



441 G St. N.W.  
Washington, DC 20548

November 9, 2016

The Honorable Calvin L. Scovel III  
Inspector General  
Department of Transportation

**Independent Auditor's Report on Applying Agreed-Upon Procedures: Fiscal Year 2016  
Excise Tax Distributions to the Airport and Airway Trust Fund and the Highway Trust  
Fund**

Dear Mr. Scovel:

As you requested, we have performed the procedures described in the enclosures to this report, which we agreed to perform and with which you concurred, solely to assist your office in ascertaining whether the net excise tax revenue distributed to the Airport and Airway Trust Fund (AATF) and the Highway Trust Fund (HTF) for the fiscal year ended September 30, 2016, is supported by underlying records.

We conducted the engagement in accordance with U.S. generally accepted government auditing standards, which incorporate certain attestation standards established by the American Institute of Certified Public Accountants.

You are solely responsible for the sufficiency of the agreed-upon procedures in this report. We make no representation regarding the sufficiency of the procedures described in the report either for the purpose for which this report has been requested or for any other purpose. The procedures we agreed to perform were related to (1) transactions that represent the underlying basis of amounts distributed from the General Fund to the AATF and the HTF during fiscal year 2016,<sup>1</sup> (2) the Internal Revenue Service's (IRS) quarterly AATF and HTF excise tax receipt certifications prepared during fiscal year 2016, (3) the Department of the Treasury's Office of Tax Analysis's (OTA) estimates of excise tax amounts to be distributed to the AATF and the HTF for the fourth quarter of fiscal year 2016, and (4) the amount of net excise taxes to be distributed to the AATF and the HTF during fiscal year 2016. Enclosure I provides the details on the agreed-upon procedures and our results with respect to the AATF. Enclosure II provides the details on the agreed-upon procedures and our results with respect to the HTF.

We were not engaged to perform, and did not perform, an examination, the objective of which would have been to express an opinion on the amount of net excise taxes distributed to the AATF and the HTF during fiscal year 2016. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that we would have reported to you. We completed the agreed-upon procedures on October 27, 2016.

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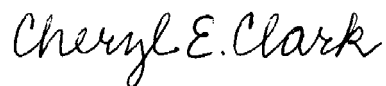
<sup>1</sup>The General Fund of the U.S. government (General Fund) consists of assets and liabilities used to finance the daily and long-term operations of the U.S. Government as a whole. It also includes accounts used in management of the budget of the U.S. Government.

We requested comments on a draft of this report from IRS and the Department of the Treasury's OTA. We received e-mail responses from the Deputy Associate Chief Financial Officer for Financial Management, IRS, and the Director of the Individual Revenue Division, OTA, on November 1, 2016. IRS agreed with the results and findings related to the procedures performed concerning excise tax distributions to the AATF and the HTF during fiscal year 2016. OTA stated that it had no comments on the report.

This report is intended solely for the use of the Office of Inspector General of the Department of Transportation and should not be used by those who have not agreed to the procedures or have not taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record, and its distribution is not limited. The report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions concerning this report, please contact me at (202) 512-9377 or [clarkce@gao.gov](mailto:clarkce@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. LaDonna Towler (Assistant Director), Melanie Darnell, and Vivian Ly made key contributions to this report.

Sincerely yours,

A handwritten signature in black ink that reads "Cheryl E. Clark". The signature is written in a cursive, flowing style.

Cheryl E. Clark  
Director  
Financial Management and Assurance

Enclosures - 2

## Enclosure I

### Airport and Airway Trust Fund Excise Tax Procedures

#### I. Procedures on Transactions That Represent the Underlying Basis of Amounts Distributed to the Airport and Airway Trust Fund (AATF) in Fiscal Year 2016

A. Statistical selection of attribute and monetary unit samples (MUS) from the quarters ended September 30, 2015; December 31, 2015; and March 31, 2016.<sup>1</sup>

1. Procedures on population of transactions and sample selection:

- (a) Compare the total excise tax collections from the Internal Revenue Service's (IRS) master file with excise tax collections from IRS's Collection Certification System audit files for all three quarters to determine whether there is any variance that exceeds 1 percent of total excise tax collections per the master file.<sup>2</sup>

#### Description of Findings and Results

Excise tax collections for all three quarters from IRS's master file agreed with excise tax collections from IRS's Collection Certification System audit files with less than a 1 percent variance.

- (b) Select a random attribute sample of 45 excise tax assessments from IRS's master file, which are based on Form 720 excise tax returns IRS received and recorded during these three quarters. Compare assessment and receipt information for each return from IRS's master file to IRS's Collection Certification System for agreement.<sup>3</sup>

#### Description of Findings and Results

For all 45 excise tax assessments sampled from these three quarters, assessment and receipt information from IRS's master file agreed with the information in IRS's Collection Certification System.

