiscal year 2015, Treasury bureaus and offices used a risk-based approach to assess their financial management systems' compliance with FFMIA, as prescribed in OMB Circular A-123, Appendix D. The bureaus and offices conducted self-assessments to determine their substantial risk level (low, medium, or high) and compliance. For areas in non-compliance, bureaus and offices are required to develop a remediation plan to bring systems into substantial compliance.

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

In November 2015, the IRS updated its remediation plan to improve reporting on unpaid assessment balances and remediate this material weakness by November 30, 2020. The plan is based on a new Customer Account Data Engine (CADE) 2 Transition State 2 (TS2) release plan to improve the accuracy of the core individual taxpayer account providing key information needed when servicing taxpayer inquiries and enabling the IRS accounting systems to leverage the information for more accurate financial reporting. The CADE 2 TS2 release plan will be deployed over seven releases, of which four will affect the material weakness and are dependent on receiving requested funding. Releases 2 through 4 will enable the CADE 2 data base to become the authoritative source for the financial statements and Release 5 will address the remaining actions necessary to improve the taxpayer account. The IRS expects that once the financial systems have fully leveraged the capabilities in CADE 2 TS2, this material weakness can be downgraded.

While closure of the material weakness is largely dependent upon implementation of CADE 2 TS2, the IRS is also working on long-term actions that are needed to improve reporting on business taxpayer accounts not within the current scope of CADE 2, and improvements needed to internal procedures and methodologies for recording data to the taxpayer accounts.

In July 2015, the IRS developed a series of new long-term actions intended to address the four remaining issues impacting the material weakness that are not dependent on CADE 2 TS2. The IRS is currently prioritizing and determining the funding needed to complete these actions. In the near-term, the IRS added seven initial actions to the remediation plan scheduled for completion in FY 2016.

FINANCIAL MANAGEMENT SYSTEMS FRAMEWORK

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

The FARS includes the following component applications:

- Treasury Information Executive Repository (TIER) – a financial data repository used to consolidate and validate bureau financial data
- TIER Financial Statements (TFS) – a reporting application used to produce monthly and annual financial statements, notes, and other supporting reports
- Joint Audit Management Enterprise System (JAMES) – an application that tracks information on open audits as well as audit report findings, recommendations, and planned corrective actions

Bureaus submit summary-level financial data to TIER on a monthly basis. The TFS application uses the bureau data, which are validated by TIER, to produce financial statements and reports on both a Department-wide and bureau-level basis, including Treasury's annual audited financial statements and monthly management reports. Fifteen Treasury bureaus and offices use centralized financial operations, budget execution services, or IT support provided by the Fiscal Service's Administrative Resource Center (ARC). This shared service approach enables bureaus and offices to have access to core financial systems without having to maintain the necessary technical and systems architectures. ARC also provides administrative services in the areas of accounting, payroll, human resources, procurement, financial management of budget execution, fixed assets, inventory and order management, and travel to Treasury bureaus and offices and to other federal entities to support core business activities. Using these services reduces the need for Treasury to maintain duplicative financial management systems; enhances the quality, timeliness, and accuracy of financial management processes; and provides a more efficient and cost-effective business model. Revenue enhancement will occur through economies of scale as new customers are added. In fiscal year 2015 ARC implemented business process improvements that resulted in a 50% reduction in customer cost per invoice within the Accounts Payable service line and provided assistance to 25 of Fiscal Accounting's financial management shared service customer agencies that are audited. As a result, all 25 agencies are expected to receive clean opinions on their fiscal year 2015 financial statements. ARC is also scheduled to finalize the implementation of its first cabinet level customer agency (Department of Housing and Urban Development) for Financial Management services.

GOALS AND THE SUPPORTING FINANCIAL SYSTEM STRATEGIES

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

Throughout fiscal year 2015, Treasury updated TIER and TFS to meet new and evolving reporting requirements. The TIER Focus Group continues to serve as a forum for bureau feedback on TIER enhancements and issues and as a tool for improving communication with the bureaus and coordinating changes which impact financial management systems and financial operations.

Treasury also enhanced FARS IT infrastructure this year by upgrading operating system and web server software for FARS application servers in all environments. In fiscal year 2016, the Department plans to migrate FARS applications from their current location at the Main Treasury building to IRS data centers in Memphis, Tennessee, and Martinsburg, West Virginia. The migration will support Treasury's Data Center Consolidation Initiative (DCCI) and will incorporate new physical hardware for hosting the FARS.

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 Treasury to reduce operating cost, re-engineer critical business processes to create efficiencies in execution and documentation of financial reporting, improve the timeliness and quality of financial management processes and reporting, enhance internal controls, and improve visibility and audit trail in the entire reporting process.

Customer Account Data Engine (CADE 2) daily processing continues to enhance IRS tax administration and improve service to taxpayers by enabling faster refunds for taxpayers, more timely account updates, and faster issuance of taxpayer notices.

In fiscal year 2015, CADE 2 Transition State 2 (TS2) completed a major program milestone, exiting the planning phase with an updated comprehensive Release Plan for releases over the next five years. Once completed, the IRS believes that significant progress will be made in the mitigation of the Unpaid Assessments Material Weakness for individual tax accounts, taxpayer data will be more easily and rapidly accessible for appropriate uses, and the underlying technology will support future continued enhancements to improve customer service and taxpayer compliance.

Also in 2015, the CADE 2 database continued to update daily in pace with the Individual Master File (IMF). When fully implemented, the CADE 2 database will provide data to support a variety of tax administration functions. These functions include inventory analytics and selection; employee customer service support tools; and taxpayer self-service options to order tax account transactions transcripts and line-by-line tax return information for a specific tax year, as well as, to track and make payments arrangements.

During 2015, TS2 began to address the IRS's Unpaid Assessments Material Weakness for individual taxpayer accounts. In January 2015, CADE2 TS 2 delivered additional benefits by enhancing the Penalty & Interest common code for Filing Season 2015, computing consistently across all major applications. The IRS also continued several prototyping efforts to convert legacy code and develop a modernized data distribution framework.

In 2015, CADE 2 TS2 initiated development of Release 2, which will deploy for Filing Season 2016. The Release 2 projects will address several aspects of the Material Weakness by:

- Completing CADE 2 Database Conversion project which includes building a long-term CADE 2 database annual conversion capability and process for use in Filing Season 2016 and beyond. The database will retain its expanded taxpayer history from the previous tax season for approximately two billion taxpayer records for the first time ever.
- Completing the feed to the Integrated Production Model (IPM) establishing an interface to the IRS data warehouse enabling financial reporting and analysis on taxpayer accounts to support compliance, customer service, and other needs.
- Completing the Penalty & Interest Adjusted Refundable Credit project to correct failure to pay penalty computations for adjusted refundable credits which resulted in 8 million tax modules with inaccurate computations.

In fiscal year 2015, BEP continued to enhance and refine its cloud-based, fully integrated enterprise resource planning system, Manufacturing Support Suite (MSS). MSS has reduced manual processes, increased efficiency, improved data quality, and provides real time enterprise data and information for improved decision-making. BEP plans to continually focus on improving automation and streamlining in a cost-efficient manner in fiscal year 2016.

The Office of the Comptroller of the Currency (OCC) performed routine software maintenance and a PeopleTools Upgrade on its Management and Accountability Reporting Tools ($MART) financial system in fiscal year 2015 to maintain productivity for its customer base. No upgrades are planned for fiscal year 2016; however, in 2017, the OCC plans to upgrade to a new software version to maintain customer service and provide innovative solutions for efficient reporting.

IMPROPER PAYMENTS

Background

The *Improper Payments Elimination and Recovery Act of 2010* (IPERA, Pub. L. 111-204) amends the *Improper Payments Information Act of 2002* (IPIA) and requires agencies to review their programs and activities annually to identify those susceptible to significant improper payments. IPERA also generally repeals the *Recovery Auditing Act*, and significantly increases agency payment recapture efforts by expanding the types of payments to be reviewed and lowering the dollar threshold of annual payments that requires agencies to conduct payment recapture audit programs. OMB Circular No. A-123, *Management's Responsibility for Internal Control,* Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments* (A-123, Appendix C), recently amended October 20, 2014, defines "significant improper payments" as gross annual improper payments in a program exceeding both the threshold of 1.5 percent of program outlays and $10 million of all program or activity payments or $100 million regardless of the improper payment percentage. A-123, Appendix C, also requires agencies with programs susceptible to significant improper payments to implement corrective action plans that include improper payment root cause identification, reduction targets, and identification of accountable officials.

Treasury's Risk Assessment Methodology and Results for FY 2015

In fiscal year 2015, Treasury completed a full program inventory and performed risk assessments to identify programs that have a significant risk of improper payments, per the methodology in OMB Circular No. A-123, Appendix C. The risk assessments performed on Treasury's programs and activities in fiscal year 2015 resulted in low and medium risk susceptibility for improper payments, except for the IRS's Earned Income Tax Credit (EITC) program.

EITC PROGRAM

The EITC is a refundable tax credit that offsets income tax owed by low-income taxpayers and, if the credit exceeds the amount of taxes due, provides a lump-sum payment in the form of a refund to those who qualify. Treasury estimates that for fiscal year 2015,

between 21.6 percent ($14.2 billion) and 25.9 percent ($17.0 billion) of the total EITC program payments of $65.6 billion were overclaims. The IRS has a robust base enforcement program for the EITC which consists of examinations (audits), math error notices, and document matching. Details on the IRS's EITC program can be found in Section E of Part 3, Other Information.

Payment Recapture Audits

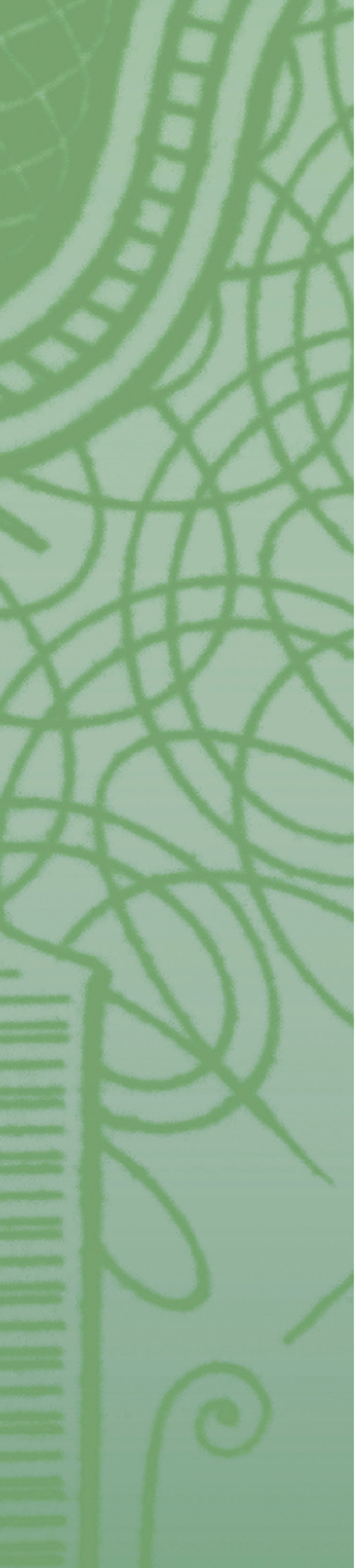
Section 2(h) of the IPERA requires agencies to conduct payment recapture audits (also known as recovery audits) for each program and activity that expends $1 million or more annually if conducting such audits would be cost-effective. Treasury performed the payment recapture activities required in A-123, Appendix C during fiscal year 2015. Details on Treasury's improper payments and payment recapture program activities and results can be found in Section E of Part 3, Other Information.

AUDIT FOLLOW-UP PROGRAM

During fiscal year 2015, Treasury continued its efforts to improve both the general administration of internal control issues throughout the Department and the timeliness of the resolution of all findings and recommendations identified by the Treasury OIG, TIGTA, SIGTARP, GAO, and external auditors. Additional information on Treasury's audit follow-up activities can be found in Section F of Part 3, Other Information.

PART 2:

Financial Section



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

Brodi L. Fontenot
Assistant Secretary
for Management

Dorrice C. Roth
Deputy Chief Financial
Officer

In fiscal year 2015, Treasury pursued an aggressive set of management programs and initiatives designed to manage the U.S. government's finances efficiently and responsibly. By focusing on a comprehensive set of management priorities, Treasury has led and supported government-wide financial management efforts to increase productivity, reduce waste and non-essential expenses, and modernize processes and systems. Treasury continued to build the Office of Risk Management and conducts regular meetings of Treasury's Risk Management Committee, which is co-chaired by the Deputy Secretary and Chief Risk Officer, providing a forum for the Department's leaders to identify risk areas, share best practices, and monitor implementation of mitigation strategies.

As part of our efforts to make Treasury data more transparent, the Department, in partnership with the Office of Management and Budget, published new data standards to modernize reporting of federal funds.

In fiscal year 2015, Treasury demonstrated leadership in the areas of fiscal prudence and management excellence by:

- Receiving an A on our small business report card for the fifth consecutive year;
- Reducing Treasury's federal real estate footprint by an estimated 3 percent (almost one million square feet) during FY15 , and projecting another 600,000 plus square foot reduction in fiscal year 2016;
- Strengthening cybersecurity across the financial sector by working with industry to organize cybersecurity initiatives on a national level and fully committing to the Office of Management and Budget's cyber-sprint by creating a cyber-dashboard to identify potential threats; and
- Using Federal Employee Viewpoint Survey results to design activities focused on increasing employee engagement, and improving the alignment of individual performance to organizational results within the Department to achieve mission goals.

The Department received an unmodified audit opinion on its consolidated financial statements for the 16th consecutive year. Treasury continues to make steady progress toward resolving the two Federal Managers' Financial Integrity Act material weaknesses remaining open as of September 30, 2015 (IRS – Unpaid Tax Assessments, and Bureau of the Fiscal Service – Systems, Controls, and Procedures to Prepare the Government-wide Financial Statements). Despite the complexity of Treasury's financial systems contributing to these material weaknesses, we continue to make considerable progress towards closing the issues.

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

Brodi L. Fontenot

Assistant Secretary for Management

November 16, 2015

Dorrice C. Roth

Deputy Chief Financial Officer

November 16, 2015

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INSPECTOR GENERAL'S TRANSMITTAL LETTER

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF INSPECTOR GENERAL

November 16, 2015

INFORMATION MEMORANDUM FOR SECRETARY LEW

FROM: Eric M. Thorson /s/
Inspector General

SUBJECT: Audit of the Department of the Treasury's Consolidated Financial Statements for Fiscal Years 2015 and 2014

INTRODUCTION

The Chief Financial Officer's Act, as amended, requires the Department of the Treasury's Inspector General or an independent auditor, as determined by the Inspector General, to audit Treasury's consolidated financial statements. We contracted with the independent certified public accounting firm of KPMG LLP (KPMG) to audit the consolidated financial statements of Treasury as of September 30, 2015 and 2014, and for the years then ended, to provide a report on internal control over financial reporting, to report instances in which Treasury's financial management systems did not substantially comply with the requirements of the Federal Financial Management Improvement Act of 1996 (FFMIA), and to report any reportable noncompliance with laws, regulations, contracts, and grant agreements tested. The contract required that the audit be performed in accordance with U.S. generally accepted government auditing standards and Office of Management and Budget Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*.

RESULTS OF INDEPENDENT AUDIT

In its audit of Treasury, KPMG reported

- the consolidated financial statements were fairly presented, in all material respects, in accordance with U.S. generally accepted accounting principles;
- a material weakness in internal control over financial reporting at the Internal Revenue Service;
- a significant deficiency in internal control over information systems at the Bureau of the Fiscal Service;
- Treasury's financial management systems did not substantially comply with the requirements of FFMIA related to Federal financial management systems requirements and Federal accounting standards.

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

KPMG also described the following significant matters:

- Treasury changed its budgetary accounting policy related to recording obligations for the portion of the International Monetary Fund New Arrangements to Borrow program not accounted for under the Federal Credit Reform Act.

- Treasury is a participant in significant legislation and transactions whose purpose is to assist in stabilizing the financial markets. Also, the consolidated financial statements do not include the assets, liabilities, or results of operations of commercial entities in which Treasury has a significant equity interest as it has determined that none of these entities meet the criteria for inclusion as a Federal entity and are therefore not included in the consolidated financial statements. Furthermore, the value of certain investments, loans, and commitments is based on estimates. These estimates are inherently subject to substantial uncertainty arising from the likelihood of future changes in general economic, regulatory, and market conditions. In addition, there are significant uncertainties related to the amounts that Treasury will realize from its investments. As such, there will likely be differences between the estimated value of these investments, loans, and commitments as of September 30, 2015 and 2014, and the amounts that may ultimately be realized from these assets or may be required to settle these commitments. Such differences may be material and will also affect the ultimate cost of these programs.

EVALUATION OF AUDITORS' PERFORMANCE

In connection with the contract, we reviewed KPMG's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to express, and we do not express, an opinion on Treasury's consolidated financial statements or conclusions about the effectiveness of internal control; whether Treasury's financial management systems substantially complied with FFMIA; and compliance with laws, regulations, contracts, and grant agreements. KPMG is responsible for the attached auditor's report dated November 16, 2015, and the conclusions expressed in the report. However, our review disclosed no instances where KPMG did not comply, in all material respects, with U.S. generally accepted government auditing standards.

I appreciate the courtesy and cooperation extended to KPMG and my staff during the audit. Should you or your staff have questions, you may contact me at (202) 622-1090 or Marla A. Freedman, Assistant Inspector General for Audit, at (202) 927-5400.

Attachment

cc: Brodi L. Fontenot
Assistant Secretary for Management

Dorrice C. Roth
Deputy Chief Financial Officer

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

Independent Auditors' Report

Inspector General
Department of the Treasury:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the Department of the Treasury (Department), which comprise the consolidated balance sheets as of September 30, 2015 and 2014, and the related consolidated statements of net cost, consolidated statements of changes in net position, combined statements of budgetary resources, and statements of custodial activity for the years then ended, and the related notes to the consolidated financial statements (hereinafter referred to as "consolidated financial statements").

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the Internal Revenue Service (IRS), a component entity of the Department, which statements reflect total assets of $48.7 and $49.2 billion, net cost of operations of $11.8 and $12.1 billion before applicable eliminating entries, budgetary resources of $12.5 and $12.8 billion, and custodial activity of $3,304 and $3,069 billion, as of and for the years ended September 30, 2015 and September 30, 2014, respectively. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for IRS, is based solely on the report of the other auditors.

We also did not audit the financial statements of the Office of Financial Stability (OFS), a component entity of the Department, which statements reflect total assets of $28.6 and $35.4 billion, net cost of operations of $4.4 and $3.0 billion before applicable eliminating entries, and budgetary resources of $10.2 and $17.2 billion, as of and for the years ended September 30, 2015 and September 30, 2014, respectively. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for OFS, is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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

Opinion on the Financial Statements

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Department of the Treasury as of September 30, 2015 and 2014, and its net costs, changes in net position, budgetary resources, and custodial activity for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 21, in 2015 the Department changed its budgetary accounting policy related to recording obligations for the portion of the International Monetary Fund New Arrangements to Borrow program not accounted for under the Federal Credit Reform Act. Our opinion is not modified with respect to this matter.

As discussed in Notes 9 and 10, the Department is a participant in significant legislation and transactions whose purpose is to assist in stabilizing the financial markets. Also as discussed in note 1A, the consolidated financial statements do not include the assets, liabilities, or results of operations of commercial entities in which the Department has a significant equity interest as it has determined that none of these entities meet the criteria for inclusion as a federal entity and are therefore not included in the consolidated financial statements. Furthermore, as discussed in notes 1V, 9, and 10, the value of certain investments, loans, and commitments is based on estimates. These estimates are inherently subject to substantial uncertainty arising from the likelihood of future changes in general economic, regulatory, and market conditions. In addition, there are significant uncertainties related to the amounts that the Department will realize from its investments. As such, there will likely be differences between the estimated value of these investments, loans, and commitments as of September 30, 2015 and 2014, and the amounts that may ultimately be realized from these assets or may be required to settle these commitments. Such differences may be material and will also affect the ultimate cost of these programs. Our opinion is not modified with respect to these matters.

Other Matters

Management has elected to reference to information on websites or other forms of interactive data outside the *Agency Financial Report* to provide additional information for the users of its financial statements. Such information is not a required part of the basic consolidated financial statements or supplementary information required by the Federal Accounting Standards Advisory Board. The

information on these websites or the other interactive data has not been subjected to any of our auditing procedures, and accordingly we do not express an opinion or provide any assurance on it.

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

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

Other Reporting Required by *Government Auditing Standards*

Internal Control Over Financial Reporting
In planning and performing our audit of the consolidated financial statements as of and for the year ended September 30, 2015, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control. This report includes our consideration of the results of the other auditors' testing of internal control over financial reporting that was reported on separately by those auditors. However, this reporting, insofar as it relates to the results of the other auditors, is based solely on the reports of the other auditors. We, and the other auditors, did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Managers' Financial Integrity Act of 1982*.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described below, we and the other auditors, identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described below to be a material weakness.

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

IRS needs to establish internal control over financial reporting and systems in accordance with OMB Circular A-123, *Management's Responsibility for Internal Control* to ensure reliable and timely financial information is obtained, maintained, and reported. IRS continued to make progress in addressing its deficiencies in internal control over financial reporting. However, a material weakness in internal control over unpaid tax assessments and significant deficiency in internal control over financial reporting systems continued to exist in fiscal year 2015 and are collectively considered a material weakness at the Department level. The other auditors performed an audit of IRS's internal control over financial reporting for the purpose of providing an opinion on the effectiveness of internal control. Because of the material weakness, the other auditors' opinion on IRS's internal control over financial reporting stated that IRS did not maintain, in all material respects, effective internal control over financial reporting as of September 30, 2015, and thus did not provide reasonable assurance that losses and misstatements that were material in relation to the IRS's financial statements would be prevented or detected and corrected on a timely basis. The deficiencies are summarized as follows:

1. Internal control deficiencies that affected IRS's management and reporting of taxes receivable and unpaid tax assessments continued to exist. Specifically, IRS had the following control deficiencies: (1) taxes receivable and other unpaid tax assessments were not supported by IRS's core general ledger system for tax transactions and instead were supported by a labor-intensive manual compensating estimation process; (2) IRS cannot use the subsidiary ledger and supporting financial systems for unpaid tax assessments to prepare reliable and useful information to manage and report because of limitations in IRS's financial systems and errors in tax payer accounts render the systems unable to readily distinguish between taxes receivable, unpaid tax assessments, and write-offs in order to properly classify these components for financial reporting purposes; and (3) IRS did not consistently record information accurately in taxpayer accounts resulting in IRS having to make numerous adjustments as part of its process for estimating taxes receivable and other unpaid tax assessments.

2. Internal control deficiencies over financial reporting systems continued to exist that increase the risk that IRS financial and taxpayer data will remain vulnerable to inappropriate and undetected use, modification or disclosure. Specifically, the IRS did not consistently: (1) install appropriate security updates on certain databases and servers that support financial systems; (2) use audit trails and monitor certain key financial systems; (3) use strong passwords and secure passwords; (4) perform security testing to determine whether controls were operating effectively; (5) update key mainframe policies and procedures for auditing and monitoring access.

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

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

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described below to be a significant deficiency.

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

Effective information system controls and security programs over financial systems are essential to protecting information resources in accordance with OMB Circular No. A-130, *Management of Federal Information Resources*. The Bureau of the Fiscal Service (Fiscal Service) relies on an extensive array of information technology systems to perform their primary missions. During fiscal year 2015, Fiscal Service made progress in remediating the prior-year significant deficiency, however, Fiscal Service's corrective action plans were not effectively designed and implemented and we identified additional control deficiencies. Specifically, Fiscal Service's general information technology controls did not provide reasonable assurance that: (1) access to computer resources (i.e., data, equipment, and facilities) is appropriate and restricted to authorized individuals; (2) responsibilities are properly segregated; (3) changes to information system resources are authorized, properly configured, and secured as intended; and (4) contingency planning minimizes the risk of unplanned interruptions and provides for recovery of critical operations should an interruption occur.

Until these control deficiencies are fully addressed, there will be an increased risk of inadequate security controls in financial systems; unauthorized access to, modification of, or disclosure of sensitive financial data and programs; unauthorized changes to financial systems; and disruption of critical financial operations.

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

Compliance and Other Matters
As part of obtaining reasonable assurance about whether the Department's consolidated financial statements are free from material misstatement, we, and the other auditors, performed tests of the Department's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our, and the other auditors', tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 15-02.

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

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

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

1. Federal Financial Management Systems Requirements

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

2. Federal Accounting Standards

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

Recommendation

The other auditors separately provided IRS management with recommendations to address the above noncompliance with FFMIA. We recommend that the ASM and DCFO ensure that the IRS implements its remediation plan outlining actions to be taken to resolve noncompliance with the FFMIA requirements and the resources and responsible organizational units for such planned actions.

Department's Response to Findings

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

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

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

KPMG LLP

November 16, 2015

MANAGEMENT'S RESPONSE TO INDEPENDENT AUDITORS' REPORT

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

ASSISTANT SECRETARY

November 16, 2015

KPMG LLP
1801 K Street, NW
Washington, DC
20006

Ladies and Gentlemen:

On behalf of Secretary Lew, we are responding to your audit report on the Department of the Treasury's fiscal year 2015 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 sixteenth consecutive year.

The high level of professionalism, technical expertise, and partnership demonstrated by KPMG in conducting this year's audit contributed greatly to Treasury's successful fiscal year 2015 results. We also appreciate the expertise and commitment demonstrated by the other organizations involved in the audit process – the Office of the Inspector General, Government Accountability Office (GAO), and the firms that audited several of our bureaus.

We acknowledge the one material weakness and one significant deficiency at the Department level, and the one instance of noncompliance with laws and regulations described in your report. We agree with your recommendations, and will focus on necessary corrective actions to address each of the issues.

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

Brodi L. Fontenot
Assistant Secretary for Management

Dorrice C. Roth
Deputy Chief Financial Officer

Consolidated Balance Sheets
As of September 30, 2015 and 2014
(In Millions)

ASSETS	**2015**	2014
Intra-governmental Assets		
Fund Balance (Note 2)	$ **352,526**	$ 352,928
Loans and Interest Receivable (Note 3)	**1,306,596**	1,221,599
Advances to the Unemployment Trust Fund (Note 4)	**12,840**	20,824
Due From the General Fund (Note 4)	**18,632,253**	17,949,849
Other Intra-governmental Assets	**453**	568
Total Intra-governmental Assets	**20,304,668**	19,545,768
Cash, Foreign Currency, and Other Monetary Assets (Note 5)	**253,136**	211,868
Gold and Silver Reserves (Note 6)	**11,062**	11,062
Reserve Position in the International Monetary Fund (Note 7)	**8,168**	12,834
Taxes, Interest, and Other Receivables, Net (Note 8)	**42,034**	42,509
Credit Program Receivables, Net (Note 9)	**15,145**	19,102
Loans and Interest Receivable, Net (Note 7)	**5,537**	9,499
Investments in Government Sponsored Enterprises (GSE) (Note 10)	**106,270**	95,810
Investments in International Financial Institutions (Note 11)	**7,319**	6,891
Other Investments and Related Interest (Note 12)	**11,737**	17,921
Property, Plant, and Equipment, Net (Note 13)	**2,897**	2,800
Other Assets	**762**	898
Total Assets (Note 14)	$ **20,768,735**	$ 19,976,962

Heritage Assets (Note 13)

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

Consolidated Balance Sheets
As of September 30, 2015 and 2014
(In Millions)

LIABILITIES	**2015**	2014
Intra-governmental Liabilities		
Federal Debt and Interest Payable (Notes 4 and 15)	$ **5,096,265**	$ 5,104,620
Liability for Restoration of Federal Debt Principal and Interest (Notes 4 and 15)	**146,066**	-
Other Debt and Interest Payable (Note 16)	**12,421**	13,733
Due To the General Fund (Note 4)	**1,663,955**	1,539,951
Other Intra-governmental Liabilities (Note 18)	**484**	565
Total Intra-governmental Liabilities	**6,919,191**	6,658,869
Federal Debt and Interest Payable (Notes 4 and 15)	**13,148,200**	12,809,423
Liability for Restoration of Federal Debt Principal and Interest (Notes 4 and 15)	**204,591**	-
Certificates Issued to the Federal Reserve (Note 5)	**5,200**	5,200
Allocation of Special Drawing Rights (Note 5)	**49,574**	52,358
Gold Certificates Issued to the Federal Reserve (Note 6)	**11,037**	11,037
Refunds Payable (Notes 4 and 22)	**3,039**	4,723
D.C. Federal Pensions and Judicial Retirement Actuarial Liability (Note 17)	**8,849**	9,159
Other Liabilities (Note 18)	**4,940**	4,806
Total Liabilities (Note 18)	**20,354,621**	19,555,575
Commitments and Contingencies (Note 26)		
NET POSITION		
Unexpended Appropriations:		
Funds from Dedicated Collections (Note 23)	**200**	200
Other Funds	**343,023**	348,412
Subtotal	**343,223**	348,612
Cumulative Results of Operations:		
Funds from Dedicated Collections (Note 23)	**48,646**	46,464
Other Funds	**22,245**	26,311
Subtotal	**70,891**	72,775
Total Net Position - Funds from Dedicated Collections (Note 23)	**48,846**	46,664
Total Net Position - Other Funds	**365,268**	374,723
Total Net Position (Note 19)	**414,114**	421,387
Total Liabilities and Net Position	$ **20,768,735**	$ 19,976,962

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

Consolidated Statements of Net Cost
For the Fiscal Years Ended September 30, 2015 and 2014
(In Millions)

	2015	2014
Cost of Treasury Operations:		
Financial Program		
Gross Cost	$ **14,476**	$ 15,124
Less Earned Revenue	**(3,362)**	(3,108)
Net Program Cost	**11,114**	12,016
Economic Program		
Gross Cost	**19,998**	18,354
Less Earned Revenue	**(8,287)**	(7,025)
Net Program Cost	**11,711**	11,329
Security Program		
Gross Cost	**406**	375
Less Earned Revenue	**(6)**	(8)
Net Program Cost	**400**	367
Total Program Gross Costs	**34,880**	33,853
Total Program Gross Earned Revenues	**(11,655)**	(10,141)
Total Net Program Cost before Changes in Actuarial Assumptions	**23,225**	23,712
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	**299**	170
Total Net Cost of Treasury Operations (Note 20)	**23,524**	23,882
Non-Entity Costs:		
Federal Debt Interest	**406,982**	431,618
Restoration of Foregone Federal Debt Interest (Note 15)	**-**	444
Less Interest Revenue from Loans	**(39,702)**	(37,216)
Net Federal Debt Interest Costs	**367,280**	394,846
Accrued Restoration of Foregone Federal Debt Interest (Note 15)	**2,052**	-
Other Federal Costs, Net (Note 20)	**13,601**	14,054
GSEs Non-Entity Revenue, Net (Note 10)	**(30,830)**	(28,061)
Other, Net	**(715)**	(761)
Total Net Non-Entity Costs	**351,388**	380,078
Total Net Cost of Treasury Operations and Non-Entity Costs	$ **374,912**	$ 403,960

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

Consolidated Statements of Changes in Net Position
For the Fiscal Years Ended September 30, 2015 and 2014
(In Millions)

	2015	2014
CUMULATIVE RESULTS OF OPERATIONS (Note 19)		
Beginning Balance	$ **72,775**	$ 79,848
Budgetary Financing Sources		
Appropriations Used	**430,756**	460,593
Non-Exchange Revenue	**193**	568
Donations and Forfeitures of Cash/Equivalent	**4,315**	508
Transfers In/Out Without Reimbursement	**(17)**	304
Other	**(3)**	52
Other Financing Sources (Non-Exchange)		
Donation/Forfeiture of Property	**78**	140
Accrued Interest and Discount on Debt	**9,579**	7,404
Accrued Interest on Restoration of Federal Debt Principal (Note 15)	**2,052**	(801)
Transfers In/Out Without Reimbursement	**11**	(44)
Imputed Financing Sources (Note 20)	**669**	796
Transfers to the General Fund and Other (Note 19)	**(74,605)**	(72,633)
Total Financing Sources	**373,028**	396,887
Net Cost of Treasury Operations and Non-Entity Costs	**(374,912)**	(403,960)
Net Change	**(1,884)**	(7,073)
Cumulative Results of Operations	**70,891**	72,775
UNEXPENDED APPROPRIATIONS (Note 19)		
Beginning Balance	**348,612**	361,295
Budgetary Financing Sources		
Appropriations Received (Note 19)	**437,085**	470,461
Appropriations Transferred In/Out	**99**	144
Other Adjustments	**(11,817)**	(22,695)
Appropriations Used	**(430,756)**	(460,593)
Total Budgetary Financing Sources	**(5,389)**	(12,683)
Total Unexpended Appropriations	**343,223**	348,612
Net Position	$ **414,114**	$ 421,387

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

Combined Statement of Budgetary Resources
For the Fiscal Year Ended September 30, 2015
(In Millions)

	Budgetary	Non-Budgetary Financing	2015 Total
BUDGETARY RESOURCES			
Unobligated balance brought forward, October 1	$ 349,165	$ 977	$ 350,142
Recoveries of prior year unpaid obligations	6,353	6,221	12,574
Other changes in unobligated balance	(9,937)	(6,779)	(16,716)
Unobligated balance from prior year budget authority, net	345,581	419	346,000
Appropriations (discretionary and mandatory) (Note 19)	441,419	-	441,419
Borrowing authority (discretionary and mandatory) (Note 21)	-	921	921
Spending authority from offsetting collections (discretionary and mandatory)	9,624	2,072	11,696
Total Budgetary Resources	$ 796,624	$ 3,412	$ 800,036
STATUS OF BUDGETARY RESOURCES			
Obligations incurred (Note 21)	$ 465,204	$ 2,840	$ 468,044
Unobligated balance, end of year:			
Apportioned	281,286	102	281,388
Exempt from Apportionment	10,137	-	10,137
Unapportioned	39,997	470	40,467
Total unobligated balance, end of year	331,420	572	331,992
Total Status of Budgetary Resources	$ 796,624	$ 3,412	$ 800,036
CHANGE IN OBLIGATED BALANCE			
Unpaid Obligations:			
Unpaid obligations, brought forward, October 1	$ 130,754	$ 95,577	$ 226,331
Obligations incurred (Note 21)	465,204	2,840	468,044
Outlays (gross)	(451,834)	(2,025)	(453,859)
Recoveries of prior year unpaid obligations	(6,353)	(6,221)	(12,574)
Unpaid obligations, end of year	137,771	90,171	227,942
Uncollected Payments:			
Uncollected payments, Federal sources, brought forward, October 1	(227)	(512)	(739)
Change in uncollected payments, Federal sources	31	105	136
Uncollected payments, Federal sources, end of year	(196)	(407)	(603)
Obligated Balance, End of Year	$ 137,575	$ 89,764	$ 227,339
Obligated Balance, Start of Year	$ 130,527	$ 95,065	$ 225,592
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget authority, gross (discretionary and mandatory)	$ 451,043	$ 2,993	$ 454,036
Actual offsetting collections (discretionary and mandatory)	(9,655)	(4,969)	(14,624)
Change in uncollected payments, Federal sources (discretionary and mandatory)	31	105	136
Budget Authority, Net (Discretionary and Mandatory)	$ 441,419	$ (1,871)	$ 439,548
Outlays, gross (discretionary and mandatory)	$ 451,834	$ 2,025	$ 453,859
Actual offsetting collections (discretionary and mandatory)	(9,655)	(4,969)	(14,624)
Outlays, net (discretionary and mandatory)	442,179	(2,944)	439,235
Distributed offsetting receipts	(69,036)	-	(69,036)
Agency Outlays, Net (Discretionary and Mandatory)	**$ 373,143**	**$ (2,944)**	**$ 370,199**

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

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

	Budgetary	Non-Budgetary Financing	2014 Total
BUDGETARY RESOURCES			
Unobligated balance brought forward, October 1	$ 368,339	$ 2,011	$ 370,350
Recoveries of prior year unpaid obligations	3,872	5,365	9,237
Other changes in unobligated balance	(18,218)	(6,326)	(24,544)
Unobligated balance from prior year budget authority, net	353,993	1,050	355,043
Appropriations (discretionary and mandatory) (Note 19)	469,330	-	469,330
Borrowing authority (discretionary and mandatory) (Note 21)	-	1,200	1,200
Spending authority from offsetting collections (discretionary and mandatory)	8,222	7,998	16,220
Total Budgetary Resources	$ 831,545	$ 10,248	$ 841,793
STATUS OF BUDGETARY RESOURCES			
Obligations incurred (Note 21)	$ 482,380	$ 9,271	$ 491,651
Unobligated balance, end of year:			
Apportioned	273,584	603	274,187
Exempt from Apportionment	16,112	-	16,112
Unapportioned	59,469	374	59,843
Total unobligated balance, end of year	349,165	977	350,142
Total Status of Budgetary Resources	$ 831,545	$ 10,248	$ 841,793
CHANGE IN OBLIGATED BALANCE			
Unpaid Obligations:			
Unpaid obligations, brought forward, October 1	$ 132,978	$ 101,434	$ 234,412
Obligations incurred (Note 21)	482,380	9,271	491,651
Outlays (gross)	(480,732)	(9,763)	(490,495)
Recoveries of prior year unpaid obligations	(3,872)	(5,365)	(9,237)
Unpaid obligations, end of year	130,754	95,577	226,331
Uncollected Payments:			
Uncollected payments, Federal sources, brought forward, October 1	(245)	(730)	(975)
Change in uncollected payments, Federal sources	18	218	236
Uncollected payments, Federal sources, end of year	(227)	(512)	(739)
Obligated Balance, End of Year	$ 130,527	$ 95,065	$ 225,592
Obligated Balance, Start of Year	$ 132,733	$ 100,704	$ 233,437
BUDGET AUTHORITY AND OUTLAYS, NET			
Budget authority, gross (discretionary and mandatory)	$ 477,552	$ 9,198	$ 486,750
Actual offsetting collections (discretionary and mandatory)	(8,186)	(19,057)	(27,243)
Change in uncollected payments, Federal sources (discretionary and mandatory)	18	218	236
Budget Authority, Net (Discretionary and Mandatory)	$ 469,384	$ (9,641)	$ 459,743
Outlays, gross (discretionary and mandatory)	$ 480,732	$ 9,763	$ 490,495
Actual offsetting collections (discretionary and mandatory)	(8,186)	(19,057)	(27,243)
Outlays, net (discretionary and mandatory)	472,546	(9,294)	463,252
Distributed offsetting receipts	(125,584)	-	(125,584)
Agency Outlays, Net (Discretionary and Mandatory)	$ 346,962	$ (9,294)	$ 337,668

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

Statements of Custodial Activity
For the Fiscal Years Ended September 30, 2015 and 2014
(In Millions)

	2015	2014
Sources of Custodial Revenue (Note 22)		
Individual Income and FICA Taxes	$ **2,799,081**	$ 2,605,049
Corporate Income Taxes	**389,889**	353,141
Estate and Gift Taxes	**20,042**	20,155
Excise Taxes	**99,459**	93,405
Railroad Retirement Taxes	**6,432**	5,954
Unemployment Taxes	**9,108**	8,612
Deposit of Earnings, Federal Reserve System	**96,468**	99,235
Fines, Penalties, Interest and Other Revenue	**7,085**	4,512
Total Revenue Received	**3,427,564**	3,190,063
Less Refunds and Other Payments	**(403,607)**	(373,863)
Net Revenue Received	**3,023,957**	2,816,200
Non-Cash Accrual Adjustment	**1,380**	1,967
Total Custodial Revenue	**3,025,337**	2,818,167
Disposition of Custodial Revenue (Note 22)		
Amounts Provided to Fund Non-Federal Entities	**350**	312
Amounts Provided to Fund the Federal Government	**3,023,607**	2,815,888
Non-Cash Accrual Adjustment	**1,380**	1,967
Total Disposition of Custodial Revenue	**3,025,337**	2,818,167
Net Custodial Revenue	$ **-**	$ -

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

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1. Summary of Significant Accounting Policies

A. Reporting Entity

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

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

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

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

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

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

B. Basis of Accounting and Presentation

The financial statements have been prepared from the accounting records of the Department in conformity with GAAP for federal entities, and the Office of Management and Budget (OMB) Circular No. A-136, *Financial Reporting Requirements,* as revised. Accounting principles generally accepted for federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). FASAB is recognized by the American Institute of Certified Public Accountants as the official accounting standards-setting body for the U.S. government.

These financial statements consist of the Consolidated Balance Sheets, the Consolidated Statements of Net Cost, the Consolidated Statements of Changes in Net Position, the Combined Statements of Budgetary Resources, and the Statements of Custodial Activity. The statements and the related notes are prepared in a comparative form to present both fiscal years 2015 and 2014 information.

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

Transactions and balances among the Department's entities have been eliminated from the Consolidated Balance Sheets, the Consolidated Statements of Net Cost, and the Consolidated Statements of Changes in Net Position. The Statements of Budgetary Resources are presented on a combined basis; therefore, intra-departmental transactions and balances have not been eliminated from these statements.

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

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

The financial statements should be read with the realization that the Department is a component of the U.S. government, a sovereign entity and, accordingly, its liabilities not covered by budgetary resources cannot be liquidated without the legislative enactment of an appropriation, and that the payment of all liabilities other than for contracts can be abrogated by the sovereign entity. Liabilities represent the probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. Liabilities covered by budgetary resources are those liabilities for which Congress has appropriated funds or funding is otherwise available to pay amounts due. Liabilities not covered by budgetary or other resources represent amounts

owed in excess of available, congressionally appropriated funds or other amounts, and there is no certainty that the appropriations will be enacted.

Certain fiscal year 2014 activity and balances presented on the financial statements have been reclassified to conform to the presentation in the current year, the effects of which are immaterial.

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

C. Fund Balance

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

D. Loans and Interest Receivable, Intra-Governmental

Intra-governmental entity loans and interest receivable from other federal agencies represent the principal and related interest receivable on loans issued by the Department, through FFB. No loan loss allowance or credit reform subsidy costs are recorded for loans purchased from federal agencies or for guaranteed loans made to non-federal borrowers because the outstanding balances (interest and principal) are guaranteed by those agencies.

Intra-governmental non-entity loans and interest receivable from other federal agencies represent the principal and related interest receivable on loans issued by the Department, through the Fiscal Service. The Department acts as an intermediary issuing these loans because the agencies receiving these loans lend these funds to third parties to carry out various programs of the U.S. government. Because of the Department's intermediary role in issuing these loans, the Department does not record a loan loss allowance related to these non-entity intra-governmental loans. Instead, loan loss allowances and subsidy costs are recognized by the ultimate lender, the federal agency that issued the loans to the public. Interest revenue on intra-governmental loans is accrued when earned.

E. Advances to the Unemployment Trust Fund

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

F. Cash, Foreign Currency, and Other Monetary Assets

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

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

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

G. Taxes, Interest, and Other Receivables, Net

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

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

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

H. Credit Program Receivables, Net

The Department accounts for all of its 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 the Department's state and local Housing Finance Agency (HFA) initiative programs, SBLF program, CDFI programs, certain portions of the Department's participation in the IMF, and the Troubled Asset Relief Program (TARP) (refer to Note 9).

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

The primary purpose of the FCRA is to measure the cost of federal credit programs, and to place the cost of such credit programs on a basis equivalent with other federal spending. FCRA requires that the ultimate costs of a credit program be calculated and the budgetary resources be obtained before incurring the direct loan obligations. To accomplish this, the Department first predicts or

estimates the future performance of direct and guaranteed loans when preparing its annual budget. The data used for these budgetary estimates are re-estimated at the fiscal year-end to reflect changes in actual loan performance and actual interest rates in effect when the loans were issued. The re-estimated data reflect adjustments for market risks, asset performance, and other key variables and economic factors. The re-estimated data is then used to report the cost of the loans disbursed under the direct or guaranteed loan program as a "Program Cost" in the Department's Consolidated Statements of Net Cost.

Cash flows associated with the Department's credit programs generally include disbursements, repayments, repurchases, fees, recoveries, interest, dividends, proceeds from sales of instruments, borrowings from Treasury, negative subsidy, and the subsidy cost received from the program accounts. Security-level data and assumptions used as the basis for cash flow model forecasts and program performance are drawn from widely available market sources, as well as information published by investees. Key inputs 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, priority of payments, and performance of underlying collateral
- Discount rate, Market Adjusted Discount Rate (MRADR), and SDR exchange rate
- Department actions, as well as changes in legislation
- Forecast dividend payments, late payments, prepayment rates and default rates
- Expected escrow conversion and return rates
- Default and recovery reports published by Moody's and Standard and Poor's
- Other third-party market sources

The recorded subsidy cost associated with each of the Department's credit programs represents the difference between the Department's projected costs of the program and the future cash flows anticipated to be received by the Department. The subsidy allowance specifically takes into consideration projected repayments and defaults and the projected cost of borrowings. The allowance is amortized to reflect the difference between projected and actual financing costs.

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

I. INVESTMENTS

Investments in GSEs

The Department holds senior preferred stock and warrants for the purchase of common stock of two GSEs, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac). These non-federal investment holdings are presented at their fair value. Changes in the valuation of these investments are recorded as non-entity exchange transactions on the Consolidated Statements of Net Cost. Dividends related to these investments are also recorded as non-entity exchange transactions, and accrued when declared.

The GSE Senior Preferred Stock Purchase Agreements (SPSPAs), entered into by the Department with each GSE when the GSEs were placed under conservatorship, require the Department to increase its investment in the GSEs' senior preferred stock if, at the

end of any quarter, the Federal Housing Finance Agency (FHFA), acting as the conservator, determines that the liabilities of either GSE exceed its respective assets. As funding to the GSEs to pay their excess liabilities is appropriated directly to the Department, such payments, as needed, are reported as entity expenses within the Economic Program on the Consolidated Statements of Net Cost, and in the line item, "Cumulative Results of Operations", on the Consolidated Balance Sheets. These payments also result in an increase to the non-entity investment in the GSEs' senior preferred stock, with a corresponding increase in Due To the General Fund, as the Department holds the investment on behalf of the General Fund.

Investments in International Financial Institutions

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

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

Other Investments and Related Interest

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

J. Property, Plant, and Equipment, Net

General

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

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

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

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

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

Heritage Assets

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

K. Federal Debt and Interest Payable

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

L. Commitments and Contingencies

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

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

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

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

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

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

M. Special Drawing Rights

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

Allocations and Holdings

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

SDR holdings increase primarily as a result of IMF SDR allocations. SDR transactions are recorded as incurred. They include acquisitions and sales of SDRs, interest received on SDR holdings, interest charges on SDRs allocations, and valuation adjustments. The U.S. government receives remuneration in SDRs from the IMF based on claims on the IMF as represented by the U.S. Reserve Position. The remuneration is credited to the ESF which transfers to either the TGA or a specified financing account an equivalent amount of dollars plus nominal interest. The allocations and holdings are revalued monthly based on the SDR valuation rate as calculated by the IMF, resulting in the recognition of unrealized gains or losses on revaluation that are reported on the Consolidated Statements of Net Cost.

Certificates Issued to the Federal Reserve

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

N. Refunds Payable

Refunds payable arise in the normal course of tax administration when it is determined that taxpayers have paid more than the actual taxes they owe. Amounts that the Department has concluded to be valid refunds owed to taxpayers are recorded as a liability

entitled "Refunds Payable" on the Consolidated Balance Sheets, with a corresponding receivable from the General Fund included in the line entitled "Due From the General Fund."

O. Federal Employee Benefits Payable – FECA Actuarial Liability

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

P. Annual, Sick, and Other Leave

Annual and compensatory leave earned by the Department's employees, but not yet used, is reported as an accrued liability. The accrued balance is adjusted annually to reflect current pay rates. Any portion of the accrued leave for which funding is not available is recorded as an unfunded liability as reported in "Other Liabilities" on the Consolidated Balance Sheets. Sick and other leave are expensed as taken, and the Department does not record a liability for such amounts because employees do not vest in sick and other leave benefits.

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

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

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

Most employees of the Department hired prior to January 1, 1984, participate in the Civil Service Retirement System (CSRS), and employees hired between January 1, 1984 and December 31, 1986 are covered under the CSRS Offset System, to which the Department contributes 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 Public Law (P.L.) 99-335. FERS is a three-tiered retirement system consisting of a Basic Benefit Plan, Thrift Savings Plan (TSP), and Social Security Benefits. Employees hired after December 31, 1986 are automatically covered by FERS and Social Security. For the FERS Basic Benefit Plan, the Department contributes between 11.1 percent and 13.2 percent for regular employees, and between 26.5 percent and 28.8 percent for law enforcement officers. The TSP under FERS is a 401(k)-type savings plan in which the Department automatically contributes one percent of base pay and matches any employee contributions up to an additional four percent of base pay. For most employees hired after December 31, 1983, the Department also contributes the employer's matching share for Social Security.

Similar to federal retirement plans, OPM, rather than the Department, reports the assets and liability for future payments to retired employees who participate in the Federal Employees Health Benefits Program (FEHBP) and Federal Employees Group Life Insurance (FEGLI) Program. The Department reports the full cost of providing other retirement benefits (ORB). The Department also recognizes an expense and a liability for other post-employment benefits (OPEB), which includes all types of benefits, provided to former or inactive (but not retired) employees, their beneficiaries, and covered dependents. Additionally, one of the

Department's bureaus, OCC, separately sponsors a defined life insurance benefit plan for current and retired employees, and is the administrator for a private defined benefit retirement plan, the Pentegra Defined Benefit Plan (PDBP), that provides certain health and life insurance benefits for certain of its retired employees who meet eligibility requirements. The OCC also separately sponsors a 401(k) plan in addition to the TSP.

