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United States General Accounting Office
Washington, DC 20548

Accounting and Information
Management Division

B-283367

February 25, 2000

The Honorable Kenneth M. Mead
Inspector General
Department of Transportation

Subject: GAO Report on Applying Agreed-Upon Procedures: Highway Trust Fund
Excise Taxes

Dear Mr. Mead:

We have performed the procedures contained in enclosure 1 to this letter, which we agreed to perform and to which you concurred, solely to assist your office in ascertaining whether the net excise tax revenue distributed to the Highway Trust Fund (HTF) for the fiscal year ended September 30, 1999, is supported by the underlying records. As agreed upon with your office, we evaluated fiscal year 1999 HTF activity.

In performing the agreed-upon procedures, we conducted our work in accordance with generally accepted government auditing standards, which incorporate financial audit and attestation standards established by the American Institute of Certified Public Accountants (AICPA). These standards also provide guidance when performing and reporting the results of agreed-upon procedures.

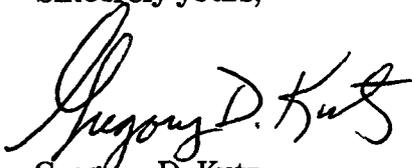
The adequacy of the procedures to meet your objectives is your responsibility, and we make no representation in that respect. The procedures we agreed to perform include (1) detailed tests of transactions that represent the underlying basis of amounts distributed to the HTF, (2) review of the Internal Revenue Service's (IRS) quarterly HTF certifications, (3) review of the Department of Treasury Financial Management Service (FMS) adjustments to the HTF for fiscal year 1999, (4) review of the Office of Tax Analysis (OTA) process for estimating amounts to be distributed to the HTF for the fourth quarter of fiscal year 1999, (5) comparison of net excise tax distributions to the HTF during fiscal year 1999 and amounts reported in the financial statements prepared by the Bureau of Public Debt for the HTF and the Trust Fund's own financial statements, and (6) review of key reconciliations of IRS records to Treasury records. Enclosure 1 contains the agreed-upon procedures and our findings from performing each of them.

We were not engaged to, and did not, perform an audit, the objective of which would have been the expression of an opinion on the amount of net excise taxes distributed to the HTF. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.¹ We completed the agreed-upon procedures on February 9, 2000.

We provided a draft of this letter to IRS and Treasury officials, along with its enclosure, for review and comment. They agreed with the results and findings presented in this report. With reference to steps D.1.(a) and (b) of the enclosure, OTA officials noted that OTA is under no statutory obligation to consult with the specified agencies or Treasury offices in developing its receipt estimates or tax rate tables.

This report is intended for the use of the Office of Inspector General of the Department of Transportation. However, this report is a matter of public record and its distribution is not limited. Consequently, copies are available to others upon request. If you have any questions, please call me at (202) 512-3406.

Sincerely yours,



Gregory D. Kutz
Associate Director, Governmentwide Accounting
and Financial Management Issues

Enclosure

¹In our report on the results of our audit of IRS' fiscal year 1998 financial statements, we noted a reportable condition related to IRS' ability to allocate excise tax collections to the appropriate trust funds at the time deposits are made. This condition affects the adequacy of the distributions of federal excise tax revenue to recipient trust funds (GAO/AIMD-99-75, March 1999). This condition continues to exist during fiscal year 1999. Our report on the results of our audit of IRS' fiscal year 1999 financial statements will be issued shortly.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
(A) Procedures Performed for fiscal year 1999 excise tax distributions related to the quarter ended September 30, 1998^a	
(1) Nonrepresentative selection of tax returns.	
(a) For the quarter ending September 30, 1998, select the 30 largest excise tax returns on the basis of total tax liability ^b amount from IRS' master file. ^c	<p>(a) We selected the 30 largest excise tax returns from the quarter ended September 30, 1998, for testing. The selection was based on the total tax liability amount, for each return, from IRS' master file.</p> <p>The total tax liability amount related to these 30 returns was approximately \$7.7 billion, or 63 percent of the total excise tax liability amount (\$12.2 billion^d) for the quarter ended September 30, 1998.</p> <p>Of these 30 returns, 21 contained primarily HTF related taxes, 7 contained primarily Airport and Airway Trust Fund (AATF) taxes and 2 contained telephone taxes related to the general fund.</p>

^aSince certifications usually are not completed until 6 months after the end of the quarter, the certification for the quarter ended September 30, 1998, was actually performed in fiscal year 1999.

