



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-281571

February 25, 1999

The Honorable Kenneth M. Mead
Inspector General
Department of Transportation

Subject: Agreed-Upon Procedures: Highway Trust Fund Excise Taxes

Dear Mr. Mead:

We have performed the procedures contained in enclosure I to this letter, which we agreed to perform 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, 1998, is supported by the underlying records. As agreed upon with your office, we evaluated fiscal year 1998 HTF activity.

This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants (AICPA). Accordingly, the adequacy of the procedures to meet your objectives is your responsibility and we make no representations in that respect. The procedures we agreed to perform included (1) detailed tests of transactions that represent the underlying basis of amounts distributed to HTF, (2) review of the Internal Revenue Service's (IRS) quarterly HTF certifications, (3) review of the Department of the Treasury Financial Management Service adjustments to HTF for fiscal year 1998, (4) review of the Office of Tax Analysis process for estimating amounts to be distributed to HTF for the fourth quarter of fiscal year 1998, (5) comparison of net excise tax distributions to HTF during fiscal year 1998 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 I contains the agreed-upon procedures and our results and findings from performing each of the procedures.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the net excise taxes distributed to 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.

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GAO/AIMD-99-71R Highway Trust Fund Excise Tax Procedures

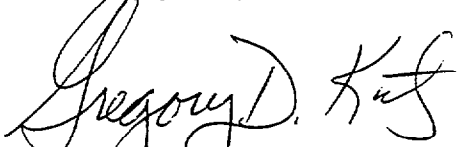
B-281571

We provided a draft of this letter to IRS and Treasury officials, along with its enclosure, for review and comment. They agreed with the contents of this letter and its enclosure.

We completed the agreed-upon procedures on February 12, 1999. 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 AICPA. These standards also provide guidance when performing and reporting the results of agreed-upon procedures.

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,

A handwritten signature in cursive script that reads "Gregory D. Kutz". The signature is written in dark ink and is positioned above the printed name.

Gregory D. Kutz

Associate Director, Governmentwide Accounting
and Financial Management Issues

Enclosure

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
<p>(A) PROCEDURES PERFORMED FOR FISCAL YEAR 1998 EXCISE TAX DISTRIBUTIONS RELATED TO QUARTERS ENDED JUNE 30, 1997, AND SEPTEMBER 30, 1997^a</p>	
<p>(1) Nonrepresentative selection of tax returns</p>	
<p>(a) For the quarters ending June 30, 1997, and September 30, 1997, select the 30 largest excise tax returns, on the basis of the assessment amount for each quarter. Select a minimum of 6 Airport and Airway Trust Fund (AATF) returns for each quarter.</p>	<p>(a) A total of 67 excise tax returns from the quarters ended June 30, 1997, and September 30, 1997, were selected for review. The selection was based on total assessment amount and the inclusion of additional tax returns related to AATF. The selection exceeded 30 returns per quarter to obtain a minimum of 6 AATF tax returns in each quarter.</p>

^aAlthough the law requires that certifications be based on tax collections, IRS based certifications on tax assessments until June 1998. Since certifications usually are not completed until 6 months after the end of the quarter, the certifications for the quarters ended June 30 and September 30, 1997, were actually performed in fiscal year 1998, based on tax assessments. In June, for collections in the first quarter of fiscal year 1998, IRS began using a new certification method that brings IRS into compliance with the requirements of the law.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
	<p>The total assessment amount related to these 67 returns was approximately \$14.5 billion, or 64 percent of total excise tax assessment amounts (\$22.7 billion) for the two quarters combined. Of the 67 returns, 48 contained primarily HTF-related taxes, 16 contained primarily AATF-related taxes, and 3 contained other excise taxes related to the general fund.</p>
<p>(b) For each of the selected returns:</p> <ul style="list-style-type: none"> - trace the assessment amount for selected abstracts^b from the tax return to IRS' master file and to the Automated Quarterly Excise Tax Listing system (AQETL)^c to determine if the amounts were properly input into the master file and properly transferred to AQETL. - check the mathematical accuracy of the taxpayer's calculations for selected abstracts. 	<p>(b) For each of the 48 returns related primarily to HTF, the tax amounts for 10 percent gasohol (abstract 59), diesel fuel (abstract 60), and gasoline (abstract 62) were selected for tracing to IRS' master file and AQETL system. This resulted in our testing of approximately \$11.2 billion in net assessments related to HTF.</p>

^bThe abstract numbers identify the tax type (e.g., diesel fuel tax) and are used as the basis to determine the distribution of the excise taxes to the various trust funds. Abstract numbers are preprinted on Form 720 and are used by taxpayers to report excise tax assessments.