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<sup>1</sup>The Internal Revenue Service certification of excise tax distributions and corresponding Department of the Treasury Bureau of the Fiscal Service adjustment for the quarter ended September 30, 2015, were completed in February 2016 and thus affected distributions to the AATF during fiscal year 2016.

<sup>2</sup>IRS's master file contains the detailed records of taxpayer accounts. The Collection Certification System produces what IRS refers to as audit files. These audit files contain the individual prorated collections by tax type and taxpayer identification number. IRS calculates the amount it certifies to the trust funds by first subtracting credits claimed by taxpayers from the prorated collections and then multiplying the result by the applicable trust fund distribution rates.

<sup>3</sup>For this sample, if no errors were found in our comparison of the 45 items, we would be 90 percent confident that the error rate in the population would not exceed 5 percent.

- (c) For each of the three quarters, sum the prorated collections for selected abstracts<sup>4</sup> from IRS's Collection Certification System audit files and compare these amounts to amounts in the *Report of Excise Tax Collection*<sup>5</sup> to determine if IRS's Collection Certification System properly summarized the prorated collections.<sup>6</sup>

#### Description of Findings and Results

For each of the three quarters, the independently calculated sum of prorated collections from the audit files for the selected abstracts agreed with the corresponding amounts in the *Report of Excise Tax Collection*.

- (d) Combine the total population of prorated collections from IRS's Collection Certification System audit files for all three quarters, and then separate the combined population into the following distinct subpopulations: (1) AATF, (2) Highway Trust Fund (HTF), and (3) all other abstracts. Use MUS to select a sample of unique excise tax collections from the AATF population using a confidence level of 63 percent, a tolerable misstatement of \$200 million, and an expected error amount of \$34 million.<sup>7</sup>

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<sup>4</sup>The abstract numbers identify the tax type (e.g., gasoline and ticket tax) 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, Quarterly Federal Excise Tax Return, and are used by the taxpayer to report excise tax assessments. The selected abstracts are tax on transportation of persons by air (abstract 26), tax on the use of international air travel facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on kerosene for use in commercial aviation (abstract 77) for the AATF, and diesel fuel tax (abstract 60) and gasoline tax (abstract 62) for the Highway Trust Fund (HTF). See Internal Revenue Manual, § 21.7.8, *Excise Taxes* (Sept. 7, 2016). The tax amounts for the four AATF-related abstracts made up over 98 percent of the total amount of excise tax receipts certified by IRS to the AATF in fiscal year 2016. The tax amounts for the two HTF-related abstracts made up over 85 percent of the total amount of excise tax receipts certified by IRS to the HTF in fiscal year 2016.

<sup>5</sup>The quarterly *Report of Excise Tax Collection* contains prorated collections, classified by abstracts, which serve as the basis for IRS's quarterly trust fund certifications.

<sup>6</sup>IRS certifies to trust funds the amount of excise taxes collected. Because taxpayers have sometimes not fully paid their tax liability, IRS must allocate the amount of payments actually received among the different excise taxes reported on the taxpayers' returns. IRS's Collection Certification System prorates a taxpayer's payments proportionately among all taxes reported as owed on the tax return. For example, if a corporation reports that it owes \$4 million for gasoline tax, \$2 million for diesel fuel tax, and \$1 million for kerosene tax on its quarterly Form 720, but has paid IRS only \$3.5 million at the time IRS performs its certification, the program prorates the \$3.5 million in the following manner: \$2 million to gasoline tax, \$1 million to diesel fuel tax, and \$500,000 to kerosene tax.

<sup>7</sup>The \$200 million tolerable misstatement represents 1.4 percent of the net excise tax revenue distributed to the AATF in fiscal year 2015. The expected error amount of \$34 million represents approximately 17 percent of the tolerable misstatement amount.

### Description of Findings and Results

Use of MUS with a confidence level of 63 percent, a tolerable misstatement of \$200 million, and an expected error amount of \$34 million resulted in a sample of 43 unique excise tax collections for the AATF.<sup>8</sup>

- (e) Select samples of prorated excise tax collections from each of the two non-AATF populations. Use MUS to select a sample of prorated excise tax collections from the HTF population using a confidence level of 63 percent, a tolerable misstatement of \$795 million, and an expected error amount of \$135 million.<sup>9</sup> Select a random attribute sample of 45 items from the population of prorated tax collections related to all abstracts other than the AATF and the HTF.<sup>10</sup>

### Description of Findings and Results

Use of MUS with a confidence level of 63 percent, a tolerable misstatement of \$795 million, and an expected error amount of \$135 million resulted in a sample of 48 unique excise tax collections for the HTF.<sup>11</sup>

A random attribute sample of 45 items was selected from the population of prorated tax collections related to all abstracts other than the AATF and the HTF.