^bAlthough the certifications are based on amounts collected, we used the tax liability amounts to identify the taxpayers paying the largest amounts of excise taxes. Based on our experience, these large taxpayers generally pay their excise taxes in full each quarter.

^cThe master file is a detailed database containing taxpayer information.

^dIRS represented to us that this was the total excise tax liability amount, from its master file, for the quarter ended September 30, 1998.

<p>(b) For each of the selected returns:</p> <ul style="list-style-type: none"> - trace the liability amount for selected abstracts^e from the tax return to IRS' master file. 	<p>(b) For each of 21 returns related primarily to the HTF, we traced the liability amount for the selected excise taxes to IRS' master file and recomputed the prorated collection amount. This resulted in our testing approximately \$5.6 billion in prorated collections certified to the HTF for the quarter ended September 30, 1998.</p> <p>(c) The liability amount for the three selected abstracts on the tax returns agreed with the amounts in IRS' master file for 20 of the 21 cases. On the remaining case, we identified an IRS input error which overstated the taxpayer's excise tax liability by \$8.6 million.</p>
<ul style="list-style-type: none"> - Check the mathematical accuracy of the taxpayer's calculations on the tax return for the selected abstracts 	<p>The taxpayers' calculations on all 21 of the selected returns were mathematically correct.</p>

^eThe abstract numbers identify the tax type (e.g., gasoline, ticket tax, etc.) and are used as the basis for determining the distribution of the excise taxes to the various trust funds. Abstract numbers are preprinted on the Form 720 and are used by the taxpayer to report excise tax assessments. If the return was related to the HTF, we selected (1) tax on 10 percent gasohol (abstract 59), (2) diesel fuel tax (abstract 60), and (3) gasoline tax (abstract 62). If the return was related to the AATF, we selected (1) tax on transportation of persons by air—ticket tax (abstract 26), (2) tax on use of international air facilities (abstract 27), and (3) tax on transportation of property by air (abstract 28). If the return was related to neither of the above trust funds, we selected all abstracts on the return in which the taxpayer has reported a liability. The tax amounts related to the selected abstracts for each trust fund are the largest tax amounts reported on the taxpayer's excise tax return and make up approximately 90 percent of the total amount certified to that trust fund.

<p>- recompute the prorated collection amount for the selected abstracts based on information from the master file and compare this amount to the amount from the Collection Certification System audit file.^f</p>	<p>The recomputed prorated collection amounts for the three selected abstracts agreed with amounts in IRS' Collection Certification System audit file for 19 of the 21 cases. For the other two cases,^g an error in IRS' proration computer program^h resulted in a difference totaling \$3.6 million.</p>
<p>(2) Receipt certifications</p>	
<p>(a) Inspect the certification lettersⁱ for authorizing signatures.</p>	<p>(a) The certification letters for the quarter ended September 30, 1998, had authorizing signatures.</p>
<p>(b) Determine if evidence exists that the certification letters and accompanying HTF distribution schedule^j were checked by the supervisor or another analyst.</p>	<p>(b) There was evidence that the certification letters and accompanying distribution schedules were checked by another analyst and a supervisor.</p>
<p>(c) Recalculate the totals on the certification letters and HTF distribution schedule to determine if they are mathematically correct.</p>	<p>(c) The totals on the certification letters and HTF distribution schedules were mathematically correct.</p>

^fThe Collection Certification System produces what IRS refers to as "audit files." These audit files contain the individual prorated collections, by abstract and taxpayer identification number, that make up the certified total amounts for each abstract.

^gOne of these is the same case that contained the IRS input error.

^hThis error resulted in overstated certifications to HTF for this quarter and the following quarter (ended December 31, 1998), as well as the three previous quarters. IRS corrected this computer error prior to its trust fund certifications for the quarter ended March 31, 1999. In addition, IRS made an immaterial adjustment to its HTF certification for the quarter ended June 30, 1999, to back out the overstatements from the five affected quarters.

ⁱIRS prepares two certification letters for the HTF each quarter; one for the Highway Account and the other for the Mass Transit Account.

^jThe HTF distribution schedule, which was attached to the HTF certification letters, prior to the certification for the quarter ended December 31, 1998, showed the distribution of prorated tax amounts for each abstract to the general fund, the Leaking Underground Storage Tank (LUST) Trust Fund and the Mass Transit Account and the Highway Account of the HTF. The IRS analyst used this electronic schedule, which contains rates provided by the Office of Tax Analysis (OTA), to distribute the gross prorated tax amounts.