District of Columbia Federal Pensions and Judicial Retirement Plans

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

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

R. Revenue and Financing Sources

The Department's activities are financed either through exchange revenue it receives from others or through non-exchange revenue and financing sources (such as appropriations provided by the Congress and penalties, fines, and certain user fees collected). User fees primarily include collections from the public for the IRS costs to process installment agreements and accompanying photocopy and reproduction charges. Exchange revenues are recognized when earned; i.e., goods are delivered or services are rendered. Revenue from reimbursable agreements is recognized when the services are provided. Non-exchange revenues are recorded when received or accrued when the Department has a legal claim through the respective collecting bureau. Appropriations used are recognized as financing sources when related expenses are incurred or assets are purchased.

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

The Department recognizes revenue it receives from disposition of forfeited property as non-exchange revenue on the Consolidated Statements of Changes in Net Position. The costs related to the Forfeiture Fund program are reported on the Consolidated Statements of Net Cost. The Treasury Forfeiture Fund is the special fund account for depositing non-tax forfeiture proceeds received pursuant to laws enforced or administered by law enforcement bureaus that participate in the Treasury Forfeiture Fund. Forfeited property balances are reported in "Other Assets" on the Consolidated Balance Sheets.

S. Custodial Revenues

Non-entity revenue reported on the Department's Statements of Custodial Activity includes cash collected by the Department, primarily from taxes. It does not include revenue collected by other federal agencies, such as user fees and other receipts, which are remitted for general operating purposes of the U.S. government or are dedicated for certain trust funds. The Statements of

Custodial Activity are presented on the "modified accrual basis." The Department recognizes revenues as cash is collected, and records a "non-cash accrual adjustment" representing the net increase or decrease during the reporting period in net revenue-related assets and liabilities, mainly taxes receivable.

T. Appropriations and Other Budgetary Activity

Combined Statement of Budgetary Resources Activity

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

Permanent and Indefinite Appropriations

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

The Department also has two permanent and indefinite appropriations related to debt activity. One is used to pay interest on the public debt securities; the other is used to redeem securities that are matured, called, or eligible for early redemption. These accounts are not annual appropriations and do not have refunds. Debt redemption appropriations are related to the Department's liability and are reported on the Department's Consolidated Balance Sheet. Interest appropriations are recorded at the beginning of the fiscal year and again at mid-year, if necessary, and any unused authority is returned to the General Fund at the end of the fiscal year. Permanent indefinite authority for debt redemptions and related interest is available for an unlimited period of time.

The Department also has permanent and indefinite appropriations to fund increases in the projected subsidy costs of credit programs as determined by the re-estimation process required by the FCRA. The Department's renewable energy project is also covered by permanent indefinite appropriations.

Additionally, the Department has other permanent and indefinite appropriations to make certain payments on behalf of the U.S. government. These appropriations are provided to make payments to the FRB for fiscal services provided, and to the financial institutions for services provided as financial agents of the U.S. government. They also include appropriations provided to make other disbursements on behalf of the U.S. government, including payments made to various parties as a result of certain claims and judgments rendered against the United States.

U. Income Taxes

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

V. Use of Estimates

The Department has made certain estimates and assumptions relating to the reporting of assets, liabilities, revenues, expenses, and the disclosure of contingent liabilities to prepare its financial statements. Actual results may differ from these estimates. It is possible that the results of operations, cash flows and/or the financial position of the Department may be materially affected in future periods by adverse changes in the outlook for the key assumptions underlying management's estimates. Transactions subject to estimates principally include loan and credit program receivables, credit reform subsidy costs, investments in GSEs and other non-federal securities and related impairment, tax receivables, loan guarantees, depreciation, imputed costs, actuarial

liabilities, cost and earned revenue allocations, as well as contingencies and any related recognized liabilities. The following is a discussion of certain significant transactions subject to estimation.

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

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

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

The annual valuation performed as of September 30 on the preferred stock and warrants comprising the Investments in "Government Sponsored Enterprises" line item on the Consolidated Balance Sheets incorporates various forecasts, projections and cash flow analyses to develop an estimate of the asset's fair value. The primary input into the investment valuation for the senior preferred stock is the present value of the projected quarterly dividend payments, and a key input for the warrants is the market value of the shares of common stock of the GSEs which are traded on the over-the-counter (OTC) Bulletin Board. The Department evaluates the need for adjusting its OTC market-based valuation of the warrants for the effects, if any, of significant events occurring after the close of the market but before the end of the measurement date. Any changes in valuation, including impairment, are recorded and disclosed in accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources*. Since the valuation is an annual process, the change in valuation of the preferred stock and warrants are deemed usual and recurring. Note 10 includes a detailed discussion of the results of the asset valuation and estimated liability assessment.

Estimation of such complex and long-duration receivables, investments, and contingencies is subject to uncertainty. It is possible that new developments will adversely impact the value of receivables, investments, and contingencies, as well as ultimate amounts required to be funded by the Department. Except as expressly noted herein, the Department has not revalued or included in its estimates as of September 30, 2015 the effects of any new developments that may have occurred subsequent to September 30, 2015. Refer to the accounting policy Note 1Q above and Note 8 for additional discussion related to the estimation of actuarial liabilities and tax receivables, respectively.

W. Other-Than-Temporary Impairments

A decline in the market value (either due to credit, price or currency) of any investment below cost that is deemed to be other-than-temporary is accounted for as an impairment, and the carrying value is reduced to fair value for financial reporting purposes. To

determine whether an impairment is other-than-temporary, the Department considers whether it has the ability and intent to hold the investment until a market price recovery, and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary.

X. Credit, Market and Foreign Currency Risk

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

The Department's activities generally focus on the underlying problems in the credit markets. These programs were developed 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 the Department to potential costs and losses. Additional risk of costs and losses could result from terrorist attacks under the Terrorism Risk Insurance Program. The extent of the risk assumed by the Department is described in more detail in the notes to the financial statements and, where applicable, is factored into credit reform models and reflected in fair value measurements (refer to Notes 9, 10, and 26).

For *Emergency Economic Stabilization Act* (EESA) programs, the statute requires that budgetary costs of the troubled assets and guarantees of troubled assets be calculated by adjusting the discount rate for market risks. The Department's cost estimates for the TARP programs are adjusted based on a MRADR to reflect the additional return required by the market to compensate for variability around the expected losses reflected in the cash flows. Under SFFAS No. 2, including market risk in the cash flow estimates is consistent with the type of assets being valued. The inclusion of the MRADR is the mechanism for deriving a fair value of the assets. As directed by Congress, a MRADR is also used in the credit reform model for certain portions of the Department's participation in the IMF.

The Department faces certain risks and uncertainties as a result of holding securities denominated in foreign currency. The price of holdings of such securities may widely fluctuate as a result of volatility in foreign currency markets and changes in real and perceived credit risk of the Department's counterparties.

Y. Funds from Dedicated Collections

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

non-federal sources, such funding is predominantly non-federal, or the non-federal funding is material to the Department's financial statements.

Z. Allocation Transfers

The Department is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent. Parent federal agencies report both the proprietary and budgetary activity and the child agency does not report any financial activity related to budget authority allocated from the parent federal agency to the child federal agency. However, OMB guidance requires the child to report the activity when the Department receives allocation transfers, as the child, from the Executive Office of the President (See Circular No.A-136, II.4.2, question 5 for three exceptions).

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

AA. Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment, and disposition by the U.S. government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the U.S. government must uphold. Fiduciary cash and other assets are not assets of the U.S. government. These activities are not reported in the Department's consolidated financial statements, but instead are reported in Note 25.

AB. Related Parties and Other Entities

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

Federal Reserve System

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

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

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

- The FRBs serve as the Department's fiscal agent and depositary, executing banking and other financial transactions on the Department's behalf. The Department reimburses the FRBs for these services, the cost of which is included on the Consolidated Statements of Net Costs.
- The FRBs hold Treasury and other federal securities in the FRBs' System Open Market Account (SOMA) for the purpose of conducting monetary policy (refer to Note 15).
- The FRBs hold gold certificates issued by the Department in which the certificates are collateralized by gold (refer to Note 6).
- The FRBs hold SDR certificates issued by the Department which are collateralized by SDRs (refer to Notes 5 and 7).
- The FRBs are required by Board policy to transfer their excess earnings to the Department on behalf of the U.S. government (refer to Notes 8 and 22).

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

Federal Reserve System Structure

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

The FOMC is comprised of the seven Board members and five of the 12 FRB presidents, and is charged with formulating and conducting monetary policy primarily through open market operations (the purchase and sale of certain securities in the open market), the principal tool of national monetary policy. These operations affect the amount of reserve balances available to depository institutions, thereby influencing overall monetary and credit conditions. The 12 FRBs are chartered under the Federal Reserve Act, which requires each member bank to own the capital stock of its FRB. Supervision and control of each FRB is exercised by a board of directors, of which three are appointed by the Board of Governors of the FR System, and six are elected by their member banks.

The FRBs participate in formulating and conducting monetary policy, distribute currency and coin, and serve as fiscal agents for the Department, other federal agencies and fiscal principals. Additionally, the FRBs provide short-term loans to depository institutions and loans to participants in programs or facilities with broad-based eligibility in unusual and crucial circumstances when approved by the Board.

Federal Reserve System Assets and Liabilities

The FRBs hold Treasury and other securities in the SOMA for the purpose of conducting monetary policy. Treasury securities held by the FRBs totaled $1.8 trillion and $1.9 trillion at September 30, 2015 and 2014, respectively (refer to Note 15). These assets are generally subject to the same market (principally interest-rate) and credit risks as other financial instruments. In the open market, the FR System purchases and sells Treasury securities as a mechanism for controlling the money supply.

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

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

FRB Residual Earnings Transferred to the Department

FRBs generate income from interest earned on securities, reimbursable services provided to federal agencies, and the provision of priced services to depository institutions as specified by the *Monetary Control Act of 1980*. Although the FRBs generate earnings from carrying out open market operations, via the earnings on securities held in the SOMA account, their execution of these operations is for the purpose of accomplishing monetary policy rather than generating earnings. Each FRB is required by Board policy to transfer to the Department its residual (or excess) earnings after providing for the cost of operations, payment of dividends, and reservation of an amount necessary to equate surplus with paid-in capital. These residual earnings may vary due to, among other things, changes in the SOMA balance levels that may occur in conducting monetary policy. In the event of losses, or a substantial increase in capital, an FRB will suspend its payments to the U.S. Treasury until such losses or increases in capital are recovered through subsequent earnings. The FRB residual earnings of $96.5 billion and $99.2 billion for fiscal years ended September 30, 2015 and 2014, respectively, are reported as custodial revenues on the Department's Statements of Custodial Activity. They constituted 2.8 percent and 3.1 percent of the Department's total custodial revenues collected in fiscal years 2015 and 2014, respectively. "Taxes, Interest and Other Receivables, Net" includes a receivable for FRB's residual earnings which represents the earnings due to the U.S. Treasury as of September 30, but not collected by the U.S. Treasury until after the end of the month (refer to Note 8).

2. FUND BALANCE

As of September 30, 2015 and 2014, Fund Balance consisted of the following (in millions):

		2015		2014
Appropriated Funds	$	**344,691**	$	347,180
Revolving Funds		**6,269**		4,225
Special Funds		**686**		754
Clearing Funds		**511**		446
Deposit Funds		**80**		74
Other Funds (principally Receipt, Suspense, and Trust Funds)		**289**		249
Total Fund Balance	$	**352,526**	$	352,928

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

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

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

STATUS OF FUND BALANCE

As of September 30, 2015 and 2014, the status of the fund balance consisted of the following (in millions):

		2015		2014
Unobligated Balance - Available	$	**291,525**	$	290,299
Unobligated Balance - Not Available		**40,467**		59,843
Unpaid Obligations		**227,339**		225,592
Subtotal		**559,331**		575,734
Adjustment for Borrowing Authority		**(93,963)**		(99,248)
Adjustment for ESF		**(91,066)**		(98,071)
Adjustment for IMF		**(14,809)**		(22,931)
Adjustment for Intra-Treasury Investments		**(13,075)**		(8,086)
Adjustment for Authority Unavailable for Obligations		**3,872**		3,786
Other Adjustments		**2,236**		1,744
Total Status of Fund Balance	$	**352,526**	$	352,928

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

Since the following line items do not post to budgetary status accounts, the following adjustments are required to reconcile the budgetary status to the non-budgetary Fund Balance as reported on the Consolidated Balance Sheets:

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

As of September 30, 2015 and 2014, the Department had no budgetary authority in the Fund Balance that was specifically withheld from apportionment by the OMB. The balances in non-entity funds, such as certain deposit funds (e.g., seized cash), are being held by the Department for the public or for another federal entity, such as the General Fund. Such funds have an offsetting liability equal to the Fund Balance. Refer to Note 7 regarding restrictions related to the line of credit held on the U.S. quota in the IMF.

3. LOANS AND INTEREST RECEIVABLE – INTRA-GOVERNMENTAL

ENTITY INTRA-GOVERNMENTAL

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

FFB also uses its statutory authority to finance direct or indirect federally guaranteed obligations which, as a matter of long-standing Federal credit policy, is the least expensive and most efficient method of financing these credit-risk obligations when compared to private sector 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 the FFB.

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

As of September 30, 2015 and 2014, entity intra-governmental loans (issued by the FFB) and interest receivable consisted of the following (in millions):

	Loans Receivable	**Interest Receivable**	**2015 Total**	Loans Receivable	Interest Receivable	2014 Total
Department of Agriculture	**$ 41,675**	**$ 26**	**$ 41,701**	$ 42,725	$ 23	$ 42,748
Department of Energy	**15,746**	**70**	**15,816**	14,770	60	14,830
United States Postal Service(1)	**15,000**	**52**	**15,052**	15,000	47	15,047
Department of Education	**1,393**	**11**	**1,404**	1,267	10	1,277
Other Agencies	**107**	**-**	**107**	5	-	5
Total Entity Intra-governmental	**$ 73,921**	**$ 159**	**$ 74,080**	$ 73,767	$ 140	$ 73,907

(1) The United States Postal Service (USPS) experienced an operating deficit in both fiscal years 2015 and 2014. The Department, Congress, and other stakeholders are aware of the current and long-term financial issues of the USPS. Congress is considering legislative solutions for returning the USPS to financial stability.

NON-ENTITY INTRA-GOVERNMENTAL

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

As of September 30, 2015 and 2014, non-entity intra-governmental loans (issued by the Fiscal Service) and interest receivable that were due to the General Fund consisted of the following (in millions):

		Loans Receivable	**Interest Receivable**	**2015 Total**	Loans Receivable	Interest Receivable	2014 Total
Department of Education	**$**	**1,050,373**	**$ - $**	**1,050,373**	$ 965,394	$ -	$ 965,394
Department of Agriculture		**69,894**	**3**	**69,897**	68,718	2	68,720
Department of Housing & Urban Development		**27,048**	**-**	**27,048**	27,661	-	27,661
Department of Homeland Security		**23,020**	**-**	**23,020**	24,081	-	24,081
Export Import Bank of the U.S.		**22,725**	**-**	**22,725**	21,634	-	21,634
Department of Transportation		**8,972**	**-**	**8,972**	8,185	-	8,185
Small Business Administration		**7,175**	**-**	**7,175**	7,756	-	7,756
Department of Labor		**5,687**	**-**	**5,687**	5,872	-	5,872
Department of Energy		**4,961**	**26**	**4,987**	4,452	25	4,477
Railroad Retirement Board		**3,498**	**39**	**3,537**	3,532	41	3,573
National Credit Union Administration		**2,300**	**2**	**2,302**	2,600	1	2,601
Overseas Private Investment Corporation		**2,157**	**-**	**2,157**	2,807	-	2,807
Department of Defense		**1,509**	**-**	**1,509**	1,392	-	1,392
Department of Health and Human Services		**1,305**	**-**	**1,305**	894	-	894
Other Agencies		**1,822**	**-**	**1,822**	2,645	-	2,645
Total Non-Entity Intra-governmental	**$**	**1,232,446**	**$ 70**	**$ 1,232,516**	$ 1,147,623	$ 69	$ 1,147,692
Total Intra-governmental Loans and Interest Receivable (Entity and Non-Entity)	**$**	**1,306,367**	**$ 229**	**$ 1,306,596**	$ 1,221,390	$ 209	$ 1,221,599

4. DUE FROM THE GENERAL FUND AND DUE TO THE GENERAL FUND

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

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

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

As of September 30, 2015 and 2014, the General Fund liabilities owed by the Department exceeded the assets held on behalf of the General Fund by $17.0 trillion and $16.4 trillion, respectively. This represents the amount needed by the U.S. government, through a combination of future tax collections and/or continued borrowing from the public and federal agencies to meet its obligations.

As of September 30, 2015 and 2014, Due From the General Fund included the following non-entity liabilities (in millions):

Liabilities Requiring Funding from the General Fund	**2015**	2014
Federal Debt and Interest Payable - Held by the Public (Note 15)	**$ 13,148,200**	$ 12,809,423
Federal Debt and Interest Payable - Intra-governmental (Note 15)	**5,096,265**	5,104,620
Liability for Restoration of Federal Debt Principal and Interest - Due to the Public (Note 15)	**204,591**	-
Liability for Restoration of Federal Debt Principal and Interest - Intra-governmental (Note 15)	**146,066**	-
Refunds Payable (Note 22)	**3,039**	4,723
Adjustment for Eliminated Liabilities	**34,092**	31,083
Total Due From the General Fund	**$ 18,632,253**	$ 17,949,849

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

As of September 30, 2015 and 2014, Due To the General Fund included the following non-entity assets (in millions):

Assets to be Distributed to the General Fund		**2015**		2014
Fund Balance	**$**	**589**	$	540
Loans and Interest Receivable - Intra-governmental (Note 3)		**1,232,516**		1,147,692
Advances to the Unemployment Trust Fund		**12,840**		20,824
Cash Due to the General Fund (Held by the Department) (Note 5)		**193,449**		153,532
Accounts Receivable - Intra-governmental		**390**		500
Foreign Currency		**85**		49
Custodial Gold without certificates and Silver held by the U.S. Mint		**25**		25
Taxes and Other Non-Entity Receivables Due to General Fund		**41,992**		42,295
Credit Reform Downward Subsidy Re-estimates		**288**		1,490
Loans and Interest Receivable		**21**		71
Investments in Government Sponsored Enterprises (Note 10)		**106,270**		95,810
Adjustment for Eliminated Assets		**75,490**		77,123
Total Due To the General Fund	**$**	**1,663,955**	$	1,539,951

The assets to be distributed to the General Fund do not represent all of the non-entity assets managed by the Department. Refer to Note 14 for all non-entity assets held by the Department.

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

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

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

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

5. CASH, FOREIGN CURRENCY, AND OTHER MONETARY ASSETS

Cash, Foreign Currency, and Other Monetary Assets held as of September 30, 2015 and 2014 were as follows (in millions):

		2015		2014
Entity:				
Cash	$	**40**	$	84
Foreign Currency and Foreign Currency Denominated Assets		**8,310**		4,438
Other Monetary Assets:				
Special Drawing Right Holdings		**50,336**		53,154
U.S. Dollars Held in Cash by the IMF		**149**		140
Total Entity		**58,835**		57,816
Non-Entity:				
Operating Cash of the U.S. government		**193,325**		153,202
Foreign Currency		**85**		49
Miscellaneous Cash Held by All Treasury Reporting Entities		**891**		801
Total Non-Entity		**194,301**		154,052
Total Cash, Foreign Currency, and Other Monetary Assets	$	**253,136**	$	211,868

Non-entity operating and other miscellaneous cash due to the General Fund which was held by the Department consisted of the following as of September 30, 2015 and 2014(in millions):

		2015		2014
Operating Cash - FRB Account	$	**198,716**	$	158,302
Outstanding Checks		**(5,391)**		(5,100)
Total Operating Cash of the U.S. government		**193,325**		153,202
Miscellaneous Cash		**133**		413
Subtotal		**193,458**		153,615
Amounts Due to the Public		**(9)**		(83)
Total Cash Due to the General Fund (Note 4)	$	**193,449**	$	153,532

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, 2015 and 2014 using current exchange rates plus accrued interest.

Foreign Currency Denominated Assets

FCDA holdings are normally invested in interest-bearing securities issued by or held through foreign governments or monetary authorities. FCDAs with original maturities of three months or less were valued at $8.3 billion and $4.4 billion as of September 30, 2015 and 2014, respectively.

Special Drawing Rights

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

September 30, 2015 and 2014. The certificates were issued to finance the ESF's acquisition of SDRs from other countries or to provide U.S. dollar resources for financing other ESF operations.

On a daily basis, the IMF calculates the value of the SDR using the market value in terms of the U.S. dollar from weighted amounts of each of four freely usable currencies, as defined by the IMF. These currencies are the U.S. dollar, the European euro, the Japanese yen, and the British pound sterling. The U.S. SDR holdings (assets resulting from various SDR-related activities including remuneration on the U.S. reserve position) and allocations from the IMF (liabilities of the United States coming due only in the event of a liquidation of, or the United States' withdrawal from, the SDR department of the IMF, or cancellation of SDRs) are revalued monthly based on the SDR valuation rate calculated by the IMF.

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

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

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

As of September 30, 2015 and 2014, the total amount of SDR holdings of the United States was the equivalent of $50.3 billion and $53.2 billion, respectively. As of September 30, 2015 and 2014, the total value of SDR allocations to the United States was the equivalent of $49.6 billion and $52.4 billion, respectively.

NON-ENTITY

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

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

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

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

The gold and silver bullion reserve (deep storage and working stock) are reported on the consolidated financial statements at the values stated in 31 USC § 5116 – 5117 (statutory rates) which are $ 42.2222 per FTO of gold and no less than $1.292929292 per FTO of silver. Accordingly, the silver is valued at $1.292929292 per FTO. The market values of the gold and silver reserves disclosed below are based on the London Gold Fixing. As of September 30, 2015 and 2014, the values of gold and silver reserves consisted of the following:

	FTOs	**Statutory Rate**	**2015 Statutory Carrying Value (in millions)**	**Market Rate Per FTO**	**2015 Market Value (in millions)**
Gold	**248,046,116**	**$ 42.2222**	**$ 10,473**	**$ 1,114.00**	**$ 276,323**
Gold Held by Federal Reserve Banks	**13,452,811**	**$ 42.2222**	**568**	**$ 1,114.00**	**14,987**
Total Gold	**261,498,927**		**11,041**		**291,310**
Silver	**16,000,000**	**$ 1.2929**	**21**	**$ 14.65**	**234**
Total Gold and Silver Reserves			**$ 11,062**		**$ 291,544**

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

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

The United States participates in the IMF through a quota subscription and certain borrowing arrangements that supplement IMF resources. The *Supplemental Appropriations Act of 2009* (P.L. 111-32) provided for an increase of approximately SDR 5.0 billion (approximately $8.0 billion) in the U.S. quota in the IMF, as well as an increase in the United States' participation in the New Arrangements to Borrow (NAB) up to the dollar equivalent of SDR 75 billion. The increases in the U.S. quota and NAB arrangement became effective in fiscal year 2011. Unlike all prior U.S. funding for the IMF, P.L. 111-32 subjects the increases in both the U.S. quota and the NAB to the requirements of FCRA. All U.S. quota and NAB funding prior to P.L. 111-32, referred to as "non-FCRA funds," do not result in net budgetary outlays. All such funding provided pursuant to P.L. 111-32, referred to as "FCRA funds," is accounted for in accordance with credit reform accounting guidelines (refer to Note 9). A credit program receivable is established for FCRA fund amounts disbursed. Additionally, FCRA fund amounts disbursed do not result in net budgetary outlays, except for subsidy costs of the programs which constitute the excess of program disbursements over the net present value of expected future repayments.

Reserve Position in the International Monetary Fund

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

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

The U.S. quota is denominated in SDRs. As of September 30, 2015 and 2014, the U.S. quota in the IMF was SDR 42.1 billion. The equivalent U.S. dollar value of the U.S. quota consisted of the following (in millions):

	Non-FCRA	**FCRA**	**Total 2015**	Non-FCRA	FCRA	Total 2014
Letter of Credit (1)	**$ 43,980**	**$ 5,786**	**$ 49,766**	$ 42,243	$ 5,514	$ 47,757
Reserve Position (2)	**8,168**	**1,195**	**9,363**	12,834	1,859	14,693
Total U.S. Quota in the IMF	**$ 52,148**	**$ 6,981**	**$ 59,129**	$ 55,077	$ 7,373	$ 62,450

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

(2) The Reserve Position amounts shown in the non-FCRA columns are included in "Reserve Position in the IMF" as reported on the Consolidated Balance Sheets, while amounts shown in the FCRA columns are included in "Credit Program Receivables, Net" as reported on the Consolidated Balance Sheets. The FCRA amount shown represents the outstanding disbursement under P.L. 111-32 at the current exchange rate (refer to Note 9).

Fluctuations in the value of the U.S. dollar with respect to the SDR result in valuation changes in dollar terms for the U.S. quota. The Department periodically adjusts this balance to maintain the SDR value of the U.S. quota. As of September 30, 2015 and 2014, the U.S. quota reflects a net downward adjustment in value of $3.3 billion and $2.2 billion, respectively, due to the appreciation of the U.S. dollar against the SDR.

LOANS AND INTEREST RECEIVABLE

In addition to quota subscriptions, the IMF maintains borrowing arrangements to supplement its resources in order to forestall or cope with an impairment of the international monetary system when IMF liquidity is low. The United States currently participates in two such arrangements – the NAB and the General Arrangements to Borrow (GAB). In accordance with P.L. 111-32 which provided for an increase in the United States' participation in the NAB of up to the dollar equivalent of SDR 75 billion, the United States increased its NAB participation from SDR 6.6 billion to SDR 69.1 billion, which was equivalent to $97.0 billion and $102.4 billion as of September 30, 2015 and 2014, respectively. As of September 30, 2015 and 2014, under the U.S. NAB arrangement with the IMF, there was $5.5 billion and $9.4 billion of U.S. non-FCRA loans outstanding, net of $439 million and $413 million of allowance for loan loss, respectively, and $4.0 billion and $4.2 billion of U.S. FCRA loans (refer to Note 9) outstanding under the NAB arrangement, respectively. These amounts are liquid and interest-bearing claims on the IMF, and the non-FCRA portions are reported as Loans and Interest Receivable, Net on the Consolidated Balance Sheets, while the FCRA portions are reported as Credit Program Receivables, Net on the Consolidated Balance Sheets. As of September 30, 2015 and 2014, the IMF had not utilized the GAB.

8. TAXES, INTEREST, AND OTHER RECEIVABLES, NET

As of September 30, 2015 and 2014, Taxes, Interest, and Other Receivables, Net consisted of the following (in millions):

		2015		2014
Non-Entity				
Federal Taxes Receivable, Gross	**$**	**171,159**	$	156,158
Less: Allowance on Taxes Receivable		**(130,141)**		(116,143)
Interest Receivable on FRB Deposits of Earnings		**264**		1,681
Other Receivables		**821**		687
Less: Allowance on Other Receivables		**(103)**		(78)
Total Non-Entity (Note 14)		**42,000**		42,305
Entity				
Miscellaneous Entity Receivables and Related Interest		**34**		204
Total Taxes, Interest, and Other Receivables, Net	**$**	**42,034**	$	42,509

Federal taxes receivable constitutes the largest portion of these receivables, with IRS-related taxes receivable representing the majority of the balance. IRS federal taxes receivable consists of tax assessments, penalties, and interest which were not paid or abated, and which were agreed to by either the taxpayer and IRS, or the courts. Federal taxes receivable is reduced by an allowance for doubtful accounts which is established to represent an estimate for uncollectible amounts. The portion of taxes receivable estimated to be collectible and the allowance for doubtful accounts is 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. The Department does not establish an allowance for the receivable on deposits of FRB earnings.

9. CREDIT PROGRAM RECEIVABLES, NET

The Department administers 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, 2015 and 2014, Credit Program Receivables, Net consisted of the following (in millions):

		2015		2014
State and Local Housing Finance Agency Program (GSE sponsored)	**$**	**6,919**	$	7,617
Small Business Lending Fund Program		**2,395**		3,150
International Monetary Fund Programs:				
U.S. Quota in the IMF Program (FCRA portion)		**1,163**		1,836
New Arrangements to Borrow Program (FCRA portion)		**4,005**		4,237
Troubled Asset Relief Program		**482**		2,174
Other		**181**		88
Total	**$**	**15,145**	$	19,102

STATE AND LOCAL HOUSING FINANCE AGENCY (HFA) PROGRAM (GSE SPONSORED)

Under the Housing and Economic Recovery Act (HERA), the Department, together with the FHFA, Fannie Mae, and Freddie Mac, created a program in October 2009 to provide support to HFAs. This program was designed to support low mortgage rates and expand resources for low- and middle- income borrowers to purchase or rent homes, making them more affordable over the long term. The HFA Program is comprised of: *(i)* the New Issue Bond Program (NIBP) and *(ii)* the Temporary Credit and Liquidity Program (TCLP) which ended in fiscal year 2015. As of September 30, 2015 and 2014, the HFA net credit program receivable of $6.9 billion and $7.6 billion, respectively, included a positive subsidy allowance of $865 million and $1.1 billion, respectively, which reflects the Department's projection that the HFA program will result in a net cost to the Department after accounting for repayments, interest, and fees.

Under the terms of the NIBP, the Department purchased securities of Fannie Mae and Freddie Mac backed by new mortgage revenue bonds issued by HFAs. As of September 30, 2015 and 2014, the NIBP gross credit program receivable was $7.8 billion and $8.7 billion, respectively. The Department performed a financial statement re-estimate of the NIBP program's cost as of September 30, 2015 and 2014. These re-estimates resulted in a downward re-estimate, or a decrease in the cost of the program, of $17 million as of September 30, 2015, and an upward re-estimate, or an increase in the cost of the program, of $175 million as of September 30, 2014. The downward re-estimate in fiscal year 2015 was primarily driven by higher than estimated principal collections, and a slightly higher prepayment curve used in the projection of future years' cash flows as a result of improved economic conditions. The upward re-estimate in fiscal year 2014 was primarily driven by lower forecasted prepayment rates that increased the cost of the program since HFA bonds carry a lower weighted average coupon than the funding cost of the program.

Under the terms of the TCLP, the Department purchased participation certificates issued by Fannie Mae and Freddie Mac, representing participating interests in credit and liquidity facilities that the GSEs provided to certain HFAs as part of the program. Fannie Mae and Freddie Mac provided replacement credit and liquidity facilities to HFAs to help reduce the costs of maintaining existing financing and relieve financial strains on the HFAs. As of September 30, 2014, the credit and liquidity facilities covered $851 million of single-family and multi-family variable-rate demand obligations. The Department agreed to support the GSE replacement credit and liquidity facilities by purchasing from the GSEs interests in certain HFA bonds in the event such bonds were tendered to the GSEs. During the course of the program, the participating HFAs replaced the credit and liquidity facilities provided by the GSEs with alternate facilities provided by private sector banks. In July 2015, the last participating HFA received alternative liquidity facilities from private sector banks, resulting in the closure of the TCLP. From inception through the closure of

the program, none of the HFA bonds had been tendered to the GSEs and, accordingly, the Department had not disbursed any funds. As such, the Department did not perform September 30, 2015 or 2014 subsidy re-estimates for TCLP.

SMALL BUSINESS LENDING FUND PROGRAM

The *Small Business Jobs Act of 2010* (P.L. 111-240) created the SBLF program. Pursuant to the Act, the Department provided capital to qualified community banks, for purposes of encouraging bank lending to small businesses, by purchasing qualifying non-cumulative preferred stock or equivalents in each bank. As an incentive to participating banks to increase lending to small businesses, the dividend rate a bank paid to the Department for SBLF funding was reduced as the bank's small business lending increased. For most banks, the initial dividend rate of 5.0 percent could be reduced to as low as 1.0 percent. The rates were then locked in for all participants based on third quarter 2013 lending. The program provides an incentive for banks to repay loans within 4 ½ years. For institutions that did not increase lending by the end of the first two years of the program, the rate increased to 7.0 percent in March 2014. For those institutions that did increase lending, the rate will increase to 9.0 percent and 13.8 percent for C Corporation and S Corporation banks, respectively, remaining in the program, effective March 2016. The Department treats these purchases of capital as direct loans in accordance with the requirements of FCRA. The Department's authority to provide new capital to SBLF participants expired in September 2011 and, accordingly, there were no new capital disbursements since that date. As of September 30, 2015 and 2014, SBLF's net credit program receivable was $2.4 billion and $3.2 billion, respectively. These amounts include a negative subsidy allowance of $32 million, and a positive subsidy allowance of $36 million at September 30, 2015 and 2014, respectively, which reflects the Department's projection that the SBLF program will result in net income to the Department in fiscal year 2015, and a net cost to the Department in fiscal year 2014.

The Department performed financial statement re-estimates of the program's cost as of September 30, 2015 and 2014 which resulted in a downward re-estimate, or a decrease in the cost of the program of $42 million, and an upward re-estimate, or an increase in the cost of the program, of $24 million, respectively. Both the 2015 and 2014 downward and upward re-estimates were driven by changes in performance assumptions, actual performance to-date, and actual program funding costs. The 2015 performance assumptions anticipate overall income to the program due to the repurchase of SBLF securities by participating institutions earlier than anticipated, and lower projected defaults relative to previous estimates. The 2014 performance assumptions anticipated an overall cost to the program due to lower dividend rates, both actual and projected, paid by participating institutions relative to previously projected dividend rates.

INTERNATIONAL MONETARY FUND PROGRAMS

The *Supplemental Appropriations Act of 2009* authorized an increase in the U.S. quota in the IMF, as well as an increase in U.S. participation in the NAB, one of the IMF's supplemental borrowing arrangements (refer to Note 7). The legislation applied FCRA to both program increases and, thus, the program increases are treated as direct loans to the IMF. For U.S. budget and accounting purposes, there are effectively two portions of the IMF quota and NAB programs. As of September 30, 2015 and 2014, the U.S. quota in the IMF totaled $59.1 billion and $62.5 billion, respectively, and comprised a FCRA and non-FCRA portion of $7.0 billion and $52.1 billion, respectively, at September 30, 2015, and $7.4 billion and $55.1 billion, respectively, at September 30, 2014. As of September 30, 2015 and 2014, the U.S. NAB arrangement with the IMF totaled $97.0 billion and $102.4 billion, respectively, and comprised a FCRA and non-FCRA portion of $87.6 billion and $9.4 billion, respectively, at September 30, 2015, and $92.6 billion and $9.8 billion, respectively, at September 30, 2014. These designations only affect the manner in which the Department accounts for the use and repayment of these funds. The U.S. commitments to the IMF are denominated in SDRs and, thus, the dollar amounts of these commitments fluctuate with the SDR valuation rate. The following is a discussion of the FCRA portions of both the U.S. quota and NAB programs.

United States Quota in the IMF Program

At September 30, 2015 and 2014, the Department reported a net credit program receivable of $1.2 billion and $1.8 billion, respectively, representing amounts disbursed under the FCRA portion of the U.S. quota's reserve position, net of a positive subsidy allowance of $181 million and $159 million, respectively. This positive subsidy reflects the Department's projection that the program will result in a net cost to the Department after accounting for repayments and net interest. During fiscal year 2015, the Department had repayments of $651 million, resulting in net proceeds less than cost of $74 million. The Department reported the remaining undisbursed FCRA portion of the U.S. quota totaling $5.8 billion and $5.5 billion at September 30, 2015 and 2014, respectively, as a letter of credit (refer to Note 7). The Department performed financial statement re-estimates of the program's cost as of September 30, 2015 and 2014. The re-estimates resulted in an increase in program costs (or an upward re-estimate) of $92 million and $59 million for fiscal years 2015 and 2014, respectively, primarily due to a fluctuation in the valuation of the SDR rate since the calculation of the prior fiscal year's re-estimate.

New Arrangements To Borrow Program

FCRA disbursements outstanding under the NAB for fiscal years ended 2015 and 2014 totaled a net credit program receivable of $4.0 billion and $4.2 billion, respectively. The program had a positive subsidy allowance of $366 million and $134 million as of September 30, 2015 and 2014, respectively.

The Department performed a financial statement re-estimate of the program's cost as of September 30, 2015 and 2014. These re-estimates resulted in an increase in the projected cost of the program (or an upward re-estimate) of $232 million and $145 million as of September 30, 2015 and 2014, respectively. The re-estimates are primarily driven by the fluctuation in the valuation of the SDR rate since the prior year's re-estimate.

TROUBLED ASSET RELIEF PROGRAM

Through TARP, the Department made direct loans and equity investments, and entered into other credit programs. TARP's authority to make new commitments to purchase or guarantee troubled assets expired in October 2010. Since then, the Department has wound down substantially all of the various programs under TARP through recoveries of investments in the form of repayments, sales, dividends, interest, and other income. During 2015 and 2014, the Department sold its remaining equity investments held in support of the Automotive Industry Financing Program. As of September 30, 2015, TARP held investments in support of two remaining programs: the Capital Purchase Program (CPP) and the Community Development Capital Initiative (CDCI) program. The following discussion focuses on significant transactions that occurred for the programs administered by TARP during fiscal years 2015 and 2014.

The Department invested a total of $16.3 billion in Ally Financial, Inc. (Ally) (formerly known as GMAC Inc.) between December 2008 and December 2009 to help support Ally's ability to originate new loans to automotive dealers and consumers, and to help address GMAC's capital needs. As a result of exchanges, conversions, warrant exercises, and sales since the Department's initial investment, the Department's remaining investment held in Ally as of September 30, 2013 consisted of 981,971 (pre-split) shares of Ally common stock (or 304.4 million common shares after considering a 310-for-1 Ally common stock split in April 2014), along with 119 million shares of Ally Series F-2 Mandatorily Convertible Preferred Securities. Between fiscal years 2015 and 2014, the Department sold all of the Ally common stock and Series F-2 preferred stock held. During fiscal year 2014, the Department sold 410,000 (pre-split) shares and 113 million (post-split) shares (or an aggregate equivalent of 240.1 million post-split shares) of Ally common stock for a total of $5.8 billion in cash proceeds, resulting in net proceeds less than cost of $1.4 billion. In fiscal year 2014, Ally also repurchased all of the Series F-2 preferred stock from the Department for $5.2 billion, and the Department received an additional $725 million for the elimination of certain rights under an original agreement, resulting in net proceeds in excess of cost of $300 million. During fiscal year 2015, the Department sold the remaining 64.1 million (post-split) shares of Ally common stock

held for $1.5 billion, resulting in net proceeds less than cost of $290 million. The fair value of the remaining 64.1 million (post-split) shares of Ally common stock held by the Department at September 30, 2014 was $1.5 billion, based on the New York Stock Exchange quoted market price.

In fiscal year 2009, the Department invested a total of $51.0 billion in General Motors Company (GM) (formerly known as General Motors Corporation). Through various sales and restructurings of its investment, the Department's remaining investment held in GM as of September 30, 2013 consisted of 101 million shares of GM common stock which were sold in fiscal year 2014 for $3.8 billion, resulting in net proceeds less than cost of $639 million.

TARP implemented the CPP in fiscal year 2009 to help stabilize the financial system by providing capital to certain viable U.S. financial institutions. The CPP was designed to increase the capacity of those institutions to lend to businesses and consumers and support the economy. Under this program, the Department invested a total of $204.9 billion in senior perpetual preferred stock, subordinated debentures, and common stock warrants, with a ten-year term, from qualifying U.S. controlled banks, savings associations, and certain bank and savings and loan holding companies. As a result of repayments and sales since this program's implementation, the Department had remaining CPP investments valued at $99 million and $281 million as of September 30, 2015 and 2014, respectively. In fiscal years 2015 and 2014, repayments and sales of CPP investments totaled $197 million and $1.5 billion, resulting in net proceeds less than cost of $52 million and $169 million in fiscal years 2015 and 2014, respectively.

To help unlock the flow of credit to consumers and small businesses in underserved communities, the Department created the CDCI program in fiscal year 2010 to provide additional low-cost capital in Community Development Financial Institutions (CDFIs). Under the terms of the program, the Department purchased senior preferred stock (or subordinated debt) from eligible CDFIs with an initial dividend rate of 2.0 percent that will increase to 9.0 percent after eight years. The Department invested a total of $570 million in various institutions under the CDCI. As a result of repayments since this program's implementation, the Department had remaining CDCI investments valued at $383 million and $372 million as of September 30, 2015 and 2014, respectively. In fiscal years 2015 and 2014, the Department received $19 million and $10 million in repayments, respectively.

SUMMARY TABLES

The following tables provide the net composition, subsidy cost, re-estimates, a reconciliation of subsidy cost allowances, and the components of the subsidy for each of the Department's credit programs for the fiscal years ended September 30, 2015 and 2014. The tables also include budget subsidy rates pertaining only to the cohorts for the fiscal year presented. These rates cannot be applied to the direct loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in 2015 and 2014 could result from disbursements of loans from both current year cohorts and prior year(s) cohorts, and also includes re-estimates. Amounts reported in the line item "Net Credit Program Receivables" are not necessarily the same as the proceeds that the Department would expect to receive from selling these assets.

(in millions)	HFA	SBLF	IMF-Quota	IMF-NAB	TARP	Other [2]	2015 TOTAL
Credit Program Receivables, Net:							
Credit Program Receivables, Gross	$ 7,784	$ 2,363	$ 1,344	$ 4,371	$ 714	$ 201	$ 16,777
Subsidy Cost Allowance	(865)	32	(181)	(366)	(232)	(20)	(1,632)
Net Credit Program Receivables	$ 6,919	$ 2,395	$ 1,163	$ 4,005	$ 482	$ 181	$ 15,145
New Credit Program Loans Disbursed	$ -	$ -	$ -	$ -	$ -	$ 104	$ 104
Obligations for Loans Not Yet Disbursed	$ -	$ -	$ -	$ -	$ -	$ 735	$ 735
Reconciliation of Subsidy Cost Allowance:							
Balance, Beginning	$ 1,050	$ 36	$ 159	$ 134	$ 679	$ 16	$ 2,074
Subsidy Cost for Disbursements	-	-	-	-	-	(1)	(1)
Fees, Interest and Dividend Revenue Received	241	38	1	2	28	3	313
Net Proceeds from Sales, Repurchases, and Repayments of Assets Less than Cost	-	-	(74)	-	(195)	-	(269)
Loans Written Off	-	-	-	-	(13)	-	(13)
Subsidy Allowance Amortized [1]	(409)	(64)	3	(2)	(25)	(8)	(505)
Balance, Ending, Before Re-estimates	882	10	89	134	474	10	1,599
Subsidy Re-estimates	(17)	(42)	92	232	(242)	10	33
Balance, Ending	$ 865	$ (32)	$ 181	$ 366	$ 232	$ 20	$ 1,632
Re-estimates							
Interest on Re-estimate	$ (3)	$ (4)	$ -	$ -	$ -	$ 1	$ (6)
Technical/Default Re-estimate	(14)	(38)	92	232	(242)	9	39
Total Re-estimates – Increase (Decrease) in Subsidy Cost	$ (17)	$ (42)	$ 92	$ 232	$ (242)	$ 10	$ 33
Reconciliation of Subsidy Costs:							
Subsidy Cost for Disbursements	$ -	$ -	$ -	$ -	$ -	$ (1)	$ (1)
Subsidy Re-estimates	(17)	(42)	92	232	(242)	10	33
Total Credit Program Receivables Subsidy Costs	$ (17)	$ (42)	$ 92	$ 232	$ (242)	$ 9	$ 32
Administrative Expense	$ 2	$ 11	$ -	$ -	$ -	$ 2	$ 15

(in millions)	HFA	SBLF	IMF-Quota	IMF-NAB	TARP	Other [3]	2014 TOTAL
Credit Program Receivables, Net:							
Credit Program Receivables, Gross	$ 8,667	$ 3,186	$ 1,995	$ 4,371	$ 2,853	$ 104	$ 21,176
Subsidy Cost Allowance	(1,050)	(36)	(159)	(134)	(679)	(16)	(2,074)
Net Credit Program Receivables	$ 7,617	$ 3,150	$ 1,836	$ 4,237	$ 2,174	$ 88	$ 19,102
New Credit Program Loans Disbursed	$ -	$ -	$ -	$ 718	$ -	$ 52	$ 770
Obligations for Loans Not Yet Disbursed	$ -	$ -	$ -	$ -	$ 126	$ 502	$ 628
Reconciliation of Subsidy Cost Allowance:							
Balance, Beginning	$ 915	$ 28	$ 99	$ (15)	$ 5,627	$ 17	$ 6,671
Subsidy Cost for Disbursements	-	-	-	2	-	3	5
Fees, Interest, and Dividend Revenue Received	266	60	2	4	245	1	578
Net Proceeds from Sales and Repurchases of Assets Less than Cost	-	-	-	-	(1,889)	-	(1,889)
Loans Written Off	-	-	-	-	(1,623)	-	(1,623)
Subsidy Allowance Amortized [1]	(306)	(76)	(1)	(2)	(189)	(2)	(576)
Balance, Ending, Before Re-estimates	875	12	100	(11)	2,171	19	3,166
Subsidy Re-estimates	175	24	59	145	(1,492)	(3)	(1,092)
Balance, Ending	$ 1,050	$ 36	$ 159	$ 134	$ 679	$ 16	$ 2,074
Re-estimates							
Interest Rate Re-estimate	$ -	$ -	$ -	$ -	$ -	$ (6)	$ (6)
Interest on Re-estimate	29	2	-	1	-	-	32
Technical/Default Re-estimate	146	22	59	144	(1,492)	3	(1,118)
Total Re-estimates – Increase (Decrease) in Subsidy Cost	$ 175	$ 24	$ 59	$ 145	$ (1,492)	$ (3)	$ (1,092)
Reconciliation of Subsidy Costs:							
Subsidy Cost for Disbursements	$ -	$ -	$ -	$ 2	$ -	$ 3	$ 5
Subsidy Re-estimates	175	24	59	145	(1,492)	(3)	(1,092)
Total Credit Program Receivables Subsidy Costs	$ 175	$ 24	$ 59	$ 147	$ (1,492)	$ -	$ (1,087)
Administrative Expense	$ 5	$ 14	$ -	$ -	$ -	$ 1	$ 20

(1) Amount includes net interest income (expense) on borrowings from the Fiscal Service and financing account balance.
(2) CDFI Financial Assistance Direct Loan Program budget subsidy rates for Interest Differential and for Defaults were 3.00% and 9.41%, respectively.
(3) CDFI Financial Assistance Direct Loan Program budget subsidy rates for Interest Differential and for Defaults were 1.41%, and 7.48%, respectively.

10. Investments in Government Sponsored Enterprises

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

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

Under the SPSPAs, the Department initially received from each GSE: *(i)* 1,000,000 shares of non-voting variable liquidation preference senior preferred stock with a liquidation preference value of $1,000 per share, and *(ii)* a non-transferrable warrant for the purchase, at a nominal cost, of 79.9 percent of common stock on a fully-diluted basis. The warrants expire on September 7, 2028. Under the amended SPSPAs, the quarterly dividend payment changed from a 10.0 percent per annum fixed rate dividend on the total liquidation preference (as discussed below) to an amount equivalent to the GSE's positive net worth above a capital reserve amount. The capital reserve amount, which was initially set at $3.0 billion for calendar year 2013, declined to $2.4 billion on January 1, 2014, and $1.8 billion on January 1, 2015, and will continue to decline by $600 million at the beginning of each calendar year thereafter until it reaches zero by calendar year 2018. The GSEs will not pay a quarterly dividend if their positive net worth is below the required capital reserve threshold. Cash dividends of $20.4 billion and $72.5 billion were received during fiscal years ended September 30, 2015 and 2014, respectively. Dividends received in fiscal year 2014 were attributable, in part, to a federal income tax benefit that was recognized in the earnings of one GSE in fiscal year 2014.

The SPSPAs, which have no expiration date, provide for the Department to disburse funds to the GSEs if, at the end of any quarter, the FHFA determines that the liabilities of either GSE exceed its assets. Draws from the Department under the SPSPAs are designed to ensure that the GSEs maintain positive net worth, 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, the liquidation preference of the initial 1,000,000 shares is increased by the amount of the draw. There were no payments to the GSEs for the fiscal years ended September 30, 2015 and 2014.

Accounting Treatment

Entity Transactions– If the Department estimates a contingent liability to the GSEs, this liability will be accrued and reported on the Department's Consolidated Balance Sheets and funded through the Department's direct appropriations. The liability accrual, if any, will be reflected at its gross amount as an "entity" cost on the Department's Consolidated Statements of Net Cost, and within the line item, "Cumulative Results of Operations" on the Department's Consolidated Balance Sheets, without considering the increase in senior preferred stock liquidation preference/fair value adjustments, and future dividend receipts from the GSEs.