^cAQETL contains excise tax data extracted from the master file. This system is used by IRS to monitor excise tax assessments reported on Forms 720 and to generate gross certified tax amounts for each tax type.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
	<p>The assessment amount for the three selected abstracts on the tax returns agreed with the amount in IRS' master file and the AQETL system for 43 of the 48 cases. Six errors (one case had two errors) resulted in incorrect assessment amounts input to IRS' master file and AQETL. In five of the six errors, IRS input amounts to the wrong tax abstract resulting in overstatements of \$137,100 to abstract 59, \$574,000 to abstract 60, and \$114,900 to abstract 62. Additionally, these errors caused an understatement of \$826,000 to AATF abstract 26 (ticket tax). In the sixth case, the taxpayer made an error in completing the tax return, which IRS did not identify or correct. This affected two HTF abstracts resulting in an understatement to abstract 60 by \$2,258 and an overstatement to abstract 59 by the same amount.</p> <p>Overall, for these 48 HTF cases tested, less than 1 percent of total net assessments of about \$11.2 billion were in error.</p>

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
(2) Receipt certifications	
(a) Inspect the certification letters for authorizing signature.	(a) The certification letters ^d for the certifications related to the quarters ended June 30, 1997, and September 30, 1997, had authorizing signatures.
(b) Determine if evidence exists that the certification letter and accompanying HTF distribution schedule ^e were checked by the supervisor or another analyst.	(b) There was no evidence that data on the HTF certification letter, distribution schedule, or supporting documents for the certifications related to the quarters ended June 30, 1997, and September 30, 1997, were checked by either the supervisor or another analyst.
(c) Recalculate the totals on the certification letters and HTF distribution schedule to determine if they are mathematically correct.	(c) The totals on the certification letters and the HTF distribution schedules for the certifications related to the quarters ended June 30, 1997, and September 30, 1997, were mathematically correct.

^dIRS issues a certification letter for each of the HTF component accounts (Highway account and Mass Transit account). A single HTF distribution rate schedule provides the rates to permit certifications of amounts to both accounts.

^eThe HTF distribution schedule, which is attached to the HTF certification letters, shows the distribution of gross certified tax amounts for each abstract to the general fund, HTF, and the Leaking Underground Storage Tank (LUST) Trust Fund. The IRS analyst uses this electronic schedule, which contains formulas provided by the Office of Tax Analysis (OTA), to distribute the gross tax amounts.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
(d) Trace the gross certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), truck and bus chassis tax (abstract 33), and tax on 10 percent gasohol (abstract 59) from the HTF distribution schedule to the AQETL system. (The gross tax assessment amounts for these four abstracts make up over 90 percent of total excise tax assessments related to HTF.)	(d) The gross certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), truck and bus chassis tax (abstract 33), and tax on 10 percent gasohol (abstract 59) per the HTF distribution schedules for the certifications related to the quarters ended June 30, 1997, and September 30, 1997, were the same as the amounts for these abstracts on the AQETL system.
(e) Compare totals from the supporting reports of master file data to the AQETL certification results to determine if they agree.	(e) Supporting reports of master file data agreed with the AQETL certification results.
(f) For one abstract, total the individual assessments per this abstract from the master file and compare the amount to the AQETL computed total to determine if AQETL included all the assessments when computing the total gross certified amount.	(f) For the tire tax (abstract 66), the AQETL system included all of the assessments when computing the total gross certified amount.
(g) Heavy vehicle use taxes, which go to HTF, are reported on the Form 2290 and are not included in AQETL. Trace this amount from the HTF distribution schedule to the master file.	(g) The heavy vehicle use tax per the HTF distribution schedule for the certifications related to the quarters ended June 30, 1997, and September 30, 1997, agreed with the master file.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
<p>(h) Review the HTF distribution rate schedule. Determine (1) if specific errors identified in the schedule in fiscal year 1997^f have been corrected and (2) whether the distribution rates for diesel fuel tax (abstract 60), gasoline tax (abstract 62), truck and bus chassis tax (abstract 33), and tax on 10 percent gasohol (abstract 59) agree with the applicable laws.</p>	<p>(h) The HTF distribution schedule used for the June 30, 1997, certification contained two of the same types of errors we identified in fiscal year 1997:</p> <ul style="list-style-type: none"> - The distribution rates for special motor fuel alcohol at average rate (abstract 79) were still omitted. As a result, the amount certified by IRS to HTF for the quarter ended June 30, 1997, was understated by \$14,000. IRS made an adjustment on its September 30, 1997, HTF certification to correct this error and errors associated with this omission that were identified from fiscal year 1997. - The distribution schedule continued to misapply the distribution for diesel fuel inventory (abstract 88) between the Highway account and the Mass Transit account. As a result, the Highway account was understated and the Mass Transit account was overstated by approximately \$20,000 on its June 30, 1997, HTF certification.^g IRS did not correct this error in fiscal year 1998.