## 2. Procedures on transactions:

- (a) For each prorated excise tax collection sampled from the AATF population:
- Compare the assessment or adjustment amount from the supporting documents to IRS's master file for agreement.<sup>12</sup>

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<sup>8</sup>The 43 unique sampled transactions selected represented 65 AATF dollar intervals. The planned sample size for the AATF using MUS was 65 items. MUS select dollars versus specific transaction items by dividing the population of prorated excise tax collections by dollar intervals. The dollar interval for the AATF was \$162 million, with each dollar interval representing one sample item. Accordingly, any transaction with a dollar value equal to or exceeding this dollar interval would be selected and may represent more than one sample interval. For example, a unique sampled transaction with a value of \$324 million would encompass two \$162 million intervals and be counted as two dollar intervals.

<sup>9</sup>The \$795 million tolerable misstatement represents 1.95 percent of the net excise tax revenue distributed to the HTF in fiscal year 2015. The expected error amount of \$135 million represents approximately 17 percent of the tolerable misstatement amount.

<sup>10</sup>For this sample, if no errors are found in performing procedures on the 45 items, we would be 90 percent confident that the error rate in the population would not exceed 5 percent.

<sup>11</sup>The planned sample size for the HTF using MUS was 49 items. MUS select dollars versus specific transaction items by dividing the population of prorated excise tax collections by dollar intervals. The sampling program selected one transaction twice; therefore, the 48 unique sampled transactions represented 49 dollar intervals.

<sup>12</sup>Supporting documentation includes quarterly Form 720 excise tax returns and other forms submitted by the taxpayer or prepared by IRS.

### Description of Findings and Results

The assessment or adjustment amount on the supporting documentation agreed with the amount recorded in IRS's master file for each of the 43 sampled transactions.

- Calculate the assessment or adjustment amount on the supporting documentation to determine whether it is mathematically correct.

### Description of Findings and Results

The assessment or adjustment amount on the supporting documentation was mathematically correct for each of the 43 sampled transactions.

- Calculate the prorated collection amount for the sampled transactions based on information from IRS's master file and compare this amount to the amount in IRS's Collection Certification System audit files for agreement.

### Description of Findings and Results

The independently calculated prorated collection amount agreed with the amount in IRS's Collection Certification System audit files for each of the 43 sampled transactions.

- (b) Statistically project the results of conducting the steps in 2(a).

### Description of Findings and Results

The net most likely error related to the AATF was \$0 with an upper error limit of \$155 million at a 63 percent confidence level. The upper error limit did not exceed the tolerable misstatement amount of \$200 million designed for this procedure.

- (c) Inspect the supporting documentation and master file information for the HTF sample and the other abstracts sample of prorated collections from the non-AATF populations to determine if they contain any AATF excise tax collections.

### Description of Findings and Results

The supporting documentation and master file information for the HTF sample and the other abstracts sample of prorated collections from the non-AATF populations did not contain any AATF excise tax collections.

## **II. Procedures on IRS's Quarterly AATF Receipt Certifications**

Perform the following procedures on IRS's AATF receipt certifications for the quarters ended September 30, 2015; December 31, 2015; March 31, 2016; and June 30, 2016:

- A. Inspect the certification letters for authorizing signatures.

Description of Findings and Results

The certification letters for all four quarters had authorizing signatures.

- B. Inspect the certification letters and supporting worksheets to determine if evidence exists that they were reviewed by the supervisor or another analyst.

Description of Findings and Results

There was evidence that the supervisor or another analyst reviewed the certification letters and supporting worksheets for all four quarters.

- C. Calculate the totals on the certification letters to determine if they are mathematically correct.

Description of Findings and Results

The totals on the certification letters for all four quarters were mathematically correct.

- D. Trace the certified amounts for tax on transportation of persons by air (abstract 26), tax on the use of international air travel facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on kerosene for use in commercial aviation (abstract 77)<sup>13</sup> from the certification letters back to the *Report of Excise Tax Collection*<sup>14</sup> and the *Treasury 90 Report* for agreement.<sup>15</sup>

Description of Findings and Results

The certified amounts for tax on transportation of persons by air (abstract 26), tax on the use of international air travel facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on kerosene for use in commercial aviation (abstract 77) from the certification letters agreed with the related *Report of Excise Tax Collection* and the *Treasury 90 Report* for all four quarters.

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<sup>13</sup>The certified amounts for tax on transportation of persons by air (abstract 26), tax on the use of international air travel facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on kerosene for use in commercial aviation (abstract 77) made up over 98 percent of the total amount of excise tax receipts certified by IRS to the AATF for each quarter of fiscal year 2016.

<sup>14</sup>The *Report of Excise Tax Collection* is produced by the Collection Certification System. Collections are classified by abstract on the report when the related Form 720 tax return has been posted to IRS's master file during the processing interval covered by the report. IRS uses data from one report for each quarterly certification.