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

INVESTMENTS IN GSEs

As of September 30, 2015 and 2014, the Department's investments in the GSEs consisted of the following (in millions):

GSEs Investments		**Gross Investments As of 9/30/15**	**Cumulative Valuation Gain/(Loss)**	**9/30/2015 Fair Value**
Fannie Mae Senior Preferred Stock	**$**	**116,989**	**$ (61,689)**	**$ 55,300**
Freddie Mac Senior Preferred Stock		**72,160**	**(35,560)**	**36,600**
Fannie Mae Warrants Common Stock		**3,104**	**6,176**	**9,280**
Freddie Mac Warrants Common Stock		**2,264**	**2,826**	**5,090**
Total GSEs Investments	**$**	**194,517**	**$ (88,247)**	**$ 106,270**

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

SENIOR PREFERRED STOCK AND WARRANTS FOR COMMON STOCK

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

The fair value of the senior preferred stock considers the amount of forecasted dividend payments. The fair valuations assume that a hypothetical buyer would acquire the discounted dividend stream as of the transaction date. The fair value of the senior preferred stock increased as of September 30, 2015 when compared to September 30, 2014, primarily reflecting higher forecasted GSE earnings derived from guarantee fees, lower volatility and risk in the mortgage lending industry, and lower forecasted mortgage loan losses due to reduced credit risk assumed by the GSEs.

The fair value of the warrants is impacted by the nominal exercise price and the large number of potential exercise shares, the market trading of the common stock that underlies the warrants as of September 30, the principal market, and the market participants. Other factors impacting the fair value include, among other things, the holding period risk related directly to the assumption of the amount of time that it will take to sell the exercised shares without depressing the market. The fair value of the

warrants increased at the end of fiscal year 2015, when compared to 2014, primarily due to increases in the market price of the underlying common stock of each GSE.

CONTINGENT LIABILITY TO GSEs

As part of the annual process undertaken by the Department, a series of long-term financial forecasts are prepared to assess, as of September 30, the likelihood and magnitude of future draws to be required by the GSEs under the SPSPAs within the forecast time horizon. The Department used 25-year financial forecasts prepared through year 2040 and 2039 in assessing if a contingent liability was required as of September 30, 2015 and 2014, respectively. If future payments under the SPSPAs are deemed to be probable within the forecast horizon, the Department will estimate and accrue a contingent liability to the GSEs to reflect the forecasted equity deficits of the GSEs. This accrued contingent liability will be undiscounted and will not take into account any of the offsetting dividends that could be received, as the dividends, if any, would be owed directly to the General Fund. Such recorded accruals will be adjusted in subsequent years as new information develops or circumstances change.

Based on its annual assessment, the Department estimated no probable future funding draws as of September 30, 2015 and 2014, and thereby accrued no contingent liability. At September 30, 2015 and 2014, the maximum remaining contractual commitment to the GSEs for the remaining life of the SPSPAs was $258.1 billion.

In assessing the need for an estimated contingent liability, the Department relies on the GSEs' public filings and press releases concerning their financial statements, monthly summaries, and quarterly credit supplements, as well as non-public, long-term financial forecasts, the FHFA House Price Index, discussions with each of the GSEs and FHFA, and other information pertinent to the liability estimates. The forecasts prepared in assessing the need for an estimated contingent liability as of September 30, 2015 include three potential wind-down scenarios, with varying assumptions regarding the timing as to when new guaranteed mortgage-backed securities would cease being issued by the GSEs. The forecasts also assume a continued gradual wind-down of the retained portfolios (and corresponding net interest income) through 2018, as directed under the amended SPSPAs for each GSE to reduce the maximum balance of its retained mortgage portfolio by 15.0 percent per annum beginning December 31, 2013. The maximum balance of the GSEs' retained mortgage portfolio was initially set at $650 billion as of December 31, 2012, and is required under the amended SPSPAs to be reduced to $250 billion by December 31, 2018.

ESTIMATION FACTORS

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

FINANCIAL PERFORMANCE OF THE GSEs

The summarized unaudited aggregated financial condition of the GSEs as of September 30, 2015 and 2014, along with their summarized unaudited aggregated financial operating results for the nine months ended of September 30, 2015 and 2014 were as follows (in millions):

		2015		2014
Combined Assets				
Investment Securities	$	**177,395**	$	206,154
Mortgage Loans		**4,770,323**		4,701,174
Other		**245,211**		245,772
Total Combined Assets		**5,192,929**		5,153,100
Combined Liabilities				
Long-Term Debt		**4,944,536**		4,894,011
Other		**243,091**		247,504
Total Combined Liabilities		**5,187,627**		5,141,515
Combined Net Equity	$	**5,302**	$	11,585
For the Nine Months Ended September 30				
Combined Net Interest Income	$	**27,691**	$	25,502
Combined Benefit for Loan Losses		**2,934**		3,457
Combined Net Interest Income After Benefit for Loan Losses	$	**30,625**	$	28,959
Combined Net Income	$	**12,706**	$	20,360
Combined Regulatory Capital - Minimum Capital Deficit as of September 30	$	**(232,671)**	$	(228,267)

The financial information above excludes financial guarantees not consolidated on the GSEs' balance sheets.

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

GSEs Non-Entity Revenue

For the fiscal years ended September 30, 2015 and 2014, GSEs Non-Entity Revenue consisted of the following (in millions):

Summary of GSEs Non-Entity Revenue		2015		2014
Fair Value (Gain)/Loss on GSEs Warrants/Preferred Stock	$	**(10,460)**	$	44,411
GSEs Preferred Stock Dividends		**(20,370)**		(72,472)
Total GSEs Non-Entity Revenue, Net	$	**(30,830)**	$	(28,061)

Regulatory Environment

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

The *Temporary Payroll Tax Cut Continuation Act of 2011* was funded by an increase of ten basis points in the GSEs' guarantee fees (referred to as "the increased fees") which began in April 2012, and is effective through October 1, 2021. The increased fees are remitted to the Department and not retained by the GSEs. Accordingly, the increased fees do not affect the profitability of the GSEs. For fiscal years 2015 and 2014, the GSEs remitted to the Department the increased fees totaling $2.4 billion and $1.9 billion, respectively, which are reported within the line item entitled "Fines, Penalties, Interest and Other Revenue" on the Department's Statements of Custodial Activity.

11. INVESTMENTS IN INTERNATIONAL FINANCIAL INSTITUTIONS

As of September 30, 2015 and 2014, Investments in International Financial Institutions (or Multilateral Development Banks) consisted of the following (in millions):

		2015		2014
International Bank for Reconstruction and Development	$	**2,658**	$	2,471
Inter-American Development Bank [1]		**1,898**		1,796
Asian Development Bank		**986**		879
European Bank for Reconstruction and Development		**636**		636
International Finance Corporation		**569**		569
African Development Bank		**302**		270
North American Development Bank		**225**		225
Multilateral Investment Guarantee Agency		**45**		45
Total	$	**7,319**	$	6,891

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

12. OTHER INVESTMENTS AND RELATED INTEREST

Other investments and related interest include foreign currency holdings that are typically invested in interest-bearing securities issued or held through foreign governments or monetary authorities (refer to Note 5). ESF holds most of the Department's foreign currency investments. Of the total $11.6 billion fair value of foreign investments (excluding interest receivable) held at September 30, 2015, $4.2 billion will mature within one year, $7.1 billion will mature after one year but before five years, and $0.3 billion will mature after five years but before ten years.

As of September 30, 2015 and 2014, Other Investments and Related Interest consisted of the following (in millions):

Type of Investment		**Cost/ Acquisition Value**	**Unamortized (Premium)/ Discount**	**Interest Receivable**	**9/30/15 Net Investment**	**Unrealized Gain/(Loss)**	**9/30/15 Fair Value**
Foreign Investments:							
Euro Bonds & Notes	**$**	**6,106 $**	**190 $**	**67 $**	**6,363 $**	**(508)$**	**5,855**
Japanese Government Bonds		**5,488**	**9**	**3**	**5,500**	**(278)**	**5,222**
Other FCDAs		**642**	**-**	**-**	**642**	**-**	**642**
Other Investments		**29**	**(2)**	**-**	**27**	**(9)**	**18**
Total Non-Federal	**$**	**12,265 $**	**197 $**	**70 $**	**12,532 $**	**(795)$**	**11,737**

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

13. PROPERTY, PLANT, AND EQUIPMENT, NET

As of September 30, 2015 and 2014, Property, Plant, and Equipment, Net consisted of the following (in millions):

	Depreciation Method	Service Life	Cost	Accumulated Depreciation	2015 Net Book Value
Buildings, structures and facilities	S/L	3 - 50 years	$ 752	$ (421)	$ 331
Furniture, fixtures and equipment	S/L	2 - 20 years	2,804	(1,978)	826
Construction in progress	N/A	N/A	44	-	44
Land and land improvements	N/A	N/A	18	(2)	16
Internal-use software in use	S/L	2 - 15 years	2,780	(1,528)	1,252
Internal-use software in development	N/A	N/A	205	-	205
Assets under capital lease	S/L	2 - 25 years	16	(8)	8
Leasehold improvements	S/L	2 - 25 years	426	(211)	215
Total			$ 7,045	$ (4,148)	$ 2,897

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

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

HERITAGE ASSETS

The Department has a total of fifteen heritage assets, of which five are considered multi-use, for fiscal years 2015 and 2014. The Treasury Complex (Main Treasury Building and Annex), declared a national historical landmark in 1972, is treated as a multi-use heritage asset and is expected to be preserved indefinitely. The buildings that house the Mint in Denver, San Francisco, Fort Knox, and West Point are also considered multi-use heritage assets and included on the National Register of Historic Places. Additionally, the Mint maintains heritage assets consisting of four coin collections and six historical artifacts.

14. NON-ENTITY VS. ENTITY ASSETS

Non-entity assets are those that are held and managed by the Department on behalf of the U.S. government (General Fund) but are not available for use by the Department. As of September 30, 2015 and 2014, the Department's total assets, segregated between non-entity and entity, are shown below (in millions):

	2015		
	Non-Entity	**Entity**	**Total**
Intra-governmental Assets:			
Fund Balance [a]	**$ 1,510**	**$ 351,016**	**$ 352,526**
Loans and Interest Receivable (Note 3)	**1,232,516**	**74,080**	**1,306,596**
Advances to the Unemployment Trust Fund (Note 4)	**12,840**	**-**	**12,840**
Due From the General Fund (Note 4)	**18,632,253**	**-**	**18,632,253**
Other Intra-governmental Assets	**390**	**63**	**453**
Total Intra-governmental Assets	**19,879,509**	**425,159**	**20,304,668**
Cash, Foreign Currency, and Other Monetary Assets (Note 5) [b]	**194,301**	**58,835**	**253,136**
Gold and Silver Reserves (Note 6) [c]	**11,062**	**-**	**11,062**
Taxes, Interest, and Other Receivables, Net (Note 8)	**42,000**	**34**	**42,034**
Investments in GSEs (Note 10)	**106,270**	**-**	**106,270**
Other Assets [d]	**21**	**51,544**	**51,565**
Total Assets	**$ 20,233,163**	**$ 535,572**	**$ 20,768,735**

[a] *$589 million of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*
[b] *$193.4 billion of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*
[c] *$25 million of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*
[d] *Other Assets (Entity) include credit program receivables, net, totaling $15.1 billion, a reserve position in the IMF of $8.2 billion, and other various assets on the Consolidated Balance Sheets not separately presented in this table.*

	2014		
	Non-Entity	Entity	Total
Intra-governmental Assets:			
Fund Balance [e]	$ 1,988	$ 350,940	$ 352,928
Loans and Interest Receivable (Note 3)	1,147,692	73,907	1,221,599
Advances to the Unemployment Trust Fund (Note 4)	20,824	-	20,824
Due From the General Fund (Note 4)	17,949,849	-	17,949,849
Other Intra-governmental Assets	500	68	568
Total Intra-governmental Assets	19,120,853	424,915	19,545,768
Cash, Foreign Currency, and Other Monetary Assets (Note 5) [f]	154,052	57,816	211,868
Gold and Silver Reserves (Note 6) [g]	11,062	-	11,062
Taxes, Interest, and Other Receivables, Net (Note 8)	42,305	204	42,509
Investments in GSEs (Note 10)	95,810	-	95,810
Other Assets [h]	$ 72	69,873	69,945
Total Assets	19,424,154	$ 552,808	$ 19,976,962

[e] *$540 million of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*
[f] *$153.5 billion of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*
[g] *$25 million of the non-entity balance represents assets held on behalf of the General Fund (refer to Note 4).*
[h] *Other Assets (Entity) include credit program receivables, net, totaling $19.1 billion, a reserve position in the IMF of $12.8 billion, and other various assets on the Consolidated Balance Sheets not separately presented in this table.*

15. Federal Debt and Interest Payable and Related Liabilities

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

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

Federal Debt and Interest Payable as of September 30, 2015 and 2014 was as follows (in millions):

Held by Other Federal Agencies (Intra-governmental)		**2015**		2014
Beginning Balance	$	**4,994,682**	$	4,725,136
New Borrowings/(Repayments) - Net		**(14,084)**		269,546
Subtotal at Par Value		**4,980,598**		4,994,682
Premium/(Discount)		**75,144**		67,586
Debt Principal Not Covered by Budgetary Resources (Note 18)		**5,055,742**		5,062,268
Interest Payable Covered by Budgetary Resources		**40,523**		42,352
Total	$	**5,096,265**	$	5,104,620

Held by the Public		**2015**		2014
Beginning Balance	$	**12,784,971**	$	11,976,279
New Borrowings - Net of Repayments		**338,876**		808,692
Subtotal at Par Value		**13,123,847**		12,784,971
Premium/(Discount)		**(31,378)**		(29,379)
Debt Principal Not Covered by Budgetary Resources (Note 18)		**13,092,469**		12,755,592
Interest Payable Covered by Budgetary Resources		**55,731**		53,831
Total	$	**13,148,200**	$	12,809,423

Federal Debt Held by Other Federal Agencies

Certain federal agencies are allowed to invest excess funds in debt securities issued by the Department on behalf of the U.S. government. The terms and the conditions of debt securities issued are designed to meet the cash needs of the U.S. government. The vast majority of debt securities are non-marketable securities issued at par value, but others are issued at market prices and interest rates that reflect market terms. The average intra-governmental interest rate for debt held by the federal entities, excluding Treasury Inflation-Protected Securities (TIPS), for fiscal years 2015 and 2014 was 3.1 percent and 3.3 percent, respectively. The average intra-governmental interest rate on TIPS for both fiscal years 2015 and 2014 was 1.3 percent. The average interest rate represents the original issue weighted effective yield on securities outstanding at the end of the fiscal year.

The federal debt also includes intra-governmental marketable debt securities that certain agencies are permitted to buy and sell on the open market. The debt held by federal agencies at par value (not including premium/discount or interest payable) as of September 30, 2015 and 2014 was as follows (in millions):

		2015		2014
Social Security Administration	$	**2,808,287**	$	2,782,918
Office of Personnel Management		**831,167**		958,796
Department of Defense Agencies		**747,402**		694,595
Department of Health and Human Services		**267,121**		276,085
All Other Federal Entities - Consolidated		**326,621**		282,288
Total Federal Debt Held by Other Federal Agencies	**$**	**4,980,598**	$	4,994,682

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, 2015 and 2014 consisted of the following (in millions):

(at par value)	**Term**	**Average Interest Rates**		**2015**
Marketable:				
Treasury Bills	**1 Year or Less**	**0.1%**	**$**	**1,355,231**
Treasury Notes	**Over 1 Year - 10 Years**	**1.8%**		**8,366,026**
Treasury Bonds	**Over 10 Years**	**4.7%**		**1,688,208**
Treasury Inflation-Protected Securities (TIPS)	**5 Years or More**	**0.8%**		**1,135,363**
Treasury Floating Rate Notes (FRN)	**2 Years**	**0.1%**		**287,039**
Total Marketable				**12,831,867**
Non-Marketable	**On Demand to Over 40 Years**	**2.5%**		**291,980**
Total Federal Debt Held by the Public			**$**	**13,123,847**

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

The Department generally issues Treasury bills, notes, bonds, and TIPS to meet the borrowing needs of the U.S. government. The Department issues marketable bills at a discount or at par, and pays the par amount of the security upon maturity. The average interest rate on Treasury bills represents the original issue effective yield on securities outstanding at year end. Treasury bills are issued with a term of one year or less.

The Department issues marketable notes and bonds as long-term securities that pay semi-annual interest based on the securities' stated interest rates. These securities are issued at either par value or at an amount that reflects a discount or premium. The average interest rate on marketable notes and bonds represents the stated interest rate adjusted by any discount or premium on securities outstanding at year-end. Treasury notes are issued with a term of over one year to ten years, and Treasury bonds are issued with a term of more than ten years. The Department also issues TIPS that have interest and redemption payments tied to the Consumer Price Index (CPI) for all Urban Consumers, a widely used measurement of inflation. TIPS are issued with a term of

five years or more, and the principal for TIPS is adjusted daily over the life of the security based on the CPI for all Urban Consumers. At maturity, TIPS are redeemed at the inflation-adjusted principal amount, or the original par value, whichever is greater. TIPS pay a semi-annual fixed rate of interest applied to the inflation-adjusted principal. The average interest rate on TIPS represents the stated interest rate on principal plus inflation, adjusted by any discount or premium on securities outstanding as of the end of the fiscal year. The inflation-adjusted TIPS principal balance of federal debt held by the public included inflation of $90.0 billion and $97.1 billion as of September 30, 2015 and 2014, respectively.

Treasury also issues marketable Floating Rate Notes (FRNs) which pay interest quarterly based on the interest rate at the time of payment. The interest rate of FRNs can change over time and is indexed to the highest acceptable discount rate of the most recent 13-week marketable bill auction. These securities, like marketable notes and bonds, are issued at either par value or at an amount that reflects a discount or premium. The average interest rate on marketable FRNs represents the highest accepted discount rate of the most recent 13-week marketable auction as of September 30, adjusted by any discount or premium on securities outstanding as of that date. These notes were issued in fiscal years 2015 and 2014 with a term of two years.

Federal Debt Held by the Public includes federal debt held outside of the U.S. government by individuals, corporations, FRBs, state and local governments, foreign governments, and central banks. As of September 30, 2015, the FRBs had total holdings of $1.8 trillion which: *(i)* excluded $618 billion in Treasury securities used in overnight reverse repurchase transactions, and *(ii)* included a net of $1.8 billion in Treasury securities held by the FRB as collateral for securities lending activities. As of September 30, 2014, the FRBs had total holdings of $1.9 trillion which: *(i)* excluded $535 billion in Treasury securities used in overnight reverse repurchase transactions, and *(ii)* included a net of $2.3 billion in Treasury securities held by the FRB as collateral for securities lending activities. Treasury securities are held by the FRB in the FRB System Open Market Account for the purpose of conducting monetary policy.

STATUTORY DEBT LIMIT

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

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

When the period of delay in raising the statutory debt limit ends, the Department discontinues its use of extraordinary measures and resumes its normal debt management operations. Furthermore, the Department is required by the relevant statutes, to restore the TSP, Civil Service Fund and Postal Benefits Fund with the accumulated principal balance of Treasury debt securities that bears such interest rates and maturity dates necessary to replicate the investments the funds would have held had the delay not occurred (the uninvested principal). The Department is also required by the relevant statutes, to pay these funds the related lost interest (forgone interest) on the uninvested principal. The Department is not required by statute to restore the ESF and state and local governments with uninvested principal or lost interest incurred during a period of delay.

A delay in raising the statutory debt limit occurred from May 20, 2013 through October 16, 2013. On October 17, 2013, Congress enacted the *Continuing Appropriations Act, 2014* (P.L. 113-46) which temporarily suspended the statutory debt limit through February 7, 2014. On February 8, 2014, in accordance with P.L. 113-46, the statutory debt limit was raised to $17.212 trillion, the amount of the qualifying federal debt securities outstanding on that date. A delay in raising the statutory debt limit also occurred from February 10, 2014 until February 15, 2014. On February 15, 2014, Congress enacted the *Temporary Debt Limit Extension Act* (P.L. 113-83) which temporarily suspended the debt limit through March 15, 2015. On March 16, 2015, in accordance with P.L. 113-83, the statutory debt limit was raised to $18.113 trillion, the amount of the qualifying federal debt securities outstanding on that date. Another delay in raising the statutory debt limit occurred from March 16, 2015 until November 2, 2015. On November 2, 2015, Congress enacted the *Bipartisan Budget Act of 2015* (P.L. 114-74) which temporarily suspended the debt limit through March 15, 2017.

In fiscal year 2014, following the end of the delays in the debt limit raise that occurred in that year, the Department restored the funds involved in the extraordinary measures undertaken between May 20, 2013 and February 15, 2014 with uninvested principal and interest totaling $364.7 billion and $1.2 billion, respectively. Of the $1.2 billion of forgone interest paid in fiscal year 2014, $444 million was accrued and reported as a non-entity expense within the line item, "Restoration of Foregone Federal Debt Interest," on the Department's Consolidated Statements of Net Cost for the fiscal year ended September 30, 2014.

The March 16, 2015 delay in raising the statutory debt limit did not end until November 2, 2015 and, as such, none of the uninvested principal and foregone interest payable as a result of the extraordinary measures had been restored to the TSP, Civil Service Fund or Postal Benefits Fund as of September 30, 2015. Accordingly, the Department recorded a liability as of September 30, 2015 totaling $350.7 billion, comprised of uninvested principal owed to these three funds as of that date totaling $348.6 billion, and forgone interest payable to the funds for the period March 16, 2015 through September 30, 2015 totaling $2.1 billion. This liability, coupled with an additional liability for the uninvested principal and foregone interest that was incurred during the remainder of the period of the delay from October 1, 2015 through November 2, 2015, was payable to the three funds following the end of the delay.

The liability for the uninvested principal and foregone interest payable as of September 30, 2015 was reported on the Department's Consolidated Balance Sheets in the line item, "Liability for Restoration of Federal Debt Principal and Interest," of which $146.1 billion represented an intra-governmental liability of the combined principal and interest payable to the Civil Service Fund and Postal Benefits Fund which are administered by OPM (the OPM funds), and the remaining $204.6 billion represented the principal and interest payable to the TSP, a public liability. Corresponding amounts were reported in the "Due From the General Fund" on the Consolidated Balance Sheets for the total $350.7 billion of uninvested principal and foregone interest owed to the funds as of September 30, 2015 (refer to Note 4). Additionally, the accrued forgone interest expense totaling $2.1 billion was reported as a non-entity expense within the line item, "Accrued Restoration of Foregone Federal Debt Interest," on the Consolidated Statements of Net Cost, with an offsetting amount reported within the line item, "Accrued Interest on Restoration of Federal Debt Principal," on the Consolidated Statements of Changes in Net Position. The Department also recorded the $2.1 billion as an other financing source on the Consolidated Statements of Changes in Net Position.

In addition to those activities previously discussed, other types of extraordinary measures were taken during the period of the delay, including temporarily suspending investments in Treasury debt securities by the ESF, temporarily suspending new issuances of SLGS securities, and utilization of FFB to redeem outstanding Treasury debt securities held by the Civil Service Fund (refer to Note 16). Extraordinary measures continued through November 2, 2015 when the delay in raising the debt limit ended and Congress enacted a law to temporarily suspend the debt limit. On November 2, 2015, the Department resumed normal debt management operations. On this date, the Department restored uninvested principal of $204.8 billion to the TSP, and $147.8

billion to the two OPM funds. The Department also restored foregone interest to the TSP on November 3, 2015 in the amount of $1.7 billion. Foregone interest payable to the two OPM funds totaling $978 million will be restored on the next semi-annual interest payment date of December 31, 2015. In addition, the Department authorized ESF and state and local governments to resume investments in Treasury debt securities.

16. Other Debt and Interest Payable

The Department, through FFB, has outstanding borrowings and related accrued interest owed to the Civil Service Fund. At September 30, 2015 and 2014, FFB had outstanding borrowings of $12.4 billion and $13.7 billion, inclusive of $106 million and $121 million of accrued interest payable, respectively. During fiscal years 2015 and 2014, the Department, through FFB, paid $1.3 billion and $1.4 billion in principal, respectively. The outstanding borrowings at September 30, 2015 had stated interest rates that ranged from 2.88 percent to 4.63 percent per annum, and an effective interest rate of 3.43 percent. The outstanding borrowings at September 30, 2014 had stated interest rates that ranged from 2.88 percent to 4.63 percent per annum, and an effective interest rate of 3.52 percent. Maturity dates ranged from June 30, 2016 to June 30, 2024 for outstanding borrowings at September 30, 2015, and from June 30, 2015 to June 30, 2024 for outstanding borrowings at September 30, 2014.

On October 15, 2015, the Department, through FFB, exchanged $2.7 billion of non-Treasury debt securities that did not count against the debt limit, for an equivalent amount of Treasury debt securities held by the Civil Service Fund that did count against the debt limit. FFB used the Treasury debt securities it had received from the Civil Service Fund to repay $2.1 billion of outstanding principal borrowings, including interest, owed to the Fiscal Service. The Fiscal Service then extinguished the Treasury debt securities it had received from FFB, which thereby helped the Department to remain below the statutory debt limit. The Department, FFB, and the Civil Service Fund took this extraordinary measure to help prevent Treasury debt from exceeding the statutory debt limit. These transactions resulted in an additional $2.7 billion outstanding debt obligation owed by FFB to the Civil Service Fund as of October 15, 2015 to be reported as an intra-governmental liability on the Department's Consolidated Balance Sheets entitled "Other Debt and Interest Payable."

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

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

A reconciliation of the combined actuarial pension liability for the D.C. Federal Pension Fund and the Judicial Retirement Fund as of September 30, 2015 and 2014 is as follows (in millions):

		2015		2014
Beginning Liability Balance	**$**	**9,159**	$	9,164
Pension Expense:				
Normal Cost		**6**		6
Interest on Pension Liability During the Year		**161**		170
Actuarial (Gains) Losses During the Year:				
From Experience		**(230)**		210
From Discount Rate Assumption Change		**541**		192
From Other Assumption Changes		**(246)**		(26)
Total Pension Expense		**232**		552
Less Amounts Paid		**(542)**		(557)
Ending Liability Balance	**$**	**8,849**	$	9,159

Additional Information ($ in millions):

		D.C. Federal Pension Fund	**Judicial Retirement Fund**	**2015 Total**
Amount Received from the General Fund	**$**	**488**	**$ 14**	**$ 502**
Annual Rate of Investment Return Assumption		**1.52% - 4.30%**	**1.52% - 4.30%**	
Future Annual Rate of Inflation and Cost-Of-Living Adjustment:				
Police Officers		**2.14%**	**N/A**	
Firefighters		**2.14%**	**N/A**	
Teachers		**2.20%**	**N/A**	
Judicial		**N/A**	**2.40%**	
Future Annual Rate of Salary Increases:				
Police Officers		**2.17%**	**N/A**	
Firefighters		**2.20%**	**N/A**	
Teachers		**3.00%**	**N/A**	
Judicial		**N/A**	**1.70%**	

		D.C. Federal Pension Fund	Judicial Retirement Fund	2014 Total
Amount Received from the General Fund	**$**	468	$ 10	$ 478
Annual Rate of Investment Return Assumption		1.76% - 4.32%	1.76% - 4.32%	
Future Annual Rate of Inflation and Cost-Of-Living Adjustment:				
Police Officers		2.39%	N/A	
Firefighters		2.39%	N/A	
Teachers		2.51%	N/A	
Judicial		N/A	2.50%	
Future Annual Rate of Salary Increases:				
Police Officers		2.31%	N/A	
Firefighters		2.20%	N/A	
Teachers		3.00%	N/A	
Judicial		N/A	1.90%	

18. LIABILITIES

LIABILITIES NOT COVERED BY BUDGETARY AND OTHER RESOURCES

As of September 30, 2015 and 2014, liabilities not covered by budgetary and other resources consisted of the following (in millions):

		2015		2014
Intra-governmental Liabilities Not Covered by Budgetary and Other Resources				
Federal Debt Principal, Premium/Discount (Note 15)	**$**	**5,055,742**	$	5,062,268
Liability for Restoration of Federal Debt Principal and Interest (Note 15)		**146,066**		-
Other Intra-governmental Liabilities		**114**		124
Total Intra-governmental Liabilities Not Covered by Budgetary and Other Resources		**5,201,922**		5,062,392
Federal Debt Principal, Premium/Discount (Note 15)		**13,092,469**		12,755,592
Liability for Restoration of Federal Debt Principal and Interest (Note 15)		**204,591**		-
Gold and Silver Reserves (Note 6)		**11,062**		11,062
D.C. Federal Pensions and Judicial Retirement - Actuarial Liability (Unfunded)		**5,038**		5,373
Other Liabilities		**1,080**		1,164
Total Liabilities Not Covered by Budgetary and Other Resources		**18,516,162**		17,835,583
Total Liabilities Covered by Budgetary and Other Resources		**1,838,459**		1,719,992
Total Liabilities	**$**	**20,354,621**	$	19,555,575

OTHER LIABILITIES

Total "Other Liabilities" displayed on the Consolidated Balance Sheets consists of both liabilities that are covered and not covered by budgetary resources. Other liabilities at September 30, 2015 and 2014, consisted of the following (in millions):

		Current	**Non-Current**	**2015 Total**		Current	Non-Current	2014 Total
Intra-governmental								
Accounts Payable	**$**	**182**	**$ -**	**$ 182**	$	212	$ -	$ 212
Unfunded Federal Workers Compensation Program Liability (FECA)		**45**	**53**	**98**		46	54	100
Other Accrued Liabilities		**201**	**3**	**204**		248	5	253
Total Intra-governmental	**$**	**428**	**$ 56**	**$ 484**	$	506	$ 59	$ 565
With the Public								
Liability for Deposit Funds (Held by the U.S. government for Others) and Suspense Accounts	**$**	**251**	**$ -**	**$ 251**	$	222	$ -	$ 222
Actuarial Federal Workers Compensation Program Liability (FECA)		**-**	**588**	**588**		-	616	616
Accrued Funded Payroll and Benefits		**342**	**-**	**342**		303	-	303
Accounts Payable and Other Accrued Liabilities		**3,692**	**67**	**3,759**		3,597	68	3,665
Total With the Public	**$**	**4,285**	**$ 655**	**$ 4,940**	$	4,122	$ 684	$ 4,806

19. NET POSITION

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

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

APPROPRIATIONS RECEIVED

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

TRANSFERS TO THE GENERAL FUND AND OTHER

The amount reported as "Transfers to the General Fund and Other" on the Consolidated Statement of Changes in Net Position under "Other Financing Sources" includes the following for the years ended September 30, 2015 and 2014 (in millions):

		2015		2014
Categories of Transfers to the General Fund and Other				
Interest Revenue	**$**	**42,015**	$	40,245
Increase in Liquidation Preference of GSEs Preferred Stock, GSEs Preferred Stock Dividends and Valuation Changes (Note 10)		**30,830**		28,061
Downward Re-estimates of Credit Reform Subsidies (Note 9)		**326**		1,598
Other		**1,434**		2,729
Total	**$**	**74,605**	$	72,633

Included in "Transfers to the General Fund and Other" is the annual valuation adjustment on the GSE Senior Preferred Stock investments and related dividends. These transfers also include distribution of interest revenue to the General Fund. The interest revenue is accrued on inter-agency loans held by the Department on behalf of the U.S. government. A corresponding amount is reported on the Consolidated Statements of Net Cost under "Non-Entity Costs: Less Interest Revenue from Loans." The amount reported on the Consolidated Statements of Net Cost is reduced by eliminations with Treasury bureaus. The credit reform downward re-estimate subsidies that are transferred to the General Fund result from a change in forecasts of future cash flows.

The "Other" line mainly represents collections from other federal agencies as reimbursement of costs incurred by the Department for its administration of trust funds established within the Social Security Act. The Department is directed by statute to execute

these administrative services. Seigniorage and numismatic profits also are included in the "Other" line. Seigniorage is the face value of newly minted circulating coins less the cost of production. Numismatic profit is any profit on the sale of proof coins, uncirculated coins, commemorative coins, and related products and accessories. The United States Mint is required to distribute seigniorage and numismatic profits in excess of operating expenses to the General Fund (refer to Note 21). In any given year, the amount recognized as seigniorage may differ from the amount distributed to the General Fund by an insignificant amount due to timing differences.

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

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

The classification of sub-organizations has been determined in accordance with SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts for the Federal Governmen*t which states that the predominant factor is the reporting entity's organization structure and existing responsibility components, such as bureaus, administrations, offices, and divisions within a department.

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

Intra-Departmental Costs/Revenues

Intra-departmental costs/revenues resulting from the provision of goods and/or services on a reimbursable basis among Departmental sub-organizations are reported as costs by providing sub-organizations and as revenues by receiving sub-organizations. The Department recognized intra-departmental imputed costs on the Consolidated Statements of Net Cost of $596 million and $564 million during fiscal years 2015 and 2014, respectively. Accordingly, such costs or revenues are eliminated in the consolidation process.

Intra-governmental Costs

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

In certain cases, other federal agencies incur costs that are directly identifiable to the Department's operations. In accordance with SFFAS No. 30, *Inter-Entity Cost Implementation Amending* SFFAS No. 4, *Managerial Cost Accounting Standards and Concepts*, the Department recognizes identified costs paid on behalf of the Department by other agencies. The imputed inter-departmental financing sources currently recognized by the Department include the actual cost of future benefits for the federal pension plans that are paid by other federal entities, the FEHB, and any un-reimbursed contract dispute payments made from the Treasury Judgment Fund on behalf of the Department. The funding for these costs is reflected as costs on the Consolidated Statements of Net Cost, and as imputed financing sources on the Consolidated Statements of Changes in Net Position. Costs paid by other agencies on behalf of the Department were $669 million and $796 million for the fiscal years ended September 30, 2015 and 2014, respectively.

CONSOLIDATED STATEMENTS OF NET COST PRESENTATION

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

The Department's Consolidated Statements of Net Cost also present interest expense on the Federal Debt and other federal costs incurred on behalf of the U.S. government. These costs are not reflected as program costs related to the Department's strategic plan missions. Such costs are eliminated in the consolidation process to the extent that they involve transactions with Treasury sub-organizations.

Non-entity other federal costs shown on the Consolidated Statements of Net Cost for the years ended September 30, 2015 and 2014 consisted of the following (in millions):

		2015		**2014**
Credit Reform Interest on Uninvested Fund (Intra-governmental)	$	**8,088**	$	7,800
Resolution Funding Corporation		**2,628**		2,628
Judgment Claims and Contract Disputes		**1,885**		2,642
Corporation for Public Broadcasting		**445**		445
All Other Payments		**555**		539
Total	**$**	**13,601**	**$**	14,054

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

For Fiscal Year Ended September 30, 2015

Program Costs	Bureau of Engraving & Printing	Bureau of the Fiscal Service	Depart-mental Office[a]	Financial Crimes Enforcement Network	Internal Revenue Service	U.S. Mint
FINANCIAL PROGRAM						
Intra-governmental Gross Costs	$ -	$ 423	$ 2,741	$ -	$ 4,311	$ -
Less: Earned Revenue	-	(201)	(3,250)	-	(100)	-
Intra-governmental Net Costs	-	222	(509)	-	4,211	-
Gross Costs with the Public	-	1,474	517	-	8,062	-
Less: Earned Revenue	-	(133)	(1)	-	(422)	-
Net Costs with the Public	-	1,341	516	-	7,640	-
Net Cost: Financial Program	-	1,563	7	-	11,851	-
ECONOMIC PROGRAM						
Intra-governmental Gross Costs	102	-	513	-	-	76
Less: Earned Revenue	(7)	-	(79)	-	-	(3)
Intra-governmental Net Costs	95	-	434	-	-	73
Gross Costs with the Public	581	-	15,125	-	-	2,990
Less: Earned Revenue	(660)	-	(3,351)	-	-	(3,123)
Net Costs with the Public	(79)	-	11,774	-	-	(133)
Net Cost (Revenue): Economic Program	16	-	12,208	-	-	(60)
SECURITY PROGRAM						
Intra-governmental Gross Costs	-	-	196	28	-	-
Less: Earned Revenue	-	-	(42)	(1)	-	-
Intra-governmental Net Costs	-	-	154	27	-	-
Gross Costs with the Public	-	-	175	90	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs with the Public	-	-	175	90	-	-
Net Cost: Security Program	-	-	329	117	-	-
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	16	1,563	12,544	117	11,851	(60)
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	-	-	295	-	-	-
Total Net Cost of (Revenue From) Treasury Operations	$ 16	$ 1,563	$ 12,839	$ 117	$ 11,851	$ (60)

(a) *Of the total $12.2 billion of net cost reported by Departmental Offices for the Economic Program, Treasury International Assistance Programs, OFS, DO Policy Offices, and ESF contributed $2.2 billion, $4.4 billion, $2.3 billion, and $2.4 billion respectively. Other net costs were spread throughout other DO programs or offices.*

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

For Fiscal Year Ended September 30, 2015

Program Costs	Office of the Comptroller of the Currency	Alcohol and Tobacco Tax and Trade Bureau	Combined Total	Eliminations	2015 Consolidated
FINANCIAL PROGRAM					
Intra-governmental Gross Costs	$ - $	14 $	7,489 $	3,108 $	4,381
Less: Earned Revenue	-	(2)	(3,553)	(749)	(2,804)
Intra-governmental Net Costs	-	12	3,936	2,359	1,577
Gross Costs with the Public	-	42	10,095	-	10,095
Less: Earned Revenue	-	(2)	(558)	-	(558)
Net Costs with the Public	-	40	9,537	-	9,537
Net Cost: Financial Program	-	52	13,473	2,359	11,114
ECONOMIC PROGRAM					
Intra-governmental Gross Costs	146	14	851	483	368
Less: Earned Revenue	(29)	(1)	(119)	(84)	(35)
Intra-governmental Net Costs	117	13	732	399	333
Gross Costs with the Public	892	42	19,630	-	19,630
Less: Earned Revenue	(1,117)	(1)	(8,252)	-	(8,252)
Net Costs with the Public	(225)	41	11,378	-	11,378
Net Cost (Revenue): Economic Program	(108)	54	12,110	399	11,711
SECURITY PROGRAM					
Intra-governmental Gross Costs	-	-	224	83	141
Less: Earned Revenue	-	-	(43)	(37)	(6)
Intra-governmental Net Costs	-	-	181	46	135
Gross Costs with the Public	-	-	265	-	265
Less: Earned Revenue	-	-	-	-	-
Net Costs with the Public	-	-	265	-	265
Net Cost: Security Program	-	-	446	46	400
Total Net Program Cost (Revenue) Before Changes in Actuarial Assumptions	(108)	106	26,029	2,804	23,225
(Gain)/Loss on Pension, ORB, or OPEB Assumption Changes	4	-	299	-	299
Total Net Cost of (Revenue From) Treasury Operations	$ (104)$	106 $	26,328 $	2,804 $	23,524

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

For Fiscal Year Ended September 30, 2014

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

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

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

For Fiscal Year Ended September 30, 2014

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

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

Undelivered Orders

Undelivered orders represent goods and services ordered and obligated, which have not been received. This includes any orders for which advance payment has been made, but for which delivery or performance has not yet occurred. Undelivered orders at September 30, 2015 and 2014 are shown below (in millions):

		2015		2014
Paid	**$**	**7**	$	9
Unpaid		**170,646**		165,644
Undelivered orders at the end of the year	**$**	**170,653**	$	165,653

Contributed Capital

Contributed capital represents the current year authority and prior year balances of amounts actually transferred through non-expenditure transfers to miscellaneous receipt accounts of the General Fund of the Treasury to repay a portion of a capital investment or transfer seigniorage and numismatic profits (refer to Note 19). Contributed capital for the fiscal years ended September 30, 2015 and 2014 was $171 million and $25 million, respectively.

Apportionment Categories of Obligations Incurred

Apportionment categories are determined in accordance with the guidance provided in OMB Circular No. A-11, *Preparation, Submission and Execution of the Budget*. Apportionment Category A represents resources apportioned for calendar quarters. Apportionment Category B represents resources apportioned for other time periods for activities, projects or objectives, or for any combination thereof. Obligations incurred for direct and reimbursable obligations by apportionment category for the fiscal years ended September 30, 2015 and 2014 are shown below (in millions):

		2015		2014
Direct - Category A	**$**	**105**	$	117
Direct - Category B		**37,291**		41,689
Direct - Exempt from Apportionment		**425,027**		444,343
Total Direct		**462,423**		486,149
Reimbursable - Category B		**4,549**		4,400
Reimbursable - Exempt from Apportionment		**1,072**		1,102
Total Reimbursable		**5,621**		5,502
Total Direct and Reimbursable	**$**	**468,044**	$	491,651

Terms of Borrowing Authority Used

Several Departmental programs have authority to borrow under the FCRA, as amended. The FCRA provides indefinite borrowing authority to financing accounts to fund the unsubsidized portion of direct loans and to satisfy obligations in the event the financing account's resources are insufficient. Repayment requirements are defined by OMB Circular No. A-11. Interest expense due is calculated based on the beginning balance of borrowings outstanding and the borrowings/repayments activity that occurred during the fiscal year. Undisbursed Departmental borrowings earn interest at the same rate as the financing account pays on its debt owed to the Fiscal Service. In the event that principal and interest collections exceed the interest expense due, the excess will be repaid to the Department. If principal and interest do not exceed interest expense due, the Department will borrow the difference. The Department makes periodic principal repayments based on the analysis of cash balances and future disbursement needs. All interest on borrowings are due on September 30. Interest rates on FCRA borrowings range from 0.03 percent to 7.59 percent.

AVAILABLE BORROWING

The available borrowing authority and related changes in available borrowing authority as of and for the fiscal years ended September 30, 2015 and 2014 are shown below (in millions):

		2015		2014
Beginning Balance	**$**	**99,248**	$	103,333
Current Authority		**921**		1,200
Borrowing Authority Withdrawn		**(6,098)**		(4,404)
Borrowing Authority Converted to Cash		**(108)**		(881)
Ending Balance	**$**	**93,963**	$	99,248

RECONCILIATION OF THE PRESIDENT'S BUDGET

The Budget of the United States (also known as the President's Budget), with actual numbers for fiscal year 2015, was not published at the time that these financial statements were issued. The President's Budget is expected to be published in February 2016, and can be located at the OMB website http://www.whitehouse.gov/omb and will be available from the U.S. government Printing Office. The following chart displays the differences between the Combined Statement of Budgetary Resources (SBR) in the fiscal year 2014 Agency Financial Report and the actual fiscal year 2014 balances included in the fiscal year 2016 President's Budget.

Reconciliation of Fiscal Year 2014 Combined Statement of Budgetary Resources to the Fiscal Year 2016 President's Budget

(in millions)	Budgetary Resources	Outlays (net of offsetting collections)	Distributed Offsetting Receipts	Net Outlays	Obligations Incurred
Statement of Budgetary Resources (SBR) Amounts	$ 841,793	$ 463,252	$ (125,584)	$ 337,668	$ 491,651
Included in the Treasury Department Chapter of the President's Budget (PB) but not in the SBR					
IRS non-entity tax credit payments and other outlays [1]	104,553	104,553	-	104,553	104,553
Tax and Trade Bureau (TTB) non-entity collections for Puerto Rico	303	303	-	303	303
Continued dumping subsidy - U.S. Customs and Border Patrol	253	62	-	62	62
Non-Treasury offsetting receipts	-	-	(18)	(18)	-
Subtotal	105,109	104,918	(18)	104,900	104,918
Included in the SBR but not in the Treasury Department chapter of the PB					
Treasury resources shown in non-Treasury chapters of the PB [2]	(48,364)	(5,811)	-	(5,811)	(10,497)
Offsetting collections net of collections shown in PB	-	-	(369)	(369)	-
Treasury offsetting receipts shown in other chapters of PB	-	-	6	6	-
Expired funds in SBR	(8,227)	-	-	-	-
Other	4	4	1	5	3
Subtotal	(56,587)	(5,807)	(362)	(6,169)	(10,494)
President's Budget Amounts	**$ 890,315**	**$ 562,363**	**$ (125,964)**	**$ 436,399**	**$ 586,075**

(1) *These are primarily refundable Earned Income Tax Credit, Child Tax Credit, and the Premium Tax Credit reported with refunds as custodial activities in the Department's financial statements and thus are not reported as budgetary resources.*

(2) *The largest of these resources relate to the Department's International Assistance Programs.*

Legal Arrangements Affecting Use of Unobligated Balances

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

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

Change in Budgetary Accounting

Effective in fiscal year 2015, the Department changed its budgetary accounting policy for the accounting and reporting of non-FCRA NAB budgetary balances in accordance with guidance provided by the OMB. This guidance allows for the cumulative total disbursed funds of the non-FCRA NAB program to be reported as Obligations Incurred on the Combined Statements of Budgetary Resources. This change in accounting is reported as a decrease of $10.6 billion in the line item, "Unapportioned", and an increase of $10.6 billion in the line item, "Obligations Incurred", on the Combined Statements of Budgetary Resources for the fiscal year ended September 30, 2015. In accordance with OMB guidance, this change in accounting is only applied prospectively commencing with fiscal year 2015. This budgetary adjustment had no impact on the non-FCRA NAB proprietary accounts as of and for the fiscal year ended September 30, 2015.

22. COLLECTION AND DISPOSITION OF CUSTODIAL REVENUE

The Department collects the majority of federal revenue from income and excise taxes. Collection activity, by revenue type and tax year, for the fiscal years ended September 30, 2015 and 2014 are shown below (in millions):

		Tax Year				
		2015	2014	2013	Pre-2013	2015 Collections
Individual Income and FICA Taxes	$	1,790,800 $	954,560 $	28,275 $	25,446 $	2,799,081
Corporate Income Taxes		260,237	114,879	3,881	10,892	389,889
Estate and Gift Taxes		39	6,838	643	12,522	20,042
Excise Taxes		76,490	22,781	65	123	99,459
Railroad Retirement Taxes		5,005	1,425	2	-	6,432
Unemployment Taxes		4,285	4,664	47	112	9,108
Fines, Penalties, Interest & Other Revenue - Tax Related		893	-	-	1	894
Tax Related Custodial Revenue		2,137,749	1,105,147	32,913	49,096	3,324,905
Deposit of Earnings, Federal Reserve System		71,051	25,417	-	-	96,468
Fines, Penalties, Interest & Other Revenue - Non-Tax Related		5,612	579	-	-	6,191
Non-Tax Related Custodial Revenue		76,663	25,996	-	-	102,659
Total Custodial Revenue	$	2,214,412 $	1,131,143 $	32,913 $	49,096 $	3,427,564
Less Amounts Collected for Non-Federal Entities						350
Total Custodial Revenue					$	3,427,214

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

AMOUNTS PROVIDED TO FUND THE U.S. GOVERNMENT

For the years ended September 30, 2015 and 2014, collections of custodial revenue transferred to other federal entities were as follows (in millions):

		2015		2014
Department of the Interior	$	**638**	$	769
General Fund		**3,022,969**		2,815,119
Total	$	**3,023,607**	$	2,815,888

FEDERAL TAX REFUNDS AND OTHER PAYMENTS

Federal tax refunds and other payments include amounts paid to taxpayers who have paid more than the actual taxes they owe, as well as payments for various refundable tax credits. Refunds and other payments, by revenue type and tax year, was as follows for the years ended September 30, 2015 and 2014 (in millions):

	Tax Year									**2015**
		2015		**2014**		**2013**		**Pre-2013**		**Refunds / Payments**
Individual Income and FICA Taxes	**$**	**30,720**	**$**	**289,986**	**$**	**23,622**	**$**	**7,070**	**$**	**351,398**
Corporate Income Taxes		**6,242**		**20,825**		**5,502**		**17,484**		**50,053**
Estate and Gift Taxes		**-**		**211**		**306**		**406**		**923**
Excise Taxes		**377**		**578**		**79**		**45**		**1,079**
Railroad Retirement Taxes		**-**		**1**		**-**		**1**		**2**
Unemployment Taxes		**1**		**115**		**15**		**21**		**152**
Total	**$**	**37,340**	**$**	**311,716**	**$**	**29,524**	**$**	**25,027**	**$**	**403,607**

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

FEDERAL TAX REFUNDS AND OTHER AMOUNTS PAYABLE

As of September 30, 2015 and 2014, refunds and other amounts payable consisted of the following (in millions):

		2015		2014
Internal Revenue Service	$	**3,025**	$	4,722
Alcohol and Tobacco Tax and Trade Bureau		**14**		1
Total	$	**3,039**	$	4,723

23. FUNDS FROM DEDICATED COLLECTIONS

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

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

Bureau	Fund Code	Fund Title/Description
Exchange Stabilization Fund (ESF)		
ESF	020X4444	Exchange Stabilization Fund
Public Enterprise/Revolving Funds		
BEP	020X4502	Bureau of Engraving and Printing Fund
MNT	020X4159	Public Enterprise Fund
OCC	020X8413	Assessment Funds
IRS	020X4413	Federal Tax Lien Revolving Fund
Other FDC Funds		
Fiscal Service	020X5080	Gifts to Reduce Public Debt
Fiscal Service	020X5081	Presidential Election Campaign
Fiscal Service	020X8625	Gulf Coast Restoration Trust Fund
Fiscal Service	020X8902	Esther Cattell Schmitt Gift Fund
Fiscal Service	5805585	Travel Promotion Fund, Corp for Travel Promotion
Fiscal Service	580X5585	Travel Promotion Fund, Corp for Travel Promotion
Fiscal Service	0205445002	Debt Collection Special Fund
Fiscal Service	0205445003	Debt Collection Special Fund
Fiscal Service	0209/05445	Debt Collection Special Fund
Fiscal Service	0200/15445	Debt Collection Special Fund
Fiscal Service	0201/25445	Debt Collection Special Fund
Fiscal Service	0202/35445	Debt Collection Special Fund
Fiscal Service	0203/45445	Debt Collection Special Fund
Fiscal Service	0204/55445	Debt Collection Special Fund
Fiscal Service	0205/65445	Debt Collection Special Fund
DO	020X5816	Confiscated and Vested Iraqi Property and Assets
DO	020X8790	Gifts and Bequests Trust Fund
IRS	020X5510	Private Collection Agency Program
IRS	020X5433	Informant Reimbursement
FRF	020X5590	Financial Research Fund
TFF	020X5697	Treasury Forfeiture Fund

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

The BEP, Mint, OCC, and IRS operate "public enterprise/revolving funds" to account for their respective revenues and expenses. 31 USC § 5142 established the revolving fund for BEP to account for revenue and expenses related to the currency printing activities. P.L. 104-52 (31 USC § 5136) established the Public Enterprise Fund for the Mint to account for all revenue and expenses related to the production and sale of numismatic products and circulating coinage. Revenues and other financing sources at the Mint are mainly from the sale of numismatic and bullion products and the sale of circulating coins to the FRB system. These revenues represent inflows of resources to the government. 12 USC § 481 established the Assessment Funds for OCC. Revenue and financing sources are from the bank examinations and assessments for the oversight of the national banks, savings associations, and savings and loan holding companies. These non-appropriated funds contribute to the inflows of resources to the government to specifically fund these 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 federal government. There are minimal transactions with other government agencies.