<p>(d) Trace the gross certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59)^k from the HTF distribution schedule back to the <i>Reports of Excise Tax Collections</i>.</p>	<p>(d) The gross certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) per the HTF distribution schedule agreed with the related <i>Report of Excise Tax Collections</i>.</p>
<p>(e) Review the <i>Reports of Excise Tax Collections</i>^l used in the certification to determine if they contain significant^m collections from prior quarters.</p>	<p>(e) The <i>Reports of Excise Tax Collections</i> used in the certification did not contain significant collections from prior quarters.</p>
<p>(f) Heavy Vehicle Use taxes, which go to HTF, are reported on Form 2290 and are not included in the Collection Certification System. Trace this amount from the HTF distribution schedule to the master file.</p>	<p>(f) Heavy Vehicle Use tax per the HTF distribution schedule agreed with the master file.</p>
<p>(g) Review the HTF distribution rate schedule to determine whether the distribution rates for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) agree with the applicable laws.</p>	<p>(g) We saw no evidence that the distribution rates used by IRS for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) did not agree with the applicable laws.</p>

^kThe certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59), along with the Heavy Vehicle Use tax (traced separately), make up over 90 percent of the total amount certified to the HTF.

^lThe *Report of Excise Tax Collections* contains classified prorated collections that serve as the basis for IRS' quarterly trust fund certifications. IRS uses data from two of these reports, covering sequential processing intervals, for each certification. Collections are classified on the report when the related Form 720 tax return has been recorded on IRS' master file during the processing interval covered by the report. The second of the two reports used may contain collections related to previous quarters not classified until the current quarter because the related return was not recorded on the master file until the current quarter.

^mFor this test, significant is defined as \$90 million. This represents approximately 1 percent of the total amount certified to the HTF for a quarter.

<p>(2) FMS adjustments</p>	
<p>(a) Compare the Financial Management Service (FMS) adjustments made to HTF for fiscal year 1999 with original OTA estimates and IRS certified amounts to see if they agree with the supporting schedules.ⁿ Recompute the difference between the OTA estimate and final IRS certified amount to see if the amount agrees with the difference computed by FMS.</p>	<p>(a) For the FMS adjustments made to the HTF accounts (Highway and Mass Transit) the original OTA estimates and IRS certified amounts agreed with the supporting schedule. The independently recalculated difference between the OTA estimate and the final IRS certified amount for the Highway Account for the quarter ended September 30, 1998—(\$581,577,868)^o—and for the Mass Transit Account for the quarter ended September 30, 1998—(\$102,240,136)—agree with the difference computed by FMS.</p>

ⁿThis schedule, called the "Subsidiary Quarterly Account of Estimates and Actual Related Excise Taxes Appropriated to the Highway Account," is compiled by an accountant at FMS and it computes the difference between IRS certified amounts and the OTA estimate for excise taxes, individually and in total, that relate to the Highway Account. A similar schedule is prepared for the Mass Transit Account. The schedules, along with OTA transfer forms and IRS certifications, support the FMS adjustment.

^oA positive amount indicates that the FMS adjustment increased excise taxes distributed to the trust fund. A negative amount, shown in parenthesis, indicates a decrease in the excise taxes distributed to trust funds.

<p>(B) Procedures performed for fiscal year 1999 excise tax distributions related to quarters ended December 31, 1998, and March 31, 1999</p>	
<p>(1) Sampling</p>	
<p>(a) Obtain excise tax assessments and collection data from IRS' master file for the first 6 months of fiscal year 1999. Determine if excise tax collections per master file agree with IRS' general ledger. Reconcile total excise tax collections from the master file to total excise tax collections from the Collection Certification System audit files to determine if they materially^p agree.</p>	<p>(a) Excise tax collections for the first 6 months of fiscal year 1999 per the master file materially agreed with IRS' general ledger and with total excise tax collections from the Collection Certification System.</p>
<p>(b) Select a random attribute sample of 78 excise tax assessments from IRS' master file. Compare assessment and receipt information for each sample item from the master file to the assessment and receipt information in the Collection Certification System to determine if assessments and receipts from the master file are contained in the Collection Certification System.</p>	<p>(b) For each sample item, assessments and receipts from the master file are contained in the Collection Certification System.</p>

^pFor the purpose of this reconciliation, material is defined as \$204 million. This represents 1 percent of the expected total Form 720-related excise tax collections, related to the quarters ended December 31, 1998, and March 31, 1999.