<sup>15</sup>The *Treasury 90 Report* summarizes excise tax credit information and is produced quarterly by IRS service center campuses. IRS has 10 service center campuses that receive and process tax returns and payments. See Internal Revenue Manual, § 3.17.41, *Accounting and Operating Reports* (Sept. 18, 2009).

- E. Compare the distribution rates used by IRS for tax on transportation of persons by air (abstract 26), tax on the use of international air travel facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on kerosene for use in commercial aviation (abstract 77) for agreement with the applicable laws.

Description of Findings and Results

The distribution rates used by IRS for tax on transportation of persons by air (abstract 26), tax on the use of international air travel facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on kerosene for use in commercial aviation (abstract 77) agreed with the applicable laws in effect during all four quarters.

- F. Inspect the *Report of Excise Tax Collection* used in the certification to determine if it reports more than \$70 million<sup>16</sup> in AATF collections from prior quarters.<sup>17</sup>

Description of Findings and Results

None of the reports used in the AATF certification for any of the four quarters reported more than \$70 million in collections from prior quarters.

- G. Inspect the *Report of Excise Tax Collection* used in the certification to determine if it reports more than \$70 million in AATF collections from future quarters.<sup>18</sup>

Description of Findings and Results

None of the reports used in the AATF certification for any of the four quarters reported more than \$70 million in collections from future quarters.

- H. For the quarter ended June 30, 2016, inquire with IRS whether any excise tax returns from its list of the largest excise taxpayers were omitted from the certification.<sup>19</sup> For any such returns that were omitted but were subsequently received by IRS, report the total amount of AATF-related tax collections from these tax returns. For any such returns that were omitted and that IRS has not yet

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<sup>16</sup>The \$70 million represents approximately 2 percent of the total amount of excise tax receipts certified by IRS to the AATF for each quarter of fiscal year 2015.

<sup>17</sup>The *Report of Excise Tax Collection* may contain collections related to prior quarters that IRS certifies as part of the current quarter's collections because IRS did not post the related tax return to its master file until the current processing period. This may result from IRS processing delays or from delays by the taxpayer in filing the tax return.

<sup>18</sup>The *Report of Excise Tax Collection* may contain collections related to future quarters that IRS certifies as part of the current quarter's collections because the taxpayer filed the tax return before the due date and paid the taxes owed, and IRS posted the tax return to its master file during the current processing period.

<sup>19</sup>IRS maintains a listing of its largest excise taxpayers. To help ensure that tax return data for the largest excise taxpayers are included in each quarterly excise tax certification, IRS tracks the receipt of these returns and contacts these taxpayers when necessary.



received, report the amount of AATF-related tax collections from the taxpayer(s) based on the previous quarter.

#### Description of Findings and Results

According to IRS, no AATF-related tax returns from its list of the largest excise taxpayers were omitted from its certification for the quarter ended June 30, 2016.

### **III. Procedures on Excise Tax Distributions to the AATF for the Quarter Ended September 30, 2016**

- A. Determine if the Department of the Treasury's Office of Tax Analysis (OTA) prepared a tax rate table to capture information concerning tax rates, tax basis, accounts, and deposit rules in effect during the quarter ended September 30, 2016, and whether OTA used this rate table in its trust fund estimates for the quarter.<sup>20</sup>

#### Description of Findings and Results

OTA prepared a tax rate table to capture information concerning tax rates, tax basis, accounts, and deposit rules in effect during the quarter ended September 30, 2016. OTA used the rate table in preparing the five semimonthly estimates that affect fiscal year 2016 distributions to the AATF.

- B. Inspect the transfer forms and supporting schedules to determine if there is evidence of review.

#### Description of Findings and Results

There was evidence that an OTA economist, other than the one who prepared the estimate, reviewed the transfer forms and supporting schedules affecting distributions from the General Fund to the AATF for the quarter ended September 30, 2016.

- C. Calculate the totals on the transfer forms to determine if they are mathematically correct.

#### Description of Findings and Results

The totals on the transfer forms affecting distributions from the General Fund to the AATF for the quarter ended September 30, 2016, were mathematically correct.

- D. Trace the transfer amounts for tax on transportation of persons by air (abstract 26), tax on the use of international air travel facilities (abstract 27), tax on transportation

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<sup>20</sup>OTA makes semimonthly estimates of excise tax collections for transfer from the General Fund to the trust funds. To better match excise tax collections with the corresponding quarter, OTA's estimates for each quarter cover the period starting on the 16th day of the first month in the quarter and go through the 15th day of the first month of the next quarter. For example, OTA's estimates for the fourth quarter of fiscal year 2016 cover July 16, 2016, through October 15, 2016. While there are six semimonthly estimates related to the quarter, only five of these affect fiscal year 2016 distributions to the AATF. The sixth semimonthly estimate, covering the period from October 1 through 15, will affect distributions to the AATF for fiscal year 2017.

of property by air (abstract 28), and tax on kerosene for use in commercial aviation (abstract 77)<sup>21</sup> from the transfer forms back to the related source documents for agreement.<sup>22</sup>

#### Description of Findings and Results

The transfer amounts for tax on transportation of persons by air (abstract 26), tax on the use of international air travel facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on kerosene for use in commercial aviation (abstract 77) from the transfer forms agreed with the related source documents for the quarter ended September 30, 2016.