^fSee Agreed-Upon Procedures: Excise Taxes (GAO/AIMD-98-78R, February 26, 1998).

^gThis error has no net impact on HTF since both the Highway account and Mass Transit account are components of HTF.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
	<p>The HTF distribution schedule used for the September 30, 1997, certification did not contain any of the same types of errors identified in fiscal year 1997.</p> <p>We saw no evidence that the distribution rates for diesel fuel tax (abstract 60), gasoline tax (abstract 62), truck and bus chassis tax (abstract 33), and tax on 10 percent gasohol (abstract 59) on both the June 30, 1997, and September 30, 1997, HTF distribution rate schedules did not agree with the applicable laws.</p>

Agreed-upon procedures	Description of findings and results
(3) FMS adjustments	
<p>(a) Compare the Financial Management Service (FMS) adjustments made to HTF for fiscal year 1998 with original OTA estimates and IRS certified amounts to see if they agree with the supporting schedules.^h 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 differences between the OTA estimates and the final IRS certified amounts for the Highway account for the quarters ended June 30, 1997–(\$65,345,999)ⁱ –and September 30, 1997–(\$532,829,081)–and for the Mass Transit account for the quarters ended June 30, 1997–(\$42,510,459)–and September 30, 1997–(\$146,414,601)–agree with the difference computed by FMS.</p>

^hThese schedules, called the "Subsidiary Quarterly Account of Estimates and Actual Related Excise Taxes Appropriated to the Highway Account," are compiled by an accountant at FMS and compute the difference between IRS certified amounts and the OTA estimate for excise taxes, individually and in total, that relate to the Highway account. Similar schedules are prepared for the Mass Transit account. The schedules, along with OTA transfer forms and IRS certifications, support the FMS adjustment.

ⁱA positive amount indicates that the FMS adjustment increased the excise taxes distributed to the trust fund. A negative amount indicates a decrease in the excise taxes distributed to the trust funds.

Agreed-upon procedures	Description of findings and results
<p>(B) PROCEDURES PERFORMED FOR FISCAL YEAR 1998 EXCISE TAX DISTRIBUTIONS RELATED TO QUARTERS ENDED DECEMBER 31, 1997, AND MARCH 31, 1998</p>	
<p>(1) Sampling</p>	
<p>(a) Obtain excise tax assessments and collections data from the IRS' master file for the first 6 months of fiscal year 1998. Determine if excise tax collections per the 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^j to determine if they materially^k agree.</p>	<p>(a) Excise tax collections for the first 6 months of fiscal year 1998 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 an attribute sample of 78 excise tax assessments. Compare assessment information for each sample item from the master file to the assessments information in the Collection Certification System to determine if assessments from the master file are contained in the Collection Certification System.</p>	<p>(b) For each sample item, assessments from the master file are contained in the Collection Certification System.</p>

^jIRS' 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.

^kFor purposes of this reconciliation, materiality is defined as \$200 million. This represents 1 percent of total Form 720-related excise tax collections, related to the quarters ended December 31, 1997, and March 31, 1998.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
(c) To determine if the Collection Certification System properly summarized the prorated collections, total the prorated collections for selected abstracts from the audit files and compare these amounts to amounts indicated on the "Report of Excise Tax Collection." ¹	(c) The Collection Certification System properly summarized the prorated collections for all 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 "Report of Excise Tax Collection."
(d) Separate the total population of prorated collections from the audit files into the following distinct sampling populations 1) HTF, 2) AATF, and 3) remaining other excise taxes. Use Dollar Unit Sampling (DUS) to extract a sample of prorated excise tax collections from the HTF population.	(d) Use of DUS with a confidence level of 80 percent, a test materiality of \$230 million, and an expected aggregate error amount of \$69 million resulted in a sample of 125 ^m prorated collections for the first 6 months of fiscal year 1998.

¹The "Report of Excise Tax Collection" is produced by the Collection Certification System. The IRS analyst uses information from this report as the basis for calculating the gross certified amount for each abstract.