<p>(c) To determine if the Collection Certification System properly summarized the prorated collections, total the prorated collections for selected abstracts^q from the audit files and compare these amounts to amounts indicated on the <i>Report of Excise Tax Collection</i>.</p>	<p>(c) The Collection Certification System properly summarized the prorated collections for all of the selected abstracts related to HTF and AATF. Prorated collections for the above mentioned trust funds from the audit files agreed with the corresponding amounts on the <i>Report of Excise Tax Collection</i>.</p>
<p>(d) Separate the total population of prorated collections from the audit files into the following distinct populations: (1) HTF, (2) AATF, and (3) other excise tax abstracts. Use Dollar Unit Sampling (DUS) to select a sample of prorated excise tax collections from the HTF population.</p>	<p>(d) Use of DUS with a confidence level of 80 percent, a test materiality of \$274 million, and an expected aggregate error amount of \$82.2 million resulted in a sample of 114^r prorated collections for the first 6 months of fiscal year 1999.</p>

^qThe selected abstracts include the following: (1) tax on 10 percent gasohol (abstract 59), (2) diesel fuel tax (abstract 60), (3) gasoline tax (abstract 62), (4) tax on transportation of persons by air (abstract 26), (5) tax on use of international air facilities (abstract 27), (6) tax on transportation of property by air (abstract 28), and (7) tax on aviation fuel for commercial use (abstract 77). The tax amounts for the three HTF related abstracts make up approximately 90 percent of the total amount certified to the HTF and the four AATF related abstracts make up over 95 percent of the total amounts certified to the AATF.

^rThe actual sample size using DUS was 166 items. However, because DUS selects dollars versus specific transaction items as the sampling unit, 41 items were selected more than once. Consequently, 114 unique sample transactions were selected for testing.

<p>(e) Select samples of prorated excise tax collections from the two non-HTF populations.</p>	<p>(e) Use of DUS with a confidence level of 80 percent, a test materiality of \$82 million and an expected aggregate error amount of \$24.6 million resulted in a sample of 70^s prorated collections for the first 6 months of fiscal year 1999 for AATF.</p> <p>A random attribute sample of 78 items from the population of prorated tax collections related to all excise taxes other than HTF and AATF was selected for testing.^t</p>
<p>(2) Detailed tests of transactions</p>	
<p>(a) For each prorated excise tax collection sampled from the HTF population:</p> <ul style="list-style-type: none"> - check to see that the assessment amount on the tax return, for the sampled abstract, agrees with the amount recorded in IRS' master file. 	<p>The assessment amounts on the tax returns agreed with the amounts recorded in IRS' master file for 109 of 114 sampled abstracts. For three sampled items related to one tax return, IRS erroneously allowed a credit for abstract 69. Even though abstract 69 is not one of our sampled abstracts, this error resulted in overstatements of \$9,965 to our sampled items for abstract 59, \$38,221 for abstract 60, and \$136,702 for abstract 62. For two other sample items related to one return, IRS could not provide support for credit adjustments of \$408 for abstract 60, and \$2,292 for abstract 62, resulting in understatements of these amounts.^u</p>

^sThe actual sample size using DUS was 145 items. However, because DUS selects dollars versus specific transaction items as the sampling unit, 24 items were selected more than once. Consequently, 70 unique sample transactions were selected for testing.

^tFor this sample, if no more than one error is found in testing the 78 items, we would be 90 percent confident that the error rate in the population would not exceed 5 percent.

^uWhile conducting our detailed tests of transactions we also found an error related to abstract 60 which was not one of our sample abstracts for that particular tax return. IRS disallowed a credit of \$35,724 for abstract 60, but information from the master file showed that the credit had been entered into the taxpayer's account. This error resulted in an overstatement to abstract 60 of this amount.