#### **IV. Other Procedures**

- A. Using IRS's quarterly certifications, OTA's estimated distributions, and any adjustments, compile and report the amount of net excise taxes to be distributed to the AATF in fiscal year 2016.

#### Description of Findings and Results

Based on a compilation of IRS's quarterly certifications, OTA's estimations, and adjustments, the amount of net excise taxes to be distributed to the AATF in fiscal year 2016 is \$14,406,200,000.

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<sup>21</sup>The OTA-estimated transfer amounts for tax on transportation of persons by air (abstract 26), tax on the use of international air travel facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on kerosene for use in commercial aviation (abstract 77) made up over 98 percent of the total amount transferred to the AATF for the fourth quarter of fiscal year 2016.

<sup>22</sup>The source documents include the IRS report of excise taxes used to derive the percentages applied to reported receipts, the Daily Treasury Statement, the Monthly Treasury Statement, and the excise tax rate table.

## Enclosure II

### Highway Trust Fund Excise Tax Procedures

#### I. Procedures on Transactions That Represent the Underlying Basis of Amounts Distributed to the Highway Trust Fund (HTF) in Fiscal Year 2016

A. Statistical selection of attribute and monetary unit samples (MUS) from the quarters ended September 30, 2015; December 31, 2015; and March 31, 2016<sup>1</sup>

1. Procedures on population of transactions and sample selection:

- (a) Compare the total excise tax collections from the Internal Revenue Service's (IRS) master file with excise tax collections from IRS's Collection Certification System audit files for all three quarters to determine whether there is any variance that exceeds 1 percent of total excise tax collections per the master file.<sup>2</sup>

##### Description of Findings and Results

Excise tax collections for all three quarters from IRS's master file agreed with excise tax collections from IRS's Collection Certification System audit files with less than a 1 percent variance.

- (b) Select a random attribute sample of 45 excise tax assessments from IRS's master file, which are based on Form 720 excise tax returns IRS received and recorded during these three quarters. Compare assessment and receipt information for each return from IRS's master file to IRS's Collection Certification System for agreement.<sup>3</sup>

##### Description of Findings and Results

For all 45 excise tax assessments sampled from these three quarters, assessment and receipt information from IRS's master file agreed with the information in IRS's Collection Certification System.

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<sup>1</sup>The Internal Revenue Service certification of excise tax distributions and corresponding Department of the Treasury Bureau of the Fiscal Service adjustment for the quarter ended September 30, 2015, were completed in February 2016 and thus affected distributions to the HTF during fiscal year 2016.

<sup>2</sup> IRS's master file contains the detailed records of taxpayer accounts. The Collection Certification System produces what IRS refers to as audit files. These audit files contain the individual prorated collections by tax type and taxpayer identification number. IRS calculates the amount it certifies to the trust funds by first subtracting credits claimed by taxpayers from the prorated collections and then multiplying the result by the applicable trust fund distribution rates.

<sup>3</sup>For this sample, if no errors were found in our comparison of the 45 items, we would be 90 percent confident that the error rate in the population would not exceed 5 percent.

- (c) For each of the three quarters, sum the prorated collections for selected abstracts<sup>4</sup> from IRS's Collection Certification System audit files and compare these amounts to amounts in the *Report of Excise Tax Collection*<sup>5</sup> to determine if IRS's Collection Certification System properly summarized the prorated collections.<sup>6</sup>

#### Description of Findings and Results

For each of the three quarters, the independently calculated sum of prorated collections from the audit files for the selected abstracts agreed with the corresponding amounts in the *Report of Excise Tax Collection*.