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

INTRA-GOVERNMENTAL INVESTMENTS IN TREASURY SECURITIES

The U.S. government does not set aside assets to pay future benefits or other expenditures associated with FDCs. The Department's bureaus and other federal agencies invest some of the funds that they collect from the public, if they have the statutory authority to do so, in securities issued by the Fiscal Service. The cash collected by the Fiscal Service is deposited in the General Fund, which uses the cash for general government purposes.

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

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

The balances related to the investments made by the Department bureaus are not displayed on the Department's financial statements because the bureaus are subcomponents of the Department. However, the General Fund remains liable to the Fiscal Service for the invested balances and the Fiscal Service remains liable to the investing Department bureaus (refer to Note 4).

Summary Information for Funds from Dedicated Collections as of and for the Fiscal Year Ended September 30, 2015

(in millions)		Exchange Stabilization Fund	Public Enterprise/ Revolving Funds	Other FDC Funds	Combined FDC Funds
ASSETS					
Fund Balance	$	1,871 $	1,190 $	732 $	3,793
Investments and Related Interest – Intra-governmental		20,773	1,541	7,121	29,435
Cash, Foreign Currency and Other Monetary Assets		58,646	-	25	58,671
Investments and Related Interest		11,719	-	-	11,719
Other Assets		-	1,432	177	1,609
Total Assets	$	93,009 $	4,163 $	8,055 $	105,227
LIABILITIES					
Intra-governmental Liabilities	$	- $	28 $	647 $	675
Certificates Issued to Federal Reserve Banks		5,200	-	-	5,200
Allocation of Special Drawing Rights		49,574	-	-	49,574
Other Liabilities		6	720	206	932
Total Liabilities		54,780	748	853	56,381
Net Position					
Unexpended Appropriations		200	-	-	200
Cumulative Results of Operations		38,029	3,415	7,202	48,646
Total Liabilities and Net Position	$	93,009 $	4,163 $	8,055 $	105,227
Statement of Net Cost					
Gross Cost	$	5,212 $	4,786 $	531 $	10,529
Less: Earned Revenue		(2,860)	(4,939)	(295)	(8,094)
Gains/Losses on Pension, ORB, or OPEB Assumption Changes		-	4	-	4
Total Net Cost of (Revenue From) Operations	$	2,352 $	(149)$	236 $	2,439
Statement of Changes in Net Position					
Cumulative Results of Operations:					
Beginning Balance	$	40,381 $	3,207 $	2,876 $	46,464
Budgetary Financing Sources		-	(11)	4,425	4,414
Other Financing Sources		-	70	137	207
Total Financing Sources		-	59	4,562	4,621
Net Cost of (Revenue From) Operations		(2,352)	149	(236)	(2,439)
Change in Net Position		(2,352)	208	4,326	2,182
Ending Balance	$	38,029 $	3,415 $	7,202 $	48,646

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

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

24. Reconciliation of Net Cost of Treasury Operations and Non-Entity Costs to Budget

The Reconciliation of Net Cost of Operations to Budget explains the difference between the budgetary net obligations and the proprietary net cost of Treasury operations and non-entity costs. For the fiscal years ended September 30, 2015 and 2014, the Reconciliation of Net Cost of Operations to Budget consisted of the following (in millions):

		2015		2014
RESOURCES USED TO FINANCE ACTIVITIES				
Budgetary Resources Obligated:				
Obligations Incurred (Note 21)	**$**	**468,044**	$	491,651
Less: Spending Authority from Offsetting Collections and Recoveries of Prior Year Unpaid Obligations		**(27,062)**		(36,244)
Obligations Net of Offsetting Collections and Recoveries		**440,982**		455,407
Less: Distributed Offsetting Receipts		**(69,036)**		(125,584)
Net Obligations		**371,946**		329,823
Other Resources:				
Donations and Forfeiture of Property		**78**		140
Financing Sources for Accrued Interest and Discount on Debt		**9,579**		7,404
Financing Sources for Accrued Interest on Restoration of Federal Debt Principal (Note 15)		**2,052**		(801)
Transfers In/Out Without Reimbursement		**11**		(44)
Imputed Financing Sources from Cost Absorbed by Others		**669**		796
Transfers to the General Fund and Other (Note 19)		**(74,605)**		(72,633)
Net Other Resources Used to Finance Activities		**(62,216)**		(65,138)
Total Resources Used to Finance Activities		**309,730**		264,685
RESOURCES USED TO FINANCE ITEMS NOT PART OF THE NET COST OF TREASURY OPERATIONS AND NON-ENTITY COSTS				
Change in Budgetary Resources Obligated for Goods, Services, and Benefits Ordered but not yet Provided		**5,195**		(6,217)
Resources that Fund Expenses Recognized in Prior Periods		**(1,284)**		(9,409)
Budgetary Offsetting Collections & Receipts that do not affect Net Cost of Treasury Operations and Non-Entity Costs		**(66,860)**		(127,130)
Adjustment to Accrued Interest and Discount on Debt		**4,949**		5,260
Resources that Finance the Acquisition of Assets or Liquidation of Liabilities		**(896)**		1,053
Other Resources or Adjustments to Net Obligated Resources that do not Affect Net Cost of Treasury Operations and Non-Entity Costs		**(2,226)**		(1,649)
Total Resources Used to Finance Items Not Part of the Net Cost of Treasury Operations and Non-Entity Costs		**(61,122)**		(138,092)
Total Resources Used to Finance the Net Cost of Treasury Operations and Non-Entity Costs		**370,852**		402,777
Total Components of Net Cost of Treasury Operations and Non-Entity Costs That Will Require or Generate Resources in Future Periods		**393**		(1,688)
Total Components of Net Cost of Treasury Operations and Non-Entity Costs That Will Not Require or Generate Resources [(a)]		**3,667**		2,871
Total Components of Net Cost of Treasury Operations and Non-Entity Costs That Will Not Require or Generate Resources in the Current Period		**4,060**		1,183
Net Cost of Treasury Operations and Non-Entity Costs	**$**	**374,912**	$	403,960

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

25. SCHEDULE OF FIDUCIARY ACTIVITY

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

Bureau	Fund Code	Authority	Fund Title/Description
BEP	020X6513.013	31 USC 5119	Mutilated Currency Claims Funds
Fiscal Service	020X6045	31 USC 3328	Proceeds, Payments of Unpaid Checks
Fiscal Service	020X6048	31 USC 3329, 3330	Proceeds of Withheld Foreign Checks
Fiscal Service	020015X6078	50 APP. USC 2012	War Claims Fund, Foreign Claims Settlement Commission
Fiscal Service	020X6092	31 USC 1321	Debt Management Operations
Fiscal Service	020X6104	22 USC 1627	Albanian Claims Fund, Treasury
Fiscal Service	020X6133	31 USC 1322	Payment of Unclaimed Moneys
Fiscal Service	020X6210	22 USC 1623	Iraq Claims Settlement Fund
Fiscal Service	020X6309	22 USC 1627(a)	Libyan Claims Settlement Fund
Fiscal Service	020X6310	22 USC 1627(a)	Libyan Claims Settlement Fund
Fiscal Service	020X6311	98 Stat. 1876	Kennedy Center Revenue Bond
Fiscal Service	020X6312	22 USC 1627	Iranian Claims Settlement Fund
Fiscal Service	020X6314	22 USC 1644g	German Democrat Settlement Fund
Fiscal Service	020X6315	22 USC 1645h	Vietnam Claims Settlement Fund
Fiscal Service	020X6501.018	31 USC 3513	Small Escrow Amounts
Fiscal Service	020X6720	31 USC 3513	SM DIF Account for Dep. & Check Adj.
Fiscal Service	020X6830	104 Stat. 1061	Net Interest Payments to/from State
Fiscal Service	020X6999	31 USC 3513	Accounts Payable, Check Issue UNDDR
IRS	020X6737	90 Stat. 269-270	Internal Revenue Collections for Northern Mariana Island
IRS	020X6738	31 USC 3513	Coverover Withholdings-U.S. Virgin Islands
IRS	020X6740	31 USC 3515	Coverover Withholdings-Guam
IRS	020X6741	31 USC 3513	Coverover Withholdings-American Samoa
OAS	020X6317.001	22 USC 2431	Belize Escrow, Debt Reduction

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

Schedule of Fiduciary Activity

	2015			2014		
(in millions)	**Unclaimed Monies - Fiscal Service**	**All Other Fiduciary Funds**	**Total Fiduciary Funds**	Unclaimed Monies - Fiscal Service	All Other Fiduciary Funds	Total Fiduciary Funds
Fiduciary Net Assets, Beginning of the Year	**$ 580**	**$ 140**	**$ 720**	$ 551	$ 155	$ 706
Increases:						
Contributions to Fiduciary Net Assets	**31**	**273**	**304**	34	338	372
Investment earnings	**-**	**1**	**1**	-	1	1
Total Increases	**31**	**274**	**305**	34	339	373
Decreases:						
Disbursements to and on behalf of beneficiaries	**(3)**	**(281)**	**(284)**	(5)	(354)	(359)
Total Decreases	**(3)**	**(281)**	**(284)**	(5)	(354)	(359)
Net Increase (Decrease) in Fiduciary Assets	**28**	**(7)**	**21**	29	(15)	14
Fiduciary Net Assets, End of Year	**$ 608**	**$ 133**	**$ 741**	$ 580	$ 140	$ 720

Schedule of Fiduciary Net Assets

(in millions)	2015 Unclaimed Monies - Fiscal Service	2015 All Other Fiduciary Funds	2015 Total Fiduciary Funds	2014 Unclaimed Monies - Fiscal Service	2014 All Other Fiduciary Funds	2014 Total Fiduciary Funds
Fiduciary Net Assets						
Cash and Cash Equivalents	**$ 608**	**$ 118**	**$ 726**	$ 580	$ 126	$ 706
Investments	**-**	**20**	**20**	-	19	19
Total Fiduciary Assets	**608**	**138**	**746**	580	145	725
Less: Fiduciary Liabilities	**-**	**(5)**	**(5)**	-	(5)	(5)
Total Fiduciary Net Assets	**$ 608**	**$ 133**	**$ 741**	$ 580	$ 140	$ 720

26. Commitments and Contingencies

Legal Contingencies

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

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

In the opinion of the Department's management and legal counsel, based on information 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 the Department's consolidated financial statements, except for the pending legal actions described below which may have a materially adverse impact on the consolidated financial statements depending on the outcomes of the cases.

Pending Legal Actions

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

- *GSE Related Cases:* A number of cases were filed in the U.S. Court of Federal Claims, the U.S. District Court for the District of Columbia, the U.S. District Court for the Northern District of Iowa, the U.S. District Court for the District of Delaware, and the

U.S. District Court for the Eastern District of Kentucky, in which the plaintiffs allege, among other things, that the U.S. government took their property and contractual rights as preferred and common stockholders when the third amendments to the SPSPAs between the Department and each GSE were executed in August 2012 (refer to Note 10). One case also alleges that the U.S. government took plaintiffs' property and contractual rights when the GSEs were placed into conservatorship and entered into the SPSPAs with the Department in September 2008. In the Court of Federal Claims, the plaintiffs seek just compensation (damages) from the U.S. government. In the District Courts, the plaintiffs seek to set aside the third amendments to the SPSPAs as well as damages. On September 30, 2014, the D.C. District Court granted the defendants' motions to dismiss four cases pending in that court, and the plaintiffs filed appeals in October 2014. The Department is unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

- *Starr International Co., Inc. v. United States:* The plaintiff, an American International Group, Inc. (AIG) shareholder that brought suit on behalf of two classes of shareholders, alleges that the U.S. government violated the Fifth Amendment to the United States Constitution by illegally exacting or taking property without just compensation. One class, the Credit Agreement Class, claimed that the Fifth Amendment was violated when a majority share of AIG's equity and voting rights was conveyed in connection with an $85 billion loan to AIG during the 2008 financial crisis. Starr also asserted a Fifth Amendment violation on behalf of the second class, the Reverse Stock Split Shareholder Class, alleging that a June 2009 reverse stock split constituted a taking of the common stockholders' asserted right to a shareholder vote on whether to approve a reverse split of AIG's common stock. The U.S. Court of Federal Claims held that the Credit Agreement Shareholder Class prevails on liability, but recovers no damages, and that the Reverse Stock Split Shareholder Class does not prevail on liability or damages. Both the Plaintiff and the United States have appealed. The Department is unable to determine the likelihood of an unfavorable outcome or make an estimate of potential loss at this time.

- *Estes v. United States:* The State of Kansas filed a complaint in the U.S. Court of Federal Claims requesting the Department to redeem matured savings bonds not possessed by Kansas, but which have registered owners with last known addresses in Kansas. The Department informed the State of Kansas that it would not redeem these savings bonds since it was not the registered owner of the bonds. The U.S. government filed a motion to dismiss the complaint. On August 20, 2015, the court dismissed one claim in the complaint and denied the U.S. government's motion with respect to other claims. The Department is unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

- *Adam Steele, Brittany Montrois v. United States:* The plaintiffs filed a class claim in the U.S. District Court for the District of Columbia seeking refunds of all user fees paid, plus interest, to obtain a preparer tax identification number (PTIN). Additionally, the plaintiffs seek to force the Department to cease charging a user fee to obtain a PTIN and asking for more information than is necessary to issue a PTIN. The Department is unable to determine the likelihood of an unfavorable outcome or an estimate of potential loss at this time.

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

- *American Recovery and Reinvestment Tax Act of 2009 (ARRA) Related Cases*: A number of cases was 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. The Department has determined

there is a reasonably possible likelihood of unfavorable outcomes in some of the cases. The total alleged damages for these cases approximate $273 million.

- *Langbord v. U.S. Department of the Treasury*: A case was filed in the U.S. District Court for the Eastern District of Pennsylvania in which the plaintiffs, after voluntarily surrendering ten 1933 Double Eagle gold coins they had in their possession, requested either the return of the coins, or compensation by the government of $40 million. The U.S. government contends the coins should not have been in the plaintiffs' possession as they are considered public property of the U.S. government. The Department has determined there is a reasonably possible likelihood of an unfavorable outcome.

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

OTHER COMMITMENTS AND CONTINGENCIES

Loan Commitments

The Department, through the FFB, makes loan commitments with federal agencies, or private sector borrowers whose loans are guaranteed by federal agencies, to extend them credit for their own use (refer to Notes 1L and 3). As of September 30, 2015 and 2014, the Department had loan commitments totaling $14.6 billion and $17.9 billion, respectively.

Multilateral Development Banks

The Department, on behalf of the United States, has subscribed to capital for certain MDBs, portions of which are callable under certain limited circumstances to meet the obligations of the respective MDB. There has never been, nor is there anticipated, a call on the U.S. commitment for these subscriptions. As of September 30, 2015 and 2014, U.S. callable capital in MDBs was as follows (in millions):

		2015		2014
Inter-American Development Bank	**$**	**45,082**	$	40,983
International Bank for Reconstruction and Development		**40,498**		37,570
Asian Development Bank		**18,572**		16,014
European Bank for Reconstruction and Development		**3,055**		3,055
African Development Bank		**3,550**		3,042
North American Development Bank		**1,275**		1,275
Multilateral Investment Guarantee Agency(1)		**315**		315
Total	**$**	**112,347**	$	102,254

(1) Both fiscal years 2015 and 2014 include commitments of $22 million for the undisbursed portion of the subscription to paid-in capital investments.

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

Terrorism Risk Insurance Program

The *Terrorism Risk Insurance Act* (TRIA), signed into law in November 2002, was originally enacted to address market disruptions resulting from terrorist attacks on September 11, 2001. Most recently, the Terrorism Risk Insurance Program Reauthorization Act of 2015 extended the Terrorism Risk Insurance Program (TRIA Program) until December 31, 2020. TRIA helps to ensure available and affordable commercial property and casualty insurance for terrorism risk, and simultaneously allows private markets to stabilize. The authority to pay claims under the TRIA Program is activated upon the certification of an "act of

terrorism" by the Secretary in consultation with the Secretary of the U.S. Department of Homeland Security and the U.S. Attorney General. If a certified act of terrorism occurs, insurers may be eligible to receive reimbursement from the U.S. government for insured losses in connection with certified acts of terrorism resulting in more than $100 million in insured losses once a particular insurer has also satisfied its designated deductible amount. Insured losses above this amount will be shared between insurance companies and the U.S. government. TRIA includes both mandatory and discretionary authority for the Department to recoup federal payments made under the TRIA Program through policyholder surcharges under certain circumstances, and contains provisions designed to manage litigation arising from or relating to a certified act of terrorism. There were no claims under TRIA as of September 30, 2015 or 2014.

Exchange Stabilization Agreement

The North American Framework Agreement (NAFA), signed by the Department in 1994, includes the Exchange Stabilization Agreement (ESA) with Mexico. The Department, through the ESF, has a standing swap line for $3.0 billion with Mexico under the NAFA and its implementing ESA. The amounts and terms (including the assured source of repayment) of any borrowing under NAFA and ESA will have to be negotiated and agreed to before any actual drawing can occur. The ESA does provide sample clauses that state that transactions shall be exchange rate neutral for the ESF, and shall bear interest based on a then current rate tied to U.S. Treasury bills. There were no drawings outstanding on the ESF swap line as of September 30, 2015 and 2014.

New Arrangements to Borrow

The *Supplemental Appropriations Act of 2009* (P.L. 111-32) provided the authorization and appropriation for an increase in the United States' participation in the New Arrangements to Borrow (NAB). Because the U.S. financial participation in the IMF is denominated in SDRs, P.L. 111-32 authorized and appropriated up to the dollar equivalent of SDR 75 billion to implement this commitment. Accordingly, the United States agreed to increase its participation in the NAB from SDR 6.6 billion to SDR 69.1 billion, pursuant to IMF Executive Board Decision No. 14577-(10/35). Total U.S. participation in the NAB of SDR 69.1 billion was equivalent to $97.0 billion and $102.4 billion as of September 30, 2015 and 2014, respectively. Refer to Notes 7 and 9 for more information on the NAB.

Housing Programs Under TARP

Housing programs under TARP are designed to provide stability for both the housing market and homeowners. These programs assist homeowners who are experiencing financial hardships to remain in their homes until their financial position improves or they relocate to a more sustainable living situation, and to obtain other assistance designed to prevent foreclosures. As of September 30, 2015 and 2014, the Department had committed up to $37.5 billion and $38.5 billion, respectively, for these programs. Outstanding commitments totaled $19.0 billion and $24.4 billion as of September 30, 2015 and 2014, respectively. For fiscal years 2015 and 2014, payments made on behalf of the housing programs under TARP totaled $4.2 billion and $4.3 billion, respectively, reported within the Economic Program on the Consolidated Statements of Net Cost.

Commitment to GSEs

The SPSPA agreements between the Department and each GSE, which have no expiration date, provide for the Department to disburse funds to the GSEs if, at the end of any quarter, the FHFA determines that the liabilities exceed the GSE's assets. At September 30, 2015 and 2014, the Department's maximum remaining potential commitment to the GSEs was $258.1 billion. Refer to Note 10 for further information.

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED – SEE ACCOMPANYING AUDITORS' REPORT)

INTRODUCTION

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

OTHER CLAIMS FOR REFUNDS

The Department estimated that $4.8 billion and $7.8 billion as of September 30, 2015 and 2014, respectively, may be payable as other claims for tax refunds. This estimate represents amounts (principal and interest) that may be paid for claims pending judicial review by the federal courts or internally, by Appeals. In fiscal year 2015, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts and appeals courts is $2.1 billion and $2.7 billion, respectively. In fiscal year 2014, the total estimated payout (including principal and interest) for claims pending judicial review by the federal courts and appeals courts was $3.1 billion and $4.7 billion, respectively. To the extent judgments against the government in these cases prompt other similarly situated taxpayers to file similar refund claims, these amounts could become significantly greater.

IRS FEDERAL TAXES RECEIVABLE, NET

In accordance with SFFAS No. 7, *Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting*, some unpaid tax assessments do not meet the criteria for financial statement recognition. Under Internal Revenue Code Section 6201, the Department is authorized and required to make inquiries, determinations, and assessments of all taxes which have not been duly paid (including interest, additions to the tax, and assessable penalties) under the law. Unpaid assessments result from taxpayers filing returns without sufficient payment, as well as from tax compliance programs such as examination, under-reporter, substitute for return, and combined annual wage reporting. The Department also has authority to abate the paid or unpaid portion of an assessed tax, interest, and penalty. Abatements occur for a number of reasons and are a normal part of the tax administration process. Abatements may result in claims for refunds or a reduction of the unpaid assessed amount.

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

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

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

The components of the total unpaid assessments at September 30, 2015 and 2014, were as follows (in millions):

		2015	2014
Total Unpaid Assessments	$	**389,000**	$ 380,000
Less: Compliance Assessments		**(80,000)**	(86,000)
Write Offs		**(138,000)**	(138,000)
Gross Federal Taxes Receivable		**171,000**	156,000
Less: Allowance for Doubtful Accounts		**(130,000)**	(116,000)
Federal Taxes Receivables, Net	$	**41,000**	$ 40,000

To eliminate double counting, the compliance assessments reported above exclude trust fund recovery penalties assessed against officers and directors of businesses involved in the non-remittance of federal taxes withheld from their employees. The penalties totaled $2 billion as of September 30, 2015 and 2014. The related unpaid assessments of those businesses are reported as taxes receivable or write-offs, but the Department may also recover portions of those businesses' unpaid assessments from any and all individual officers and directors against whom a trust fund recovery penalty is assessed.

ALCOHOL AND TOBACCO TAX AND TRADE BUREAU

As an agent of the U.S. government and as authorized by 26 USC, the TTB collects excise taxes from alcohol, tobacco, firearms, and ammunition industries. In addition, special occupational taxes are collected from certain tobacco businesses. During fiscal years 2015 and 2014, TTB collected approximately $22.3 billion and $22.2 billion in taxes, interest, and other revenues, respectively. Federal excise taxes are also collected on certain articles produced in Puerto Rico and the Virgin Islands, and imported into the United States. In accordance with 26 USC 7652, such taxes collected on rum imported into the United States are "covered over" or paid into the treasuries of Puerto Rico and the Virgin Islands.

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

DEFERRED MAINTENANCE

In fiscal years 2015 and 2014, the Department had no material amounts of deferred maintenance costs to report on vehicles, buildings, and structures owned by the Department.

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

Logistic personnel use condition assessment surveys and/or the total life-cycle cost methods to determine deferred maintenance and acceptable operating condition of an asset. Periodic condition assessments, physical inspections, and review of manufacturing and engineering specifications, work orders, and building and other structure logistics reports can be used under these methodologies.

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, 2015 and 2014 disaggregated by Treasury reporting entity rather than by Treasury major budget account, since Treasury manages its budget at the reporting entity level.

Fiscal Year 2015 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 brought forward, October 1	$	71 $	1,039 $	346,682 $	55 $	1,081
Recoveries of prior year unpaid obligations		-	52	12,408	2	95
Other changes in unobligated balance		-	(28)	(16,567)	(1)	(108)
Unobligated balance from prior year budget authority, net		71	1,063	342,523	56	1,068
Appropriations (discretionary and mandatory)		-	418,637	11,226	112	11,344
Borrowing authority (discretionary and mandatory)		-	-	921	-	-
Spending authority from offsetting collections (discretionary and mandatory)		666	261	5,902	-	137
Total Budgetary Resources	$	737 $	419,961 $	360,572 $	168 $	12,549
STATUS OF BUDGETARY RESOURCES						
Obligations incurred	$	636 $	418,734 $	32,979 $	121 $	11,534
Unobligated balance, end of year:						
Apportioned		101	1,142	278,786	44	612
Exempt from Apportionment		-	4	8,824	-	7
Unapportioned		-	81	39,983	3	396
Total unobligated balance, end of year		101	1,227	327,593	47	1,015
Total Status of Budgetary Resources	$	737 $	419,961 $	360,572 $	168 $	12,549
CHANGE IN OBLIGATED BALANCE						
Unpaid Obligations:						
Unpaid obligations, brought forward, October 1	$	107 $	1,296 $	223,035 $	28 $	1,329
Obligations incurred		636	418,734	32,979	121	11,534
Outlays (gross)		(633)	(419,327)	(18,415)	(102)	(11,388)
Recoveries of prior year unpaid obligations		-	(52)	(12,408)	(2)	(95)
Unpaid obligations, end of year		110	651	225,191	45	1,380
Uncollected Payments:						
Uncollected payments, Federal sources, brought forward, October 1		(47)	(25)	(615)	(1)	(37)
Change in uncollected payments, Federal sources		4	-	110	1	14
Uncollected payments, Federal sources, end of year		(43)	(25)	(505)	-	(23)
Obligated Balance, End of Year	$	67 $	626 $	224,686 $	45 $	1,357
Obligated Balance, Start of Year	$	60 $	1,271 $	222,420 $	27 $	1,292
BUDGET AUTHORITY AND OUTLAYS, NET						
Budget authority, gross (discretionary and mandatory)	$	666 $	418,898 $	18,049 $	112 $	11,481
Actual offsetting collections (discretionary and mandatory)		(671)	(260)	(8,805)	(1)	(150)
Change in uncollected payments, Federal sources (discretionary and mandatory)		4	-	110	1	14
Budget Authority, Net (Discretionary and Mandatory)	$	(1)$	418,638 $	9,354 $	112 $	11,345
Outlays, gross (discretionary and mandatory)	$	633 $	419,327 $	18,415 $	102 $	11,388
Actual offsetting collections (discretionary and mandatory)		(671)	(260)	(8,805)	(1)	(150)
Outlays, net (discretionary and mandatory)		(38)	419,067	9,610	101	11,238
Distributed offsetting receipts		-	(42,819)	(24,920)	-	(1,297)
Agency Outlays, Net (Discretionary and Mandatory)	$	(38)$	376,248 $	(15,310)$	101 $	9,941

(a) *Of the $361 billion of Total Budgetary Resources for Departmental Offices, GSE, ESF, IMF and OAS had $259 billion, $38 billion, $25 billion, and $15 billion, respectively. The remainder is spread throughout other offices.*

Fiscal Year 2015 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 brought forward, October 1	$	506 $	703 $	5 $	349,165 $	977
Recoveries of prior year unpaid obligations		15	1	1	6,353	6,221
Other changes in unobligated balance		(11)	-	(1)	(9,937)	(6,779)
Unobligated balance from prior year budget authority, net		510	704	5	345,581	419
Appropriations (discretionary and mandatory)		-	-	100	441,419	-
Borrowing authority (discretionary and mandatory)		-	-	-	-	921
Spending authority from offsetting collections (discretionary and mandatory)		3,131	1,593	6	9,624	2,072
Total Budgetary Resources	$	3,641 $	2,297 $	111 $	796,624 $	3,412
STATUS OF BUDGETARY RESOURCES						
Obligations incurred	$	2,938 $	996 $	106 $	465,204 $	2,840
Unobligated balance, end of year:						
Apportioned		703	(1)	1	281,286	102
Exempt from Apportionment		-	1,302	-	10,137	-
Unapportioned		-	-	4	39,997	470
Total unobligated balance, end of year		703	1,301	5	331,420	572
Total Status of Budgetary Resources	$	3,641 $	2,297 $	111 $	796,624 $	3,412
CHANGE IN OBLIGATED BALANCE						
Unpaid Obligations:						
Unpaid obligations, brought forward, October 1	$	280 $	234 $	22 $	130,754 $	95,577
Obligations incurred		2,938	996	106	465,204	2,840
Outlays (gross)		(2,899)	(991)	(104)	(451,834)	(2,025)
Recoveries of prior year unpaid obligations		(15)	(1)	(1)	(6,353)	(6,221)
Unpaid obligations, end of year		304	238	23	137,771	90,171
Uncollected Payments:						
Uncollected payments, Federal sources, brought forward, October 1		(6)	(4)	(4)	(227)	(512)
Change in uncollected payments, Federal sources		6	-	1	31	105
Uncollected payments, Federal sources, end of year		-	(4)	(3)	(196)	(407)
Obligated Balance, End of Year	$	304 $	234 $	20 $	137,575 $	89,764
Obligated Balance, Start of Year	$	274 $	230 $	18 $	130,527 $	95,065
BUDGET AUTHORITY AND OUTLAYS, NET						
Budget authority, gross (discretionary and mandatory)	$	3,131 $	1,593 $	106 $	451,043 $	2,993
Actual offsetting collections (discretionary and mandatory)		(3,137)	(1,593)	(7)	(9,655)	(4,969)
Change in uncollected payments, Federal sources (discretionary and mandatory)		6	-	1	31	105
Budget Authority, Net (Discretionary and Mandatory)	$	- $	- $	100 $	441,419 $	(1,871)
Outlays, gross (discretionary and mandatory)	$	2,899 $	991 $	104 $	451,834 $	2,025
Actual offsetting collections (discretionary and mandatory)		(3,137)	(1,593)	(7)	(9,655)	(4,969)
Outlays, net (discretionary and mandatory)		(238)	(602)	97	442,179	(2,944)
Distributed offsetting receipts		-	-	-	(69,036)	-
Agency Outlays, Net (Discretionary and Mandatory)	$	(238)$	(602)$	97 $	373,143 $	(2,944)

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

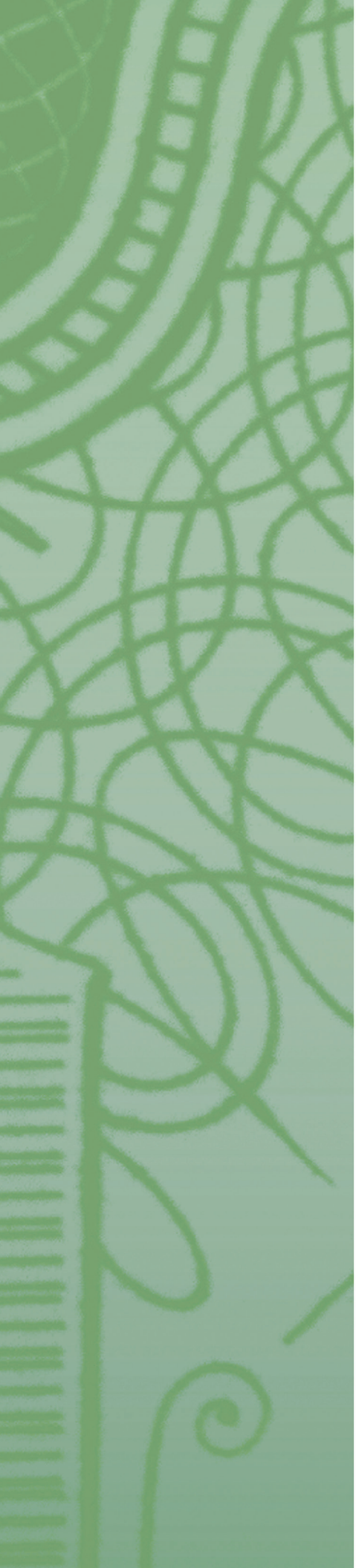
(a) *Of the $374 billion of Total Budgetary Resources for Departmental Offices, GSE and OFS had $259 billion and $17 billion, respectively. The remainder is spread throughout other offices.*

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

PART 3:

Other Information (Unaudited)



SECTION A: COMBINED SCHEDULE OF SPENDING

Combined Schedule of Spending (Unaudited)

For Fiscal Years Ended September 30, 2015 and 2014

(In Millions)

The following Schedule of Spending (SOS) presents an overview of the funds available for the Department to spend and how the Department spent these funds as of and for the fiscal year ended September 30, 2015 and 2014. The financial data used to populate this schedule is the same underlying data used to populate the Department's Statement of Budgetary Resources (SBR). Accordingly, the budgetary financial information in this schedule is presented on a combined basis rather than on a consolidated basis. Specifically, the SOS presents Total Resources (or "Total Budgetary Resources" per the SBR), Amount Available but Not Agreed to be Spent (or "Unobligated balance, end of year – Apportioned and Exempt from Apportionment" per the SBR), and Amount Not Available to be Spent (or "Unobligated balances, end of year – Unapportioned" per the SBR).

		2015		2014
What Money is Available to Spend?				
Total Resources	$	**800,036**	$	841,793
Less: Amount Available but Not Agreed to be Spent		**(291,525)**		(290,299)
Less: Amount Not Available to be Spent		**(40,467)**		(59,843)
Total Amounts Agreed to be Spent	$	**468,044**	$	491,651
How was the Money Spent/Issued?				
Interest and Dividends[1]	$	**413,221**	$	441,926
Investments and Loans[2]		**19,235**		8,465
Personnel Compensation and Other Related Benefits		**11,053**		11,249
Grants, Subsidies, and Contributions[3]		**7,983**		15,915
Other Contractual Services		**4,499**		4,252
Other		**12,053**		9,844
Total Amounts Agreed to be Spent	$	**468,044**	$	491,651
Who did the Money go to?				
Federal	$	**169,326**	$	195,616
Non-Federal		**298,718**		296,035
Total Amounts Agreed to be Spent	$	**468,044**	$	491,651

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

SECTION B: TAX GAP AND TAX BURDEN

TAX GAP

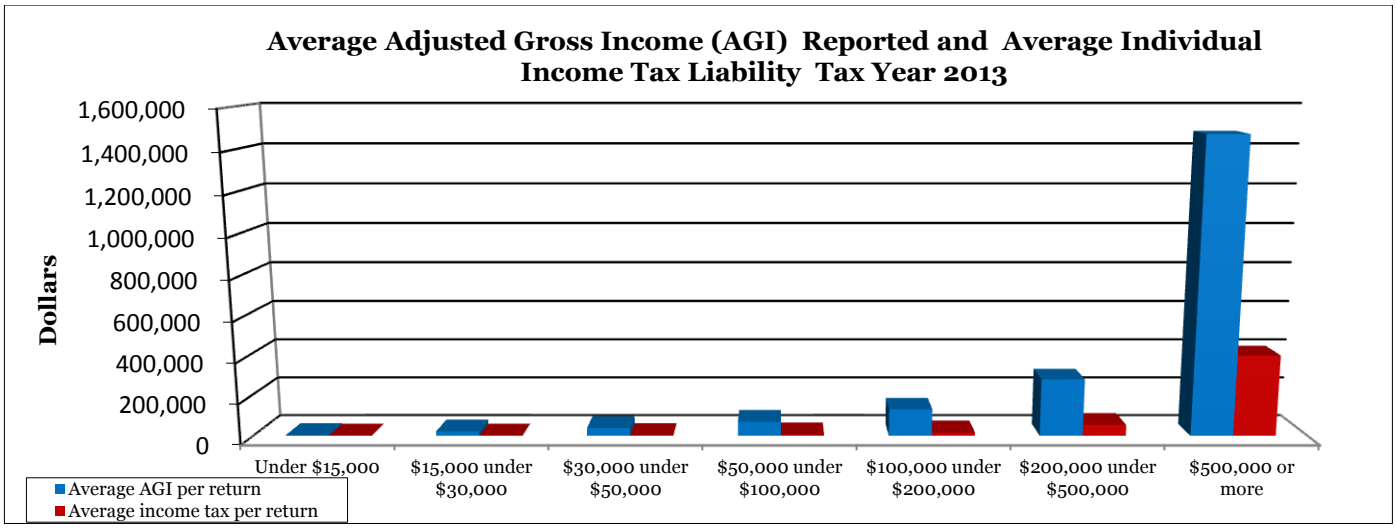
The tax gap is the difference between the amount of tax imposed by law and what taxpayers actually pay on time. The tax gap arises from the three types of noncompliance: not filing required tax returns on time or at all (the nonfiling gap), underreporting the correct amount of tax on timely filed returns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

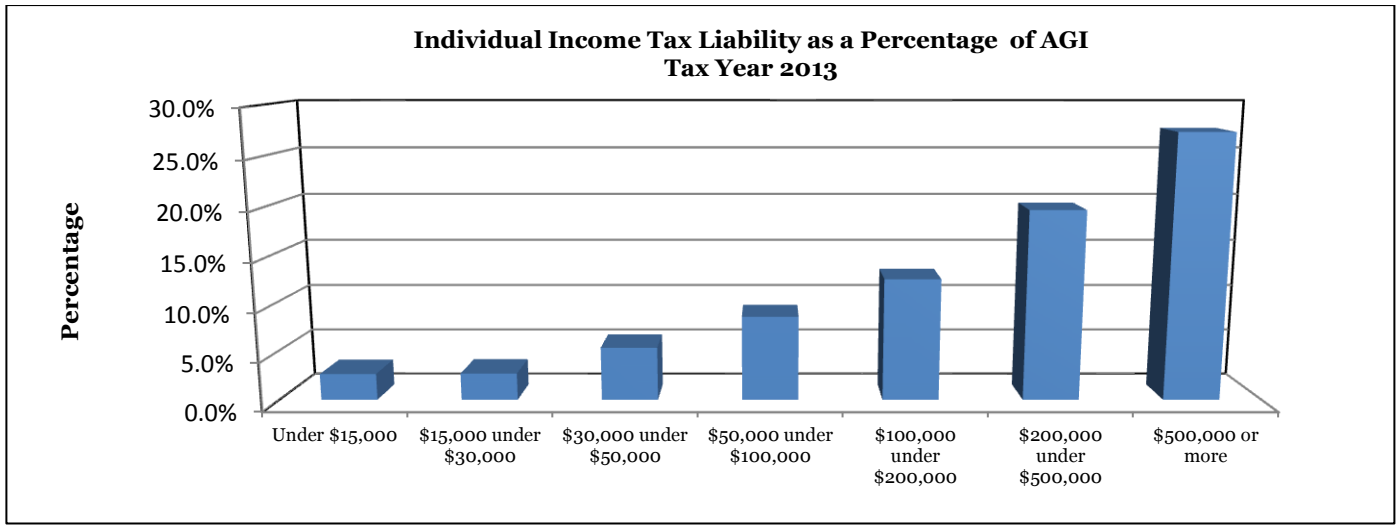
The collection gap is the cumulative amount of tax, penalties, and interest assessed over many years, but not paid by a certain point in time, which the IRS expects will remain uncollectible. In essence, it represents the difference between the total balance of unpaid assessments and the net taxes receivable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

TAX BURDEN

The Internal Revenue Code provides for progressive rates of tax, whereby higher incomes are generally subject to higher rates of tax. The following pages present in both graph and table format various income levels and their associated tax liabilities for individuals and corporations. This information is the most recent available for individuals (tax year 2013) and corporations (tax year 2012). The graphs and charts are representative of more detailed data and analyses available from the IRS Statistics of Income office.

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

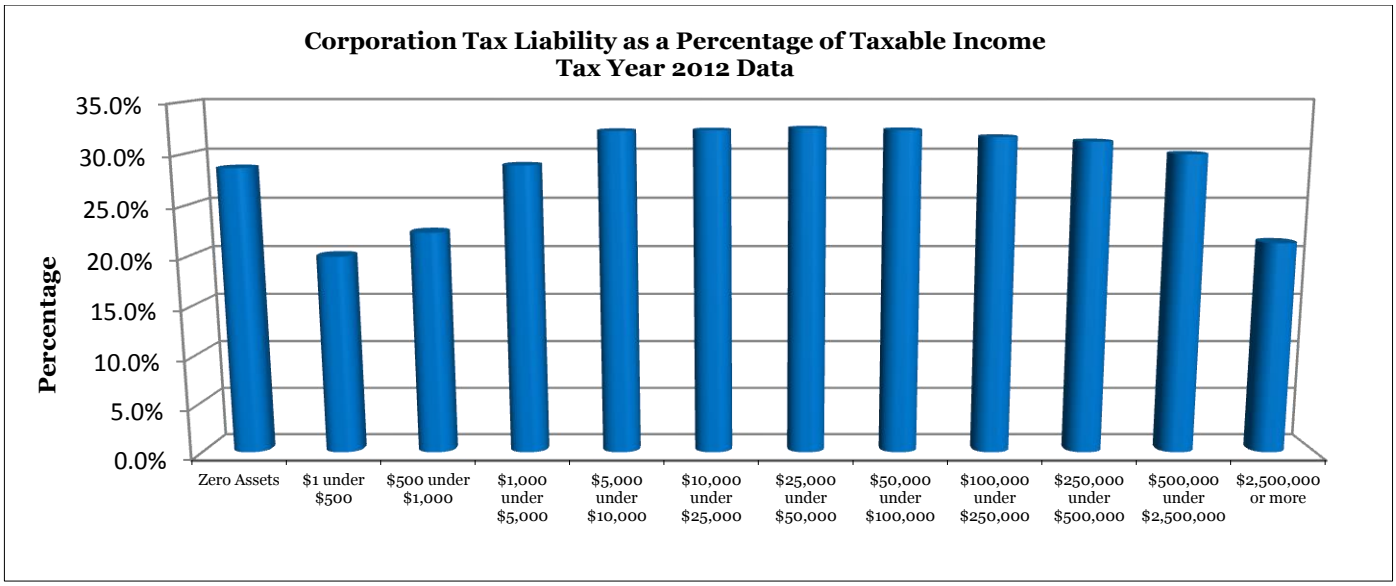




INDIVIDUAL INCOME TAX LIABILITY

Tax Year 2013

Adjusted Gross Income (AGI)	Number of taxable returns (in thousands)	AGI (in millions)	Total income tax (in millions)	Average AGI per return (in whole dollars)	Average Income tax per return (in whole) dollars)	Income tax as a percentage of AGI
Under $15,000	37,255	$ 76,709	$ 2,093	$ 2,059	$ 56	2.7%
$15,000 under $30,000	30,556	671,851	18,614	21,988	609	2.8%
$30,000 under $50,000	25,753	1,008,621	55,379	39,165	2,150	5.5%
$50,000 under $100,000	31,803	2,272,956	198,233	71,470	6,233	8.7%
$100,000 under $200,000	16,426	2,209,424	278,504	134,508	16,955	12.6%
$200,000 under $500,000	4,488	1,277,489	250,646	284,645	55,848	19.6%
$500,000 or more	1,070	1,576,579	431,571	1,473,438	403,337	27.4%
Total	**147,351**	**$ 9,093,629**	**$ 1,235,040**			



CORPORATION TAX LIABILITY

Tax Year 2012

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	$ 16,712	$ 4,788	28.7%
$1 under $500	7,196	1,433	19.9%
$500 under $1,000	3,521	785	22.3%
$1,000 under $5,000	11,870	3,433	28.9%
$5,000 under $10,000	7,557	2,438	32.3%
$10,000 under $25,000	12,705	4,107	32.3%
$25,000 under $50,000	11,352	3,690	32.5%
$50,000 under $100,000	14,208	4,595	32.3%
$100,000 under $250,000	25,864	8,190	31.7%
$250,000 under $500,000	29,767	9,297	31.2%
$500,000 under $2,500,000	122,526	36,757	30.0%
$2,500,000 or more	886,522	188,341	21.2%
Total	**$ 1,149,800**	**$ 267,854**	

SECTION C: MANAGEMENT AND PERFORMANCE CHALLENGES IDENTIFIED BY THE INSPECTORS GENERAL AND THE SECRETARY'S RESPONSES

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

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

October 30, 2015

INFORMATION MEMORANDUM FOR SECRETARY LEW

FROM: Eric M. Thorson /s/
Inspector General

SUBJECT: Management and Performance Challenges Facing the Department of the Treasury (OIG-CA-16-002)

In accordance with the Reports Consolidation Act of 2000, we are providing you with our perspective on the most serious management and performance challenges facing the Department of the Treasury.

We are reporting five challenges, which are updated from last year.

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

In addition to the above challenges, we continue to report our elevated concerns about two matters: currency and coin production and documenting key activities and decisions.

This year, we also combined two Challenges that were reported separately in the previous year's memorandum. Specifically, we incorporated last year's Challenge, "Continued Implementation of Dodd-Frank," into the broader Challenge, "Management of Treasury's Authorities Intended to Support and Improve the Economy." We did this because many requirements directed to Treasury and the Treasury Secretary in the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) have been addressed, and the offices and functions called for by the Act have now been in place for a number of years.

In assessing the Department's most serious challenges, we remain mindful of external factors that affect Treasury. Congress has not resolved much unfinished business when it comes to the Federal budget, the Nation's debt, and the long-term sustainability of the Social Security and Medicare programs. Other pressures on Federal spending continue, such as the military action against the Islamic State of Iraq and the Levant and continued operations in Afghanistan. The polarized political environment in which the Federal Government has been operating since 2010, with the repeated cycle of budget and debt ceiling stopgaps, has resulted in waste and inefficiency.

In an early draft of this memorandum which was shared with the Department, I included the debt limit impasse as a new challenge for this year because of the immediacy of the need to raise the debt ceiling to avoid potentially catastrophic consequences to the U.S. and world economies from a debt default, and the uncertainty as to the Congressional action in that regard. I removed that challenge in this final memorandum as Congress has passed legislation, as of the date of this writing, for a temporary extension of the debt limit until March 15, 2017. That said, a more long-term solution to the recurring debt ceiling impasse still requires continued Treasury effort. Cyber threats to Treasury operations and the financial sector, which we elevated to a Challenge last year, will continue to be a serious risk for the foreseeable future. Additionally, Treasury administers programs that are inherently high-risk, such as programs to combat terrorist financing. With respect to Dodd-Frank, the mechanisms put in place to promote financial stability have not yet be tested in a time of crisis.

Treasury has, throughout the years, had to administer major new programs and initiatives intended to support and improve the country's economy. In nearly every case, the Department has had to start up and administer new programs and operations with thin staffing and very limited, if any, new resources. That situation remains the same. Again, we cannot emphasize enough to the Department's stakeholders how critically important it is that Treasury is resourced sufficiently to carry out its authorities and responsibilities to include maintaining a strong control environment.

2015 Management and Performance Challenges

Challenge 1: Cyber Threats

Cybersecurity represents one of the most serious challenges facing the Nation today. A reliable critical infrastructure, including information systems and networks, is vital to our national security and economic stability. Cyber threats are a persistent concern as Treasury's information systems are critical to the core functions of government and the Nation's financial infrastructure. As cyber threats continue to evolve and become more sophisticated and subtle, they pose an ongoing challenge for Treasury to fortify and safeguard its internal systems and operations and the financial sector it oversees.

Attackers frequently exploit vulnerable networks in a string of trusted connections to gain access to government systems. Cyber attacks against Federal agencies are increasing in frequency and severity. The cyber intrusion of the Department of State's networks was used as a route to penetrate computer systems at the White House and gain access to the President's e-mail account. An attack against the Joint Chief of Staff's e-mail forced management to take the system off line, cleanse it, and build in new protections. The recent cyber attacks against the Office of Personnel Management's networks allowed intruders access to personal data on tens of millions of people, including millions with security clearances.

In our recent audits of selected Treasury bureaus, we found that security measures were not sufficient at the time to fully prevent and detect vulnerabilities to their networks and systems. In addition to Treasury's own networks and systems, management must be cognizant of, and

mitigate, the risks posed by attacks made against other agencies and Treasury contractors and subcontractors. Treasury frequently enters into interconnection agreements with other Federal, State, and local agencies, and service providers, to conduct its business. Treasury management must exercise due care when authorizing such internetwork connections and verify that third parties comply with Federal policies and standards. Management is also challenged with ensuring that critical data and information maintained by cloud service providers are properly protected.

Cyber attacks on financial institutions continue to evolve at an accelerated rate, and include distributed denial of service attacks, phishing attacks, and fraudulent wire payments. Organized hacking groups leverage published and unpublished vulnerabilities and vary their methods to make attacks hard to detect and even harder to prevent. Criminal groups and nation-states are constantly seeking to steal information; commit fraud; and disrupt, degrade, or deny access to information systems.

Effective public-private coordination continues to be required to address the cyber threat against the Nation's critical infrastructure. In this regard, Treasury is looked upon to provide effective leadership to financial institutions in particular, and the financial sector in general, to strengthen awareness and preparedness against cyber threats.