<ul style="list-style-type: none"> - check the mathematical accuracy of the taxpayer's calculations on the tax return for the related abstract. 	<p>The taxpayer's calculations on the tax returns for the related abstracts were mathematically correct.</p>
<ul style="list-style-type: none"> - recompute the prorated collection amount based on information from the master file and compare this amount to the sample items pulled from the Collection Certification System audit file. 	<p>The recomputed prorated collection based on information from the master file agreed with the amounts for all items sampled from the Collection Certification System audit file.^v</p>
<p>(b) Perform detailed testing on the two samples of prorated collections from the non-HTF populations to determine if they contain any HTF excise tax collections.</p>	<p>(b) The two samples of prorated collections from the non-HTF populations did not contain any HTF excise tax collections.</p>
<p>(c) Evaluate the results of conducting steps (a) and (b).</p>	<p>(c) For the first 6 months of fiscal year 1999, the net most likely error is \$208,000 with an upper error limit at the 80% confidence level of \$161 million.</p>
<p>(3) Receipt certifications</p>	
<p>(a) Inspect the certification letters for authorizing signatures.</p>	<p>(a) The certification letters for the quarters ended December 31, 1998, and March 31, 1999, had authorizing signatures.</p>

^vThe purpose of this test is to determine whether the Collection Certification System prorates correctly. This test is not intended to determine whether amounts provided to the system are correct. Because of the errors found above, the master file provided incorrect data to the Collection Certification System.

<p>(b) Determine if evidence exists that the supervisor or another analyst checked the certification letters and supporting worksheets.^w</p>	<p>(b) There was evidence that the certification letters and supporting worksheets were checked by another analyst and a supervisor.</p>
<p>(c) Recalculate the totals on the certification letters to determine if they are mathematically correct.</p>	<p>(c) The totals on the certification letters were mathematically correct.</p>
<p>(d) Trace the certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) from the certification letter back to the <i>Reports of Excise Tax Collections</i>.</p>	<p>(d) The certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) per the certification letters for the quarter ended December 31, 1998,^x and March 31, 1999, agreed with the related <i>Report of Excise Tax Collections</i>.</p>
<p>(e) Review the <i>Reports of Excise Tax Collections</i> used in the certification to determine if they contain significant collections from prior quarters.</p>	<p>(e) The <i>Reports of Excise Tax Collections</i> used for the December 31, 1998, certification did not contain significant collections from prior quarters.</p> <p>The <i>Reports of Excise Tax Collections</i> used for the March 31, 1999, certification contained approximately \$699 million in HTF excise tax collections related to previous quarters. Of this amount, approximately \$598 million was from the quarter ended December 31, 1998.</p>

^wBeginning with its certification for the quarter ended December 31, 1998, IRS changed the level of detail related to the HTF certification it submits to FMS. Specifically, the certification letter no longer includes the accompanying distribution schedule but shows only the amounts allocated to the Highway Account and Mass Transit Account. As a result, we performed procedures on the distribution rates and amounts on the worksheet which supports the amounts on the certification letter but which is not submitted with the certification letter to FMS.

^xAlthough the amounts agreed for the December certification, IRS understated a prior period adjustment. As a result, cumulative certifications to the HTF through the quarter ended December 31, 1998, continue to be overstated by \$10.2 million.

<p>(f) Heavy Vehicle Use taxes, which go to HTF, are reported on Form 2290 and are not included in the Collection Certification System. Trace this amount from the certification letter to the master file.</p>	<p>(f) Heavy Vehicle Use tax per the certification letters agreed with the master file.</p>
<p>(g) Review the distribution rates used by IRS to determine whether the distribution rates for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) agree with the applicable laws.</p>	<p>(g) We saw no evidence that the distribution rates used by IRS for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) did not agree with the applicable laws.</p>
<p>(4) Refunds/credit reclassification^y</p>	
<p>(a) Inspect the certification letters for authorizing signature.</p>	<p>(a) The certification letters for the quarters ended December 31, 1998, and March 31, 1999, had authorizing signatures.</p>
<p>(b) Determine if evidence exists that the certification letters and accompanying schedules^z were checked by the supervisor or another analyst.</p>	<p>(b) There was evidence that the certification letters and accompanying schedules were checked by another analyst and a supervisor.</p>
<p>(c) Recalculate the totals on the certification letters and accompanying schedules to determine if they are mathematically correct.</p>	<p>(c) The totals on the certification letters and accompanying schedules were mathematically correct.</p>

^yIRS performs a quarterly reclassification of excise tax refunds and credits originally entered into its master file as personal or corporate refunds/credits. IRS refers to these reclassifications as "refunds/credits certifications." These amounts do not represent the total excise tax refund/credit activity to the trust funds. Other routine excise tax refunds and credits (e.g., overpayments), which are claimed on taxpayer's Form 720 excise tax returns, are included in IRS' excise tax receipt certification to trust funds.

^zIRS attaches a separate schedule to the HTF refund/credit certification letter that includes the detailed excise tax amounts that support the total amount shown on the letter. IRS compiles the amounts on these schedules from service center systems and its Interim Revenue Accounting Control System (IRACS).