- (d) Combine the total population of prorated collections from IRS's Collection Certification System audit files for all three quarters, and then separate the combined population into the following distinct subpopulations: (1) HTF, (2) Airport and Airway Trust Fund (AATF), and (3) all other abstracts. Use MUS to select a sample of unique excise tax collections from the HTF population using a confidence level of 63 percent, a tolerable misstatement of \$795 million, and an expected error amount of \$135 million.<sup>7</sup>

#### Description of Findings and Results

Use of MUS with a confidence level of 63 percent, a tolerable misstatement of \$795 million, and an expected error amount of \$135 million resulted in a sample of 48 unique excise tax collections for the HTF.<sup>8</sup>

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<sup>4</sup>The abstract numbers identify the tax type (e.g., gasoline and ticket tax) 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, Quarterly Federal Excise Tax Return, and are used by the taxpayer to report excise tax assessments. The selected abstracts are diesel fuel tax (abstract 60) and gasoline tax (abstract 62) for the HTF, and tax on transportation of persons by air (abstract 26), tax on the use of international air travel facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on kerosene for use in commercial aviation (abstract 77) for the Airport and Airway Trust Fund (AATF). See Internal Revenue Manual, § 21.7.8, *Excise Taxes* (Sept. 7, 2016). The tax amounts for the two HTF-related abstracts made up over 85 percent of the total amount of excise tax receipts certified by IRS to the HTF in fiscal year 2016. The tax amounts for the four AATF-related abstracts made up over 98 percent of the total amount of excise tax receipts certified by IRS to the AATF in fiscal year 2016.

<sup>5</sup>The quarterly *Report of Excise Tax Collection* contains prorated collections, classified by abstracts, which serve as the basis for IRS's quarterly trust fund certifications.

<sup>6</sup>IRS certifies to trust funds the amount of excise taxes collected. Because taxpayers have sometimes not fully paid their tax liability, IRS must allocate the amount of payments actually received among the different excise taxes reported on the taxpayers' returns. IRS's Collection Certification System prorates a taxpayer's payments proportionately among all taxes reported as owed on the tax return. For example, if a corporation reports that it owes \$4 million for gasoline tax, \$2 million for diesel fuel tax, and \$1 million for kerosene tax on its quarterly Form 720 but has paid IRS only \$3.5 million at the time IRS performs its certification, the program prorates the \$3.5 million in the following manner: \$2 million to gasoline tax, \$1 million to diesel fuel tax, and \$500,000 to kerosene tax.

<sup>7</sup>The \$795 million tolerable misstatement represents 1.95 percent of the net excise tax revenue distributed to the HTF in fiscal year 2015. The expected error amount of \$135 million represents approximately 17 percent of the tolerable misstatement amount.

<sup>8</sup>The planned sample size for the HTF using MUS was 49 items. MUS select dollars versus specific transaction items by dividing the population of prorated excise tax collections by dollar intervals. The sampling program selected one transaction twice; therefore, the 48 unique sampled transactions represented 49 dollar intervals.

- (e) Select samples of prorated excise tax collections from each of the two non-HTF populations. Use MUS to select a sample of prorated excise tax collections from the AATF population using a confidence level of 63 percent, a tolerable misstatement of \$200 million, and an expected error amount of \$34 million.<sup>9</sup> Select a random attribute sample of 45 items from the population of prorated tax collections related to all abstracts other than the HTF and the AATF.<sup>10</sup>

#### Description of Findings and Results

Use of MUS with a confidence level of 63 percent, a tolerable misstatement of \$200 million, and an expected error amount of \$34 million resulted in a sample of 43 unique excise tax collections for the AATF.<sup>11</sup>

A random attribute sample of 45 items was selected from the population of prorated tax collections related to all abstracts other than the HTF and the AATF.

#### 2. Procedures on transactions:

- (a) For each prorated excise tax collection sampled from the HTF population:

- Compare the assessment or adjustment amount from the supporting documents to IRS's master file for agreement.<sup>12</sup>

#### Description of Findings and Results

The assessment or adjustment amount on the supporting documentation agreed with the amount recorded in IRS's master file for each of the 48 sampled transactions.

- Calculate the assessment or adjustment amount on the supporting documentation to determine whether it is mathematically correct.

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<sup>9</sup>The \$200 million tolerable misstatement represents 1.4 percent of the net excise tax revenue distributed to the AATF in fiscal year 2015. The expected error amount of \$34 million represents approximately 17 percent of the tolerable misstatement amount.

<sup>10</sup>For this sample, if no errors are found in performing procedures on the 45 items, we would be 90 percent confident that the error rate in the population would not exceed 5 percent.

<sup>11</sup>The 43 unique sampled transactions selected represented 65 dollar intervals. The planned sample size for the AATF using MUS was 65 items. MUS select dollars versus specific transaction items by dividing the population of prorated excise tax collections by dollar intervals. The dollar interval for the AATF was \$162 million, with each dollar interval representing one sample item. Accordingly, any transaction with a dollar value equal to or exceeding this dollar interval would be selected and may represent more than one sample interval. For example, a unique sample transaction with a value of \$324 million would encompass two \$162 million intervals and be counted as two dollar intervals.

<sup>12</sup>Supporting documentation includes quarterly Form 720 excise tax returns and other forms submitted by the taxpayer or prepared by IRS.

### Description of Findings and Results

The assessment or adjustment amount on the supporting documentation was mathematically correct for each of the 48 sampled transactions.