Challenge 2: Management of Treasury's Authorities Intended to Support and Improve the Economy

Congress provided Treasury with broad authorities to address the financial crisis under the Housing and Economic Recovery Act (HERA) and the Emergency Economic Stabilization Act (EESA) enacted in 2008, the American Recovery and Reinvestment Act of 2009 (Recovery Act), and the Small Business Jobs Act of 2010. In response to the call for further financial reform, Congress passed Dodd-Frank in July 2010. As we stated last year, to a large extent Treasury's program administration under these acts has matured, but challenges remain in managing Treasury's programs and its outstanding investments as well as ensuring financial reform under Dodd-Frank. Our discussion of this challenge will begin with reforms under Dodd-Frank and then address the others for which Treasury is responsible.

Continued Implementation of Dodd-Frank

Among other things, Dodd-Frank established the Financial Stability Oversight Council (FSOC), which you chair as the Treasury Secretary. FSOC's mission is to identify risks to financial stability that could arise from the activities of large, interconnected financial companies; promote market discipline; and respond to any emerging threats to the financial system.

FSOC accomplished much over the past year. As required, FSOC issued its fifth annual report in May 2015. FSOC also designated one nonbank financial company for supervision by the Board of Governors of the Federal Reserve System (FRB) in December 2014. Additionally, FSOC completed annual reevaluations for the three nonbank financial companies previously designated and did not rescind the designations. In February 2015, FSOC adopted changes related to its process for reviewing nonbank financial companies for potential designation to increase the

transparency of its determinations and to formalize certain practices. Furthermore, FSOC also engaged in work to analyze risks associated with the asset management industry and the potential of such risks to affect U.S. financial stability. FSOC must continue to work in an effective manner to meet all of its responsibilities.

Dodd-Frank also established the Council of Inspectors General on Financial Oversight (CIGFO), which I chair as the Treasury Inspector General. The Council facilitates the sharing of information among member Inspectors General with a focus on reporting our concerns that may apply to the broader financial sector and ways to improve financial oversight. Accordingly, CIGFO is an important source of independent analysis to FSOC.

As required, CIGFO met quarterly and issued its fifth annual report in July 2015. CIGFO also established its fourth Working Group in September 2014 to assess FSOC activities related to interest rate risk. The Working Group determined that FSOC monitors interest rate risk on an ongoing basis by facilitating the sharing of financial expertise and information among FSOC members and member agencies and by making annual report recommendations. The Working Group noted that since 2011, FSOC's annual reports to Congress have discussed interest rate risk and recommended actions to address that risk. In that regard, FSOC's 2013 annual report included three interest rate risk recommendations and the 2014 annual report included two interest rate risk recommendations. To that end, the Working Group recommended that FSOC document in its annual reports its rationale for removing previously reported recommendations related to interest rate risk. In the view of the Working Group, the lack of explanation to remove previously reported recommendations created a lack of transparency around the process for removing such recommendations. In response to the Working Group's recommendation, FSOC stated that to the extent that it no longer recommends action related to a risk area identified in the prior annual report, FSOC will consider how to provide additional information regarding the Council's decision and analysis. Going forward, CIGFO will continue to review FSOC operations and efforts to oversee the U.S. financial system.

As we have stated in the past, the intention of Dodd-Frank is most notably to prevent, or at least minimize, the impact of a future financial sector crisis on the U.S. economy. To accomplish this, Dodd-Frank placed great responsibility with Treasury. This management challenge from our perspective is to maintain an effective FSOC process[1] that timely identifies and appropriately responds to emerging risks, particularly in times of economic growth when government action to curtail risky behavior in marketplaces can be unpopular and seen as unnecessary.

Small Business Lending Fund and State Small Business Credit Initiative

The Small Business Jobs Act created within Treasury a $30 billion Small Business Lending Fund (SBLF) to assist financial institutions with increasing the availability of credit to small businesses. It also provided Treasury with $1.5 billion to allocate to eligible State programs through the State Small Business Credit Initiative (SSBCI). These programs represented key

[1] FSOC is supported by the Office of Financial Research and the Federal Insurance Office; both are offices within Treasury.

initiatives of the Administration to support job creation by facilitating increased lending to small businesses.

Under SBLF, Treasury invested approximately $4 billion in 332 participating financial institutions through September 2011, when the investment authority ended. The intent of these investments was to stimulate lending to small businesses. However, participating financial institutions were not required to increase lending activity or report on how Treasury's investment was used. Institutions must pay dividends to Treasury at rates ranging from 1 to 9 percent, which automatically step-up to as high as 13.8 percent in late 2015/early 2016. Eighty-eight (88) institutions have since exited the program redeeming approximately $1.6 billion of their securities as of September 2015. While more institutions are expected to exit the program as dividend rates increase, some institutions may not be able to redeem their securities and exit the program.

Under SSBCI, Treasury disbursed approximately $1.3 billion to 57 participating States, territories, and eligible municipalities as of September 2015. These funds may be used for programs that partner with private lenders and investors to extend credit to or invest in small businesses. Treasury must ensure that SSBCI participants are accountable for the proper use of these funds as primary oversight is at the participant level.

The challenge to Treasury is to continue exercising sufficient oversight to ensure that (1) funds are used appropriately and intended results are being achieved, (2) SBLF dividends and interest owed are paid, and (3) the SBLF program is wound down as institutions exit. Regarding SSBCI, an additional challenge to Treasury's oversight is that the Department's authority to use SSBCI funds for administrative activities ends in fiscal year 2017, yet States' SSBCI programs will be ongoing.

Bond Guarantee Program

The Small Business Jobs Act provided Treasury with authority to guarantee bonds issued for eligible community and economic development activities. As the program administrator, Treasury's Community Development Financial Institutions (CDFI) Fund experienced challenges in standing up the program, which was eventually established in June 2013. CDFI Fund oversees the issuance of the bonds and the use of the bond proceeds by eligible CDFIs to make financing more accessible in underserved communities. To date, Treasury has issued $852 million in bond guarantees. Given that the program is still in its formative years, our office plans to assess the CDFI Fund's administration of this program.

Housing and Economic Recovery Act and the Emergency Economic Stabilization Act

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

Under HERA, Treasury supports the financial solvency of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac), which continue to operate under the conservatorship of the Federal Housing Finance Agency. To

maintain the positive net worth of these two government sponsored enterprises (GSE), Treasury has invested approximately $187 billion in senior preferred stock in the two enterprises.[2] While the GSEs have not required additional support since fiscal year 2012, their futures remain uncertain and further assistance may be required. If such support is needed, the current funding capacity available to Fannie Mae is $117.6 billion and available to Freddie Mac is $140.5 billion.

Treasury must also continue to monitor the underlying assets of its $7.8 billion investment in the GSEs under the Housing Finance Agency Initiative, which supports State and local housing finance agencies.

Until a solution to address housing finance reform is reached, it is difficult to predict what lies ahead for winding down the Fannie Mae and Freddie Mac investments.

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

Recovery Act Programs

Since 2009, Treasury has been responsible for overseeing an estimated $150 billion of funding and tax relief for programs intended to strengthen the economy through financial stimulus. While funding for non-Internal Revenue Service programs is coming to a close, Treasury should continue to oversee awards totaling around $30 billion under Treasury's payments-in-lieu of tax credit programs – to persons for specified energy properties and to States for low-income housing projects. In this regard, approximately 101,000 recipients remain obligated to comply with the terms of their awards over an extended period of time (5 years for specified energy property payments and 15 years for funded low-income housing projects). The level of risk involved in this program is evidenced by the fact that our Office of Investigations has several open matters involving program participants.

Challenge 3: Efforts to Promote Spending Transparency and to Prevent and Detect Improper Payments

Spending Transparency

The Digital Accountability and Transparency Act of 2014 (DATA Act), signed into law in May 2014, requires the Federal Government to provide consistent, reliable, and useful online data about how it spends taxpayer dollars. The stated purpose of the law is to

- expand the Federal Funding Accountability and Transparency Act of 2006 by disclosing direct Federal agency expenditures and linking Federal contract, loan, and grant spending information to programs of Federal agencies, enabling taxpayers and policy makers to track Federal spending more easily;

[2] Treasury's cumulative investment of $187 billion in the GSEs' senior preferred stock is comprised of approximately $116 billion in Fannie Mae and approximately $71 billion in Freddie Mac.

- establish Government-wide data standards for financial data and provide consistent, reliable, and searchable Government-wide spending data that is displayed for taxpayers and policy makers on USASpending.gov (or a successor system);
- simplify reporting for entities receiving Federal funds by streamlining reporting requirements and reducing compliance costs while improving transparency;
- improve the quality of data submitted to USASpending.gov by holding Federal agencies accountable for the completeness and accuracy of the data submitted; and
- apply approaches developed by the Recovery Accountability and Transparency Board to spending across the Federal Government.

To fulfill its purpose, the DATA Act imposed certain requirements on the Treasury Secretary, the Director of the Office of Management and Budget (OMB), the Inspectors General of each Federal agency, and the Comptroller General of the United States. In brief, the DATA Act required Treasury and OMB to establish Government-wide financial data standards for reporting spending by Federal agencies and entities receiving Federal funds by May 2015 and further requires Treasury and OMB to:

- by May 2017, ensure this financial data is accurately posted and displayed on USASpending.gov, or a successor system; and
- by May 2018, ensure the data standards established are applied to the data made available on the website.

Inspectors General of each Federal agency, including Treasury, are required by the Act to conduct three biennial reviews beginning in 2016 of a statistically valid sample of spending data submitted by the agency and the implementation of data standards by the agency. The Inspector General (IG) community has identified an anomaly with the timing of these reviews in that the first required report on data submitted is due prior to the date that agencies are required to submit data in accordance with the Act. The IG community is working with the Government Accountability Office and Congress to resolve this issue.

Implementing the DATA Act is a complex undertaking requiring a significant level of interagency coordination and cooperation to develop, establish, and apply new financial data standards and to develop new data handling methodologies (referred to as the data exchange schema) within a short timeframe. As of September 15, 2015, 20 months from the date by which agencies must report Federal spending data in accordance with data standards established under the Act, Treasury and OMB officials have issued the data standards and developed a methodology for agencies to follow when implementing the DATA Act. While an important achievement, much work remains. For example, questions regarding some data standards remain and a final determination regarding the applicability of the DATA Act to certain agencies has not yet been made. In addition, the data exchange schema, processes, and systems needed for agencies to submit data are still being developed. Agencies were recently required to submit DATA Act implementation plans to OMB, which are under review. However, open issues such as those described above may hinder agencies' ability to determine the full scope of the implementation effort required.

Given the broad government-wide implications and critical roles assigned to Treasury by the DATA Act, we consider this a high risk implementation project and management challenge. It should be noted that we have initiated a series of audits of Treasury's efforts to meet its responsibilities under the DATA Act.[3]

Detect Improper Payments

In light of the continuing problem with improper payments (estimated at $125 billion, or 4.5 percent of all program outlays, for fiscal year 2014), the Federal Government has intensified efforts to reduce improper payments in major Federal programs. The Do Not Pay Initiative, and the Treasury Bureau of the Fiscal Service's (Fiscal Service) Do Not Pay Business Center, are chief components of efforts designed to prevent and detect improper payments to individuals and entities.

The Do Not Pay Business Center provides two services to agencies: the Do Not Pay Portal and the Do Not Pay Data Analytics Service. The Do Not Pay Portal is intended to provide users with a single entry point to search data sources such as the Social Security Administration's (SSA) publicly available Death Master File, the Department of Health and Human Service Office of Inspector General's List of Excluded Individuals/Entities, the General Services Administration's System for Award Management, and Treasury's Debt Check Database. However, as we reported in November 2014, the effectiveness of the Do Not Pay Business Center as a tool to prevent and detect improper payments is hindered because the center does not have access to, among other things, SSA's full death data.[4]

With its potential to reduce improper payments, the Do Not Pay Program is a major and important undertaking by Fiscal Service and Treasury. As part of our ongoing audit work in this area, we will continue to monitor the steps taken by Fiscal Service to improve the effectiveness of the Do Not Pay Business Center. We are also planning to review the Do Not Pay Program's data analytic capabilities during the coming fiscal year.

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

As we reported in the past, preventing criminals and terrorists from using our financial networks to sustain their operations and/or launch attacks against the U.S. continues to be a challenge. Treasury's Office of Terrorism and Financial Intelligence (TFI) is dedicated to disrupting the ability of terrorist organizations to fund their operations. TFI brings together intelligence gathering and analysis, economic sanctions, international cooperation, and private-sector

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[3] Our first audit, completed in May 2015, reported on Treasury's efforts as of October 31, 2014 (Office of Inspector General (OIG), *Treasury Is Making Progress in Implementing the DATA Act But Needs Stronger Project Management* (OIG-15-034; issued May 19, 2015)). As of this writing, we have three audits in progress: (1) a continued review of Treasury's government-wide DATA Act efforts, covering efforts through May 31, 2015; (2) a review of Treasury's establishment of a Data Transparency Office and enhancement of the USASpending.gov website; and (3) a "readiness" review of Treasury as a reporting entity under the DATA Act.

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

cooperation to identify donors, financiers, and facilitators supporting terrorist organizations, and disrupt their ability to fund such organizations. Enhancing the transparency of the financial system is one of the cornerstones of this effort. Treasury carries out its responsibilities to enhance financial transparency through the laws collectively known as the Bank Secrecy Act (BSA). The Financial Crimes Enforcement Network (FinCEN) is the Treasury bureau responsible for administering BSA, while Treasury's Office of Foreign Assets Control (OFAC) administers U.S. foreign sanction programs.

With respect to FinCEN, it faces continuing challenges to enhance financial transparency as a way to strengthen efforts to combat financial crime and collect, analyze, and report data on national threats. FinCEN has focused on enhancing its enforcement efforts to promote compliance with the BSA in partnership with Federal banking regulators and law enforcement. It continues to improve its enforcement processes and systems after its 2013 reorganization. To this end, FinCEN has been working on clarifying and strengthening customer due diligence requirements. This includes requirements for institutions to identify beneficial ownership of their accountholders so that their true identities are not hidden. FinCEN issued a notice of proposed rulemaking to that effect in July 2014, "Customer Due Diligence Requirements for Financial Institutions." In August 2015, pursuant to BSA, FinCEN issued a notice of proposed rulemaking to prescribe minimum standards for anti-money laundering programs to be established by certain investment advisers and to require such investment advisers to report suspicious activity.

More recently, FinCEN was challenged with providing clarifying guidance to the financial community who may be reluctant to do business with State-legalized marijuana dispensaries. While these dispensaries remain illegal under Federal law, FinCEN's February 2014 guidance for financial institutions clarified reporting obligations with respect to services to marijuana-related businesses consistent with BSA obligations. This guidance includes conducting due diligence on prospective customers. Prepaid cards also present money laundering and terrorist financing risks. In October 2011, FinCEN published a notice of proposed rule-making which requires those carrying prepaid cards with values over $10,000 to declare them at the border (cross-border transactions). In 2015, OMB postponed the issuance of the final rule because it has not completed a budgetary review of the expected final rule.

Other matters of concern on the horizon include the increasing use of (1) mobile devices for banking, internet banking, internet gaming, and peer-to-peer transactions; and (2) virtual currencies.[5] FinCEN and other regulatory agencies will need to make sure that providers of these services who are covered by BSA understand their obligations under the statute. Monitoring the transactions of tomorrow may prove to be increasingly difficult for Treasury. In this regard, in 2013, FinCEN issued guidance on virtual currencies and regulatory responsibilities in order to provide clarity for businesses and individuals engaged in this expanding field of financial activity. FinCEN's rules defined certain businesses or individuals which use convertible virtual currencies or make a business of exchanging, accepting, and transmitting them as Money Service

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

Businesses (MSBs). MSBs have registration requirements and a range of anti-money laundering, recordkeeping, and reporting responsibilities under FinCEN's regulations.

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

Challenge 5: Gulf Coast Restoration Trust Fund Administration

In response to the Deepwater Horizon oil spill, Congress enacted the Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Act of 2012 (RESTORE Act). This law established within Treasury the Gulf Coast Restoration Trust Fund (Trust Fund) and requires Treasury to deposit into the Trust Fund 80 percent of administrative and civil penalties paid by responsible parties pursuant to the Federal Water Pollution Control Act (Clean Water Act). The funds are to be distributed for environmental and economic restoration activities affecting the Gulf Coast States (Alabama, Florida, Louisiana, Mississippi, and Texas). To date, the Trust Fund received approximately $816 million from the Federal Government's settlement with the Transocean defendants. In July 2015, BP Exploration & Production Inc. (BPXP), agreed to settle with the Federal Government and the Gulf Coast States resulting in approximately $4.4 billion plus interest expected to be deposited into the Trust Fund over a 15-year period.

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

- Direct Component (35 percent) – administered by Treasury for allocation in equal shares to the Gulf Coast States for ecological and economic restoration of the Gulf Coast region;
- Council-Selected Restoration Component (30 percent) – administered by the Gulf Coast Ecosystem Restoration Council (the Council)[6] for allocation to Gulf Coast States and Federal agencies, pursuant to a comprehensive plan approved by the Council, to undertake projects and programs using the best available science that would restore and protect the Gulf Coast region's natural resources, ecosystems, fisheries, marine and wildlife habitats, beaches, and coastal wetlands;
- Spill Impact Component (30 percent) – administered by the Council for allocation to the Gulf Coast States for eligible oil spill restoration activities, pursuant to the Council's approval of the States' plans to improve the ecosystems or economy of the Gulf Coast region, using a regulatory formula;
- Science Program Component (2.5 percent) – administered by the National Oceanic and Atmospheric Administration for its Gulf Coast Ecosystem Restoration Science, Observation, Monitoring, and Technology Program. This program is to carry out research, observation, and monitoring to support the long-term sustainability of the

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

ecosystem, fish stocks, fish habitat, and the recreational, commercial, and charter fishing industry in the Gulf of Mexico; and

- Centers of Excellence Research Grants Program Component (2.5 percent) – administered by Treasury for allocation in equal shares to the Gulf Coast States for competitive grant awards to nongovernmental entities and consortia in the Gulf Coast region, including public and private institutions of higher education, to establish centers for excellence to conduct Gulf Coast region research.

The RESTORE Act prescribes how funds will be distributed and gives Treasury the administrative oversight of the Direct Component and Centers of Excellence Research Grants Program Component. Further, the Act provides the Secretary authority to withhold funds to the Council-Selected Restoration and Spill Impact Components if certain conditions in the Act are not met, including compliance with procurement rules and regulations.

Treasury made significant progress in establishing a grants program with the stand-up of the Office of Gulf Coast Restoration. However, challenges remain. The foremost challenge is the demand on Treasury to provide technical assistance to grant applicants as they seek interpretation of regulations and application guidelines and develop multiyear implementation plans. Furthermore, many local governments seeking technical assistance are not experienced as direct recipients of Federal financial assistance.

Going forward, Treasury needs to consider the impact of the proposed settlement with BPXP. Now that a more definitive amount and timing of the money that will flow into the Trust Fund has been determined, Treasury, the Gulf Coast States, and impacted local governments are challenged with ensuring existing plans meet the expected funding levels as well as timing of payments.

We continue to meet with Treasury staff and to provide our perspectives on controls as procedures to administer the Trust Fund are developed. Our audit work to date has focused mainly on Treasury's progress in establishing a grants program to administer the Direct Component and Centers of Excellence Component. Additionally, we reviewed internal controls at Gulf Coast State and local government entities applying for Direct Component planning grants as well as reviewed the selection process by the Gulf Coast States to establish Centers of Excellence. The appropriate disbursement and use of RESTORE Act grants will be a focus of our work going forward.

Other Matters of Concern

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

<u>Currency and Coin Production</u>

In January 2012, we reported on deficiencies with the Bureau of Engraving and Printing's (BEP) production process, which led to 1.4 billion finished NexGen $100 notes being printed

(in 2010) but not accepted by FRB because creasing was detected in some of the finished notes. Although the production problems were identified and sufficiently resolved and FRB began supplying financial institutions with the redesigned NexGen $100 notes in October 2013, BEP and FRB still need to decide on the disposition of the 1.4 billion finished notes that have not been accepted by FRB.

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

Challenges continue to exist with coin production at the United States Mint. For example, the cost of producing penny and nickel coins were double their face value because rising metal prices have resulted in higher production costs. In addition to rising production costs, it is imperative that BEP and the Mint consider the effect of alternative payment methods and other technological advances (such as stored value cards, the Internet, smartphones, and virtual currencies) as well as consumer demand on their respective business models, practices, future planning and interactions with their customer, and FRB.

Documenting Key Activities and Decisions

In prior years, I have cited several audits by my office that highlighted lapses by the Department in maintaining a complete and concurrent record of key activities and decisions. These audits reported on the selection of financial agents for Treasury's investment in Fannie Mae and Freddie Mac mortgage-backed securities, Treasury's consultative role with the Department of Energy's Solyndra loan guarantee, and the Office of the Comptroller of the Currency's oversight of foreclosure-related consent orders. In 2014, we reported that Fiscal Service's decisions to establish the Direct Express® Debit MasterCard® program and select the program's financial agent were reasonable. However, its analyses and documentation of those decisions should have been more complete. More recently, we reported a similar situation with two financial agents selected by Fiscal Service to provide banking services to the Federal Bureau of Prisons. In response to this audit, Fiscal Service stated that it was refining and updating its policies and procedures for selection of financial agents, as well as maintaining related documentation. We believe the corrective actions undertaken by Fiscal Service are important to promote transparency and confidence in Treasury's use of financial agents.[7]

In another audit however, when we reported that OFAC lacked policies and procedures for a critical mission function—the implementation of a sanctions program—OFAC's response

[7] OIG, *Former Federal Inmate Debit Card Fees Were Comparable with Other Card Programs, but Documentation Supporting Financial Agent Agreements Was Lacking* (OIG-15-048; Sep. 17, 2015)

was that its current practices were sufficient. We were disappointed with OFAC's response and are presently pursuing this issue through the Department's audit resolution process.[8]

Maintaining proper documentation is a fundamental tenet of government accountability and transparency. Maintaining proper documentation is also in the best long-term interest of Treasury and its component offices and bureaus if actions are later questioned, as they have been. In this regard, appropriate documentation can be as simple as contemporaneous notes providing a record of why decisions were made, the way they were made, and how the Government satisfied itself that the decisions were the best course of action. Also adding to the documentation challenge is the increase in Federal retirements along with the resulting loss of institutional knowledge. We do note that Treasury has issued policy that addresses documentation requirements, such as Treasury Directive 80-05, "Records and Information Management Program." We also believe that policies and procedures are essential to ensure critical functions (1) continue when personnel change and (2) are carried out in a consistent manner in accordance with management's direction. In our view, issues with maintaining documentation and policies and procedures are a matter of Treasury management and personnel needing to remain aware and vigilant.

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

cc: Brodi Fontenot
Assistant Secretary for Management

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20005

INSPECTOR GENERAL FOR TAX ADMINISTRATION

October 15, 2015

MEMORANDUM FOR SECRETARY LEW

FROM: J. Russell George
Inspector General

SUBJECT: Management and Performance Challenges Facing the Internal Revenue Service for Fiscal Year 2016

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

Each year, TIGTA evaluates IRS programs, operations, and management functions to identify the areas of highest vulnerabilities to the Nation's tax system. For Fiscal Year (FY) 2016, the top management and performance challenges, in order of priority, are:

1. Security for Taxpayer Data and IRS Employees;
2. Implementing the Affordable Care Act and Other Tax Law Changes;
3. Tax Compliance Initiatives;
4. Fraudulent Claims and Improper Payments;
5. Achieving Program Efficiencies and Cost Savings;
6. Improving Tax Systems and Online Services;
7. Providing Quality Taxpayer Service Operations;
8. Globalization;
9. Taxpayer Protection and Rights; and
10. Human Capital.

In FY 2014, the IRS collected nearly $3.1 trillion in tax revenue, processed more than 242 million tax returns and other forms, and issued approximately $374 billion in tax refunds. Between FYs 2010 and 2014, the IRS budget declined by $850 million to approximately $11.3 billion and the IRS lost approximately 13,000 full-time employees. In FY 2015, the IRS's budget was further reduced to $10.9 billion, a cut of approximately $346 million from the FY 2014 level and more than one billion dollars less than the 2010 level.

[1] 31 U.S.C. § 3516(d) (2006).

TIGTA and other independent oversight bodies[2] have highlighted the serious challenges that declining budgets pose to the IRS as it tries to meet its statutory obligations and effectively administer the Nation's tax system. TIGTA has reported how this trend of lower budgets, reduced staffing, and the loss of supplementary funding for the implementation of the Patient Protection and Affordable Care Act (Affordable Care Act)[3] has affected the IRS's ability to deliver its priority program areas, including customer service and enforcement activities.[4]

In FY 2016, it appears that the IRS may once again face substantial budgetary pressure. Both the House and Senate Committees on Appropriations recommended budgets below the FY 2015 enacted level of $10.9 billion. As the IRS faces new or growing challenges with a reduced budget and smaller staff, it must attempt to identify and implement innovative and cost-saving strategies. However, with staffing costs making up approximately 75 percent of its budget, the IRS will undoubtedly be challenged to find areas of savings that will allow it to balance quality customer service, strong tax enforcement, and protection of taxpayer information.

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

SECURITY FOR TAXPAYER DATA AND IRS EMPLOYEES

Cybersecurity threats against the Federal Government continue to grow. According to the Department of Homeland Security's U.S. Computer Emergency Readiness Team, Federal agencies reported 69,851 cyberattacks in FY 2014, an increase of about 15 percent from FY 2013.[5]

The IRS relies extensively on its computer systems to support both its financial and mission-related operations. These computer systems collect and process extensive amounts of taxpayer data, which includes Personally Identifiable Information. Based on the increased number and sophistication of threats to taxpayer information and the need for the IRS to better protect taxpayer data and improve its enterprise security program, securing IRS systems and protecting the confidentiality of taxpayer information continues to be a top concern facing the IRS.

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[2] Examples include the Government Accountability Office, the IRS National Taxpayer Advocate, and the Internal Revenue Service Advisory Council.

[3] Pub. L. No. 111-148, 124 Stat. 119 (2010) (codified as amended in scattered sections of the U.S. Code), as amended by the Heath Care and Education Reconciliation Act of 2010, Pub. L. No. 111-152, 124 Stat. 1029.

[4] TIGTA, Ref. No. 2014-10-025, *Implementation of Fiscal Year 2013 Sequestration Budget Reductions* (June 2014) and Ref. No. 2015-30-035, *Reduced Budgets and Collection Resources Have Resulted in Declines in Taxpayer Service, Case Closures, and Dollars Collected* (May 2015).

[5] Office of Management and Budget, *Annual Report to Congress: Federal Information Security Management Act* (Feb. 2015).

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In May 2015, the IRS announced that criminals had used taxpayer-specific data acquired from non-IRS sources to gain unauthorized access to tax account information through the IRS's "Get Transcript"[6] application. As of August 17, 2015, the IRS indicated that unauthorized users were successful in obtaining access to information for more than 350,000 taxpayer accounts. However, the actual number of individuals whose personal information was available to criminals accessing these tax accounts is significantly larger, in that these tax accounts include information on all of the individuals claimed on a tax return (*e.g.,* spouses and dependents). According to the IRS, an individual or individuals succeeded in clearing an authentication process that required knowledge of the taxpayer's information, including Social Security information, date of birth, tax filing status, and street address. In addition, it appears that these third parties had access to private personal information that allowed them to correctly answer questions that typically only the taxpayer would know. TIGTA's Office of Investigations, in conjunction with the IRS and other Federal law enforcement partners, continues to investigate this incident.

The risk for unauthorized access to tax accounts will continue to grow as the IRS focuses its efforts on delivering self-assisted online tools to taxpayers. The IRS's vision is to provide taxpayers and tax professionals with the electronic products and services that they desire to enable them to interact and communicate with the IRS.[7] This includes expanded online services, based on the idea of accessing Government services anywhere, any time, on any device, in three to five years.

TIGTA has identified a number of areas in which the IRS could better protect taxpayer data and improve its overall security position. The IRS shares Federal tax information and other IRS records with many Federal, State, and local agencies as well as private agencies and contractors through system interconnections.

During our most recent Federal Information Security Modernization Act[8] evaluation of the IRS's information security programs and practices,[9] we found three security program areas, Continuous Monitoring Management, Identity and Access Management, and Configuration Management, that did not meet the level of performance specified by the Department of Homeland Security.[10]

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[6] Information available on the Get Transcript application can include account transactions, line-by-line tax return information, and income reported to the IRS.

[7] *Internal Revenue Service Strategic Plan – FY 2014-2017* (IRS Publication 3744) (Rev. June 2014).

[8] Pub. L. No. 113-283. This law amends chapter 35 of title 44 of the United States Code to provide for reform to Federal information security.

[9] TIGTA, Ref. No. 2015-20-092, *Treasury Inspector General for Tax Administration – Federal Information Security Modernization Act Report for Fiscal Year 2015* (Sept. 2015).

[10] To assist the Inspectors General in evaluating compliance with the Federal Information Security Modernization Act, the Department of Homeland Security issued the *Fiscal Year 2015 Inspector General Federal Information Security Modernization Act Reporting Metrics*, which specified 10 information security program areas and listed specific attributes within each area for evaluation.

Continuous Monitoring Management ensures ongoing, real-time awareness of information security, vulnerabilities, and threats to IRS systems and the environments in which those systems operate. We found that the IRS is still in the process of implementing its Information Security Continuous Monitoring program required by the Office of Management and Budget to automate asset management and maintain secure configuration of assets in real time.

Identity and Access Management ensures that only those with a business need are able to access IRS systems and data. We found that the IRS did not achieve Governmentwide goals for implementing access to systems and physical access to facilities in compliance with Homeland Security Presidential Directive-12, which requires Federal agencies to issue personal identity verification cards to employees and contractors for accessing agency systems and facilities.

Configuration Management ensures that settings on IRS systems are maintained in an organized, secure, and approved manner, including timely installing patches to resolve known security vulnerabilities. We found that the IRS has not fully implemented enterprise-wide automated processes to identify computer assets, evaluate compliance with configuration policies, and deploy security patches.

TIGTA also found that many interconnections[11] in use at the IRS do not have proper authorization or security agreements. Although the IRS has established an office to provide oversight and guidance for the development of security agreements, that office is not responsible for managing or monitoring agreements for all external interconnections in use in the IRS environment. TIGTA believes the lack of a centralized inventory and an enterprise-level approach to ensure that all external interconnections are monitored has contributed to interconnections that are currently active but lack proper approvals and assurances that the interconnections meet current security requirements.[12]

Besides safeguarding a vast amount of sensitive data, the IRS must work to protect taxpayers by educating them on the numerous schemes currently employed by criminals posing as IRS employees intent on deceiving taxpayers into providing their personal financial information or coercing them into paying money on phony tax obligations. To date, TIGTA's Office of Investigations has logged more than 676,000 contacts from taxpayers who reported that they had received telephone calls from individuals who claimed to be IRS employees. These criminal impersonators told the victims that they owed taxes that if not immediately paid would result in arrest, loss of their driver's license, or other consequences. More than 4,300 victims have reported

[11] The National Institute of Standards and Technology defines a system interconnection as the direct connection of two or more information technology systems for the purpose of sharing data and other information resources.

[12] TIGTA, Ref. No. 2015-20-087, *Improvements Are Needed to Ensure That External Interconnections Are Identified, Authorized, and Secured* (Sept. 2015).

that they paid the criminal impersonators more than $22 million since October 2013. Scams such as these are not typically resolved quickly because of their complexity. TIGTA is diligently working to identify these criminals so they can be referred to the U.S. Department of Justice for prosecution.

IMPLEMENTING THE AFFORDABLE CARE ACT AND OTHER TAX LAW CHANGES

The Affordable Care Act represents the largest set of tax law changes in more than 20 years and presents a continuing challenge for the IRS as provisions take effect. The Affordable Care Act provisions provide incentives and tax breaks to individuals and small businesses to offset health care expenses. The provisions also impose penalties, administered through the tax code, for individuals and businesses that do not obtain health care coverage for themselves or their employees. The IRS was responsible for implementing two primary provisions of the Affordable Care Act during the 2015 Filing Season: Minimum Essential Coverage and the Shared Responsibility Payment,[13] and the Premium Tax Credit.[14]

TIGTA found that the IRS has not developed processes and procedures to ensure taxpayer compliance with the Minimum Essential Coverage and Shared Responsibility Payment requirements during the 2015 Filing Season.[15] IRS management indicated that a business decision was made to not develop processes and procedures because the receipt of required insurer and employer information reports had been delayed. The IRS plans to use information obtained during the 2015 Filing Season to develop post-processing compliance strategies to be used in future years to evaluate taxpayers' compliance with these provisions. TIGTA will continue to evaluate the IRS's efforts to verify taxpayers' compliance in this area.

The Affordable Care Act also created the refundable Premium Tax Credit to assist eligible taxpayers with paying their health insurance premiums. Individuals may elect to have the credit paid directly to their health insurance providers to cover the cost of their premiums (referred to as Advance Premium Tax Credit) or receive it as a lump sum credit on their Federal income tax return. As of January 2015, individuals who received an Advance Premium Tax Credit were required to reconcile the amount paid on their behalf to the allowable amount of their Premium Tax Credit when the Tax Year 2014 return was filed. However, the IRS did not receive the required Exchange Periodic

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[13] Minimum Essential Coverage is health insurance coverage that contains essential health benefits such as emergency services, maternity and newborn care, and preventive and wellness services. If an individual does not have Minimum Essential Coverage and does not qualify for a coverage exemption, the individual will need to make a shared responsibility payment when filing his or her Federal income tax return.

[14] A Premium Tax Credit is a refundable tax credit to assist individuals and families in purchasing health insurance coverage through an Exchange.

[15] TIGTA, Ref. No. 2015-43-030, *Affordable Care Act: Assessment of Internal Revenue Service Preparations to Ensure Compliance With Minimum Essential Coverage and Shared Responsibility Payment Requirements* (Mar. 2015).

Data[16] from all Exchanges[17] at the start of the filing season. Because of the incomplete or unreported data from the Exchanges, the IRS was unable to ensure that taxpayers claiming the Premium Tax Credit met the key eligibility requirement of purchasing insurance through an Exchange and taxpayers who received the Advance Premium Tax Credit properly reconciled the credit on their tax returns.[18]

In addition to implementing the Affordable Care Act, the IRS faces the challenge each year of implementing tax law changes from new, renewed, or expiring tax law provisions. Correctly implementing tax law changes remains a significant challenge because the legislative actions generating these changes typically occur late in the year, shortly before the filing season begins. As a result, the IRS must revise various forms, instructions, and publications, and reprogram its computer systems to ensure that tax returns are accurately processed. Errors in the IRS's tax return processing systems may delay tax refunds, affect the accuracy of taxpayer accounts, and result in incorrect taxpayer notices.

TAX COMPLIANCE INITIATIVES

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

Between FYs 2010 and 2015, the IRS's budget has been reduced by approximately $1.2 billion. The IRS has seen a reduction of 21 percent of Automated Collection System contact representatives and 28 percent of Field Collection revenue officers. This has resulted in the Automated Collection System answering 25 percent fewer taxpayer calls since FY 2011 and taxpayers whose calls were answered spent an average of eight minutes (97 percent) longer waiting for a contact representative.

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[16] The Affordable Care Act requires the Exchanges to provide the IRS with information regarding individuals who are enrolled by the Exchange on a monthly basis. These data are referred to as Exchange Periodic Data.

[17] An Exchange is where taxpayers find information about health insurance options, purchase qualified health plans, and, if eligible, obtain help paying premiums.

[18] TIGTA, Ref. No. 2015-43-057, *Affordable Care Act: Interim Results of the Internal Revenue Service Verification of Premium Tax Credit Claims* (May 2015).

Additionally, in FY 2014, revenue officers collected $222 million (7 percent) less than in FY 2011.[19]

We expect that the increasing budgetary constraints will continue to impact IRS efforts to enforce tax compliance. The IRS Commissioner testified in March 2015 that the IRS will lose 1,800 key enforcement personnel during FY 2015 that it will be unable to replace. As a result, the IRS anticipates that fewer audits and fewer resources will be focused on collection, and estimates that as a result of these enforcement cuts, the Federal Government will lose at least $2 billion in revenue.[20]

TIGTA continues to audit the efficiency and effectiveness of the IRS's efforts to reduce the Tax Gap and improve voluntary compliance. In the area of partnership compliance, for example, the IRS initiated a Partnership Strategy in July 2012 to improve the partnership audit process in light of the significant increase in partnership filings and complexities associated with auditing partnership returns. TIGTA reviewed the partnership audit process and found that the IRS has no effective way to assess the productivity of its partnership audits because many complex partnerships have multiple layers of flow-through entities.[21] In order to track partnership audits, the IRS uses a decades old system that is unable to provide information on the total amount of taxes that are ultimately assessed to the taxable partners as a result of adjustments made to partnership returns. Therefore, the IRS is unable to assess the full impact of its partnership compliance activities.

Additionally, Congress enacted legislation in an effort to narrow the Tax Gap and increase voluntary compliance of businesses through information reporting. The legislation required information returns to be filed for reportable payment card transactions[22] starting in Calendar Year 2012. The IRS committed to a multiyear pilot initiative leveraging Form 1099-K, *Payment Card and Third Party Network Transactions*, information to reduce the Tax Gap. Included were backup withholding provisions that require payers to withhold 28 percent of the amounts reported on Forms 1099-K for payees that failed to provide a valid Taxpayer Identification Number. However, TIGTA found that payers are not in compliance with these withholding requirements.[23] For

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[19] TIGTA, Ref. No. 2015-30-035, *Reduced Budgets and Collection Resources Have Resulted in Declines in Taxpayer Service, Case Closures, and Dollars Collected* (May 2015).
[20] Written Testimony of John A. Koskinen, Commissioner of the IRS, before the Senate Appropriations Committee, Subcommittee on Financial Services and General Government, dated March 3, 2015.
[21] TIGTA, Ref. No. 2015-30-004, *Additional Improvements Are Needed to Measure the Success and Productivity of the Partnership Audit Process* (Mar. 2015).
[22] A reportable payment card transaction involves a bank or other entity that makes a payment to a merchant or other business, in settlement of reportable payment card transactions, which includes credit cards, debit cards, and store-valued cards. The entity that transfers funds to the merchant's account is responsible for preparing and furnishing Form 1099-K, *Payment Card and Third Party Network Transactions*, to the merchant and to the IRS.
[23] TIGTA, Ref. No. 2015-40-089, *Additional Actions to Enforce Payment Card Reporting Requirements Could Reduce the Tax Gap* (Sept. 2015).

example, our review of Calendar Year 2013 Forms 1099-K identified 10,216 Forms 1099-K with a missing Taxpayer Identification Number. These Forms 1099-K reported gross transactions totaling more than $10.6 billion. As such, payers were required to withhold almost $3 billion from these payees, yet no withholding was taken.

FRAUDULENT CLAIMS AND IMPROPER PAYMENTS

The Office of Management and Budget describes an improper payment as any payment that should not have been made, was made in an incorrect amount, or was made to an ineligible recipient. The Improper Payment Information Act (IPIA) of 2002[24] requires Federal agencies, including the IRS, to estimate the amount of improper payments and report to Congress annually on the causes of and the steps taken to reduce improper payments. The Improper Payment Elimination and Recovery Act of 2010[25] amended the IPIA by strengthening agency reporting requirements and redefining significant improper payments.

The Improper Payment Elimination and Recovery Act requires agencies to report an annual improper payment rate below 10 percent. The IRS provided all required improper payment information for inclusion in the *Department of the Treasury Agency Financial Report Fiscal Year 2014*, with the exception of reporting an overall Earned Income Tax Credit improper payment rate below 10 percent.[26] The IRS has made little improvement in reducing Earned Income Tax Credit improper payments since it has been required by the IPIA to provide an estimate of these payments to Congress. The Earned Income Tax Credit is the largest refundable credit[27] based on total claims paid, and it continues to be vulnerable to a high rate of noncompliance, including incorrect or erroneous claims caused by taxpayer error or resulting from fraud.

Additionally, IRS processes for assessing the risk of improper payments do not accurately reflect the risk associated with the Additional Child Tax Credit.[28] Each year since FY 2011, the IRS has continually rated the risk of improper payments associated with the Additional Child Tax Credit as low. However, our review of the IRS's own enforcement data indicates that the Additional Child Tax Credit improper payment rate is similar to that of the Earned Income Tax Credit. We estimate that the Additional Child Tax Credit improper payment rate for FY 2013 is between 25.2 percent and 30.5 percent, with potential improper payments totaling between $5.9 billion and $7.1 billion.

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[24] Pub. L. No. 107-300, 116 Stat. 2350.
[25] Pub. L. No. 111-204, 124 Stat. 2224.
[26] TIGTA, Ref. No. 2015-40-044, *Assessment of Internal Revenue Service Compliance With the Improper Payment Reporting Requirements in Fiscal Year 2014* (Apr. 2015).
[27] A refundable credit allows taxpayers to reduce their tax liability to below zero and thus receive a tax refund, even if no income tax was withheld or paid.
[28] TIGTA, Ref. No. 2014-40-093, *Existing Compliance Processes Will Not Reduce the Billions of Dollars in Improper Earned Income Tax Credit and Additional Child Tax Credit Payments* (Sept. 2014).

Further, the IRS does not have effective processes to identify erroneous claims for education credits.[29] The Taxpayer Relief Act of 1997[30] created two permanent education tax credits, the Hope Credit and the Lifetime Learning Credit. The American Recovery and Reinvestment Act of 2009[31] temporarily replaced the Hope Credit with a refundable tax credit known as the American Opportunity Tax Credit. This credit was initially set to expire at the end of the Calendar Year 2010, but has been extended through Calendar Year 2017. Based on our analysis of education credits claimed and received on Tax Year 2012 tax returns, we estimate that more than 3.6 million taxpayers received more than $5.6 billion ($2.5 billion in refundable credits and $3.1 billion in nonrefundable credits) in potentially erroneous education credits.

Another problem with a significant impact on tax administration is identity theft. The IRS has described identity theft as one of its "Dirty Dozen" scams.[32] Because new identity theft patterns are constantly evolving, the IRS recognizes that it needs to adapt its detection and prevention processes. While TIGTA found that efforts continue to result in increased detection and prevention of identity theft returns, the IRS's ability to stop this problem is still limited.[33] Further, the IRS still does not have timely access to third-party income and withholding information. Most of the third-party income and withholding information is not received by the IRS until well after the tax return filing season begins. The IRS continues to propose legislation to accelerate and expand its access to data that would further improve its detection efforts.

ACHIEVING PROGRAM EFFICIENCIES AND COST SAVINGS

Achieving program efficiencies and cost savings is imperative, as the IRS must continue to carry out its mission with a significantly reduced budget. The IRS must continue to identify and implement innovative cost-saving strategies to enforce the law with integrity and fairness and provide America's taxpayers with top quality service by helping them understand and meet their tax responsibilities. TIGTA has identified a number of areas in which the IRS can achieve cost savings, more efficiently use its limited resources, and make more informed business decisions.

TIGTA recently completed an audit to determine whether there was duplication in risk assessment services performed by the IRS and the Department of Homeland Security's Federal Protective Service (FPS).[34] The FPS has the responsibility to conduct risk

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[29] TIGTA, Ref. No. 2015-40-027, *Billions of Dollars in Potentially Erroneous Education Credits Continue to Be Claimed for Ineligible Students and Institutions* (Mar. 2015).
[30] Pub. L. No. 105-34, 111 Stat. 788 (codified as amended in scattered sections of the U.S. Code).
[31] Pub. L. No. 111-5, 123 Stat. 115, *306, subsequently amended by the Tax Relief Unemployment Insurance Reauthorization and Job Creation Act of 2010, Pub. L. No. 111-312, 124 Stat. 3296.
[32] Compiled annually, the "Dirty Dozen" lists a variety of common scams that taxpayers may encounter.
[33] TIGTA, Ref. No. 2015-40-026, *Efforts Are Resulting in the Improved Identification of Fraudulent Tax Returns Involving Identity Theft* (Apr. 2015).
[34] TIGTA, Ref. No. 2015-10-077, *To Avoid Duplication, the Internal Revenue Service Should Make Use of Federal Protective Service Risk Assessments* (Sept. 2015).

assessments for all the facilities under its purview, including more than 600 IRS facilities throughout the country. TIGTA found that while the IRS is required to pay the FPS for risk assessments, the IRS does not fully benefit from the information provided in these risk assessments. Specifically, the IRS does not use FPS risk assessments or evaluate recommendations that FPS inspectors made to improve the security at IRS facilities. In addition, the IRS does not consider when a facility last received a risk assessment from the FPS when scheduling its own risk assessments. As a result, the IRS conducted 57 risk assessments at facilities that had already received an FPS risk assessment within the last two years. The IRS paid almost $100 million in basic security fees to the FPS for FYs 2010 through 2014, which included charges for FPS-prepared risk assessments; however, the IRS also incurred additional costs to perform its own risk assessments of the same facilities.

TIGTA identified two ways in which the Federal Employee/Retiree Delinquency Initiative[35] program (Initiative program) can be improved.[36] The first involves the Federal Payment Levy Program (FPLP), which allows the IRS to levy up to 15 percent of certain Federal payments, including wages, to delinquent taxpayers. Federal payments for certain Federal employees are excluded from the FPLP due to legal or policy constraints, *e.g.*, bankruptcy or military service men and women in combat zones, but the IRS excludes certain other Federal payments from the FPLP without a legal or articulated policy basis. TIGTA forecasts that expanding the FPLP to include more Federal payments could potentially increase revenue by approximately $18.3 million over the next five years. The second improvement opportunity involves the IRS's policy to handle many Initiative program cases manually. Initiative program cases bypass the IRS's other Automated Collection System tools that can systemically identify taxpayer assets for levy in favor of manual handling. With its reduced budget, it is even more important for the IRS to maximize the use of its automated systems whenever possible because manual processes can prove to be inefficient and more costly.

TIGTA also determined that the IRS paid monthly service fees for almost 6,800 wireless devices that were not captured in inventory records.[37] Because these devices are not tracked in inventory, the IRS does not have assurance that the employees using them have a valid business need. While service fees associated with almost 6,800 devices may be justifiable, the IRS is not in a position to determine which fees are valid because inventory and billing records cannot be reconciled. The annualized cost equates to nearly $2 million in service fees for devices that were not inventoried in FY 2013.

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[35] A program that promotes Federal tax compliance among current and retired Federal employees.
[36] TIGTA, Ref. No. 2015-30-051, *Most Federal Employee/Retiree Delinquency Initiative Cases Are Resolved With the Collection of Revenue; However, Some Program Improvements Can Be Made* (June 2015).
[37] TIGTA, Ref. No. 2014-10-075, *Wireless Telecommunication Device Inventory Control Weaknesses Resulted in Inaccurate Inventory Records and Unsupported Service Fees* (Sept. 2014).

IMPROVING TAX SYSTEMS AND ONLINE SERVICES

Successful modernization of IRS systems and the development and implementation of new information technology applications are critical to meet the IRS's evolving business needs and to enhance services provided to taxpayers.[38] The IRS has acknowledged that the current technology environment has raised taxpayers' expectations for online customer service interactions and it needs to meet these expectations. This is particularly important because as the IRS has absorbed budget cuts, it has directed more taxpayers to technology-based self-assistance options such as its IRS2Go app; YouTube channels; interactive self-help tools on IRS.gov; and Twitter, Tumblr, and Facebook accounts.

However, earlier this year, the IRS Commissioner testified that the IRS expected to absorb budget cuts of more than $200 million by delaying critical information technology investments. This includes delaying replacement of aging information technology systems and not investing upfront money to develop future capabilities, such as improved web services that would enable taxpayers to more easily obtain information and improve their interaction with the IRS.

The IRS Restructuring and Reform Act of 1998[39] mandated that the IRS, not later than December 31, 2006, develop procedures for taxpayers and their designees to review taxpayers' accounts electronically. The Service on Demand Initiative is the IRS's latest attempt to deliver such capability and contains specific projects that will provide online account access options. However, the projects intended to provide these online options ultimately cannot be delivered until the IRS commits to fully completing three key "pillar" information technology projects. The completion of these projects is needed to provide the account features to enable taxpayers to view their accounts online, to accurately authenticate their identities online, and to enable the IRS and taxpayers to communicate with secure electronic messages. The recent breach of the IRS's Get Transcript application highlights the importance of accurately authenticating taxpayers' identities online because criminals used taxpayer-specific data acquired from non-IRS sources to gain access to information for more than 330,000 taxpayer accounts.[40]

With its limited resources, the IRS needs to prioritize projects to ensure enhanced service to taxpayers. TIGTA determined that three IRS-developed projects, which would provide taxpayers with dynamic online account access capabilities, were not ranked among the top 20 projects the IRS recommended for development.[41] These

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[38] For Fiscal Year 2016, we have replaced the Modernization challenge and incorporated it within the Improving Tax Systems and Online Services challenge to reflect the IRS's expanded use of technology to provide taxpayers online services.

[39] Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

[40] IRS, *Additional IRS Statement on the "Get Transcript" Incident*, dated August 17, 2015.

[41] TIGTA, Ref. No. 2015-40-053, *Taxpayer Online Account Access Is Contingent on the Completion of Key Information Technology Projects* (May 2015).

three projects focused on providing taxpayers with online account capabilities that would establish self-service options for taxpayers to report identity theft and lock their online tax account from potential abuse by identity thieves. However, despite the impact identity theft has on tax administration and taxpayers, the IRS ranked projects to establish IRS workload management practices and a unified case management system higher.