<p>(d) For selected excise taxes,^{aa} trace the refund and credit amount from the schedule accompanying the certification letter to other summary refund/credit schedules. (These other refund/credit summary schedules summarize refund and credit data obtained from service center^{bb} records.)</p>	<p>(d) The refund and credit amounts for the selected excise taxes, gasoline and diesel, on the schedule accompanying the certification letter for the quarter ended December 31, 1998, did not agree with the amounts on the summary schedules. IRS made a mistake when transferring amounts onto a worksheet. As a result, certified refunds for the HTF, for the quarter ended December 31, 1998, were understated by approximately \$8 million.</p> <p>We brought this to IRS' attention and IRS subsequently adjusted the certification for the quarter ended September 30, 1999, to correct the error.</p> <p>The refund and credit amounts for the selected excise taxes, gasoline and diesel, on the schedule accompanying the certification letter for the quarter ended March 31, 1999, agreed with the amounts on the summary schedules.</p>
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^{aa}The information used by IRS to obtain excise tax refunds and credits from corporate and personal returns come from service center systems and IRACS. These systems do not include excise tax data at the abstract level. For this reason, reference is made to excise taxes rather than abstracts.

^{bb}The IRS has 10 service centers that process tax returns and tax receipts.

<p>(5) FMS adjustments</p>	
<p>(a) Compare the FMS adjustments made to HTF for fiscal year 1999 with original OTA estimates and IRS certified amounts to see if they agree with the supporting schedules. Recompute the difference between the OTA estimate and final IRS certified amount to see if the amount agrees with the difference computed by FMS.</p>	<p>(a) For the FMS adjustments made to the HTF accounts (Highway and Mass Transit) the original OTA estimates and IRS certified amounts agreed with the supporting schedule. The independently recalculated difference between the OTA estimate and the final IRS certified amount for the Highway Account for the quarter ended December 31, 1998—\$438,024,000—and March 31, 1999—\$510,673,000—and for the Mass Transit Account for the quarter ended December 31, 1998—\$58,031,000—and March 31, 1999—\$51,835,000—agree with the difference computed by FMS.</p>
<p>(C) Procedures performed for fiscal year 1999 excise tax distributions related to the quarter ended June 30, 1999</p>	
<p>(1) Receipt certifications</p>	
<p>(a) Inspect the certification letters for authorizing signature.</p>	<p>(a) The certification letters for the quarter ended June 30, 1999, had authorizing signatures.</p>
<p>(b) Determine if evidence exists that the supervisor or another analyst checked the certification letters and supporting worksheets.</p>	<p>(b) There was evidence that the certification letters and supporting worksheets were checked by another analyst and a supervisor.</p>
<p>(c) Recalculate the totals on the certification letters to determine if they are mathematically correct.</p>	<p>(c) The totals on the certification letters were mathematically correct.</p>

<p>(d) Trace the certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) from the certification letters to the <i>Reports of Excise Tax Collections</i>.</p>	<p>(d) The certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) per the certification letters for the quarter ended June 30, 1999, agreed with the related <i>Report of Excise Tax Collections</i>.</p> <p>However, IRS made an error on a prior period adjustment resulting in an overstatement of HTF certified receipts, prior to allocation between the general fund and trust fund accounts, of \$10.2 million.</p>
<p>(e) Review the <i>Reports of Excise Tax Collections</i> used in the certification to determine if they contain significant collections from prior quarters.</p>	<p>(e) The <i>Reports of Excise Tax Collections</i> used in the certification did not contain significant collections from prior quarters.</p>
<p>(f) Heavy Vehicle Use taxes, which go to HTF, are reported on Form 2290 and are not included in the Collection Certification System. Trace this amount from the certification letter to the master file.</p>	<p>(f) Heavy Vehicle Use tax per the certification letter agreed with the master file.</p>
<p>(g) Review the distribution rates used by IRS to determine whether the distribution rates for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) agree with the applicable laws.</p>	<p>(g) We saw no evidence that the distribution rates used by IRS for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) did not agree with the applicable laws.</p>