- Calculate the prorated collection amount for the sampled transactions based on information from IRS's master file and compare this amount to the amount in IRS's Collection Certification System audit files for agreement.

### Description of Findings and Results

The independently calculated prorated collection amount agreed with the amount in IRS's Collection Certification System audit files for each of the 48 sampled transactions.

- (b) Statistically project the results of conducting the steps in 2(a).

### Description of Findings and Results

The net most likely error related to the HTF was \$0 with an upper error limit of \$646 million at the 63 percent confidence level. The upper error limit did not exceed the tolerable misstatement amount of \$795 million designed for this procedure.

- (c) Inspect the supporting documentation and master file information for the AATF sample and the other abstracts sample of prorated collections from the non-HTF populations to determine if they contain any HTF excise tax collections.

### Description of Findings and Results

The supporting documentation and master file information for the AATF sample and the other abstracts sample of prorated collections from the non-HTF populations did not contain any HTF excise tax collections.

## **II. Procedures on IRS's Quarterly HTF Receipt Certifications**

Perform the following procedures on IRS's HTF receipt certifications for the quarters ended September 30, 2015; December 31, 2015; March 31, 2016; and June 30, 2016:

- A. Inspect the certification letters for authorizing signatures.<sup>13</sup>

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<sup>13</sup>IRS prepares two certification letters for the HTF each quarter: one for the Highway Account and the other for the Mass Transit Account.

### Description of Findings and Results

The certification letters for all four quarters had authorizing signatures.

- B. Inspect the certification letters and supporting worksheets to determine if evidence exists that they were reviewed by the supervisor or another analyst.

### Description of Findings and Results

There was evidence that the supervisor or another analyst reviewed the certification letters and supporting worksheets for all four quarters.

- C. Calculate the totals on the certification letters to determine if they are mathematically correct.

### Description of Findings and Results

The totals on the certification letters for all four quarters were mathematically correct.

- D. Trace the certified amounts for diesel fuel tax (abstract 60) and gasoline tax (abstract 62)<sup>14</sup> from the certification letters back to the *Report of Excise Tax Collection*<sup>15</sup> and the *Treasury 90 Report* for agreement.<sup>16</sup>

### Description of Findings and Results

The certified amounts for diesel fuel tax (abstract 60) and gasoline tax (abstract 62) from the certification letters agreed with the related *Report of Excise Tax Collection* and the *Treasury 90 Report* for all four quarters.

- E. Compare the distribution rates used by IRS for diesel fuel tax (abstract 60) and gasoline tax (abstract 62) for agreement with the applicable laws.

### Description of Findings and Results

The distribution rates used by IRS for diesel fuel tax (abstract 60) and gasoline tax (abstract 62) agreed with the applicable laws in effect during all four quarters.

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<sup>14</sup>The certified amounts for diesel fuel tax (abstract 60) and gasoline tax (abstract 62), along with the heavy vehicle use tax (traced separately in procedure II.H below), made up over 87 percent of the total amount of excise tax receipts certified by IRS to the HTF for each quarter during fiscal year 2016.

<sup>15</sup>The *Report of Excise Tax Collection* is produced by the Collection Certification System. Collections are classified by abstract on the report when the related Form 720 tax return has been posted to IRS's master file during the processing period covered by the report. IRS uses data from one report for each quarterly certification.

<sup>16</sup>The *Treasury 90 Report* summarizes excise tax credit information and is produced quarterly by IRS service center campuses. IRS has 10 service center campuses that receive and process tax returns and payments. See Internal Revenue Manual, § 3.17.41, *Accounting and Operating Reports* (Sept. 18, 2009).

- F. Inspect the *Report of Excise Tax Collection* used in the certification to determine if it reports more than \$204 million<sup>17</sup> in HTF collections from prior quarters.<sup>18</sup>

Description of Findings and Results

None of the reports used in the HTF certification for any of the four quarters reported more than \$204 million in collections from prior quarters.

- G. Inspect the *Report of Excise Tax Collection* used in the certification to determine if it reports more than \$204 million in HTF collections from future quarters.<sup>19</sup>

Description of Findings and Results

None of the reports used in the HTF certification for any of the four quarters reported more than \$204 million in collections from future quarters.

- H. Trace heavy vehicle use tax amounts from the Highway Account certification letters to the master file and *Treasury 90 Report*.<sup>20</sup>

Description of Findings and Results

The heavy vehicle use tax amounts from the Highway Account certification letters agreed with the master file and *Treasury 90 Report* for all four quarters.

- I. For the quarter ended June 30, 2016, inquire with IRS whether any excise tax returns from its list of the largest excise taxpayers were omitted from its certification.<sup>21</sup> For any such returns that were omitted but were subsequently received by IRS, report the total amount of HTF-related tax collections from these tax returns. For any such returns that were omitted and that IRS has not yet received, report the amount of HTF-related tax collections from the taxpayer(s) based on the previous quarter.