PROVIDING QUALITY TAXPAYER SERVICE OPERATIONS

Providing taxpayers with quality customer service is a key component in the IRS's mission. Ensuring that taxpayers understand and meet their tax responsibilities is crucial for the IRS in its effort to encourage voluntary compliance with the tax laws. Resolving taxpayer questions before tax returns are filed helps avoid unintentional errors and also reduces taxpayer burden that results from the issuance of post-filing notices and correspondence. Further, successfully addressing and resolving taxpayer inquiries through a quality customer service process allows the IRS to direct its limited resources more efficiently.

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

There has been a decline in the IRS's ability to provide a sufficient level of customer service in each of the channels that taxpayers use, including telephone, face-to-face assistance at Taxpayer Assistance Centers, and correspondence. Despite the various options, most taxpayers continue to use the telephone as the primary method to make contact with the IRS. The IRS continues to struggle in providing high-quality customer service over the telephone.

As a result of the budget cuts, the IRS forecasted a 37.1 percent Level of Service for the 2015 Filing Season. As of May 2, 2015, there were approximately 83.2 million attempts by taxpayers to contact the IRS by calling the various customer service toll-free telephone assistance lines seeking help to understand the tax law and meet their tax obligations.[42] IRS assistors answered approximately 8.3 million calls and provided a 37.6 percent Level of Service with a 23.5 minute Average Speed of Answer. In comparison, the Level of Service for the 2014 Filing Season was 70.8 percent, with the

[42] The IRS refers to the suite of 29 telephone lines to which taxpayers can make calls as "Customer Account Services Toll-Free."

IRS answering more than 11 million telephone calls with a 14.4 minute Average Speed of Answer.[43]

Each year, many taxpayers also seek assistance from one of the IRS's 380 walk-in offices, called Taxpayer Assistance Centers. However, the IRS estimates that the number of taxpayers it will assist at its Taxpayer Assistance Centers will decrease this fiscal year. The IRS assisted more than 5.5 million taxpayers in FY 2014 and plans to assist 5.3 million taxpayers in FY 2015 (a 4 percent decrease). Further, the IRS's ability to process taxpayer correspondence in a timely manner has also declined. The backlog of paper correspondence inventories remains high. The over-age inventory[44] rose from 32.7 percent of inventory in 2014 to 36.1 percent in 2015.

In an effort to continue to redirect taxpayers to online services, the IRS has expanded its online tools available on IRS.gov and offers more self-assistance options that taxpayers can access 24 hours a day, seven days a week. The IRS reported more than 327 million visits to IRS.gov this filing season as of May 9, 2015. Taxpayers continue to desire electronic products and services that enable them to interact and communicate with the IRS. In response, the IRS continues to expand the information and tools available online to assist taxpayers. The IRS's goal is to provide taxpayers with dynamic online account access that includes viewing their recent payments, making minor changes and adjustments to their accounts in real time, and corresponding digitally with the IRS to respond to notices or complete required forms.

Although the IRS Commissioner noted that the IRS expects to deliver dynamic online account access capability in three to five years, funding needs to be committed to fully complete the key information technology projects. Failure to dedicate funding to this effort will cause the IRS to miss opportunities to fully benefit from the cost savings and improved customer service that can be achieved by providing online account access, including reducing the reliance on traditional service channels such as telephones, paper correspondence, and face-to-face contact that are currently experiencing heavy traffic.[45]

We also determined that victims of identity theft experienced long delays in having their tax accounts resolved.[46] Our review of a statistically valid sample of 100 identity theft tax accounts resolved in the Accounts Management function between October 1, 2012, and September 30, 2013, identified that the IRS took an average 278 days to resolve the tax accounts. In addition, our review identified that the IRS made errors on the tax accounts of victims of identity theft, resulting in the delay of refunds or the victim

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[43] TIGTA, Ref. No. 2015-40-080, *Results of the 2015 Filing Season* (Aug. 2015).
[44] Correspondence is generally considered over-age when it has been in inventory for more than 45 calendar days.
[45] TIGTA, Ref. No. 2015-40-053, *Taxpayer Online Account Access Is Contingent on the Completion of Key Information Technology Projects* (May 2015).
[46] TIGTA, Ref. No. 2015-40-024, *Victims of Identity Theft Continue to Experience Delays and Errors in Receiving Refunds* (Mar. 2015).

receiving an incorrect refund amount. For example, of the 100 tax accounts that TIGTA reviewed, the IRS did not correctly resolve 17 (17 percent) accounts. Errors result in delayed refunds and require the IRS to reopen cases and take additional actions to resolve the errors. Based on the results of the review of the 100 identity theft tax accounts, we estimate that 25,565 (10 percent) of the 267,692 taxpayers whose accounts were resolved during the period October 1, 2012, to September 30, 2013, may have been resolved incorrectly, resulting in the issuance of delayed or incorrect refunds. This wastes additional resources needed to resolve the errors and further burdens victims of tax-related identity theft.

GLOBALIZATION

The scope, complexity, and magnitude of international financial transactions continue to present significant enforcement challenges for the IRS. As the IRS noted in its most recent strategic plan, the evolution and proliferation of virtual commerce has expanded the exchange of goods, services, and currencies – real and virtual – across jurisdictions, further complicating tax administration. In addition, businesses with U.S. tax obligations are increasingly adopting more complex incorporation structures, shifting away from C corporations and moving towards flow-through entities, such as partnerships and S corporations.[47]

The IRS has encouraged taxpayers to voluntarily disclose their foreign accounts and pay the amount they owe through the Offshore Voluntary Disclosure Program. Since its establishment in 2009, this Program has resulted in more than 50,000 disclosures of underpaid or unpaid taxes and the collection of more than $7 billion in back taxes, interest, and penalties. Another tool that the IRS expects will help improve offshore tax compliance is the Foreign Account Tax Compliance Act (FATCA).[48] This law requires foreign financial institutions to report information to the IRS about financial accounts held by U.S. taxpayers or by foreign entities in which U.S. taxpayers hold a substantial ownership interest. More than 160,000 foreign financial institutions have registered under the FATCA and recently, in March 2015, began providing the IRS with information.

In an audit assessing the IRS's progress in implementing the FATCA, TIGTA found that the IRS has taken steps to provide information to affected stakeholders that explain the FATCA requirements and expectations.[49] However, TIGTA identified that improvements are required to ensure compliance with the FATCA. If compliance plans are not properly documented, implementation and performance of compliance activities could experience unnecessary delays. TIGTA also identified some limitations with the IRS's

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[47] *Internal Revenue Service Strategic Plan – FY 2014-2017* (IRS Publication 3744) (Rev. June 2014).
[48] Pub. L. No. 111-147, Subtitle A, 124 Stat 71, *96-116 (2010)(codified in scattered sections of 26 U.S.C.).
[49] TIGTA, Ref. No. 2015-30-085, *The Internal Revenue Service Has Made Progress in Implementing the Foreign Account Tax Compliance Act* (Sept. 2015).

processing of paper Forms 8938, *Statement of Specified Foreign Financial Assets*, that if not properly addressed could limit the IRS's ability to make informed decisions and achieve its compliance objectives related to the FATCA.

The United States generally taxes U.S. citizens and resident aliens[50] on their worldwide income and foreign persons on their U.S. source income. The Foreign Tax Credit (FTC) is intended to reduce the double taxation burden that would otherwise occur when foreign source income is taxed by both the United States and the foreign country from which the income is derived. The FTC can significantly affect the amount of taxes paid by individuals on U.S. tax returns. In Tax Year 2013, nearly 7.4 million individual tax returns were filed claiming approximately $16.7 billion in FTCs.

TIGTA determined that the IRS does not have sufficient controls and processes in place to identify erroneous FTC claims.[51] TIGTA's analysis of paper and electronically filed individual tax returns for Tax Years 2010 through 2012 identified that the IRS potentially: improperly allowed $94.9 million in FTCs on 65,499 tax returns; allowed taxpayers to file 16,058 tax returns that claimed nearly $2.9 million in FTCs as a deduction, as well as a credit on the same foreign taxes paid; and allowed nearly $40 million in erroneous FTCs on 188,102 tax returns when third-party information return documents did not support the FTCs claimed.

TAXPAYER PROTECTION AND RIGHTS

The IRS must ensure that tax compliance activities are balanced against the rights of the taxpayers to receive fair and equitable treatment. In June 2014, the IRS updated Publication 1, *Your Rights as a Taxpayer*. Also referred to as the Taxpayer Bill of Rights, this publication outlines the rights of the taxpayer and the processes for examination, appeal, collection, and refunds. The IRS continues to dedicate significant resources and attention to implementing the taxpayer rights provisions of the IRS Restructuring and Reform Act of 1998. The following audits related to taxpayer rights provisions are mandated to be completed annually by TIGTA: Notices of Levies; Restrictions on the Use of Enforcement Statistics to Evaluate Employees; Fair Debt Collection Practices Act[52] Violations; Notices of Liens; Seizures; Illegal Tax Protestor Designations; Statute of Limitations for the Assessment of Additional Taxes and Penalties; Collection Due Process Appeals; Denial of Requests for Information; Restrictions on Directly Contacting Taxpayers Instead of Authorized Representatives; and Separated or Divorced Joint Filer Requests.

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[50] An individual who is not a U.S. citizen who meets either the "green card" test of holding an immigrant visa or the physical presence of being in the United States for at least 31 days during the current calendar year and a total of 183 days during the three-year period that includes the current year and the two preceding years.

[51] TIGTA, Ref. No. 2015-30-052, *Improvement Is Needed in Compliance Efforts to Identify Unsupported Claims for Foreign Tax Credits* (July 2015).

[52] 15 U.S.C. §§1601 note, 1692-1692o (2006).

In general, the IRS has improved its compliance with these statutory taxpayer rights provisions and is documenting its protection of taxpayer rights. However, during the review of the IRS's compliance with Notice of Federal Tax Lien due process procedures, TIGTA found that the IRS did not notify the taxpayers' representatives of the Notice of Federal Tax Lien filings as required.[53] Based on the sample results, TIGTA estimated that 24,237 taxpayers may have been adversely affected because the IRS did not follow requirements to notify the taxpayers' representatives of the taxpayers' rights related to the Notices of Federal Tax Lien.

During the review of the IRS Office of Appeals Collection Due Process Program, TIGTA identified errors relating to the determination of the Collection Statute Expiration Date (CSED) on taxpayer accounts.[54] The CSED is the expiration of the time period established by law to collect taxes. From a statistically valid sample, TIGTA identified instances in which the IRS incorrectly extended the CSED, allowing the IRS additional time it should not have had to collect the delinquent taxes. Based on the sample results, TIGTA projected that 1,464 of the 34,155 Collection Due Process taxpayer cases closed in FY 2014 may have an incorrect CSED with time extended in error.

During the review of the IRS's compliance with legal guidelines when conducting seizures of taxpayers' property, TIGTA found that the IRS generally followed the guidelines. However, we identified 24 instances, involving 21 seizures, in which the IRS did not comply with a particular Internal Revenue Code section and the related Internal Revenue Manual requirement or the IRS Restructuring and Reform Act of 1998.[55] Failure to adhere to legal and internal guidelines could result in the abuse of taxpayers' rights or inequitable treatment of taxpayers.

The IRS is continuously under attack by criminals using the tax administration system for personal gain in various ways. These scams, and the methods used to perpetrate them, are constantly changing, require constant monitoring by the IRS, and adversely impact taxpayers. For at least the last decade, the IRS has provided the public with information about what it sees as the "Dirty Dozen" tax scams on its website. These scams range from offshore tax avoidance to fake charities and inflated refund claims. Compiled annually, the "Dirty Dozen" lists a variety of common scams that taxpayers may encounter.

The phone impersonation scam has proven to be so large that it is one of TIGTA's Office of Investigation's top priorities, and it has also landed at the top of the IRS's "Dirty Dozen" tax scams this year. It is a surprisingly effective and fast way to steal taxpayers'

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[53] TIGTA, Ref. No. 2015-30-055, *Fiscal Year 2015 Statutory Review of Compliance With Notice of Federal Tax Lien Due Process Procedures* (June 2015).
[54] TIGTA, Ref No. 2015-10-068, *Review of the Office of Appeals Collection Due Process Program* (Aug. 2015).
[55] TIGTA, Ref. No. 2015-30-048, *Fiscal Year 2015 Review of Compliance With Legal Guidelines When Conducting Seizures of Taxpayers' Property* (June 2015).

money, and in this fast-paced electronic environment, the money can be gone before the victims ever realize that they have been scammed. The hundreds of thousands of complaints we have received about this scam makes it the largest, most pervasive impersonation scam in the history of our agency. It has claimed thousands of victims with reported losses totaling more than $22 million as of August 2015.

HUMAN CAPITAL

People are the Federal Government's most critical asset because they play such a vital role in achieving agencies' missions and delivering services to stakeholders. The Government Accountability Office has designated Strategic Human Capital Management as a high risk since 2001. In its most recent High-Risk report, it noted that current budget and long-term fiscal pressures, declining levels of employee satisfaction, the changing nature of Federal work, and a potential wave of employee retirements threaten the Government's capacity to address many evolving, national issues.[56]

At most Federal agencies, personnel costs account for the large majority of operating costs. The IRS is no exception, with approximately 75 percent of its budget going toward personnel costs. Between FYs 2010 and 2014, the IRS lost approximately 13,000 full-time employees and expects to lose an additional 3,000 employees through attrition in FY 2015.[57] Additionally, by the end of FY 2017, approximately 69 percent of all IRS executives and 48 percent of the IRS's non-executive managers are projected to be eligible for retirement.[58]

Although the IRS faces pressure to fill staffing vacancies when the budget permits, the IRS must ensure that it hires and retains only well-qualified individuals. TIGTA found that between January 2010 and September 2013, the IRS hired hundreds of former employees with prior substantiated conduct or performance issues, including tax issues.[59] Although these individuals may meet Office of Personnel Management suitability standards, rehiring prior employees with known conduct and performance issues presents an increased risk to the IRS and taxpayers.

Further, TIGTA found that the IRS's process to address tax violations by its employees could be improved.[60] TIGTA reviewed records for cases closed in FYs 2004 through 2013 and found that 1,580 employees were found to be willfully tax noncompliant. While the IRS Restructuring and Reform Act of 1998 states that the IRS shall terminate

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[56] Government Accountability Office, GAO-15-290, *High Risk Series – An Update* (Feb. 2015).
[57] Written Testimony of John A. Koskinen, Commissioner of the IRS, before the House Ways and Means Committee, Subcommittee on Oversight, dated April 22, 2015.
[58] TIGTA, Ref. No. 2013-10-017, *Improvements Have Been Made to Address Human Capital Issues, but Continued Focus Is Needed* (Jan. 2013).
[59] TIGTA, Ref. No. 2015-10-006, *Additional Consideration of Prior Conduct and Performance Issues Is Needed When Hiring Former Employees* (Dec. 2014).
[60] TIGTA, Ref. No. 2015-10-002, *Review of the Internal Revenue Service's Process to Address Violations of Tax Law by Its Own Employees* (Apr. 2015).

employees who willfully violate tax law, it also gives the IRS Commissioner the sole authority to mitigate cases to a lesser penalty. Over this 10-year period, 620 employees (39 percent) with willful tax noncompliance were terminated, resigned, or retired. For the other 960 employees (61 percent) with willful tax noncompliance, the proposed terminations were mitigated to lesser penalties such as suspensions, reprimands, or counseling.

The anticipated retirements and reduction in employees possessing a very specialized skillset and institutional knowledge are particularly challenging as the IRS works to process an increasing number of tax returns, combat tax refund fraud and identity theft, and effectively manage new or enhanced responsibilities brought on by tax code changes. Faced with a shrinking workforce and continued budgetary pressure, the IRS will be challenged to successfully achieve its mission. Further, as the agency primarily responsible for administering Federal tax law, the IRS must ensure that its employees are held to the highest standards to maintain the public's confidence.

CONCLUSION

This memorandum is provided as our annual summary of the most serious major management and performance challenges confronting the IRS in FY 2016. TIGTA's *Fiscal Year 2016 Annual Audit Plan* contains our proposed reviews, which are organized by these challenges, in order of priority. If you have any questions or wish to discuss our views on the challenges in greater detail, please contact me at (202) 622-6500.

cc: Deputy Secretary
Assistant Secretary for Management and Chief Financial Officer
Commissioner of Internal Revenue

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

In their memoranda dated October 23 and October 15, 2015, the Treasury Inspector General (IG) and the Treasury Inspector General for Tax Administration (TIGTA), respectively, identified the major challenges facing management. The Special Inspector General for the Troubled Asset Relief Program (SIGTARP) did not report to the Department any management and performance challenges for inclusion in the financial report. The Department of the Treasury concurs with the IG and the TIGTA on these challenges. These challenges do not necessarily indicate deficiencies in performance; rather, some represent inherent risks that must be monitored continuously. Moving forward, Treasury will continue to address these issues proactively. The following tables summarize the major management and performance challenges facing the Department of the Treasury, and provide information on the actions taken by Treasury in fiscal year 2015 and planned for fiscal year 2016 and beyond. The IG's matters of concern are also addressed below.

Jacob J. Lew
Secretary of the Treasury
November 16, 2015

RESPONSE TO OIG

OIG CHALLENGE NO. 1	SUMMARY OF MAJOR ISSUES
Cyber Threats	• Build on existing partnerships among financial institutions, regulators, and private entities in the financial sector • Identify and respond to emerging cyber threats against financial institutions and the broader financial sector

Domestic Finance (Office of Critical Infrastructure Protection & Compliance Policy (OCIP))

Fiscal Year 2015 Accomplishments

- Improved public-private incident response coordination by refining mechanisms for financial sector companies to request technical assistance from government during major cybersecurity incidents
- Held dozens of threat briefings for financial regulators, financial sector companies, and executive branch agencies to explain the context behind certain malicious activity
- Promoted use of the National Institute of Standards and Technology's (NIST) Cybersecurity Framework by actively engaging with senior executives at-large and small firms, third-party vendors, and financial regulators through public speeches and direct engagement with financial services sector companies
- Coordinated with financial regulators through the Financial and Banking Information Infrastructure Committee to promote shared approaches to cybersecurity risk management
- Completed three large-scale financial sector cybersecurity exercises (December 2014, March 2015, June 2015) with DHS, DOD, DOJ, financial regulators, and private sector representatives; these exercises tested and refined communication and escalation processes for responding to and recovering from destructive malware attacks
- Implemented protocols to automate information sharing, which will allow companies to more quickly share and receive technical cybersecurity data
- Created and disseminated a total of 19 circulars, through OCIP's Cyber Intelligence Group, that informed network security specialists of cyber actors' tactics, techniques, procedures and associated indicators to assist in network defense capabilities and planning

Actions Planned or Underway

- Developing tabletop exercises based on the NIST Cybersecurity Framework's five concurrent and continuous functions to aid small and medium sized financial institutions; the functions are protect, defend, identify, respond, and recovery from cybersecurity threats/events
- Planning to execute three cybersecurity exercises in 2016
- Coordinating regional meetings between financial institutions and local FBI and other law enforcement and financial institutions; to facilitate the establishment of knowing your local contacts before a critical n event occurs is critical
- Working closely with government partners in the United Kingdom to test communication and escalation processes for responding to cyber incidents impacting both countries

Management (Chief Information Officer)

Fiscal Year 2015 Accomplishments

- Achieved the following Fiscal Year 2015 Cybersecurity Cross-Agency Priority (CAP) goals:
    - Reached or exceeded CAP targets for four of six Information Security Continuous Monitoring goals, two of three Anti-Phishing and Malware Defense goals, and both of the Secure Authentication goals
    - Exceeded CAP goal for Secure Authentication during the Cyber Sprint; drove PIV-required authentication from 69 percent (July 1) to 96 percent (September 30) for unprivileged users and from 4 percent to 100 percent of privileged users; reduced the number of current privileged users below the target number
- Achieved compliance with federal incident reporting guidelines by transitioning to a new Treasury Computer Security Incident Response Center Reporting Portal

- Issued the Treasury Department's Information Security Continuous Monitoring Framework, which implements a risk-based approach to security control assessments and ongoing authorization of system operation, to provide increased visibility to the most important security functions and better targeting of limited resources
- Continued enhancing cybersecurity threat awareness among Treasury senior leaders and employees:
  - Deployed a Cybersecurity Annual Awareness Training solution for the Department and all Bureaus, enabling 98 percent of users to complete the Cybersecurity Awareness Training. Additionally, 99 percent of users with significant security responsibilities completed role-based security training.
  - Issued bi-weekly Cyber Checkpoints focusing on specific cyber threat issues to all Treasury employees
- Enhanced protections for sensitive information including:
  - Began implementation of a Wireless Intrusion Prevention System (WIPS) for monitoring wireless activity at Treasury Department facilities
  - Initiated data loss prevention (DLP) studies and expanded capabilities to secure data-at-rest
  - Continued leadership role in outreach and collaboration; hosted two large inter-agency engagements, four inter-Bureau engagements, and published 15 cyber threat reports
- Prevented major attacks by blocking sophisticated adversaries; shared techniques recognized as best practice within government with law enforcement and intelligence communities
- Developed Department-wide Cybersecurity Strategy for Fiscal Years 2016 – 2017 in collaboration with Bureaus

Actions Planned or Underway

- Finalize and operationalize the Department's Cybersecurity Strategy for Fiscal Years 2016 – 2017
- Enhance cybersecurity awareness by introducing a new, customable training solution designed to increase effectiveness of the annual training process
- Continue to deploy WIPS throughout Treasury Department facilities
- Continue to plan and deploy Continuous Diagnostics and Mitigation activities in support of the Department's Cybersecurity Strategy
- Continue to expand DLP capabilities

Office of the Comptroller of the Currency (OCC)

Fiscal Year 2015 Accomplishments

- The OCC, along with other members of the Federal Financial Institutions Examination Council (FFIEC) issued a Cybersecurity Assessment Tool (Assessment) that institutions may use at their option to evaluate their risks and cybersecurity preparedness. OCC examiners will gradually incorporate the Assessment into its procedures for examinations of national banks, federal savings associations, and federal branches and agencies (collectively, banks) of all sizes. The FFIEC has also made available Assessment resources institutions may find useful, including an executive overview, a user's guide, an online presentation explaining the Assessment, and appendixes mapping the Assessment's baseline items to the *FFIEC Information Technology (IT) Examination Handbook* and all items to the NIST Cybersecurity Framework
- FFIEC members issued a statement to notify financial institutions of the increasing threat of cyber attacks involving destructive malware and to describe risk mitigation techniques. In some cases, destructive malware used in attacks successfully compromised large quantities of data and rendered supporting systems inoperable.
- FFIEC members issued a statement to notify financial institutions of the growing trend of cyber attacks for the purpose of obtaining online credentials for theft, fraud, or business disruption and to describe risk mitigation techniques
- FFIEC members issued a statement recommending that financial institutions of all sizes participate in the Financial Services Information Sharing and Analysis Center (FS-ISAC)
- The FFIEC released a new appendix, "Strengthening the Resilience of Outsourced Technology Services,"

to the "Business Continuity Planning" booklet of the *FFIEC Information Technology Examination Handbook*. The new appendix ensures that the booklet aligns with regulatory guidance on third-party relationship risk management and incorporates emerging risks, such as cyber resilience.

- The FFIEC, on behalf of its members, released the "FFIEC Cybersecurity Assessment General Observations" and the "Cybersecurity Threat and Vulnerability Monitoring and Sharing Statement." These documents address findings from the 2014 Cybersecurity Assessment pilot examination work program. These documents also encourage regulated financial institutions to participate in the FS-ISAC.
- OCC hosted webinars for all examiners, national banks and federal savings associations to highlight the risks posed by cyber threats and vulnerabilities and inform them on the use of the Cybersecurity Assessment Tool

Actions Planned or Underway

- The OCC will continue to assess the ability of the institutions under its supervision to respond to cyber-attacks
- The OCC will be reviewing banks' programs for assessing the evolving cyber threat environment and banks' cyber resilience. Examiners will incorporate the Cybersecurity Assessment into its information security and operational risk supervisory activities
- OCC is training all midsize and community bank examiners and appropriate large bank examiners on cybersecurity issues and the Cybersecurity Assessment Tool
- The OCC as part of the FFIEC plans to update cybersecurity aspects of the FFIEC IT Examinations Handbook
- The OCC plans to conduct a variety of outreach activities to industry trade groups to raise awareness around cybersecurity preparedness
- FFIEC members plan to issue a statement to notify financial institutions of the increasing frequency and severity of cyber-attacks involving extortion

OIG CHALLENGE NO. 2	SUMMARY OF MAJOR ISSUES
Management of Treasury's Authorities Intended to Support and Improve the Economy	• Protect the taxpayer from unnecessary risk associated with the implementation and administration of programs intended to support and improve the economy, including the provisions of the: - *Small Business Jobs Act of 2010* - *American Recovery and Reinvestment Act of 2009* - *Housing and Economic Recovery Act of 2008* - *Emergency Economic Stabilization Act of 2008*

Continued Implementation of Dodd-Frank

Financial Stability Oversight Council (FSOC)

- Held 10 meetings of the FSOC to discuss and analyze market developments and financial regulatory issues
- Continued work to identify nonbank financial companies for designation for supervision by the Federal Reserve and enhanced prudential standards
- Completed annual reevaluations of three nonbank financial companies designated in 2013
- Monitored the eight financial market utilities designated in 2012 for enhanced risk-management standards and supervision
- Published its 2015 annual report to Congress, which addressed the FSOC's activities, identified potential emerging threats to U.S. financial stability, and made recommendations to mitigate such threats
- Continued to implement operational improvements related to the work of the FSOC, including adopting formal charters governing the work of each of its committees
- Implemented supplemental procedures relating to nonbank financial company determinations

Actions Planned or Underway

- Continue identification of nonbank financial companies for designation for supervision by the Federal Reserve and enhanced prudential standards
- Continue to evaluate potential risks to U.S. financial stability arising from asset management products and activities
- Continue monitoring for potential risks to U.S. financial stability, with a focus on significant financial market developments and structural vulnerabilities affecting the financial system
- Continue to implement operational improvements to existing processes and procedures related to the work of the FSOC

CDFI Bond Guarantee Program

Community Development Financial Institutions CDFI Fund

Fiscal Year 2015 Accomplishments

- The CDFI Bond Guarantee Program successfully secured $750 million in the FY 2015 appropriation
- An Alternative Finance Structure (AFS) was approved for the CDFI Bond Guarantee Program's 2015 round
- On September 29, 2015 Treasury announced that an additional nine bond loans, totaling $327 million, were guaranteed in FY 2015

Actions Planned or Underway

- In the 2015 CDFI Bond Guarantee Program outreach sessions, many potential applicants indicated an interest in the AFS; however, the two (2) month application cycle for the CDFI Bond Guarantee Program in FY 2015 was one of the key factors that impacted the demand for the AFS. For FY 2016, the CDFI Fund will open the application window earlier and for a longer period. In addition and based upon the recommendation of the Credit Review Board of the CDFI Bond Guarantee Program, the CDFI Fund will conduct more extensive outreach on the AFS and existing structure of the CDFI Bond Guarantee Program.
- The FY 2016 budget proposal for CDFI Bond Guarantee Program requests the following legislative changes:
    - to extend the CDFI Bond Guarantee Program through FY 2017; and
    - to reduce the minimum bond issue size from $100 million to $25 million; and
    - to permit the Secretary to adjust the risk-share pool payment requirement, based on the borrower's credit quality, from zero to four percent;
    - to collect a mandatory one percent fee from all borrowers; and
    - to revise the relending account language to correct a technical drafting error

Small Business Lending Fund and State Small Business Credit Initiative

Small Business Lending Fund (SBLF)

Fiscal Year 2015 Accomplishments

- Collected $38.743 million quarterly dividends, interest and fees from SBLF participants
- Coordinated and processed full redemptions for 38 institutions and partial redemptions for 21 others totaling $822.6 million in proceeds. Redemptions as of 9-30-15 represented 41.33% of the original $4.027 billion disbursed and 26.5% of the number of institutions that were originally funded
- Met with federal regulators to review and plan for managing the large increase in 2015/2016 redemptions
- Participants reported $1.21 billion overall increase in qualified small business lending (June 30, 2015 vs June 30, 2014)
- Successfully managed asset management activities related to all required corporate actions and exchanges
- Complied with program requirements for the issuance of all reporting requirements (Transaction, Lending Growth (formerly Use of Funds), Lending Survey)

- Complied with program requirements for all oversight audits

Actions Planned or Underway

- Outline long term strategy for the CDLF portfolio
- Determine the asset management strategy, including possible disposition options for banks that do not redeem by the step up rate increase
- Outline future needs for both asset managers and contractors once banks' step-up rates have all kicked in and a large part of the banking portfolio has redeemed
- Continue to work with participants and regulators on the high volume of planned redemptions requests

State Small Business Credit Initiative (SSBCI)

Fiscal Year 2015 Accomplishments

- Received, tested, and transferred a cumulative $1,362,671,748 to states as they qualified for subsequent disbursements on their allocations ($216,304,667 in fiscal year 2015)
- Conducted on-site compliance reviews or training sessions with six states
- Evaluated and approved 13 formal modifications to states' approved SSBCI programs
- Organized one national conference of state SSBCI officials hosted by the OCC
- Published Summary of States' Quarterly Reports (Quarters ending September 2014, December 2014, March 2015, June 2015)
- Published Summary of States' 2014 Annual Reports
- Published four practitioner authored "best practice" papers on Capital Access Programs, Collateral Support Programs, Loan Guarantee Programs, and Loan Participation Programs
- Coordinated responses to one audit from the Office of Special Inspector General for the SBLF
- To date, SSBCI Compliance has performed transaction level testing of every active state program (approx. 150) as a result of either a response to a disbursement request and/or on an annual basis, of which there have been three calendar years of activity.

Actions Planned or Underway

- Continue to receive, test, and process requests for subsequent disbursements
- Continue to evaluate and respond to requests for modifications to approved SSBCI Programs
- Organize a national conference of state officials
- Continue to publish Quarterly and Annual Reports
- Continue to coordinate responses to audits of states conducted by the OIG

Management of Recovery Act Programs

Fiscal Year 2015 Accomplishments

Office of the Fiscal Assistant Secretary

- Managed the low income housing and specified energy property programs, including the extension of the specified energy property program by one year under Section 707 of the *Job Creation Act*, by supplementing a small core staff in Departmental Offices with support from other Treasury offices.
- Continued to process incoming applications for the energy program and make timely awards
- Continued an interagency agreement for the energy program with the Department of Energy to assist with the technical aspects of the energy program
- Continued an annual reporting process for the low-income housing program to help ensure projects funded under the program remain qualified

Actions Planned or Underway

- Continue the compliance monitoring programs related to the low-income housing and specified energy

property programs

- Continue to coordinate with IRS's compliance initiative project regarding the energy program
- Continue assessment of staffing needs

Community Development Financial Institutions Fund

Fiscal Year 2015 Accomplishments

- Completed desk reviews for all Recovery Act awardees

Actions Planned or Underway

- Close out all Recovery Act awards

Housing and Economic Recovery Act and the Emergency Economic Stabilization Act (HERA and EESA)

Domestic Finance – Housing Finance Agencies Initiative (under HERA)

Fiscal Year 2015 Accomplishments

- One of the two parts of the HFA Initiative, the Temporary Credit and Liquidity Program (TCLP), was successfully concluded in July 2015 when the last TCLP liquidity facilities were replaced by facilities provided by private sector banks. Treasury did not make any disbursements with respect to its TCLP obligations, and received over $123 million of exposure fees during the life of the TCLP. Going forward, Treasury has no obligations or risk with respect to the TCLP.
- The other part of the HFA Initiative, the New Issue Bond Program (NIBP), had an outstanding principal balance of approximately $7.8 billion as of September 30, 2015, down from an initial balance of $15.3 billion in December 2009. During FY2015, Treasury received timely payment of all NIBP principal, interest and fees that were due. The high degree of Federal and federally-related insurance and guarantees of the underlying mortgage collateral, as well as significant over-collateralization in the bond indentures, result in a very high credit quality for the NIBP portfolio. Mortgage revenue bonds of the type collateralizing the NIBP portfolio have historically been an extremely safe long-term investment. This is consistent with the high credit ratings of bonds in the NIBP portfolio, in that all bonds are rated either in the AAA/Aaa or AA/Aa categories. There are no issues or concerns remaining to be resolved, and outstanding balances of the NIBP portfolio will continue to decline over time as Treasury holds these assets to their maturities.

Office of Financial Stability

Fiscal Year 2015 Accomplishments

- Continued to wind down the remaining TARP investments in a manner that balances the desire to exit as soon as practicable with maximizing returns for the taxpayers:
    - Continued to wind down our remaining Capital Purchase Program (CPP) investments through repurchases by banks, asset sales, and restructurings
    - Completed the wind down of the Automotive Industry Financing Program (AIFP) with the sale of all remaining common stock in Ally Financial
    - Cumulatively collected 98.8 percent of the $429.7 billion in program funds disbursed under TARP (102.9 percent when non-TARP AIG shares are included)
- EESA Housing Programs – Continued to implement the housing programs funded under the Troubled Assets Relief Program (TARP), which have helped 1.8 million people avoid foreclosure and indirectly helped millions more by setting new standards throughout the mortgage servicing industry

Actions Planned or Underway

- Continue to wind down our remaining CPP investments through repurchases by banks, asset sales, and restructurings
- Continue to implement the housing programs funded under TARP, which are designed to prevent avoidable foreclosures and provide a safety net for homeowners currently in the program

Office of Financial Research (OFR)

Fiscal Year 2015 Accomplishments

- Provided analytical and data-related support to the Financial Stability Oversight Council (FSOC) and its member agencies for the FSOC's annual report and non-bank financial company designations analysis
- Participated in inter-agency working groups on asset management, market microstructure, cash management vehicles, and insurance
- With the Federal Reserve, completed creation of bilateral data collection templates, began receiving pilot data, and published a primer on repo and securities lending markets
- Provided data management, aggregation and anonymization services to the Federal Reserve Board of New York in its update of its 2012 Intraday Liquidity Flows Report
- OFR's Chief Counsel was re-elected to serve as chair of the Regulatory Oversight Committee (ROC) of the Global Legal Entity Identifier System (GLEIS)
- Provided research and technical assistance in the development of a universal loan identifier (ULI) and its inclusion in the MISMO Reference Model to facilitate industry uptake and reporting
- Completed the first phase of the Data Harmonization project with the CFTC to identify areas to strengthen SDR data reporting and data quality, completing analysis and recommendations on data elements
- Co-chaired the International Workstream to Prioritize Harmonization of Other Derivative Data Elements with CPMI-IOSCO to identify swap data standards for harmonization
- Co-sponsored a workshop with the Bank of England and the European Central Bank to bring together central bankers and regulators from across the globe to discuss formulation of global data standards
- Mapped regulatory identifiers across several public data sets, helping to link data for a more integrated view of markets and firms; mapped approximately a couple of thousand entities across a few identifiers
- Issued the OFR's third Annual Report to Congress, containing improved analysis and tools for monitoring threats to U.S. financial stability
- Launched the public Financial Markets Monitor, a monthly review of themes and developments in financial markets; presented highlights at monthly meetings of FSOC's Systemic Risk Committee
- Released the first 7 papers in the OFR Brief Series, which are designed to make the OFR's work accessible to a broader audience than OFR working papers
- Released an update to the Financial Stability Monitor (FSM) that was published on the OFR website and presented to FSOC Deputies. Enables users to examine macroprudential risks interactively
- Published 24 Working Papers and 4 Staff Discussion Papers
- Developed a money market funds (MMF) data visualization tool expanding insight into MMF and other liquidity management vehicles
- Presented MMF data visualization tool to FSOC member agencies, OFR's advisory committee, and international entities
- Launched a pilot project to collect data on securities lending transactions
- Hosted the fourth annual joint conference with the Council, "Evaluating Macroprudential Tools: Complementarities and Conflicts," on January 30, at the FDIC campus in Arlington, VA.
- Hosted and chaired a workshop titled, "Understanding the Global Legal Entity Identifier System" for U.S. regulators to enhance their understanding of the LEI and the GLEIS
- Co-hosted a conference, "Measurement Challenges in Macroprudential Policy Implementation: Essential Data Elements for Preserving Financial Stability," with the Federal Reserve Bank of Cleveland
- Deployed new website, new remote access and new internet access capabilities

Actions Planned or Underway

- Provide support for the Council for its annual report and its nonbank designation process
- Facilitate Council member agencies' exploration of best practices in data sharing and reporting efficiency, per the Council's 2015 recommendation published in its Annual Report
- With the Federal Reserve, continue analyses of data collected from the pilot collection on bilateral repo and securities lending market
- Engage stakeholders in the design and development of the financial instrument reference database through targeted outreach
- Compare data used in the FRB 2012 Intraday Liquidity Flows report to more recent reports to determine changes in the payments, clearing, and settlements services of the financial system over time, contributing to an understanding of linkages in the financial system
- Continue to promote global adoption of the LEI in regulatory reporting and general market practice
- Work with agencies and industry participants to map mortgage loan lifecycle data collection and reporting to address overlaps and data gaps through data standardization
- Work with data standards bodies to standardize mortgage data and create a business ontology
- Continue to work with the CFTC on SDR data harmonization assessment and alignment with global regulatory efforts, such as CPMI-IOSCO
- Work with Committee on Payments and Market Infrastructures and CPMI-IOSCO for OTC derivatives data harmonization for a universal transaction identifier (UTI) and universal product identifier (UPI)
- Focus our research on several core programs, including market liquidity and market microstructure, central counterparties, stress testing practices, shadow banking, and the regulation of financial institutions
- Publish additional OFR Briefs, Working Papers, Staff Discussion Papers, and Reports, including new products that express the views of the OFR
- Develop and publish additional monitoring products to the public
- Collaborate with the National Science Foundation on soliciting and funding proposals for grants to promote financial stability research
- Co-sponsor and host the second of two workshops with the Bank of England and the European Central Bank to discuss how to formulate global standards for granular data
- Co-chair the International Workstream to Prioritize Harmonization of Other Derivative Data Elements
- Host a third joint conference with the Federal Reserve Bank of Cleveland in December 2015 and the fifth annual OFR/FSOC Conference in January 2016
- Complete deployment of the feature-rich OFR desktop and collaboration environments
- Deploy a platform to analyze multiple types of trade data
- Expand internet presence to facilitate a more interactive and collaborative experience with OFR tools
- Begin planning to relocate OFR's primary data center

OIG CHALLENGE NO. 3	SUMMARY OF MAJOR ISSUES
Efforts to Promote Spending Transparency and to Prevent and Detect Improper Payments	• Spending Transparency • Detect Improper Payments

Fiscal Year 2015 Major Accomplishments

Spending Transparency

- Established a Program Management Office (PMO) responsible for leading the government-wide implementation of the DATA Act.
- Finalized data standards in collaboration with OMB as required
- Developed tools and processes that are intended to deliver low burden / high value experiences for agencies to provide quality data. These tools include the data models and guidance, DATA Act schema, and DATA Act playbook.
- Conducted numerous workshops with agencies and has been providing them with weekly, bi-weekly as well as monthly communications on the implementation effort.
- Continued to validate the data-centric approach via pilots using agile development methodology as recommended in the U.S. Digital Service Playbook.
- Based on the pilots, developed technical designs for data extraction as well as prototype data broker for validations.
- Conducted active outreach to external stakeholders including state and local government, nonprofit and the private sectors via in-person meetings and regular calls. In addition, Treasury is leveraging technology to engage stakeholders and adopting a new approach to deliver the digital services to public. We are exploring new methods of collecting public input to increase the use of the information by the federal spending data user communities.

Detect Improper Payments

- The Do Not Pay Business Center enhanced its ability to provide timely, accurate and actionable data to support the Federal government's efforts to prevent and detect improper payments. The system now allows for real-time matching of payments against death and vendor data. Incorporation of Privacy Act restricted data additionally improved vendor data matching and reduced false positives by 99.82%.
- Included Credit Alert Verification Reporting System data from the Small Business Administration and the Department of Veterans Affairs into the portal.
- Acquired SSA prisoner data and provided it to the IRS to support their efforts to reduce improper payments in the Earned Income Tax Credit Program.
- Improved its analytics capabilities and developed agency-specific reports that provide a particular agency or program within the agency a high level set of statistical observations that may contribute to improper payments. These reports provide a means to inform agency management about these observations and to determine whether or not the observations call for a more in-depth analytical project in partnership with the agency, to assess the issue, determine root cause, and develop internal control methodologies to eliminate the issue in the future.

Actions Planned or Underway

- While we have made significant progress on the implementation of the DATA Act in the first 17 months, much work remain. We have about 19 months to bring the data from across government together and publish it online as required by the DATA Act. Treasury will be finalizing the data element guidance and the DATA Act Schema in the next few months. In addition, Treasury will be building out the data broker and technical infrastructure to support the collection as well as the publishing of the data. We will also continue to make outreach a priority to keep internal and external communities informed. As such, we will roll out an open beta site to engage the public to build the next generation spending website.
- In addition, challenges inhibiting eligibility verification remain for the Do Not Pay program, specifically in gaining access to SSA's full death data. Legislation has been proposed to make SSA's full death data available for the Do Not Pay Business Center.

OIG CHALLENGE NO. 4	SUMMARY OF MAJOR ISSUES
Anti-Money Laundering and Terrorist Financing/Bank Secrecy Act (BSA) Enforcement	• Prevent and detect money laundering and terrorist financing • Promote U.S. and international financial systems that are safe and transparent • Ensure continued cooperation and coordination of all organizations involved in anti-money laundering and combatting terrorist financial efforts • Create safeguards over the use of BSA information

FinCEN

Fiscal Year 2015 Accomplishments

- Initiated Global Rapid Response Program, recovering or restraining $128.9 thousand in funds obtained through cyber-enabled crimes targeting financial institutions and their clients before such funds could be dissipated by criminals.
- Developed over 100 business rules to screen daily BSA filings and identify reports that merit further review for topics of national security concern, such as terrorist financing, cyber threats, and Ukraine kleptocracy.
- Initiated daily tactical reporting of terrorism-related financial intelligence to law enforcement and foreign partners and began direct distribution of such information to the U.S. intelligence community through intelligence information reports (IIRs).
- Issued four Geographic Targeting Orders (GTO) targeting priority money laundering threats such as tax fraud by identity theft, and the movement of U.S. dollar cash across the southern border and trade-based money laundering for priority drug trafficking organizations.
- Issued secure advisories to financial institutions on red flag indicators of illicit financial activities associated with priority threats, including cybercrime and ISIL, resulting in additional reporting of suspicious activity.
- Proposed a rule requiring certain investment advisers to establish anti-money laundering programs and report suspicious activity pursuant to the BSA.
- Issued 11 civil money penalties against financial institutions and/or owners for willful violations of the BSA, supporting compliance and outreach messages, in particular, those focused on the casino, virtual currency, and money remitter sectors.
- Issued two actions under Section 311 of the USA PATRIOT Act against foreign financial institutions of primary money laundering concern seeking to protect the U.S. financial system from their criminal underworld customers.
- Developed a multi-year strategic plan for the Bank Secrecy Act Advisory Group, a public-private advisory group comprised of domestic organizations involved in AML/CFT efforts.
- Coordinated the multilateral efforts of 19 financial intelligence units around the world to support Ukraine's efforts to recover assets misappropriated by its former regime, resulting in the seizure of over $1.2 billion.
- Coordinated the multilateral efforts of 27 financial intelligence units around the world to engage in an information sharing project on the financing of foreign terrorist fighters traveling to Iraq/Syria resulting in significant actionable intelligence and policy recommendations on improving global information sharing on terrorist financing.
- Signed memorandums of understanding (MOUs) with 7 law enforcement and regulatory agencies granting them access to BSA information under specific terms on safeguarding its use and training them on such safeguards (total MOU holders now equal 381).
- Inspected 378 MOU holders and instituted corrective actions, as necessary, to ensure compliance with safeguards on use of BSA information.
- Conducted civil/criminal investigations of unauthorized use of BSA information and provided criminal referrals to prosecuting authorities, as appropriate.

Actions Planned or Underway

- Continue to issue guidance and actionable advisories to regulated industries, and cooperative efforts with Federal and State regulatory agencies to exchange compliance information and leverage examination resources
- Finalize existing rulemaking proposals and develop new regulations, as warranted, to address money laundering risks or gaps in the regulatory framework
- Use advanced analytics capabilities to apply predictive models to BSA data and identify high-value targets suspected of laundering proceeds of health care fraud, tax fraud by identity theft, and securities fraud
- Publish advanced analytic products identifying illicit finance networks/schemes, and failed institutions or jurisdictions involved in illicit financial activities
- Continue to exercise enforcement authorities where appropriate to ensure compliance with the BSA and combat money laundering in all sectors of the financial services industry
- Use the Bank Secrecy Act Advisory Group to share information by and between industry and government, provide government feedback to industry, and discuss the most sensitive and difficult problems facing organizations

OCC

- The OCC and members of the Federal Financial Institutions Examination Council (FFIEC) released the revised *Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Examination Manual*. The revised manual reflects the ongoing commitment of the federal and state banking agencies to provide current and consistent guidance on risk-based policies and procedures for institutions supervised by the Office of the Comptroller of the Currency (OCC) to comply with the BSA and safeguard operations from money laundering and terrorist financing. Banking organizations should familiarize themselves with these revisions and make the necessary updates to their BSA compliance programs.
- Issued a consent order to the New York, New York branch of Banco Bradesco ("Branch"), a Federal branch of Banco Bradesco, Cidade De Deus, Brazil, for identified deficiencies in the Branch's internal controls, independent testing, and staffing in the area of Bank Secrecy Act and Anti-Money Laundering compliance.
- Issued a consent order to Capital One, N.A., Mclean, VA for identified deficiencies in the bank's internal controls and independent testing in the area of BSA/AML compliance
- Issued a consent order to Cadence Bank, N.A, Birmingham, AL for identified deficiencies in the bank's internal controls and independent testing in the area of BSA/AML compliance
- Issued a $1 million civil money penalty against Lone Star National Bank, Pharr, TX for BSA/AML deficiencies with the bank's internal controls, independent testing, suspicious activity reporting and foreign correspondent banking program
- Issued a $500,000 civil money penalty against First National Community Bank, Dunmore, PA for BSA/AML violations when it failed to file suspicious activity reports on a timely basis in connection with certain suspicious transactions. The OCC took this action in coordination with FinCEN, which took a separate enforcement action against the bank.
- The OCC, and the other Federal banking agencies, were participants and provided expertise and consultation to Treasury's Office of Terrorist Financing and Financial Crimes with regard to the 2015 National Money Laundering Risk Assessment and the 2015 National Terrorist Financing Risk Assessment

Actions Planned or Underway

- Continue examination, enforcement activities, and cooperative efforts with FinCEN and other federal banking agencies
- The OCC will continue to monitor risk levels within banks that may be increasing because of bank portfolio de-risking
- Coordinate BSA/AML regulatory guidance and issuances with Treasury, FinCEN and the other federal banking agencies

OIG CHALLENGE NO. 5	SUMMARY OF MAJOR ISSUES
Gulf Coast Restoration Trust Fund Administration	• Monitor regulations and associated policies and procedures that need be established • Coordinate with many entities/councils that are to receive and further allocate funding, and need to establish policies and procedures • Use Treasury's existing resources to administer its responsibilities for the Trust Fund

Domestic Finance

Fiscal Year 2015 Accomplishments

"The foremost challenge is the demand on Treasury to provide technical assistance to grant applicants as they seek interpretation of regulations and application guidelines and develop multiyear implementation plans. Furthermore, many local governments seeking technical assistance are not experienced as direct recipients of Federal financial assistance."

In FY15, the Office of Gulf Coast Restoration – within the Office of the Fiscal Assistant Secretary – undertook a robust outreach and training program intended to educate and support eligible entities seeking to apply for funds under the RESTORE Act of 2012. The goal of this effort was to establish good working relationships with eligible entities, to understand their capabilities and needs, and to provide technical assistance on the submission of multiyear plans and grant applications.