(2) Refunds/credit reclassification	
(a) Inspect the certification letter for authorizing signature.	(a) The certification letter for the quarter ended June 30, 1999, had an authorizing signature.
(b) Determine if evidence exists that the certification letter and accompanying schedule were checked by the supervisor or another analyst.	(b) There was evidence that the certification letter and accompanying schedule were checked by another analyst and a supervisor.
(c) Recalculate the totals on the certification letter and accompanying schedule to determine if they are mathematically correct.	(c) The totals on the certification letter and accompanying schedule were mathematically correct.
(d) For selected excise taxes, trace the refund and credit amounts from the schedule accompanying the certification letter to other summary refund/credit schedules.	(d) The refund and credit amounts for the selected excise taxes, gasoline and diesel, on the schedule accompanying the certification letter agreed with the amounts on the summary schedules.
(3) FMS adjustments	
(a) Compare the FMS adjustments made to HTF for fiscal year 1999 with original OTA estimates and IRS certified amounts to see if they agree with the supporting schedules. Recompute the difference between the OTA estimate and final IRS certified amount to see if the amount agrees with the difference computed by FMS.	(a) For the FMS adjustments made to the HTF accounts (Highway and Mass Transit), the original OTA estimates and IRS certified amounts agreed with the supporting schedule. The independently recalculated difference between the OTA estimate and the final IRS certified amount for the Highway Account for the quarter ended June 30, 1999—\$128,069,000—and for the Mass Transit Account for the quarter ended June 30, 1999—(\$18,334,000)—agree with the difference computed by FMS.

<p>(D) Procedures performed for fiscal Year 1999 excise tax distributions related to the quarter ended September 30, 1999</p>	
<p>(1) OTA estimation process</p>	
<p>(a) Determine if OTA's process for identifying and incorporating into its revenue estimates the effect of new legislation on excise tax receipts was in place during fiscal year 1999.</p>	<p>(a) OTA represented to us that its process for identifying and including new laws and regulations affecting excise taxes into its receipt estimates includes consultations with Treasury's Tax Legislative Counsel, IRS' Chief Counsel, the Office of Management and Budget, and the Joint Committee on Taxation. OTA, in consultation with others, determined that no new enactments affected excise tax receipts in fiscal year 1999. Communications supporting this determination were not documented.</p>
	<p>OTA does not routinely compile a comprehensive list of laws and regulations that affect the receipt estimates. However, a tax rate table is used to capture information relating to legislation that affects tax rates, tax basis, accounts, and deposit rules in effect during the tax period and to communicate this information to interested parties at Treasury, the Federal Highway Administration (FHWA), the Federal Transit Administration (FTA), and the Department of Transportation (DOT). OTA documents consultations with legal staff within Treasury in updating the table. OTA does not obtain documentation indicating review and concurrence with the information in this table by relevant Treasury offices, FHWA, FTA, or DOT.</p>

<p>(b) Determine if OTA's process for considering the views of FHWA, FTA, and DOT prior to finalizing the revenue receipt estimates was in place in fiscal year 1999.</p>	<p>(b) OTA's process for considering the views of FHWA, FTA, and DOT prior to its finalizing of the receipt estimates was in place in fiscal year 1999. During the development of the receipt estimates, OTA's staff economists communicate with analysts at FHWA, FTA, and DOT about the development of the estimates. These communications are not documented. Prior to finalizing the full year estimates, which are the basis for the monthly tax distributions, OTA transmits the full year estimates to FHWA, FTA, and DOT for their review. The documentation maintained does not indicate the nature of review comments and whether FHWA, FTA, and DOT concurred with the final estimates.</p>
<p>(c) Determine if OTA's process for reviewing and incorporating into its revenue receipt estimates the new information received between the budget preparation cycles was in place in fiscal year 1999.</p>	<p>(c) OTA represented to us that its review process to ensure that new information received between the budget preparation cycles is reflected in the receipt estimates involves at least two reviews conducted by OTA's Director of the Revenue Estimation Division (RED) for the impact of various technical, economic, and legislative factors on the receipt estimates. OTA informed us that the Director of RED reviews the changes to the earlier forecasts, provides input to each staff economist, and approves changes to the forecasts. However, OTA did not provide documentation of this review. Also, director approval of final changes is not documented by signature.</p>