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<sup>17</sup>The \$204 million represents approximately 2 percent of the total amount of excise tax receipts certified by IRS to the HTF for each quarter of fiscal year 2015.

<sup>18</sup>The *Report of Excise Tax Collection* may contain collections related to prior quarters that IRS certifies as part of the current quarter's collections because IRS did not post the related tax return to its master file until the current processing period. This may result from IRS processing delays or from delays by the taxpayer in filing the tax return.

<sup>19</sup>The *Report of Excise Tax Collection* may contain collections related to future quarters that IRS certifies as part of the current quarter's collections because the taxpayer filed the tax return before the due date and paid the taxes owed, and IRS posted the tax return to its master file during the current processing period.

<sup>20</sup>Heavy vehicle use tax, which goes to the HTF, is reported on Form 2290. IRS obtains these amounts directly from its master file and campus systems, rather than from its Collection Certification System.

<sup>21</sup>IRS maintains a list of its largest excise taxpayers. To help ensure that tax return data for the largest excise taxpayers are included in each quarterly excise tax certification, IRS tracks the receipt of these returns and contacts these taxpayers when necessary.



### Description of Findings and Results

According to IRS, no HTF-related tax returns from its list of the largest excise taxpayers were omitted from its certification for the quarter ended June 30, 2016.

### **III. Procedures on Excise Tax Distributions to the HTF for the Quarter Ended September 30, 2016**

- A. Determine if the Department of the Treasury's Office of Tax Analysis (OTA) prepared a tax rate table to capture information concerning tax rates, tax basis, accounts, and deposit rules in effect during the quarter ended September 30, 2016, and whether OTA used this rate table in its trust fund estimates for the quarter.<sup>22</sup>

#### Description of Findings and Results

OTA prepared a tax rate table to capture information concerning tax rates, tax basis, accounts, and deposit rules in effect during the quarter ended September 30, 2016. OTA used the rate table in preparing the five semimonthly estimates that affect fiscal year 2016 distributions to the HTF.

- B. Inspect the transfer forms and supporting schedules to determine if there is evidence of review.

#### Description of Findings and Results

There was evidence that an OTA economist, other than the one who prepared the estimate, reviewed the transfer forms and supporting schedules affecting distributions from the General Fund to the HTF for the quarter ended September 30, 2016.

- C. Calculate the totals on the transfer forms to determine if they are mathematically correct.

#### Description of Findings and Results

The totals on the transfer forms affecting distributions from the General Fund to the HTF for the quarter ended September 30, 2016, were mathematically correct.

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<sup>22</sup>OTA makes semimonthly estimates of excise tax collections for transfer from the General Fund to the trust funds. To better match excise tax collections with the corresponding quarter, OTA's estimates for each quarter cover the period starting on the 16th day of the first month in the quarter and go through the 15th day of the first month of the next quarter. For example, OTA's estimates for the fourth quarter of fiscal year 2016 cover July 16, 2016, through October 15, 2016. While there are six semimonthly estimates related to the quarter, only five of these affect fiscal year 2016 distributions to the HTF. The sixth semimonthly estimate, covering the period from October 1 through 15, will affect distributions to the HTF for fiscal year 2017.

- D. Trace the transfer amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and heavy vehicle use tax<sup>23</sup> from the transfer forms back to the related source documents for agreement.<sup>24</sup>

Description of Findings and Results

The transfer amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and heavy vehicle use tax from the transfer forms agreed with the related source documents for the quarter ended September 30, 2016.

**IV. Other Procedures**

- A. Using IRS's quarterly certifications, OTA's estimated distributions, and any adjustments, compile and report the amount of net excise taxes and penalties to be distributed to the HTF in fiscal year 2016.<sup>25</sup>

Description of Findings and Results

Based on a compilation of IRS's quarterly certifications, OTA's estimations, and adjustments, the amount of net excise taxes and penalties to be distributed to the HTF in fiscal year 2016 is \$41,224,972,000.

(100671)

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<sup>23</sup> The OTA-estimated transfer amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and heavy vehicle use tax made up over 87 percent of the total amount transferred to the HTF for the fourth quarter of fiscal year 2016.

<sup>24</sup> The source documents include the IRS report of excise taxes used to derive the percentages applied to reported receipts, the Daily Treasury Statement, the Monthly Treasury Statement, and the excise tax rate table.

<sup>25</sup> The American Jobs Creation Act of 2004 amended transfers to the HTF from the General Fund to include certain fuel-related penalties. These penalties are assessed and collected by IRS and are distributed to the HTF. Pub. L. No. 108-357, § 868, 118 Stat. 1418, 1622 (Oct. 22, 2004). IRS includes such amounts in its quarterly certification to the HTF.

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