Fiscal Year 2015 Accomplishments

- Delivered nine in-person training sessions to eligible applicants and two Direct Component webinars; in-person trainings included Louisiana - Baton Rouge (October 1, 2014) and Chalmette (October 3, 2014); Florida - St. Petersburg (October 7, 2014), Naples (October 8, 2014), Pensacola (October 10, 2014) and Eastpoint, Florida (November 14, 2014); Austin, Texas (October 21, 2014), Mobile, Alabama (October 22, 2014), and Jackson, Mississippi (October 24, 2014);
- Provided five update e-mails to all eligible applicants (100+ recipients) to inform them of new information, and training opportunities, including FAQs, revised allocations, funding opportunities announcements, and information on the Automated Standard Application for Payments (ASAP);
- Provided information and technical assistance for eligible applicants by providing FAQs on the RESTORE Act website, responding to questions, and reviewing draft applications and draft multiyear plans;
- Grants management staff traveled to the region (i.e., MS, LA, and FL) to meet with eligible applicants regarding their planning efforts and grant applications.
- Completed a procurement for Grants Management Training for eligible applicants and recipients; classes will be delivered in Louisiana and Florida in FY16;
- Worked with Health and Human Services to provide five training webinars for applicants on the GrantsSolutions.gov grant application and management system;
- Worked with Financial Management Branch (FMB) of the Bureau of the Fiscal Service on ASAP.gov enrollments and facilitated ASAP training for applicants by the Kansas City Financial Management Center; and
- Initiated desk reviews of policies and procedures for 42 of 48 eligible applicants

Actions Planned or Underway

- Develop and sustain meaningful and collaborative relationships with applicants, provide guidance, training, and ongoing communications with eligible applicants
- Coordinate closely with recipients to provide training and guidance for submission of complete applications
- Receive and review recipients' Multiyear Implementation Plans (MYPs) to provide insights regarding proposed projects, timing, and necessary expertise for best available science and technical reviews
- Develop a rigorous Compliance and Oversight regime in collaboration with Treasury stakeholders and RESTORE Council Staff
- Ongoing coordination with the Treasury Risk Working Group
- Use existing IT platforms: HHS' GrantSolutions.gov, Treasury's ASAP.gov & OMB's MAX.gov

- Collaborate closely with the Bureau of the Fiscal Service on management of the RESTORE Trust Fund via the Bureau's established policies & procedures
- Finalize Program and Compliance Policies & Procedures, and re-assess and revise procedures as the program matures
- Coordinate with the RESTORE Council on Grant Management and Program Oversight for consistency
- Coordinate with the RESTORE Council to scope out Treasury's supplemental compliance role in accordance with Statute and Final Rule

Matters of Concern No. 1	SUMMARY OF MAJOR ISSUES
Currency and Coin Production	• Oversee the U.S. Mint's costs associated with producing penny and nickel coins, and the suspended production of $1 coins • Oversee issues related to the Bureau of Engraving and Printing's (BEP) redesign of NexGen $100 note while engaging in sound and comprehensive project management

Oversee the U.S. Mint's costs associated with producing penny and nickel coins, and the suspended production of $1 coins

U.S. Mint Fiscal Year 2015 Accomplishments

- The cost of production decreased in fiscal year-to-date August 2015 for the penny to 1.41 cents and for the nickel to 7.48 cents, from 1.66 cents and 8.09 cents, respectively, in FY 2014, largely due to significant increases in shipment volumes as well as lower selling, general, and administrative (SG&A) costs. The Mint increased productivity, reducing overhead costs despite a 25 percent increase in total circulating coinage shipments. The Mint realized these reductions despite the cost of metal for pennies increasing by 3.1 percent, as well as the cost of metal for nickels increasing by 3.6 percent during FY 2015. This is the lowest per unit cost for the penny since FY 2008 and the nickel since FY 2009.
- The seigniorage (the difference between the cost of producing a coin and its face value) that will be returned to the general fund is estimated to be $550 million for FY 2015. This is a level not achieved by the Mint since FY 2008.
- Since the first biennial report in December 2012, the Mint has conducted extensive testing of six different metal compositions, as well as initial testing of materials that show the potential to duplicate the existing weights and electro-magnetic signature of current U.S. coinage. The second biennial report to Congress on alternative coinage materials was delivered in December 2014.
- The Mint hosted a Coin Industry stakeholders' meeting on March 18, 2015 to discuss several topics including a validation strategy for potential alternative metals. Feedback from coin industry stakeholders indicates a change to the metal composition for circulating coins would be disruptive to commerce. The cost to the private sector and public would far exceed the government savings associated with the use of an alternative metal for circulating coins.

U.S. Mint Actions Planned or Underway

Coin Production

- Continue efforts to increase efficiency control or reduce the cost to manufacture the nation's coinage
- Continue the Mint's R&D testing for a specific alloy before confirming the use of the material as a potential option for circulating coins (excluding the penny)
- Continue alternative metal discussions with all decision makers because changing the metal composition of circulating coins requires legislation as well as a coordinated policy through the Department of the Treasury and the Federal Reserve System that educates the public and minimizes disruptions to commerce
- Maintain open dialogue with the Federal Reserve System regarding the amount of new coins required to supplement its circulating coin inventory to meet the needs of commerce
- Oversee issues related to the Bureau of Engraving and Printing's (BEP) redesign of NexGen $100 note while engaging in sound and comprehensive project management:

BEP Fiscal Year 2015 Accomplishments

Reclaim $100 notes:

- Single note inspection (SNI) technology was successfully implemented in FY 2015: over 300 million $100 notes that were held in finished goods inventory were inspected through SNI and delivered to the Federal Reserve to issue into circulation for a savings of $ 22.7 million

Currency Reader Program:

- The National Rollout launched Jan. 2, 2015, and more than 32,000 readers have been ordered as of September 18, 2015
- Order processing and shipping of currency readers by National Library Service for the Blind and Physically Handicapped (NLS) has improved significantly; most orders are processed within 4 to 6 weeks of receipt of

application

- Measurement Data to be collected – OMB cleared BEP's Voice of the Customer (VOC) Questionnaire Dec. 18, 2014; approximately 300 Voice of the Customer surveys were collected. About 90 percent of VOC respondents gave the reader favorable marks in all categories

Banknote Design and Development Program:

- To date, the critical area of security feature development has successfully moved five new projects into the concept development phase (where early-stage activity is completed to develop a more robust plan and, if appropriate, initiate contract activities for detailed development)
- Advanced two projects into the test and optimize phase (where late-stage activities are completed to ensure technology is ready for inclusion in a future banknote)
- Six or more new contracts are to be awarded by the end of this calendar year moving projects into full development
- High-level requirements for the next family of notes have been completed and signed off by all internal and external stakeholders
- The initial release of the family-level technical requirements is expected to be completed this calendar year
- Series 2017 NXG$100 project has now formally moved into the Banknote Development Process (BDP)
- The first note of the new family of notes, currently known as the Catalyst $10, is expected to formally move into the BDP process in October. The initial work in the BDP process is comprised of activities to perform a detailed concept analysis to allow the stakeholders to determine which product features and functions will advance into the more detailed development activities
- BEP has entered into a contract with Mitre Corporation, a Federally Funded Research and Development Center (FFRDC) to help support banknote development activities

BEP Actions Planned or Underway

- In FY 2016, BEP plans to process about 600 million $100 notes through SNI for delivery to the Federal Reserve; expected savings of over $42 million; BEP anticipates that it will complete processing of the 1.4 billion $100 notes by the end of FY17
- The first note of the new family of notes, currently known as the Catalyst $10, is expected to formally move into the BDP process in October. The initial work in the BDP process is comprised of activities to perform a detailed concept analysis to allow the stakeholders to determine which product features and functions will advance into the more detailed development activities. The new $10 note will be introduced in 2020.
- A new database system to capture customer order information is nearing completion at NLS. The updated system, expected to be on line by the end of December 2015, will improve efficiency of the U.S. Currency Reader Program order processing functions.
- Customer enhancements will be added to the U.S. Currency Reader Program Call Center system to allow customers calling about the status of their order to be transferred to NLS staff who have access to order fulfillment information and can directly assist callers with their query

Matters of Concern No. 2	**SUMMARY OF MAJOR ISSUES**
Documenting Key Activities and Decisions	• Promote an effective records management program to ensure Treasury management personnel remain aware and vigilant

Management

Fiscal Year 2015 Accomplishments

- The Treasury Office of Privacy, Transparency, and Records completed a drive to digitize records and incorporate them into the Treasury Enterprise Content Management structure, resulting in digitization of 1357 cubic feet of paper records
- The Treasury Office of Privacy, Transparency, and Records, in conjunction with the Office of the General Counsel, and the Office of the Assistant Secretary for Management processed over 40 Treasury Orders and Directives that were due for review; that is twice the number that were processed during FY 2014

Actions Planned or Underway

- PTR will continue to prioritize updating Orders and Directives that are due for review in FY 2016
- PTR will be focusing on records management education for new and departing employees in FY 2016

RESPONSE TO TIGTA

TIGTA CHALLENGE NO. 1	SUMMARY OF MAJOR ISSUES
Security for Taxpayer Data and IRS Employees	Promote measures for appropriate physical security and protection of financial, personal, and other information

Fiscal Year 2015 Accomplishments

- Engaged in a Security Summit - a joint effort among the IRS, states, and private industry intended to identify solutions for reducing identity theft and refund fraud by leveraging taxpayer data at the point of filing
- Attempts to obtain taxpayer information fraudulently through false IRS websites and other electronic methods continue; identified and quickly shut down 1,474 false websites to protect tax information and maintain public confidence; schemes are changing from sites used for credit card fraud to requests for tax-related information such as the Social Security Number, Filing Status, Identity Protection Personal Identification Number (IP PIN), and e-File PIN
- Identified, mitigated, and responded to 1,128 cyber incidents and produced 540 advisories and bulletins informing responsible parties through the Computer Security Incident Response Center (CSIRC)
- Conducting ianalysis to understand the scope, scale, and underlying patterns associated with the unauthorized eAuthentication access event; analysis will inform future analytic methodologies used in near-real time analytics and monitoring
- Developed templates for Memoranda of Understanding (MOUs) and Interconnection Security Agreements (ISAs) that meet the National Institute of Standards and Technology (NIST) standards; the MOU establishes the management agreement between the IRS and the external partner regarding the development, management, operation, and security of the interconnection, and the ISA documents the technical and security requirements for the interconnection
- Identified all external interconnections that IRS uses to share tax information with other entities and updated the centralized inventory accordingly
- Took steps to improve document security and neutralize third party efforts to obtain data
  - Added a two-dimensional (2D) barcode feature that masks SSNs and improves our ability to read data from the form to 35 individual nonpayment notices and 22 Automated Collection notices; this feature supports ongoing IRS efforts to balance the protection of taxpayers' identities in the short term and movement toward electronic and online correspondence in the long term
  - Identified and shut down 588 malware sites; a 98 percent increase compared to last year
- Took steps to improve physical and personnel security
  - Completed Security risk assessments at 155 facilities nationwide
  - Delivered Active Shooter/Threat and Workplace Violence training to employees at 175 large posts of duty and Campuses

Actions Planned or Underway

- Update policy and develop procedures for monitoring IRS's inventory of external interconnections and ensuring all appropriate agreements are approved and in place before interconnections are established
- To improve the safety and security of IRS facilities and personnel, the Service will partner with Homeland Security and federal law enforcement entities to deliver site-specific in-person security briefings to staff
- To protect and preserve critical data, the IRS will implement additional records management efforts to electronically archive email by January 2017 and, to the extent possible, all permanent records by January 2020

TIGTA CHALLENGE NO. 2	SUMMARY OF MAJOR ISSUES
Implementing the Affordable Care Act and Other Tax Law Changes	Effectively implement new tax provisions, including tax-related health care provisions of the Patient Protection and Affordable Care Act (ACA), and the American Recovery and Reinvestment Act (Recovery Act)

Fiscal Year 2015 Accomplishments

- Created and deployed communication products related to ACA tax provisions, payments, credits, and other subjects through various channels, including the http://www.irs.gov/aca site
- Consolidated taxpayer outreach activities within the Wage & Investment division, expanded customer service options, and created new Volunteer Income Tax Assistance (VITA) program training on ACA
- Sent letters to approximately 710,000 Advanced Premium Tax Credit (APTC) taxpayers who had premiums paid on their behalf but who have not filed a tax return or an extension, to remind them of the requirement that they file to reconcile the APTC payment to their entitlement
- Updated IT systems to handle filing season 2015 activities, including reconciliation of the Advanced Premium Tax Credit (APTC), calculation of the Premium Tax Credit (PTC), the shared responsibility provision, and exemptions
- Piloted a tool to assist examiners in calculating the Shared Responsibility Payment (SRP) during the course of adjusting a tax return. The IRS will assess the feasibility and cost to provide an online SRP estimator tool
- Reserving lines on tax return forms in advance of anticipated legislation worked well. This approach allowed IRS to analyze the law and revise the forms more quickly upon late passage than if the lines were not reserved

Actions Planned or Underway

- Coordinate with Federal and State Marketplaces to update requirements for submission of Exchange Periodic Data (EPD), which is critical for reconciling claims
- Interview and survey taxpayers and preparers that made Premium Tax Credit errors to find causes, and communicate cautions to taxpayers
- Conduct outreach to the estimated 300,000 low-income taxpayers who reported an individual shared responsibility payment when they should have claimed a health care coverage exemption; this outreach will include informing these taxpayers about available extensions and providing information about the potential benefit of amending their return
- Implement information returns reporting by applicable large employers and insurance providers

TIGTA CHALLENGE NO. 3	SUMMARY OF MAJOR ISSUES
Tax Compliance Initiatives	Improve compliance and fairness in the application of the tax laws

Fiscal Year 2015 Accomplishments

- Issued a memorandum reminding Field Collection group managers to ensure that their revenue officer inventory levels are within current inventory levels and appropriate, taking into account the complexity of the cases
- Established a team to research the extent and nature of partnership misreporting and the effectiveness of examinations in detecting misreporting (TIGTA No. 2015-30-004) SBSE
- Piloted the use of Form 1099K, Payment Card and Third Party Network Transactions, data to identify non-filed returns and, based on the findings, incorporated the information as part of the IRS's nonfiler program
- Deployed the Payment Mix Comparison Tool (PMCT) pilot, which allows tax professionals to use the same analytics the IRS uses to identify potential underreported income and therefore improve voluntary reporting of cash receipts by businesses

Actions Planned or Underway

- Evaluate whether the current inventory ranges for revenue officers are appropriate as part of the ongoing study on the complexity of Field Collection cases
- Analyze partnership data for the purposes of understanding how many partnership structures will be impacted by proposed tax law change and determine potential impact to the partnership examination process Evaluate existing policies and procedures for backup withholding requirements on information returns, determine if changes need to be made and develop next steps

TIGTA CHALLENGE NO. 4	SUMMARY OF MAJOR ISSUES
Fraudulent Claims and Improper Payments	Effective use of taxpayer funds

Fiscal Year 2015 Accomplishments

- Expanded the use of Earned Income Tax Credit (EITC) Preparer Strategy interventions before and during the 2015 filing season to include monitoring over 31,000 preparers; as a result IRS protected nearly $465 million in revenue as well as sent more than 15,000 warnings and nearly 800 e-file alerts to EITC Return Preparers missing Form 8867, Paid Preparer's Earned Income Credit Checklist
- Prepared a legislative proposal to obtain expanded access to the National Directory of New Hires database to improve the verification of claims for other income-based refundable credits; prepared a legislative proposal to move the required filing date for Forms- 1098-T, Tuition Statement, to January 31 so that this information can be used at the time the tax return is processed to help identify improper education credit claims (TIGTA No. 2015-40-027) W&I
- Activated improved identity theft filters for the 2015 filing season to consider fraud potential when multiple returns are filed using the same addresses and/or refunds are requested for the same bank accounts
- Developed and applied operational metrics and compliance treatments for the Premium Tax Credit using both Automated Questionable Credit and identity theft filters to complete the risk scoring model for the credit as required by the Improper Payments Elimination and Recovery Act (IPERA)
- Updated notices to taxpayers to provide better information on how the Identity Protection (IP) Personal Identification Number (PIN) works in the filing process

Actions Planned or Underway

- Evaluate identity theft related refund fraud trends and use this information to improve fraud filter performance
- Determine how to measure how paid return preparers respond to IRS efforts to curb erroneous and fraudulent EITC claims in order to identify the most effective approaches for outreach and compliance
- Update filters on return processing and fraud detection systems in order to improve IRS's ability to identify and neutralize the misuse of EINs
- Develop a filing season 2016 pilot to verify Form W-2 data using an authentication code on e-filed Forms 1040

TIGTA CHALLENGE NO. 5	SUMMARY OF MAJOR ISSUES
Achieving Program Efficiencies and Cost Savings	Use resources to focus on producing the best value for stakeholders

Fiscal Year 2015 Accomplishments

- Evaluating whether IRS can rely on Federal Protective Service (FPS) risk assessments of some facilities and eliminate the duplicate IRS risk assessments for those facilities
- Automated the Federal Employee/Retiree Delinquency Initiative (FERDI) processing, making it more effective and efficient
- Evaluated the accuracy of the overhead rate applied to interagency reimbursable agreements, in order to ensure that the IRS is recouping the full cost of services provided to other governmental entities
- Analyzed the potential resource impact of closing several international offices
- Continued to grow and develop the Enterprise Risk Management (ERM) program as a means for employees to identify and prioritize Servicewide risks; deployed podcasts and Servicewide electronic training; developed guidelines for creating key risk indicators; published an overview of mitigating activities for 15 categories of enterprise risks; and created channels for employees to raise potential risks they have identified
- Developed a communications outreach plan to promote e-filing for business returns
- Developed and implemented a process to ensure accuracy in matching monthly billing statements to inventory records for wireless devices

Actions Planned or Underway

- Develop and implement a process to obtain current and future FPS Facility Services Assessments for IRS facilities upon completion; integrate FPS FSA findings in risk assessments and revalidation processes performed by IRS
- Identify and expand the use of the Federal Payment Levy Program (FPLP) to other federal payments and plan to work with the appropriate agencies to make the necessary changes to include military retirement payments
- Develop an enterprise-wide approach to tracking and managing software licenses
- Develop cost-based performance measures for our Notice programs
- Identify non-financial data that could be used to create managerial cost accounting reports
- Deploy updated enterprise risk management training, including specific scenario planning/response exercises focused on critical risks

TIGTA CHALLENGE NO. 6	SUMMARY OF MAJOR ISSUES
Improving Tax Systems and Online Services	Improve taxpayer systems and efficiency of operations

Fiscal Year 2015 Accomplishments

- Deployed new capabilities associated with Online Bill Pay, IRS Direct Pay, Online Payment Agreement, return preparer lookup, and the IRS2Go mobile application in time for the opening of the tax filing season in spite of challenging IT budget reductions
- Created a business-driven Enterprise Case Management (ECM) Program Management Office to oversee the development of an ECM system that will, over time, standardize case management functions, implement an infrastructure platform, and provide common services that a case management application will leverage
- Consolidated and migrated the Detroit Computing Center infrastructure to other sites in Memphis, Martinsburg, and Ogden, and completed the backup of the itinerant data
- Deployed code changes to multiple IRS systems in order to ensure penalty and interest calculations are performed consistently

- Commenced installation of equipment in the Martinsburg and Memphis computing sites to ensure IRS networks meet "world class" standards; increasing network survivability with a new telecommunications main distribution frame; expanding data center usage to other agencies, including Treasury and TIGTA; developing a Radio Frequency Identification (RFID) system to improve hardware identification and inventory management in Martinsburg
- Developed CADE 2 Transition State 2 Release Plan to address core Individual Master File (IMF) Financial Material Weakness requirements for individual taxpayer accounts, leverage the CADE 2 database as the authoritative data source, and migrate core IMF functions to another code language

Actions Planned or Underway

- Deliver several CADE 2 Transition State 2 projects that will allow downstream systems to pull CADE 2 data, correct failure to pay penalty computations for adjusted refundable credits, provide financial data to the IRS general ledger and sub-ledger, and generate data necessary to build financial and legal transcripts
- Implement the Radio Frequency Identification (RFID) system developed for Martinsburg in order to enhance hardware identification and inventory management
- Perform data extracts to determine risk profiles for eAuthentication users

TIGTA CHALLENGE NO. 7	SUMMARY OF MAJOR ISSUES
Providing Quality Taxpayer Service Operations	Improve taxpayer service

Fiscal Year 2015 Accomplishments

- Piloted appointment scheduling for taxpayers who have a need for face-to-face service at the Taxpayer Assistance Center locations
- Provided taxpayers with more digital self-service options, including modernizing the IRS public website, improving web content and design, and optimizing search capabilities
- Implemented the use of special processing codes to expedite assignment to identity theft (IDT) victim assistance units; deployed specialized teams to focus on older IDT cases
- Continued to look for opportunities to optimize Virtual Service Delivery (VSD); during FY 2015 IRS used capacity data from five sites to help guide decision-making around potential taxpayer and support site locations, while at the same time conducting outreach with Low Income Taxpayer Clinics to market VSD in the nine sites where it is presently available
- Promoted VITA as an alternative to the traditional face-to-face model for preparation of amended, prior, and current year returns
- Developed a multi-year strategy to convert many tax publications and instructions into the user-friendly e-Pub electronic format; in FY 2015, there were 29 tax publications available as eBooks on IRS.gov, including Publication 17, Your Federal Income Tax (For Individuals); there were 84,213 e-pub downloads of which 41,715 were for Pub. 17

Actions Planned or Underway

- Use the annual Service Approach process to ensure that the projects proposed for implementation align with the IRS Commissioner's long-term vision for modernizing taxpayer service. Develop processes and procedures to calculate the average time it takes to resolve taxpayer accounts affected by an IDT.
- Focus on development of additional web applications for taxpayers that will allow them to easily find answers to frequently asked questions
- Continue efforts to educate taxpayers on the availability of self-service channels, including online channels, to supplement face-to-face services in the Taxpayer Assistance Centers
- Develop electronic filing and processing capabilities for Form 1040X, Amended U.S. Individual Income Tax Return
- Enhance "Where's My Refund?" messaging on web and telephone automated applications to provide victims of identity theft the accurate status of their refund

TIGTA CHALLENGE NO. 8	SUMMARY OF MAJOR ISSUES
Globalization	Increase the outreach efforts to foreign governments on cross-border transactions

Fiscal Year 2015 Accomplishments

- Extended the Offshore Voluntary Disclosure Program to encourage taxpayers to voluntarily report their previously undisclosed foreign accounts and assets; IRS has collected over $6 billion since program inception. Achieved a major milestone by opening the first release of the International Data Exchange Service (IDES) Gateway. IDES enables both Financial Institutions and Host Country Tax Administrations to comply with their Foreign Account Tax Compliance Act (FATCA) obligations by safely and securely sending electronic FATCA reports to the IRS.
- Improved the Fraud Referral Program and the examinations of 501(c) tax exempt entities; identified 19 entities suspected of being involved in illicit terrorist financing activities, refer five entities and their principals for investigation, and identify two tax-exempt organizations potentially warranting civil examination
- Developed a formal International Collection training plan using cross-functional subject matter experts

Actions Planned or Underway

- Updating the activities in the Foreign Account Tax Compliance Act (FATCA) Compliance Roadmap for identifying noncompliance by Foreign Financial Institutions (FFIs)
- Establish controls to ensure Form 1116, Foreign Tax Credit (FTC), is attached to return when required; ensure that any training materials and additional guidance related to FTCs are updated, and that employees comply with the updated guidance; and improve educational, outreach and enforcement activities to correct the paid preparer issues related to the FTC
- Enhance the FATCA registration system with additional capabilities such as permitting renewal of FFI agreements, allowing the bulk upload of sponsored entity and subsidiary branch information, improving search and download features, and adding features and documents to support the certification process
- Conduct civil examinations of tax exempt entities suspected of knowingly being involved in illicit financing of terrorist activity and initiate criminal investigations
- Train IRS employees to recognize potential violations of U.S. tax law with respect to tax-exempt organizations and the misuse of charities to fund terrorism

TIGTA CHALLENGE NO. 9	SUMMARY OF MAJOR ISSUES
Taxpayer Protection and Rights	Apply the tax laws fairly

Fiscal Year 2015 Accomplishments

- Updated IRM procedures to reflect that the Lien Unit should verify all notice of federal tax lien (NFTL) requests in which the check box on the Form 12636, box 4 is blank
- Reviewed and corrected the taxpayer accounts that were identified with Collection Statute Expiration Date errors
- Worked through the State Suspicious Filers group to increase IRS collaboration with states on identity theft, fraudulent refunds, and the transmission of leads from the states to the IRS
- Collaborated with stakeholders of the Security Summit Information Sharing Team to increase data-sharing to protect taxpayer identities and prevent identity theft
- Stopped more than 1.7 million fraudulent returns with associated refunds of more than $14 billion

Actions Planned or Underway

- Establish IRM procedures to timely research taxpayer accounts when lien notices are returned with multiple reasons for return and ensure that the lien notice was mailed to the taxpayer's last known address
- Revise the guidelines for advertising the sale of seized property; issue a memorandum to remind employees of the requirements to be followed when revising fair market values affecting minimum bids

- Continue to collaborate with Federal, State and local agencies on best practices for authentication and identity protection
- Implement recommendations of the Security Summit Information Sharing Team

TIGTA CHALLENGE NO. 10	SUMMARY OF MAJOR ISSUES
Human Capital	Enable the IRS to achieve its mission

Fiscal Year 2015 Accomplishments

- Determined, in conjunction with the Office of Personnel Management (OPM), whether and during what part of the hiring process the IRS can fully consider prior conduct and performance issues; IRS will use this information, in conjunction with OPM Suitability standards, in considering prior IRS employment history when rehiring former employees
- Initiated an IRS-wide focus on Knowledge Management, which promotes an integrated approach to identifying, capturing, evaluating, retrieving, and sharing all of an enterprise's information assets
  - Documented knowledge transfer plans and financial management training
  - Created Knowledge Networks for four expertise areas in Employee Plans and Exempt Organizations
  - Leveraged 35 Geographic Leadership Communities (GLC) covering 76 percent of IRS executives and supervisors to create an environment focusing on career development, employee engagement, and support for emerging leaders
- Created a Leadership Engagement Action Plan (LEAP) combining planned IRS employee engagement efforts into a single, corporate engagement strategy based on the Four Pillars of Engagement: Lead, Listen, Develop and Support

Actions Planned or Underway

- Amend existing Section 1203 (b) policy to determine how cases are handled to include a requirement to document the analysis of evidence and the basis for the decision on whether or not to mitigate penalties to something less than termination
- Implement the new recognition initiatives, the Leadership Engagement Action Plan (LEAP), and additional Knowledge Networks on other technical topics
- Assess the structure and operations of IRS functions, as well as their technical training and hiring needs, based on workload complexity, resource levels, geographical factors, and other considerations

SECTION D: SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

SUMMARY OF FINANCIAL STATEMENT AUDIT

Audit Opinion	Unmodified				
Restatement	No				
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Ending Balance**
Material Weakness in Internal Control Over Financial Reporting at the IRS	1	0	0	0	1

SUMMARY OF MANAGEMENT ASSURANCES

Effectiveness of Internal Control over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Qualified					
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
IRS – Unpaid Tax Assessments	1	0	0	0	0	1

Effectiveness of Internal Control over Operations (FMFIA § 2)						
Statement of Assurance	Qualified					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Bureau of the Fiscal Service – Control Deficiencies in the Processes used to Prepare the Consolidated Government-wide Financial Statements	1	0	0	0	0	1
Total Material Weaknesses (FMFIA § 2)	2	0	0	0	0	2

Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Systems conform to financial management system requirements					
Material Weaknesses	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Total Non-conformances	0	0	0	0	0	0

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
1. System Requirements	Lack of substantial compliance noted	
2. Accounting Standards	Lack of substantial compliance noted	
3. USSGL at the Transaction Level	No lack of substantial compliance noted	

SECTION E: IMPROPER PAYMENTS DETAILED REPORT

The Department's Fiscal Year 2015 Improper Payments Information Act Report includes information required by *the Improper Payments Information Act of 2002* (IPIA) as amended by the *Improper Payments Elimination and Recovery Act of 2010* (IPERA), *the Improper Payments Elimination and Recovery Improvement Act of 2012* (IPERIA), Executive Order 13520, *Reducing Improper Payments and Eliminating Waste in the Federal Government*, Office of Management and Budget (OMB) Circular No. A-123, *Management's Responsibility for Internal Control*, Appendix C, *Requirements for Effective Estimation and Remediation of Improper Payments* (OMB Circular A-123, Appendix C) and OMB Circular A-136.

I. RISK ASSESSMENT

Each year, the Department develops a comprehensive inventory of the funding sources for all programs and activities and distributes it to the Treasury bureaus and offices. The bureaus and offices must perform risk assessments at the payment type level (e.g., payroll, contracts, vendors, travel, etc.). The Department's risk assessment process follows the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control Integrated Framework along with the seven risk factors outlined in OMB Circular A-123, Appendix C, *Requirements for the Effective Estimation and Remediation of Improper Payments*. The framework includes:

- Internal Control Environment
- Risk Assessment
- Internal Control Activities
- Information and Communication
- Monitoring

The factors considered in the determination of risk levels include:

- Operating Environment – Existence of factors which necessitate or allow for loosening of financial controls; any known instances of fraud
- Payment Processing Controls – Management's implementation of internal controls over payment processes including existence of current documentation, the assessment of design and operating effectiveness of internal controls over payments, the identification of deficiencies related to payment processes, and whether or not effective compensating controls are present
- Internal Monitoring Activities – Periodic internal program reviews to determine if payments are made properly; strength of documentation requirements and standards to support testing of design and operating effectiveness for key payment controls
- Human Capital – Experience, training, and size of payment staff; ability of staff to handle peak payment requirements; level of management oversight, and monitoring against fraudulent activity
- Whether the program or activity reviewed is new to the agency
- The complexity of the program or activity reviewed
- The volume of payments made annually
- Whether payments or payment eligibility decisions are made outside of the agency, for example, by a State or local government, or a regional Federal office

- Recent major changes in program funding, authorities, practices, or procedures
- The level, experience, and quality of training for personnel
- Inherent risks of improper payments due to the nature of agency programs or operations
- Significant deficiencies in the audit reports of the agency
- Results from prior improper payment work

During fiscal year 2015, Treasury continued the use of its robust risk assessment process.

For those payment types resulting in high-risk assessments that comprise at least 1.5 percent and $10 million in total program outlays or $100 million at any rate, (1) statistical sampling must be performed to determine the improper payment rate, and (2) a corrective action plan must be developed and submitted to the Department and OMB for approval. Responses to the risk assessments produce a score that falls into pre-determined categories of risk. The following table describes the actions required at each risk level:

Risk Level	Required Action(s)
High Risk > 1.5% Error Rate & > $10 Million or $100,000,000 at any error rate	Corrective Action Plan
Medium Risk	Review Payment Controls for Improvement Opportunity
Low Risk	No Further Action Required

Below is a list of all of the Treasury Programs assessed for FY 2015:

Bureau	Program Name	Susceptible to Significant IPs
Alcohol Tax and Trade Bureau		
	Salaries and Expenses	N/A
	Internal Revenue Collection PR	N/A
Bureau of Engraving and Printing		
	Bureau of Engraving and Printing Fund	N/A
Bureau of the Fiscal Service		
	Fiscal Service Administration Salaries and Expenses	N/A
	Reimbursements to Federal Reserve Banks	N/A
	Salaries & Expenses	N/A
	Financial Agent Services	N/A
	FRB reimbursements	N/A
	Debt Collection Special Fund	N/A
	Interest On The Public Debt	N/A
	Corporation for Public Broadcasting	N/A
	Payment to Legal Services Corporation	N/A
	Resident Tuition Support	N/A
	Judgments, Court Of Claims	N/A
	Judgments, US Courts	N/A
	Claims For Contract Disputes	N/A
	Fed. Pay- Emergency Planning & Security	N/A
	Fed. Pay- DC Water & Sewer	N/A
	Refund Money Erroneously Rec'd	N/A
	Fed. Pay-School Improvement	N/A
	Resolution Funds Corp	N/A
	Interest On Uninvested Funds	N/A
	Restitution of Foregone Interest, Financial Management	N/A
	Check Forgery Insurance Fund	N/A
	D.C. Water and Sewage	N/A
	Travel Promotion Fund, Corporation for Travel	N/A

	Promotion	
	Payments to Yankton Sioux Tribe Development Trust	N/A
	Yankton Sioux Tribe Development Trust Fund	N/A
	Administrative Resource Center	N/A
Community Development Financial Institutions Fund		
	CDFI Program	N/A
	CDFI Financing	N/A
	CDFI BGP Financing Fund	N/A
		N/A
District of Columbia Pensions		
	D.C. Federal Pension Fund	N/A
	DC Judicial Retirement & Sur.	N/A
		N/A
Departmental Offices		
	Salaries and Expenses	N/A
	Grants for Specified Energy Property in Lieu of Tax Credit	N/A
	Small Business Lending Fund	N/A
	State Small Business Credit Initiative	N/A
	International Affairs Technical Assistance	N/A
	Treasury Asset Forfeiture Fund	N/A
	Working Capital Fund	N/A
Financial Crimes Enforcement Network		
	Salaries and Expenses	N/A
Internal Revenue Service		
	Refund Collection	N/A
	Refund Collection - Interest	N/A
	Additional Child Tax Credit	N/A
	Health Coverage Tax Credit	N/A
	Alternative Minimum Tax Credit Individuals	N/A
	Alternative Minimum Tax Credit Corporations	N/A
	American Opportunity Tax Credit	N/A
	Build America Bond Payments, Recovery Act	N/A
	Qualified Zone Academy Bonds	N/A
	Qualified School Construction Bonds	N/A
	New Clean Renewable Energy Bonds	N/A
	Qualified Energy Conservation Bond	N/A
	Premium Assistance Tax Credit	N/A
	Adoption Credit	N/A
	Small Business Health Insurance Tax Credit	N/A
	Informant Reimbursement	N/A
	Affordable Health Care Program	N/A
	Taxpayer services	N/A
	Tax Law Enforcement	N/A
	Information Systems	N/A
	Business Systems Modernization	N/A
	Earned Income Tax Credit	Yes (see below)
International Monetary Fund		
	US Quota, IMF Executive	N/A
	Loans to IMF Direct Loan Financing Account	N/A
Office of International Assistance		
	Global Environment Facility, Funds Appropriated to	N/A
	Contribution to the Asian Development Fund, Funds	N/A
	Contribution To Strategic Climate Fund	N/A
	Contribution to Inter-America Development	N/A
	Contribution International Develop Association	N/A
	Contribution To Asian Develop Bank	N/A
	Contribution to the International Bank for Reconstruction & Development	N/A
	Contribution To Clean Technology Fund	N/A
	Contribution To African Develop Bk	N/A

Office of Financial Research		
	Financial Research Fund	N/A
Office of Financial Stability		
	Salaries and Expenses	N/A
	Home Affordable Modification Program	N/A
	TARP Direct Loan Financing Account	N/A
	TARP Equity Purchase Financing Account	N/A
Office of the Comptroller of the Currency		
	Assessment Funds	N/A
Office of the Inspector General		
	Salaries and Expenses	N/A
Special Inspector General for Troubled Asset Relief Program		
	Salaries and Expenses	N/A
Mint		
	Public Enterprise Revolving Fund	N/A
Treasury Inspector General For Tax Administration		
	Salaries and Expenses	N/A

In fiscal year 2015, Treasury completed a full program inventory and performed risk assessments to identify programs that have a significant risk of improper payments, per the methodology in OMB Circular No. A-123, Appendix C. This included for the first time a qualitative risk assessment to determine areas that might affect payment accuracy related to premium tax credits (PTC) claimed on tax returns, including net PTC claimed after reconciling any advanced PTC (APTC) payments. As discussed in Part 1 in the section entitled *Management Assurances*, Treasury also began to perform a risk assessment jointly with HHS, regarding APTC payments. The risk assessments performed on Treasury's programs and activities in fiscal year 2015 found low and medium risk susceptibility for improper payments. However, the Earned Income Tax Credit (EITC) program is deemed a high risk, high priority program by the Department and OMB.

II. Statistical Sampling

EITC Program

The EITC is a refundable federal tax credit that offsets income taxes owed by low-income workers and, if the credit exceeds the amount of taxes owed, provides a refund to those who qualify.

As described below, the IRS engages in a number of activities to encourage voluntary compliance, performs certain automatic checks of all claims, and audits some claims before tax refunds are paid, all of which prevent improper payments. In addition, as with all tax provisions, IRS performs some examinations after refunds are paid, and subsequently recovers some improper payments. The improper payment amounts reported below include improper overclaims plus the absolute value of underpayments, less certain erroneous payments that are prevented or recovered. The error rate is the net improper payment amount divided by the total amount of EITC claimed.

In keeping with the requirements of IPERIA, Treasury updates the estimate of improper payments annually. The EITC improper payment rate is estimated using a statistically valid sample of about 2,600 returns audited through the IRS's National Research Program (NRP), which is sufficient to estimate the improper payment rate with plus or minus 2.5 percentage point precision and 90 percent confidence. For tax year 2011 (the most recent study completed), the estimated gross amount of improper payments was $17.3 billion and the total amount of EITC claimed was $62.3 billion. The amount of erroneous EITC

payments prevented or recovered on tax year 2011 returns was $2.5 billion. This results in a net improper payment amount of $14.8 billion, or 23.8 percent of the total EITC claimed (or between 21.6 percent and 25.9 percent, accounting for sampling error). The current estimated error rate of 23.8 percent is consistent in magnitude with the five-year average error rate of about 24 percent.

Applying this rate estimated from data for tax year 2011 to the estimated FY 2015 level of EITC claims yields an estimated amount of improper payments for FY 2015 of $15.6 billion (or between $14.2 and $17.0 billion).

The following table provides the improper payment reduction outlook for the EITC:

Improper Payment (IP) Reduction Outlook
(Dollars in Millions)

Program	2014 EITC Claims	2014 IP%	2014 IP$	2015 EITC Claims	2015 IP %	2015 IP $	2016 Est. EITC Claims	2016 IP%	2016 IP$	2017 Est. EITC Claims	2017 IP %	2017 IP$	2018 EITC Claims	2018 IP %	2018 IP$
Upper Bound of 90% Confidence Interval	$65,200.00	29.40%	19,100.00	$65,600.00	25.90%	$17,000.00	$66,400.00	25.90%	$17,200.00	$67,300.00	25.90%	$17,500.00	$68,000.00	25.90%	$17,600.00
Lower Bound of 90% Confidence Interval	$65,200.00	24.90%	$16,200.00	$65,600.00	21.60%	$14,200.00	$66,400.00	21.60%	$14,300.00	$67,300.00	21.60%	$14,500.00	$68,000.00	21.60%	$14,700.00

Estimated Claims: Estimated total claims for the EITC are based on projections of EITC tax expenditures plus outlays as estimated by the Office of Tax Analysis within the Department of the Treasury, adjusted to account for the difference between taxpayer claims and amounts received by taxpayers due to return processing and enforcement

IP %: The estimated net improper payment rate (IP %) for FY 2014 was estimated using a statistically valid random sample of TY 2010 individual income tax returns that claimed the EITC. The FY 2015 – FY 2018 estimated net improper payment rates were estimated using a statistically valid random sample of TY 2011 individual income tax returns that claimed the EITC.

IP $: The estimated amount of net improper payments (IP $) equals the estimated IP % multiplied by the Estimated Claims.

This table presents the upper and lower bounds of the 90% confidence intervals in order to be consistent with the estimation approach used in prior years (through FY2009), which provided a range for the estimated net improper payment rate (IP %) and the estimated amount of net improper payments (IP $).

III. Improper Payments Reporting

Treasury's only high-risk susceptible program is the Earned Income Tax Credit (EITC). Although high-priority programs are generally required to report reduction targets, setting improper payment reduction targets for this program does not create meaningful goals for Treasury. This is due to the complexity of the tax law around EITC and the significant annual turnover within the participating population. As an alternative, Treasury and OMB have collaborated on the development of a series of supplemental measures. These measures should provide a more nuanced assessment of the EITC program and of Treasury's efforts to limit improper payments than would be provided by standard reduction targets. Treasury has provided the following supplemental measures to OMB:

- The Annual Error Rate, which identifies the percentage of total EITC payments that are improper

- The amount of Revenue Protected, which shows the total value of erroneous payments prevented, or recovered through compliance activities
- The amount of Revenue Protected from Paid Preparer Treatments, which shows dollars erroneously or fraudulently claimed by paid tax preparers but not paid out, by Treasury
- The number of Preparer Due Diligence Penalties Proposed, reflecting the effectiveness of Treasury efforts to ensure paid tax preparers are submitting accurate, non-fraudulent EITC claims on behalf of taxpayers

These measures are tracked and updated annually based on Tax Filing Season results and are posted to the PaymentAccuracy.gov website. The table below shows estimated values for these measures:

EITC Improper Payment Supplemental Measures

Measure		FY 2015 Value	FY 2014 Value	FY 2013 Value
Annual Error Rate	Total Payments (Outlays) Improper Payments	$65.6 Billion $15.6 Billion	$65.2 Billion $17.7 Billion	$60.3 Billion $14.5 Billion
Revenue Protected (through compliance activities)	Dollars Returns	$ 7.3 Billion 2.9 Million	$6.4 Billion 2.3 Million	$5.6 Billion 2.0 Million
Revenue Protected from Paid Preparer Treatments	Dollars Preparers	$399 Million 20,598	$365 Million 18,105	$511 Million 14,485
Preparer Due Diligence Penalties Proposed	Dollars Preparers	$34.3 Million 1,042	$39.1 Million 1,372	$18 Million 725

To help further address improper payments compliance and reporting, several legislative changes have been proposed for EITC. In the Fiscal Year 2016 Budget transmitted to Congress by the President, the following legislative authorities were proposed:

- Accelerating due dates for filing information returns, including Form W-2, to facilitate early detection of income misreporting and fraud, including identity theft.
- Regulating return preparers to help reduce erroneous EITC claims by weeding out unscrupulous and incompetent preparers
- Providing more flexible correctable error authority to help IRS deny certain erroneous EITC claims before refunds are paid
- Increasing civil and criminal penalties for tax-related identity theft to prevent erroneous EITC claims
- Simplifying the rules for claiming the EITC without a qualifying child for taxpayers who reside with a child that they do not claim as a dependent, in order to reduce taxpayer burden and improve EITC compliance

These legislative proposals are intended to reduce improper payments under EITC and improve taxpayer and paid preparer compliance while minimizing taxpayer burden.

IV. Improper Payment Root Cause Categories

Prior to FY 2015 reporting, agencies were required to categorize their improper payment estimates based on three categories of improper payments: documentation and administrative errors; authentication and medical necessity errors; and verification errors. However, for FY 2015 reporting and beyond, OMB encourages agencies with programs that are susceptible to significant improper payments to report information in their AFR or PAR based on the categories described in the chart below.

Reason for Improper Payment		EITC	
		Overpayments	Underpayments
Program Design or Structural Issue		$900.00	-
Inability to Authenticate Eligibility		$14,700.00	-
Failure to Verify:	Death Data	-	-
	Financial Data	-	-
	Excluded Party Data	-	-
	Prisoner Data	-	-
	Other Eligibility Data (explain)	-	-
Administrative or Process Error Made by:	Federal Agency	*	*
	State or Local Agency		
	Other Party (e.g., participating lender, health care provider, or any other organization administering Federal dollars)	-	-
Medical Necessity		-	-
Insufficient Documentation to Determine			
Other Reason (a) (explain)		-	-
Other Reason (b) (explain)		-	-
TOTAL		$15,600.00	$0

***None identified in the statistically valid sample used to estimate the improper payment**

Inability to Authenticate Eligibility

It is estimated that $14.7 billion or 94 percent of improper payments are from authentication errors. The majority of these errors are associated with the inability to authenticate qualifying child eligibility requirements, mainly relationship and residency requirements, but also the exceptions to the age requirement (full-time student and disability). There is a lack of internal or external databases with information that would help enable IRS to make a determination of eligibility in the absence of an audit.

Another major cause of error in this category is taxpayer income misreporting, mainly self-employment income, where the income is not reported to the IRS by a third party. This category of errors also includes filing status errors, when married couples incorrectly file as single or head of household. Data on marital status and living arrangements are not available in an internal or external database the IRS can access.

Finally, this category includes a small amount of error related to rules for all taxpayers claiming EITC related to valid SSNs, residency, and whether the taxpayer is the qualifying child of another taxpayer, none of which can be authenticated by IRS at time of filing.

Program Design or Structural Issues

It is estimated that $0.9 billion or 6 percent of improper payments are from program design errors. These errors relate to certain income misreporting, tiebreaker errors, and joint return errors of qualifying children.

Program design errors occur because information needed to confirm payment accuracy is not available at the time the return is processed. For income misreporting, payer information, such as Form W-2, is typically not available until after the filing season; therefore IRS is unable to match wages and other income sources against the return at time of filing.

A very small portion of errors are attributable to tiebreaker errors, where more than one taxpayer claims the same qualifying child. IRS processes returns as they are filed and cannot know of duplicate situations when the first return is filed or who is actually qualified in a tiebreaker situation. Situations where a qualifying child files a joint return also make up a small portion of this category. A child cannot be a qualifying child if he/she files a joint return for a reason other than claiming a refund. However, all returns are not filed at the same time, so IRS cannot identify this situation until both returns are filed.

IRS has implemented the following corrective actions to address the root causes identified:

Reason for Improper Payment	Examination Closures	Math Error Notices	Document Matching	Amended Returns1	Two and 10 Year Bans	Identity Theft and Fraud	Criminal Investigations	Soft Notices	Return Preparer Initiatives	Return Preparer Outreach and Education	Software Developer Working Group
Program Design or Structural Issue	X		X	X	X	X	X	X	X	X	
Inability to Authenticate Eligibility	X	X		X	X	X	X	X	X	X	X

V. Corrective Actions

This section describes the ongoing and planned corrective actions to reduce the improper payment rate for Treasury's only high-risk susceptible program, the EITC.

The IRS's strategy with respect to improper payments is to intervene early to ensure compliance with the rules and regulations. In FY 2015, IRS addressed improper payments through our compliance programs as well as through expansive outreach and education efforts to taxpayers and preparers. The IRS's EITC-focused enforcement programs protected approximately $4.6 billion (which does not include the EITC dollars stopped by IRS's fraud and identify theft programs). The revenue includes EITC and also other credits and taxes recovered or prevented from being paid in error in FY 2015, on returns filed in 2015 or earlier years and selected for EITC enforcement. (In contrast, the $2.5 billion subtracted from gross improper payments to yield the net

improper payment amount for tax year 2011 above includes EITC amounts only on returns filed for tax year 2011, selected for examination or document matching.)

- **Examinations** – The IRS identifies tax returns for examination and, in the majority of cases, holds the EITC portion of the refund until an audit can be conducted. The IRS also holds the Additional Child Tax Credit portion of the refund on these EITC examinations.
- **Math Error** – Refers to an automated process in which the IRS identifies math or other irregularities and automatically prepares an adjusted return for a taxpayer.
- **Document Matching** – Involves comparing income information provided by the taxpayer with matching information (e.g., W-2s, 1099s) from employers and other third parties to identify discrepancies.

  The chart below shows significant results from 445,641 EITC-related examinations, 170,000 math error notices, and 1,710,904 document matching reviews.

Compliance Activities

	FY10	FY11	FY12	FY13	FY14*	FY15**	FY16***	FY10-FY16 Total
Examination Closures	473,999	483,574	487,408	483,070	435,638	445,641	446,000	3,255,330
Math Error Notices	341,824	293,450	270,492	241,975	194,127	170,000	150,000	1,661,868
Document Matching	904,920	1,178,129	985,172	906,994	1,053,304	1,710,904	1,700,000	8,439,423
Amended Returns[1]	19,347	14,317	13,284	8,130	17,723	24,282	24,300	121,383

* Restated actual.
** Preliminary data.
*** Estimate based on fiscal year 2016 preliminary data.
[1] Amended returns are a subset of Audit Closures.

These compliance activities had a significant effect, protecting revenue of $4.6 billion in FY 2015. Treasury projects that continued enforcement efforts will protect a total of approximately $28 billion in revenue through fiscal year 2016, as shown below.

(In Billions)								
	FY10	FY11	FY12	FY13	FY14*	FY15**	FY16***	FY10-FY16 Total
Examination Closures	1.97	2.04	2.05	2.11	1.75	1.99	1.99	13.90
Math Error Notices	0.41	0.35	0.31	0.30	0.24	0.22	0.20	2.03
Document Matching	1.43	1.32	1.55	1.42	1.39	2.31	2.31	11.73
Amended Returns	0.06	0.04	0.04	0.03	0.05	0.08	0.08	0.38
TOTAL	3.87	3.75	3.95	3.86	3.43	4.60	4.58	28.04

* Restated actual.
** Preliminary data.
*** Estimate based on fiscal year 2016 preliminary data.

Maximizing Current Business Processes

In addition to base compliance program efforts, the following efforts contributed to the IRS's strategy of identifying and reducing improper EITC refund claims in FY 2015:

Base Enforcement Efforts: Delivered key compliance activities including 445,641 audits, 1,710,904 misreported income cases, and an estimated 170,000 math error adjustments, protecting revenue of over $4.6 billion. The revenue includes EITC and also other credits and taxes from returns selected for EITC enforcement.

Two and 10 Year Bans: Imposed 1,873 two-year bans and 87 ten-year bans for cases where the IRS determined during an EITC audit that the taxpayer intentionally disregarded the rules and regulations or committed fraud.

Identity Theft and Fraud: Detected and stopped over 638,000 fraudulent returns through our fraud detection filters from being processed, preventing over $3 billion dollars in erroneous refunds, of which, nearly $1.6 billion were improper EITC payments.

Criminal Investigations: Continued to stop fraudulent EITC refund claims through our Criminal Investigation (CI) division indictments. Through September 2015, CI issued 284 EITC Questionable Refund Program (QRP) scheme indictments with 272 convictions as well as 102 EITC Return Preparer indictments with 100 convictions.

Soft Notices: Sent approximately 90,000 letters to alert taxpayers that a qualifying child for the EITC claimed on their returns had also been claimed by another person.

Return Preparer Initiatives: As a part of the FY 2015 EITC Return Preparer Strategy, IRS completed activities associated with a suite of progressive EITC preparer treatments, addressing almost 21,000 preparers (up from 18,000 in FY 2014) selected through our risk-based scoring model, before and during the filing season.