	<p>The Director of RED reviews the monthly receipt forecasts prepared by OTA staff economists, which are based on fiscal year forecasts described above, and indicates his concurrence by his signature on the monthly transfer documents transmitted to FMS.</p>
	<p>The Director of RED reviews the adjustments prepared by OTA staff economists for the impact of new legislation enacted in the period between the budget cycles and indicates his concurrence by his signature on the adjustment and transmittal memo to FMS. OTA prepared no such adjustments in fiscal year 1999 based on a determination that no new enactments affected receipts in the fiscal year.</p>
<p>(d) Determine if OTA's process for considering and incorporating into its revenue receipt estimates the impact of variances between actual and previously forecasted excise tax receipts was in place in fiscal year 1999.</p>	<p>(d) OTA represented its process as consisting of comparing prior estimates of excise tax receipts to actual excise tax collections, as reported by Treasury's FMS, to adjust its excise tax receipts estimation models.^{cc} Also, documentation showed that OTA staff economists review the differences between prior quarterly estimates and IRS certified amounts at the trust fund level. This information is considered along with other factors to determine if adjustments to the excise tax receipts estimation models are warranted.</p>
<p>(2) Refunds/credit reclassification</p>	
<p>(a) Inspect the certification letter for authorizing signature.</p>	<p>(a) The certification letter for the quarter ended September 30, 1999, had an authorizing signature.</p>

^{cc}OTA uses economic models to develop estimates for the amounts of excise tax receipts to be transferred to HTF.

<p>(b) Determine if evidence exists that the certification letter and accompanying schedule were checked by the supervisor or another analyst.</p>	<p>(b) There was evidence that the certification letter and accompanying schedule were checked by another analyst and a supervisor.</p>
<p>(c) Recalculate the totals on the certification letters and accompanying schedule to determine if they are mathematically correct.</p>	<p>(c) The totals on the certification letter and accompanying schedule were mathematically correct.</p>
<p>(d) For selected excise taxes, trace the refund and credit amounts from the schedule accompanying the certification letter back to other summary refund/credit schedules.</p>	<p>(d) The refund and credit amounts for the selected excise taxes, gasoline and diesel, on the schedule accompanying the certification letter agreed with the amounts on the summary schedules.</p>
<p>(E) Other procedures related to total fiscal year 1999 excise tax distributions</p>	
<p>(1) Compare total fiscal year 1999 excise taxes distributed to HTF with drafts of the (1) Bureau of Public Debt's (BPD) financial statements for the HTF and (2) HTF financial statements to determine if they agree.</p>	<p>(1) Fiscal year 1999 excise taxes distributed to the HTF of \$39.4 billion is \$153 million more than the amounts reported on (1) audited BPD financial statements for the HTF and (2) draft HTF financial statements.</p>

(F) Other procedures	
(1) Performed as part of fiscal year 1999 IRS financial statement audit.	
(a) Use DUS to select statistical samples of (1) total revenue receipts and (2) refunds from IRS master files for the first 9 months of fiscal year 1999. For each item in the samples of revenue receipts and refunds, test that the collection or refund amount and tax class from source documentation agrees with amounts recorded in IRS master files.	(a) Detailed testing of a total of 272 revenue receipts and 131 refund sample transactions did not reveal any instances of misclassifications related to excise tax.
(b) Review selected service centers' monthly Treasury 224 reconciliations to determine if IRS-reported revenue receipts were properly classified and reconciled to Treasury FMS records. For refunds, review selected IRS service centers' monthly Treasury 224 reconciliations to determine if IRS-reported total refunds (all tax classes) materially reconciled to Treasury FMS records. ^{dd}	(b) Tax revenue receipts reported by selected IRS service centers via the monthly Treasury 224 reconciliation process were properly classified and materially ^{ee} agreed with Treasury FMS records. Total refunds reported by the selected IRS service centers via the monthly Treasury 224 reconciliation process materially agreed with Treasury FMS records.

^{dd}IRS maintains records of refund balances by tax class in its master file and reports this information monthly to Treasury via the SF-224. Treasury provides IRS with a Statement of Differences (TFS-6652), which reports differences between total refunds reported by IRS on the SF-224 and the total refunds per Treasury records.

^{ee}For the purpose of this section, we define material as \$19 billion.

<p>(c) Perform a proof of cash for fiscal year 1999 to determine whether revenue receipt balances by tax class,^{ff} including excise tax, per IRS' general ledger materially agree with IRS master files and Treasury records. For refunds, perform a comparison of total refund balances between the master file, the general ledger, and Treasury records. Also, compare excise tax refunds per the master file to the general ledger.</p>	<p>Fiscal year-end tax receipt balances for all tax classes, including excise taxes, per IRS' general ledger materially agreed with IRS' master files and with Treasury records.</p> <p>Fiscal year-end refund balances per IRS' general ledger materially agreed with the master file and with Treasury records.</p>
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^{ff}IRS assigns a tax class number to specific types of taxes. Excise taxes are Tax Class 4.