- The IRS completed 665 pre-filing season Due Diligence Visits (DDVs) with a penalty rate of 87% and nearly $28 million in proposed penalties. Revenue and criminal investigation agents completed 94 educational Knock-and-Talk Visits (KTV) visits. The IRS also mailed over 21,000 educational notices and called over 1,300 preparers before the FY 2015 filing season.
- The IRS closed 270 filing season DDVs with a penalty rate of 81% and over $3.5 million in proposed penalties. The IRS proposed penalties of $268,000 on 21 DDVs completed as a follow-up for those preparers who received pre-filing season KTVs but did not improve their due diligence. The IRS mailed nearly 20,000 educational notices and called over 2,000 preparers during the 2015 filing season. Additionally, the IRS obtained two civil injunctions protecting revenue of $12.8 million.
- The analysis of the FY 2015 EITC Preparer Strategy revealed that, in addition to the penalties and injunction revenue protected above, the preparer treatments protected over $465 million ($386 million EITC and $79 million Child Tax Credit).

Return Preparer Penalties: Proposed almost $3 million in penalties to 225 TY 2013 EITC return preparers for failure to exercise due diligence by attaching Form 8867, *Paid Preparer's Earned Income Credit Checklist*, to taxpayer returns, as authorized by IRC §6695(g) and Treas. Reg. §1.6695–2. The IRS also sent over 15,000 warning letters and 775 electronic alerts for TY 2014 to warn preparers that did not attach Form 8867 to taxpayer returns.

Return Preparer Outreach and Education: Focused outreach and education efforts on EITC returns preparers to educate them on EITC and due diligence requirements. Nearly 13,500 preparers received a certificate of completion for the English and Spanish interactive EITC Due Diligence Training module. Additionally, with almost 11,000 preparers attending IRS Tax Forums, 49% attended our seminar on EITC due diligence, and 27% attended our seminar on preventing and detecting identity theft.

Software Developer Working Group: Continued our partnership with members of key tax software associations to reduce EITC errors and assist preparers in meeting their EITC due diligence requirements.

Taxpayer Outreach and Education: Conducted annual EITC outreach campaign, including the ninth annual EITC Awareness Day, which centered on EITC underserved populations and included focused compliance messages. The IRS and its partners held more than 280 events to promote EITC. Various Spanish media outlets (i.e., print, internet, and radio) reached an audience of over five million. Over 1.4 million people were exposed to EITC Awareness Day information via Twitter. More than 16,000

viewers watched English and Spanish EITC YouTube videos on the IRS channel, and over 3,700 people visited the EITC website on IRS.gov. IRS believes social media engagement continues to be the preferred partner vehicle to increase the public awareness of EITC. Also, almost 577,000 taxpayers visited the EITC Assistant on IRS.gov, a tool that allows taxpayers to determine if they qualify for the credit.

VI. Internal Control Over Payments

IRS Internal Control Framework

EITC improper payments are not rooted in internal control weakness, financial management deficiencies, or financial reporting failures but through the inherent difficulty of delivering benefits through the tax system. Much of the difficulty administering the EITC derives from the complexity of its statutory eligibility requirements, many of which are known only to the taxpayer and cannot be independently confirmed using third-party corroborating data by IRS. The estimation of improper payments, as established by OMB, also does not take into consideration all internal control processes in place that stop erroneous returns from being processed and paid. For example, the controls and filters in IRS's fraud and identity theft programs stop EITC returns submitted with billions of dollars in fraudulently claimed EITC.

The IRS has internal controls in place to verify eligibility when data are available. For example, IRS may reject a return from processing or systemically adjust a return if a Social Security Number is incorrect, information on the return is not consistent with eligibility requirements, or the return contains a mathematical error. IRS cannot verify key EITC eligibility criteria in the absence of tax return examination. IRS's internal controls include a sophisticated scoring and selection program for EITC examinations that identifies a significant number of high risk returns, but due to limited resources IRS cannot examine all returns identified. For those that IRS does examine, 80 percent are audited in a pre-refund environment where IRS holds the EITC refund until eligibility is verified by taxpayers.

IRS has a strong internal control environment based on a risk assessment around EITC and other programs administered involving tax returns submitted claiming refunds. IRS makes decisions based on overall cost-benefit considerations. IRS annually reviews and enhances its compliance plan that addresses erroneous returns, including those claiming EITC. The IRS updates its strategy using the most recent research findings (e.g. compliance studies and root cause analyses), prior year audit results, TIGTA/GAO audit findings, and legislative updates. The Service also submits legislative proposals which, if approved by Congress, may further enhance efforts to address areas of risk and reduce improper payments.

The IRS reviews and updates Internal Revenue Manuals (IRMs) throughout the year and ensures that IRS employees who administer refunds including refundable credits, such as EITC receive annual training and have the requisite knowledge to address the evolving nature of improper payments and fraud. Employees are also encouraged to bring internal control problems to management’s attention. In fact, processes are in place to address internal control questions and concerns through the Service-wide Electronic Research Project (SERP) feedback application.

The Service conducts routine reviews to ensure that EITC internal control processes are carried out in accordance with written procedures. IRS constantly monitors its compliance activities through established management information reports. The data is shared with all stakeholders and managers who directly implement or lead EITC control activities. IRS shares ongoing program information with policy and decision-makers via monthly and quarterly briefings.

Status of Internal Control Matrix

Listed below are the ratings for EITC Internal Control Standards.

Internal Control Standards	Earned Income Tax Credit (020x0906000)
Control Environment	4
Risk Assessment	3
Control Activities	4
Information and Communication	4
Monitoring	4

Legend:
4 = Sufficient controls are in place to prevent improper payments
3 = Controls are in place to prevent improper payments but there is room for improvement
2 = Minimal controls are in place to prevent improper payments
1 = Controls are not in place to prevent improper payments

VII. Accountability

The Secretary of the Treasury has delegated responsibility for addressing improper payments to the Assistant Secretary for Management (ASM). Improper payments fall under the Department's management and internal control program. A major component of the internal control program is risk assessments, which are an extension of each bureau's annual improper payment elimination and recovery review process, as required under OMB Circular A-123, Appendix C. Under Treasury Directive 40-04, *Treasury Internal (Management) Control Program*, executives and other managers are required to have management control responsibilities as part of their annual performance plans. With oversight mechanisms such as the Treasury CFO Council and the Management Controls Executive Steering Committee, managerial responsibility and accountability in all management and internal control areas are visible and well-documented. Treasury has identified executives who are responsible and accountable for reducing the level of EITC overclaims, while other senior and mid-level officials have responsibility for monitoring progress in this area as bureau and program internal control officers.

VIII. Information Systems and other Infrastructure

Overall, Treasury has the internal controls, human capital, and information systems and other infrastructure it needs to reduce improper payments to the targeted levels.

IX. Limiting Statutory and Regulatory Barriers

A number of factors continue to serve as barriers to reducing overclaims in the EITC program. These include:

- Complexity of the tax law (including the need for Congressional authorization of correctible error authority)
- Structure of the EITC with taxpayers submitting claims without IRS having information accessible at the time of return filing to validate eligibility
- Confusion among taxpayers about their eligibility contributing to overclaims and underclaims
- High turnover of eligible claimants
- Unscrupulous and/or incompetent return preparers
- Fraud

No one of these factors can be considered the primary driver of program error. However, these barriers severely impede the IRS's dual mission of issuing refunds to those who are entitled, while ensuring refunds are paid only to those who truly qualify for the credit.

Also, statutory requirements further constrain the IRS's ability to ensure that EITC claims are valid before they are processed and paid. Since the EITC is administered through the Internal Revenue Code, it is claimed by taxpayers during the filing and processing of their tax returns. The Internal Revenue Code (IRC) requires the IRS to process tax returns and pay any related tax refunds within 45 days of receipt of the tax return or the tax return due date, whichever is later. Beyond this 45 day period interest begins accruing on the refund amount, which must be paid along with the refund to the taxpayer. For the majority of EITC returns, which tend to be filed early in the filing season, the IRS does not receive information to verify income reporting accuracy or other data needed to validate these EITC claims at the time of filing or within a reasonable period thereafter in which a taxpayer would expect their refund. The IRS faces further challenges when attempting to validate the EITC claims of filers with non-wage income. The requirements, expectations, and data accessibility relative to the timely payment of refunds constrain the IRS' ability to conduct up-front verification of claims. These conditions distinguish EITC and its administration through the tax system from the extensive validity checks conducted by agencies administering other federal programs that typically establish eligibility prior to the issuance of payments or benefits.

IRS submitted legislative proposals in the FY2016 Budget to help address EITC improper payments.

X. Recapture of Improper Payments Reporting

In accordance with IPERA and OMB Circular No. A-123, Appendix C, Treasury performs and reports annually on its payment recapture program. During fiscal year 2015, Treasury issued contracts and other reviewed payments totaling approximately $11 billion. The amended act expanded the payment types reviewed beyond just contracts to include grants, benefits, loans, and miscellaneous payments.

Treasury's annual risk assessment process includes a review of pre-payment controls that minimize the likelihood and occurrence of improper payments. Treasury requires each bureau and office to conduct post-award audits and report on payment recapture activities, contracts issued, improper payments made, and recoveries achieved. Bureaus and offices may use payment recapture audit contingency firms to perform many of the steps in their payment recapture auditing program and identify candidates for payment recapture action. However, no Treasury bureaus used contractors to perform recapture activities for fiscal year 2015. Treasury employees performed this work.

Treasury considers both pre- and post-reviews to identify payment errors a sound management practice that should be included among basic payment controls. All Treasury bureaus have a process in place to identify improper payments during pre- and post-reviews. At times, bureaus may use the results of the Treasury IGs and GAO reviews to help identify payment anomalies and target areas for improvement. However, Treasury applies extensive payment controls at the time each payment is processed, making recapture activity minimal.

Improper Payment Recaptures with and without Audit Programs
($ in millions)

	Contracts					Benefits					Other					Totals		Overpayments Recaptured outside of Payment Recapture Audits	
Program or Activity	Amount Identified	Amount Recaptured	2015 Recapture Rate (%)	2016 Recapture Rate Target (%)	2017 Recapture Rate Target (%)	Amount Identified	Amount Recaptured	2015 Recapture Rate Target (%)	2016 Recapture Rate (%)	2017 Recapture Rate (%)	Amount Identified	Amount Recaptured	2015 Recapture Rate (%)	2016 Recapture Rate Target (%)	2017 Recapture Rate Target (%)	Total Amount Identified	Total Amount Recovered	Amount Identified	Amount Recaptured
BEP	.084	0	0	80	100	0	0	0	0	0	0	0	0	0	0	.084	0	0	0
FSA	.063	.066	10	100	100	0	0	0	0	0	.052	.014	27	80	85	.115	.081	0	0
ARC	.001	.037	3206	100	100	0	0	0	0		.004	.003	75	85	90	.005	.041	0	0
CDFI	.001	.001	100	100	100	0	0	0	0	0	0	0	0	0	0	.001	.001	0	0
DCP	0	0	0	0	0	1.34	1.31	98	99	100	0	0	0	0	0	1.34	1.31	1.35	1.23
DO	.23	.20	87	90	95	0	0	0	0	0	.15	.07	46	80	85	.38	.26	0	0
FFB	0	0	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
FinCen	.005	.005	100	100	100	0	0	0	0	0	.01	.01	100	100	100	.015	.015	0	0
IRS	.011	.011	100	100	100	0	0	0	0	0	0	0	0	0	0	.011	.011	1.00	.15
Mint	.016	.020	125	100	100	0	0	0	0	0	.11	.017	15	80	85	.126	.037	.004	.004
OFS	.12	.12	100	100	100	0	0	0	0	0	1.25	1.24	99	100	100	1.37	1.36	0	0
OIG	0	0	0	0	0	0	0	0	0	0	0	NA	NA	NA	NA	0	0	0	0
SIG	.011	.011	100	100	100	0	0	0	0	0	.011	.002	18	80	85	.022	.013	0	0
TIGTA	0	0	0	0	0	0	0	0	0	0	.018	.01	56	80	85	.018	.011	0	0
TTB	.002	.002	100	100	100	0	0	0	0	0	.005	.004	80	85	90	.007	.006	0	0
Totals	.544	.473	92	97	99	1.34	1.31	98	99	100	1.61	1.37	85	90	95	3.49	3.15	2.35	1.38

During fiscal year 2015, Treasury determined that conducting a Payment Recapture Audit on the following six programs would not be cost-effective:

- Fiscal Service (FS) Debt Activity Programs
- FS Treasury Managed Accounts
- FS Trust Funds Management
- Treasury Executive Office for Asset Forfeiture
- Departmental Offices International Financial Institutions – International Assistance Programs
- The Office of the Comptroller of the Currency Assessment Funds

FS Debt Activity Programs continued to reflect a low level of risk in every group and payment type in fiscal year 2015.

FS Treasury Managed Account disbursements are based on public law, adjudications, or payment certifications from federal agencies. Payments are made via the FS Secure Payment System (SPS).

FS Trust Funds Management program continued to reflect a low level of risk in nearly every group and payment type category assessed.

The Treasury Executive Office for Asset Forfeiture's program payments to state and local law enforcement agencies are intergovernmental payments that represent a low risk of improper payment. In addition, the Treasury Executive Office of Asset Forfeiture staff reviews payments monthly for accuracy.

The Departmental Offices International Financial Institutions non-federal payments to the Multilateral Development Banks are submitted by either a voucher on a letter of credit administered by the Federal Reserve Bank of New York or through direct cash payments via the FS Secure Payment System. These payments present a low level of improper payment risk based on the number of payments annually.

The Office of the Comptroller of the Currency assessment funds risk assessment has resulted in a low risk rating each of the last four years for all rating categories

Based on the above justifications payment recapture audits for these programs were not deemed cost effective. The Department sent notifications on these justifications to OMB and the Treasury OIG in October 2015.

Disposition of Funds Recaptured Through Payment Recapture Audits
($ in millions)

Program or Activity	Amount Recovered	Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Original Purpose	Returned to Treasury	Other
FSA	.081	C/O	-	-	.081	-	-
ARC	.041	C/O	-	-	.041	-	-
CDFI	.001	C/O	-	-	.001	-	-
DCP	1.31	B	-	-	1.31	-	-
DO	.26	C/O	-	-	.26	-	-
FinCen	.015	C/O	-	-	.015	-	-
IRS	.011	C	-	-	.011	-	-
Mint	.037	C/O	-	-	.037	-	-
OFS	1.36	C/O	-	-	1.36	-	-
SIGTARP	.013	C/O	-	-	.013	-	-
TIGTA	.011	C/O	-	-	.011	-	-
TTB	.006	C/O	-	-	.006	-	-
Key: C – Contract, B – Benefits, O - Other							

Aging of Outstanding Overpayments Identified in the Payment Recapture Audits
($ in millions)

Program or Activity	Type of Payment	Amount Outstanding (0-6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)	Amount Determined not to be Collectible*
BEP	C	.085	-	-	-
FSA	O	.033	-	.003	.004
ARC	O	.001	-	-	.001
DCP	B	.029	-	.42	.388
DO	C/O	.10	.012	.007	.002
Mint	C/O	.039	-	.035	.011
OFS	O	.009	-	-	-
SIGTARP	O	.004	.005	-	.002
TIGTA	O	.007	-	-	-
TTB	O	-	-	.001	-
Prior Year bureau combined balances**	O	-	-	-	.075

Key: C – Contract, B – Benefits, O – Other
*Cumulative balances from FY 2012
**Combined bureau cumulative balances prior to FY 2012

XI. Additional Comments

In fiscal year 2015, the OIG issued Report Number OIG-15-033, *Treasury's Improper Payment Reporting Needs Improvement*, which covered the IPERA program as presented in Treasury's fiscal year 2014 Agency Financial Report. During fiscal year 2015, the Department continued to implement corrective actions to address the findings and recommendations in the OIG report.

XII. Agency Reduction Of Improper Payments with the Do Not Pay Initiative

Treasury has mandated that all bureaus use the Do Not Pay (DNP) system, with certain exemptions for particular payments within bureaus. Currently the Death Master File (DMF) of the Social Security Administration and System for Award Management (SAM) are two of the databases used for adjudication by the DNP system. Payment files produced by the bureaus are compared to the Do Not Pay system as part of normal processing to verify whether payments were proper. Certain bureaus within Treasury also have their own additional adjudication processes which help to verify Do Not Pay system generated hits. Numerous bureaus within Treasury have reported that they have not had to take any action as pre-screening requirements have also been implemented to eliminate expected findings via Do Not Pay. No corrections to original source agencies have been detected at this time.

Results of the Do Not Pay Initiative in Preventing Improper Payments

	Number (#) of payments reviewed for possible Improper Payments	Dollars ($) of payments reviewed for Possible Improper Payments	Number (#) of payments stopped	Dollars ($) of payments stopped	Number (#) of potential improper payments reviewed determined accurate	Dollars ($) of potential improper payments reviewed and determined accurate
Reviews with IPERIA specified databases	2,986,934	$29,947,450,669	N/A	N/A	2924	$38,682,234
Reviews with – databases not listed in IPERIA	2,986,934	$29,947,450,669	N/A	N/A	4654	$10,683,868

* Note: The period covering the data is October 2014 to August 2015

- The change to the Payment Automation Manager (PAM) standard format from Payments, Claims, and Enhanced Reconciliation (PACER) system, has increased the quantity of Department's payments reviewed with the DMF. The greater part of the payments reviewed were excluded from matching last year due to (1) a missing or invalid TIN or (2) an invalid name.
- *Payments stopped* is currently not applicable since the Do Not Pay matching and adjudication process is based on post payment results.
- *Potential improper payments reviewed and determined accurate* includes the total number of matches identified by the Do Not Pay Initiative that were adjudicated as proper by the agency.

SECTION F: MATERIAL WEAKNESSES AND AUDIT FOLLOW-UP

This section provides detailed descriptions of Treasury's material weakness inventory, including summaries of actions taken and planned to resolve the weaknesses; tracking and follow-up activities related to Treasury's GAO, OIG, TIGTA, and SIGTARP audit inventory; an analysis of potential monetary benefits arising from audits performed by Treasury's three IGs; and an update on Treasury's financial management systems framework.

Treasury's Material Weaknesses

Management may declare audit findings or internal situations as a material weakness whenever a condition exists that may jeopardize the Treasury mission or continued operations. The FMFIA requires agency reporting on material weaknesses.

FMFIA and FFMIA

The FMFIA requires agencies to establish and maintain internal controls. The Secretary must evaluate and report annually on the operational and financial reporting controls (FMFIA Section 2) and financial systems (FMFIA Section 4 and FFMIA) that protect the integrity of federal programs. The requirements of the FMFIA serve as an umbrella under which other reviews, evaluations, and audits should be coordinated and considered to support management's assertion about the effectiveness of internal control over operations, financial reporting, and compliance with laws and regulations.

As of September 30, 2015, Treasury had two material weaknesses under Section 2 of the FMFIA, summarized as follows:

Summary of FMFIA Material Weaknesses	Section 2	Section 4	Total
Balance at the Beginning of Fiscal Year 2015	2	0	2
Closures/Downgrades during Fiscal Year 2015	0	0	0
Reassessed during Fiscal Year 2015	0	0	0
New Material Weakness Declared during Fiscal Year 2015	0	0	0
Balance at the End of Fiscal Year 2015	2	0	2

Below are detailed descriptions of Treasury's two material weaknesses:

Material Weakness Description	
Internal Revenue Service – Unpaid Tax Assessments The IRS needs to improve its internal control over Unpaid Assessments. Original key elements: • Subsidiary ledger does not track and report one Trust Fund Recovery Penalty (TFRP) balance • Untimely posting of TFRP assessments and untimely review of TFRP accounts • General ledger cannot accurately report the Taxes Receivable balance without a statistical estimation process An ongoing challenge is that the timely implementation of Customer Account Data Engine 2 (CADE2) Transition State 2 (TS2) and other Financial Material Weakness changes are dependent upon funding and resource availability.	
Actions Completed in FY 2015	**What Remains to be Done**
✓ Completed the fiscal year 2014 "After the Audit" report and issued the results to the Business Owners for follow-up and corrective action ✓ The IRS created a cross-walk document which provided the IRS's interpretations of FASAB No. 7 as it related to accounting for unpaid tax assessments for the first time and received concurrence from its auditors that IRS's interpretations of the appropriate sections of FASAB No. 7 are reasonable and were used as the basis for the FY 2015 audit ✓ The IRS developed a series of new long-term actions intended to address all issues impacting the material weakness and based on funding, will be integrated into the Unpaid Assessment Material Weakness action plan ✓ The IRS completed a penalty quality review and took the necessary actions to address the findings	☐ Implement action items from the long-term action plan to close the Material Weakness ☐ Implement CADE2 TS 2 Financial Material Weakness functionality by January 2018 ☐ Test for the downgrade of the Financial Material Weakness in fiscal year 2019 and request downgrade by GAO for fiscal year 2020 with a target completion date of November 30, 2020 ☐ Complete the downgrade and closure of the Material Weakness in fiscal year 2021

Material Weakness Description	
Bureau of the Fiscal Service – Control Deficiencies in the Processes used to Prepare the Consolidated Government-wide Financial Statements The government has control deficiencies in the processes used to prepare the Consolidated Government-wide Financial Statements. The control deficiencies contributed to the following material weaknesses: • The federal government continues to be unable to adequately account for and reconcile intragovernmental activity and balances between federal entities • The federal government continues to have inadequate systems, controls, and procedures to ensure that the consolidated financial statements are consistent with the underlying audited entity financial statements, properly balanced, and in accordance with U.S. generally accepted accounting principles • Treasury and OMB continue to lack an effective process for ensuring the consistency of (1) information used by Treasury to compute the budget deficit reported in the consolidated financial statements, (2) Treasury's records of cash transactions, and (3) information reported in federal entity financial statements and underlying financial information and records	
Actions Completed in FY 2015	**What Remains to be Done**
✓ Treasury expanded application of its intragovernmental metrics and scorecard program ✓ Treasury continued to implement software and processes to automate and streamline *Financial Report* compilation in order to improve accuracy and control ✓ Treasury identified reporting entities significant to the *Financial Report* ✓ Treasury requested additional budget information from agencies as well as explanations of, and support for any differences	☐ Treasury has requested that federal agencies provide root cause information and corrective action plans to resolve systemic differences ☐ Treasury will focus on collecting critical information from significant reporting entities, including the Legislative and Judicial branches ☐ Treasury will continue to use the information maintained at Treasury to demonstrate consistency and reconcile the differences between agency reports and the *Financial Report* ☐ Targeted Downgrade/Closure: fiscal year 2018

II. Audit Follow-up Activities

During fiscal year 2015, Treasury continued to place emphasis on both the general administration of internal control issues throughout the Department and the timely resolution of findings and recommendations identified by GAO, OIG, TIGTA, SIGTARP, external auditors, and management. During the year, Treasury continued to implement enhancements to the tracking system called the "Joint Audit Management Enterprise System" (JAMES). JAMES is a Department-wide, interactive, web-based system accessible to management, OIG, TIGTA, SIGTARP, and others. The system tracks information on audit reports from issuance through completion of all corrective actions required to address findings and recommendations contained in an audit report. JAMES is the official system of record for Treasury's audit follow-up program.

Potential Monetary Benefits

The *Inspector General Act of* 1978, as amended, Public Law 95-452, requires the IGs and secretaries of executive agencies and departments to submit semiannual reports to the Congress on actions taken on audit reports issued that identify potential monetary benefits. The Department consolidates and analyzes all relevant information for inclusion in this report.

The information contained in this section represents a consolidation of information provided separately by OIG, TIGTA, SIGTARP, and Treasury management.

In the course of their audits, the IGs periodically identify "questioned costs", recommend that funds be put to better use, enhancements to revenues of the federal government, and identify measures that demonstrate the value of audit recommendations to tax administration and business operations.

"Questioned costs" include a:

(1) Cost that is questioned because of an alleged violation of a provision of a law, regulation, contract, or other requirement governing the expenditure of funds

(2) Finding, at the time of the audit, that such costs are not supported by adequate documentation (i.e., an unsupported cost)

(3) Finding that expenditure of funds for the intended purpose is unnecessary or unreasonable

The phrase "disallowed cost" means a questioned cost that management, in a management decision, has sustained or agreed should not be charged to the federal government.

"Funds Put to Better Use" includes:

- Reductions in outlays
- Deobligations of funds from programs or operations
- Costs not incurred by implementing recommended improvements related to operations
- Avoidance of unnecessary expenditures noted in pre-award reviews of contract agreements
- Prevention of erroneous payment of refundable credits (e.g., the Earned Income Tax Credit)
- Any other savings that are specifically identified

"Revenue Enhancements" include opportunities to increase revenue to the federal government.

The Department regularly reviews progress made by the bureaus to realize potential monetary benefits identified in audit reports, and coordinates with the auditors as necessary to ensure the consistency and integrity of information on monetary benefit recommendations tracked in JAMES.

The statistical data in the following summary tables represent audit report activity for the period from October 1, 2014 through September 30, 2015. The data reflect information on OIG, TIGTA, and SIGTARP reports that identified potential monetary benefits.

Audit Report Activity With Potential Monetary Benefits for Which Management Has Identified Corrective Actions (OIG, TIGTA, and SIGTARP) October 1, 2014 through September 30, 2015
(Dollars in Millions)

	Disallowed Costs		Funds Put to Better Use		Revenue Enhancements		Total	
	Reports	Dollars	Reports	Dollars	Reports	Dollars	Report Total	Total Dollars
Beginning Balance	11	**52.5**	**8**	**5,942.3**	**5**	**8,256.5**	**24**	**14,251.3**
New Reports	5	3.2	4	9,190.5	8	1,784.3	17	10,978.0
Total	16	55.7	12	15,132.8	13	10,040.8	40	25,229.3
Reports Closed	5	8.7	10	9,337.2	5	1,309.5	18	10,655.4
a. Realized or Actual[1]	2	1.0	4	62.6	0	0	5	62.6
b. Unrealized or Written off[1]	3	8.6[2]	6	9,274.7[3]	4	1,309.5[4]	12	10,592.8
Ending Balance	**11**	**47.0**	**3**	**5,795.5**	**7**	**8,731.3**	**21**	**14,573.9**

[1]Report numbers in categories a and b may not equal the Reports Closed. One report can be included in one or both categories.
[2]For written off Disallowed Costs: This figure includes one TIGTA report, with $0.4 million written off, for which the IRS disagreed with the reported finding.
[3]For written off Funds Put to Better Use: This figure includes three TIGTA reports, with $9.1 billion written off, for which IRS management disagreed with TIGTA's recommendation or projected benefits; and two TIGTA reports with $86.2 million written off, for which TIGTA disagreed with the write off. TIGTA disagreed with the write offs because the IRS did not complete the corrective action or not enough time had passed for the IRS to realize the potential monetary benefit.
[4]For written off Revenue Enhancements: This figure includes four TIGTA reports, with $119.7 million written off, for which IRS management disagreed with TIGTA's recommendation or projected benefits; and one TIGTA report, with $542.9 million written off, for which TIGTA disagreed with the write off. TIGTA disagreed with the write off because the corrective action has not been fully addressed.

The following table presents a summary of OIG, TIGTA, and SIGTARP audit reports with potential monetary benefits that were open for more than one year as of the end of fiscal years 2013, 2014, and 2015.

Number of Reports with Potential Monetary Benefits Open for More than One Year
(Dollars In Millions)

	AFR Report Year	9/30/2013	9/30/2014	9/30/2015
OIG	No. of Reports	0	0	0
	$ Projected Benefits	$ 0	$ 0	$ 0
TIGTA	No. of Reports	7	12	11
	$ Projected Benefits	$ 39.2	$ 14,038.0	$ 13,427.09
SIGTARP	No. of Reports	2	1	0
	$ Projected Benefits	$ 8.7	$ 8.1	$ 0

The following table presents a summary of the audit reports containing potential monetary benefits, broken out by year of report issuance, on which management decisions were made on or before September 30, 2014, but the final actions had not been taken as of September 30, 2015.

Details of the Audit Reports with Potential Monetary Benefits on Which Management Decisions Were Made On or Before September 30, 2014, But Final Actions Have Not Been Taken as of September 30, 2015 (Dollars In Millions)

Bureau	Report No.	Report Issue Date	Brief Description	Dis-allowed Costs	Funds Put to Better Use	Revenue Enhance-ment	Total	Due Date
IRS	2011-1c-122	9/28/2011	The IRS should use the DCAA report in the administration of the contract and determine whether the questioned costs should be recovered.	28.57	-	-	28.57	9/30/2016
FY 2011	**1**			**$28.57**	**$0**	**$0**	**$28.57**	
IRS	2012-1c-003	12/02/2011	The IRS should use the DCAA report in the administration of the contract and determine whether the questioned costs should be recovered.	0.02	-	-	0.02	12/02/2016
IRS	2012-1c-032	3/19/2012	The IRS should use the DCAA report in the administration of the contract to determine whether the questioned costs should be recovered.	7.42	-	-	7.42	3/31/2017
IRS	2012-1c-079	8/17/2012	The IRS should use the DCAA report in administering and closing out contracts.	1.48	-	-	1.48	8/07 /2017
FY 2012	**3**			**$8.92**	**$0**	**$0**	**$8.92**	

Bureau	Report No.	Report Issue Date	Brief Description	Dis-allowed Costs	Funds Put to Better Use	Revenue Enhance-ment	Total	Due Date
IRS	2013-1c-001	3/18/2013	The IRS should use the DCAA report in administering and closing out contracts.	0.33	-	-	0.33	3/18/2018
IRS	2013-40-122	9/20/2013	To reduce the potential for tax filing fraud, the IRS should implement a process to deactivate ITINs assigned to individuals prior to January 1, 2013, who no longer have a tax filing requirement.	-	1,883.24	-	1,883.24	6/15/2017
IRS	2013-40-120	9/23/2013	The IRS should update fraud filters to include use of business tax return filing and withholding payment data to identify potentially fraudulent tax returns that use a falsely obtained employee identification number to report income and withholding.	-	3,894.10	-	3,894.10	1/15/2016
IRS	2013-40-123	9/26/2013	The IRS should develop processes and procedures to enable Campus Operations to assess the erroneous refund penalty for disallowed credit claims that are excessive and do not have a reasonable basis.	-	-	7,550.48	7,550.48	9/15/2015
FY 2013	**4**			**$0.33**	**$5,777.34**	**$7,550.48**	**$13,328.15**	
Bureau	**Report No.**	**Report Issue Date**	**Brief Description**	**Dis-allowed Costs**	**Funds Put to Better Use**	**Revenue Enhance-ment**	**Total**	**Due Date**
IRS	2014-1c-018	3/21/2014	The contracting officer should use the DCAA report in administering and closing out contracts.	6.47	-	-	6.47	12/19/2018
IRS	2014-1c-019	5/29/2014	The contracting officer should use the DCAA report in administering and closing out contracts.	.08	-	-	.08	5/29/2019

IRS	2014-20-088		The Chief Technology Officer should ensure that the requirements management processes for future IRDMCM System development activity are performed in accordance with established guidelines, to include using business process modeling to specify well-defined requirements.	-	-	54.90	54.90	10/25/2015
Total	**3**			**$6.55**		**$54.90**	**$61.45**	
Total	**11**			**$44.37**	**$5,777.34**	**$7,605.38**	**$13,427.09**	

The following table provides a snapshot of OIG and TIGTA audit reports with significant recommendations reported in previous semiannual reports for which corrective actions had not been completed as of September 30, 2014 and September 30, 2015, respectively. OIG and TIGTA define "significant" as any recommendation open for more than one year. There were no "Undecided Audit Recommendations" during the same periods.

Audit Reports with Significant Unimplemented Recommendations				
	9/30/2014		9/30/2015	
	OIG	TIGTA	OIG	TIGTA
No. of Reports	5	26	10	20

The following table provides a snapshot of the number of recommendations made in SIGTARP audit reports and quarterly reports in the fiscal years ended September 30, 2014, and September 30, 2015, respectively, for which corrective actions were "unimplemented" as of the end of the respective fiscal year. For the purposes of this report, SIGTARP defines a recommendation as "unimplemented" if it is listed as "Partial," "In Process," or "None" in SIGTARP's quarterly report.

Unimplemented SIGTARP Recommendations		
	9/30/2014	9/30/2015
No. of Unimplemented Recommendations	19	35

SECTION G: FREEZE THE FOOTPRINT

One of the Department's key goals is the efficient and effective acquisition, utilization, management, and disposal of Departmental real property assets. Under the direction of the Treasury's Assistant Secretary for Management (ASM), the Department's Senior Real Property Officer (SRPO) is responsible for ensuring that appropriate Departmental procedures, reviews, and reporting requirements are developed and maintained in accordance with Departmental directives, and applicable OMB and GSA regulations that pertain to the acquisition, utilization and disposal of real property.

The SRPO is responsible for tracking the Department's real property square footage footprint, and developing the annual agency evaluation of the Department's compliance for the implementation of the Freeze the Footprint Policy. Under current Departmental directives, bureaus may not pursue any new lease space acquisitions without the approval of the ASM's office. To ensure the optimal utilization of the Department's existing space inventory and to achieve real property cost saving and footprint reductions, all bureaus are directed to pursue consolidation or co-location opportunities into existing inventory before pursuing any new space acquisitions.

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

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

The Department's total square footage and related operation and maintenance costs associated with real property assets subject to the "Freeze the Footprint" policy (from the latest available reporting year of 2014) compared to the Department's fiscal year 2012 "Freeze the Footprint" baseline (as assigned by GSA) were as follows (in millions):

	2012 (Baseline)	2014	Change
Square Footage (SF in millions)	30.0	28.4	(1.6)
Operation and Maintenance Costs ($ in millions)	$ 80.9	$ 93.6	$ 12.7

SECTION H: CIVIL MONETARY PENALTIES INFLATION ADJUSTMENT

The *Federal Civil Penalties Inflation Adjustment Act of 1990* (the Inflation Adjustment Act), as amended, requires agencies to make regular and consistent inflationary adjustments of civil monetary penalties (CMP) to maintain their deterrent effect. Four statutes are excluded under the Inflation Adjustment Act: the *Internal Revenue Code of 1986*, the *Tariff Act of 1930*, the *Occupational Safety and Health Act of 1970*, and the *Social Security Act*. The table below depicts the covered civil monetary penalties that are under the Department's purview.

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Current Penalty Level ($ Amount)
Terrorism Risk Insurance Act (TRIA) Civil Penalties	15 U.S.C. 6701 note	N/A	N/A	$1,000,000
Civil monetary penalty for Foreign Narcotics Kingpin Designation Act sanctions violation	21 U.S.C. 1906(b)	N/A	October 2003	$1,075,000
Civil monetary penalty for International Emergency Economic Powers Act (IEEPA) sanctions violation	50 U.S.C. 1705	N/A	N/A	$250,000
Civil monetary penalty for Trading with the Enemy Act (TWEA) sanctions violation	50 U.S.C. App.	October 1996	October 2003	$65,000
Bank Secrecy Act Violation	31 U.S.C. 5321	N/A	N/A(1)	$100,000 for a currency transaction or suspicious activity reporting violation. $25,000 each day for each office, branch, or place of business where the violation occurs or continues for an Anti-Money Laundering (AML) program violation.
General CMP Authority (Title 92a)-Tier 1	12 U.S.C. 93(b)	December 2008	December 2012(2)	$7,500
General CMP Authority (Title 92a)-Tier 2	12 U.S.C. 93(b)	December 2008	December 2012(2)	$37,500
General CMP Authority (Title 92a)-Tier 3	12 U.S.C. 93(b)	December 2008	December 2012	$1,425,000
Penalty for failure to make reports required by 12 U.S.C. 161-Tier 1	12 U.S.C. 164	December 2000	December 2012	$3,200
Penalty for failure to make reports required by 12 U.S.C. 161-Tier 2	12 U.S.C. 164	December 2008	December 2012(2)	$32,000
Penalty for failure to make reports required by 12 U.S.C. 161-Tier 3	12 U.S.C. 164	December 2008	December 2012	$1,425,000
Civil money penalty for violations of sections 22, 23A, or 23B of the Federal Reserve Act-Tier 1	12 U.S.C. 504	December 2008	December 2012(2)	$7,500
Civil money penalty for violations of sections 22, 23A, or 23B of the Federal Reserve Act-Tier 2	12 U.S.C. 504	December 2008	December 2012(2)	$37,500
Civil money penalty for violations of sections 22, 23A, or 23B of the Federal Reserve Act-Tier 3	12 U.S.C. 504	December 2008	December 2012	$1,425,000
Reports of Condition - Savings Associations-Tier 1	12 U.S.C. 1464(v)	December 2000	December 2012	$3,200
Reports of Condition - Savings Associations-Tier 2	12 U.S.C. 1464(v)	December 2008	December 2012(2)	$32,500
Reports of Condition - Savings Associations-Tier 3	12 U.S.C. 1464(v)	December 2008	December 2012	$1,425,000

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Current Penalty Level ($ Amount)
Refusal to Cooperate in Exam - Savings Association Affiliates	12 U.S.C. 1467(d)	December 2008	December 2012[2]	$7,500
Late/Inaccurate Reports - Holding Companies (Savings and Loans)-Tier 1	12 U.S.C. 1467a(r)(1)	December 2000	December 2012	$3,200
Late/Inaccurate Reports - Holding Companies (Savings and Loans)-Tier 2	12 U.S.C. 1467a(r)(2)	October 2008	December 2012[2]	$32,500
Late/Inaccurate Reports - Holding Companies (Savings and Loans)-Tier 3	12 U.S.C. 1467a(r)(3)	October 2008	December 2012	$1,425,000
Change in control violations-Tier 1	12 U.S.C. 1817(j)(16)	December 2008	December 2012[2]	$7,500
Change in control violations-Tier 2	12 U.S.C. 1817(j)(16)	December 2008	December 2012[2]	$37,500
Change in control violation-Tier 3	12 U.S.C. 1817(j)(16)	December 2008	December 2012	$1,425,000
General CMP Authority-Tier 1	12 U.S.C. 1818(i)(2)	December 2008	December 2012[2]	$7,500
General CMP Authority-Tier 2	12 U.S.C. 1818(i)(2)	December 2008	December 2012[2]	$37,500
General CMP Authority-Tier 3	12 U.S.C. 1818(i)(2)	December 2008	December 2012	$1,425,000
Violation of Post Employment Restrictions	12 U.S.C. 1820(k)(6)(A)(ii)	December 2008	December 2012[2]	$275,000
Withdrawals by negotiable or transferable instruments for transfer to third parties	12 U.S.C. 1832(c)	January 1997	December 2012[2]	$1,100
Violation of security rules	12 U.S.C. 1884	January 1997	December 2012[2]	$110
Certain tying arrangements prohibited; correspondent accounts-Tier 1	12 U.S.C. 1972(2)(F)	December 2008	December 2012[2]	$7,500
Certain tying arrangements prohibited; correspondent accounts-Tier 2	12 U.S.C. 1972(2)(F)	December 2008	December 2012[2]	$37,500
Certain tying arrangements prohibited; correspondent accounts-Tier 3	12 U.S.C. 1972(2)(F)	December 2008	December 2012	$1,425,000
Civil money penalty authority - Foreign Banks	12 U.S.C. 3110(a)	December 2008	December 2012[2]	$37,500
Penalty for failure to make reports - Foreign Banks-Tier 1	12 U.S.C. 3110(c)	December 2000	December 2012	$3,200
Penalty for failure to make report - Foreign Banks-Tier 2	12 U.S.C. 3110(c)	December 2008	December 2012[2]	$32,000
Penalty for failure to make reports - Foreign Banks-Tier 3	12 U.S.C. 3110(c)	December 2008	December 2012	$1,425,000
Violations of Appraisal Regulations-Tier 1	12 U.S.C. 3349(b)	October 2008	December 2012[2]	$7,500
Violations of Appraisal Regulations-Tier 2	12 U.S.C. 3349(b)	October 2008	December 2012[2]	$37,500
Violations of Appraisal Regulations-Tier 3	12 U.S.C. 3349(b)	October 2008	December 2012	$1,425,000
General CMP Authority -International Lending	12 U.S.C. 3909(d)(1)	January 1997	December 2012[2]	$1,100
Civil monetary penalty authority for securities law violations, (Natural person)-Tier 1	15 U.S.C. 78u-2(b)	December 2008	December 2012[2]	$7,500
Civil monetary penalty authority for securities law violations, (Other person)-Tier 1	15 U.S.C. 78u-2(b)	December 2008	December 2012[2]	$70,000
Civil monetary penalty authority for securities law violations, (Natural person)- Tier 2	15 U.S.C. 78u-2(b)	December 2008	December 2012[2]	$70,000

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Current Penalty Level ($ Amount)
Civil monetary penalty authority for securities law violations, (Other person)-Tier 2	15 U.S.C. 78u-2(b)	December 2008	December 2012(2)	$350,000
Civil monetary penalty authority for securities law violations, (Natural person)-Tier 3	15 U.S.C. 78u-2(b)	December 2008	December 2012(2)	$140,000
Civil monetary penalty authority for securities law violations, (other person)-Tier 3	15 U.S.C. 78u-2(b)	December 2008	December 2012	$700,000
Flood Insurance	42 U.S.C. 4012a(f)(5)	N/A	N/A(3)	$2,000
Civil Penalty Assessment for Misuse of Department of Treasury Names, Symbols, etc.	31 U.S.C. § 333	N/A	N/A	$5,000 for each misuse of Treasury name or symbol, or $25,000 for each misuse in broadcast or telecast
False Claims Act	31 U.S.C. § 3729	N/A	August 1999(4)	$5,500 to $11,000 plus 3 times the amount of damages which the Government sustains because of the act
Violation involving a false claim or false statement	31 U.S.C. § 3802	N/A	N/A	Up to $5,000 for each claim plus 2 times the amount of the claim
Civil Penalties Provision of the Alcoholic Beverage Labeling Act of 1988	27 U.S. C. 218	N/A	October 1996(5)	$11,000

(1) The authorized penalty for a currency transaction or suspicious activity reporting violation is the amount involved in the transaction, with a ceiling of $100,000 and a floor of $25,000. The authorized penalty for an AML program violation is $25,000 for each day that the violation continues and for each office, branch, or place of business where the violation occurs or continues. For reasons of enforcement policy, FinCEN imposes penalties that fall far below the statutory maximum. FinCEN considers culpability, the gravity of the violations, ability to pay, and the need to deter violations. There has been little need to seek an inflation-adjusted increase in authorized penalty amounts.

(2) No inflation adjustment was made in 2012 because the preliminary calculated increase for the CMP maximum failed to reach the level warranting an actual increase under the Federal Civil Penalties Inflation Adjustment Act of 1990 rounding rules prescribed by the statute.

(3) The maximum CMP was amended in 2012 and is not subject to inflation adjustment at this time.

(4) The Department is not responsible for issuing regulations updating the penalty amounts for the False Claims Act.

(5) Regulations to update inflation adjustment are pending.

APPENDIX:
GLOSSARY OF ACRONYMS

Glossary of Acronyms	
ACA	Patient Protection and Affordable Care Act
ACH	Automated Clearinghouse
ACS	American Community Survey
AFR	Agency Financial Report
AFS	Alternative Finance Structure
AIG	American International Group, Inc.
Ally	Ally Financial, Inc.
AML	Anti-Money Laundering
APG	Agency Priority Goals
APTC	Advanced Premium Tax Credit
ARC	Administrative Resource Center
ASAP	Automated Standard Application for Payments
ASM	Assistant Secretary for Management
BDP	Banknote Development Process
BEP	Bureau of Engraving and Printing
BPXP	BP Exploration & Production Inc.
BSA	Bank Secrecy Act
CADE2	Customer Account Data Engine
CDCI	Community Development Capital Initiative
CDFI	Community Development Financial Institutions
CFIUS	Committee on Foreign Investment in the United States
CFO	Chief Financial Officer
CI	Criminal Investigation
CIGFO	Council of Inspectors General on Financial Oversight
Civil Service Fund	Civil Service Retirement and Disability Trust Fund
CMP	Civil Monetary Penalties
CPI	Consumer Price Index
CPP	Capital Purchase Program
CSRS	Civil Service Retirement System
CY	Current Year
D.C.	District of Columbia
DATA Act	Digital Accountability and Transparency Act
DCAA	Defense Contract Audit Agency
DHS	Department of Homeland Security
DLP	Data Loss Prevention
DO	Departmental Offices
Dodd-Frank Act	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
DOL	Department of Labor
EESA	Emergency Economic Stabilization Act of 2008
EITC	Earned Income Tax Credit
ESA	Exchange Stabilization Agreement
ESF	Exchange Stabilization Fund

Glossary of Acronyms	
Fannie Mae	Federal National Mortgage Association
FARS	Financial Analysis and Reporting System
FASAB	Federal Accounting Standards Advisory Board
FATCA	Foreign Account Tax Compliance Act
FCDA	Foreign Currency Denominated Assets
FCRA	Federal Credit Reform Act
FDC	Funds from Dedicated Collections
FDIC	Federal Deposit Insurance Corporation
FECA	Federal Employees' Compensation Act
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
FFIEC	Federal Financial Institutions Examination Council
FFMIA	Federal Financial Management Improvement Act of 1996
FFRDC	Federally Funded Research and Development Center
FHFA	Federal Housing Finance Agency
FinCEN	Financial Crimes Enforcement Network
Fiscal Service	Bureau of the Fiscal Service
FISMA	Federal Information Security Management Act
FMFIA	Federal Managers' Financial Integrity Act
FOMC	Federal Open Market Committee
FPS	Federal Protective Service
FR System	Federal Reserve System
FRB	Federal Reserve Bank
FRBNY	Federal Reserve Bank of New York
Freddie Mac	Federal Home Loan Mortgage Corporation
FRN	Floating Rate Note
FS	Fiscal Service
FSB	Financial Stability Board
FSOC	Financial Stability Oversight Council
FTO	Fine Troy Ounce
FY	Fiscal Year
G-20	Group of 20
GAAP	Generally Accepted Accounting Principles
GAB	General Arrangements to Borrow
GAO	U.S. Government Accountability Office
General Fund	General Fund of the U.S. government
GLEIS	Global Legal Entity Identifier System
GM	General Motors Company
GPRA	Government Performance and Results Act of 1993
GSA	General Services Administration
GSE	Government Sponsored Enterprise
HERA	Housing and Economic Recovery Act

Glossary of Acronyms	
HFA	Housing Finance Agency
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
IDT	Identity Theft
IG	Inspector General
IMF	International Monetary Fund
IP	Improper Payment
IP PIN	Identity Protection Personal Identification Number
IPERA	Improper Payments Elimination and Recovery Act
IPERIA	Improper Payments Elimination and Recovery Act Improvement Act of 2012
IRC	Internal Revenue Code
IRS	Internal Revenue Service
IT	Information Technology
JAMES	Joint Audit Management Enterprise System
Jobs Act	Small Business Jobs Act of 2010
MDB	Multilateral Development Bank
Mint	United States Mint
MMF	Money Market Funds
MOU	Memoranda of Understanding
MRADR	Market Risk Adjusted Discount Rate
MSS	Manufacturing Support Suite
NAB	New Arrangements to Borrow
NAFA	North American Framework Agreement
NIBP	New Issue Bond Program
NIST	National Institute of Standards and Technology
NLS	National Library Service for the Blind and Physically Handicapped
OAS	Office of International Affairs
OCC	Office of the Comptroller of the Currency
ODCP	Office of D.C. Pensions
OFAC	Office of Foreign Assets Control
OFR	Office of Financial Research
OFS	Office of Financial Stability
OIG	Office of the Inspector General
OMB	Office of Management and Budget
OPEB	Other Post-Employment Benefits
OPM	Office of Personnel Management
ORB	Other Retirement Benefits
OTA	Office of Technical Assistance
OTC	Over the Counter
P&I	Penalty & Interest
PB	President's Budget
Postal Benefits Fund	Postal Service Retiree Health Benefits Fund
PP&E	Property, Plant, and Equipment
PTC	Premium Tax Credit
PTIN	Preparer Tax Identification Number

Glossary of Acronyms	
RESTORE Act	Resources and Ecosystems Sustainability, Tourist Opportunities and Revived Economies of the Gulf Coast States Act of 2012
RTC	Resolution Trust Corporation
SBLF	Small Business Lending Fund
SBR	Statement of Budgetary Resources
SDR	Special Drawing Rights
SEC	Securities and Exchange Commission
SFFAC	Statement of Federal Financial Accounting Concepts
SFFAS	Statement of Federal Financial Accounting Standards
SIGTARP	Office of the Special Inspector General for the Troubled Asset Relief Program
SNI	Single Note Inspection
SOAR	Strategic Objective Annual Review
SOMA	System Open Market Account
SOS	Schedule of Spending
SPS	Secure Payment System
SPSPA	Senior Preferred Stock Purchase Agreements
SRP	Shared Responsibility Payment
SRPO	Senior Real Property Officer
SSA	Social Security Administration
SSBCI	State Small Business Credit Initiative
TARP	Troubled Asset Relief Program
TCLP	Temporary Credit and Liquidity Program
TFF	Treasury Forfeiture Fund
TFI	Terrorism and Financial Intelligence
TFRP	Trust Fund Recovery Penalty
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
TRIA	Terrorism Risk Insurance Act
TS2	Transition State 2
TSP	Thrift Savings Plan
TTB	Alcohol and Tobacco Tax and Trade Bureau
USC	United States Code
USPS	United States Postal Service
USSGL	United States Standard General Ledger
VITA	Volunteer Income Tax Assistance
VOC	Voice of the Customer
VSD	Virtual Service Delivery
WIPS	Wireless Intrusion Prevention System

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Website Information

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

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