^mThe actual sample size using DUS was 182 items. However, because DUS selects dollars versus specific transaction items as the sampling unit, 57 items were selected twice. Consequently, 125 unique sample transactions were selected for testing.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
(e) Extract samples of prorated excise tax collections from the two non-HTF populations.	<p>(e) Use of DUS with a confidence level of 80 percent, a test materiality of \$90 million, and an expected aggregate error amount of \$27 million resulted in a sample of 57ⁿ prorated collections for the first 6 months of fiscal year 1998 for AATF.</p> <p>Forty five random items from the population of prorated tax collections related to all excise trust funds other than HTF and AATF were selected for testing.^o</p>

ⁿThe actual sample size using DUS was 108 items. However, because DUS selects dollars versus specific transaction items as the sampling unit, 51 items were selected twice. Consequently, 57 unique sample transactions were selected for testing.

^oFor this sample, if no errors are found in testing the 45 items, we would be 90 percent confident that the error rate in the population would not exceed 5 percent.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
(2) Detailed tests of transactions	
<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>(a) The assessment amounts on the tax returns agreed with the amounts recorded in IRS' master file for 121 of the 125 sampled abstracts. For one sample item, IRS entered amounts to the wrong abstract in the master file. The resulting errors caused an understatement of abstract 62 (gasoline tax) of about \$1,488,000 and an overstatement of abstract 74 (gasoline removed or entered into gasohol production) of about \$1,478,000. However, since both are HTF abstracts they offset except for \$10,000. For two sample items, IRS could not provide supporting documentation for two refund/credit adjustments in the amount of \$89,327 and \$87,312. This may have resulted in understatements to HTF. For the remaining sample item, IRS entered \$350 to the wrong abstract in the master file, which overstated HTF abstract 71 (dyed diesel fuel used in trains) and understated abstract 30 (foreign insurance tax).</p>
<ul style="list-style-type: none"> - test the mathematical accuracy of the taxpayer's calculations on the tax return for the related abstract. 	<ul style="list-style-type: none"> - The taxpayer's calculations on the tax returns for the related abstracts were mathematically correct.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
<ul style="list-style-type: none"> - recompute the prorated collection amount per the master file and compare this amount to the sample items pulled from the Collection Certification System audit file. 	<ul style="list-style-type: none"> - The recomputed prorated collection per the master file agreed with the amounts for all items sampled from the Collection Certification System audit file.
(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.	(b) The two samples of prorated collections from the non-HTF populations did not contain any HTF excise tax collections.
(c) Project the results of conducting steps (a) and (b) to the population of HTF collections.	(c) The projected net upper error limit for the four HTF sample items containing errors was \$133 million with a net most likely error of \$2 million understatement at the 80 percent confidence level for the first 6 months of fiscal year 1998.
(3) Receipt certifications	
(a) Inspect the certification letters for authorizing signatures.	(a) The certification letters for the certifications related to the quarters ended December 31, 1997, and March 31, 1998, had authorizing signatures.
(b) Determine if evidence exists that the certification letters and accompanying HTF distribution schedule were checked by the supervisor or another analyst.	(b) There was evidence that data on the HTF certification letters, distribution schedules, and documents supporting the certification results for the certifications related to the quarters ended December 31, 1997, and March 31, 1998, were checked by another analyst.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
(c) Recalculate the totals on the certification letters and accompanying HTF distribution schedule to determine if they are mathematically correct.	(c) The totals on the certification letters and the HTF distribution schedule for the certifications related to the quarters ended December 31, 1997, and March 31, 1998, were mathematically correct.
(d) Trace the gross certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), truck and bus chassis tax (abstract 33), and tax on 10 percent gasohol (abstract 59) from the HTF distribution schedule back to the "Report of Excise Tax Collection."	<p>(d) The gross certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), truck and bus chassis tax (abstract 33), and tax on 10 percent gasohol (abstract 59) per the HTF distribution schedule for the quarter ended December 31, 1997, did not agree with the "Report of Excise Tax Collection." This occurred because IRS incorrectly reversed some prorated collections related to previous quarters from its December 31, 1997, certification.</p> <p>As a result, IRS understated gross prorated collections related to HTF by approximately \$92 million on its certification for the quarter ended December 31, 1997. IRS subsequently made adjustments on its HTF certification for the quarter ended June 30, 1998, which was completed in December 1998, to correct the error.</p>

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
	<p>IRS also included \$6,339 of prorated collections related to the quarter ended March 31, 1998 in the certified amount for December 31, 1997.</p> <p>Additionally, IRS did not reverse the total amount of "estimates"^P included in the previous quarter's certification. Since the "estimates" are not supported by underlying tax returns or collections, the amounts IRS certified to HTF in fiscal year 1998 were overstated by approximately \$13.6 million. IRS did not make any adjustments to later fiscal year 1998 HTF certifications to correct these errors.</p> <p>The gross certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), truck and bus chassis tax (abstract 33), and tax on 10 percent gasohol (abstract 59) on the HTF distribution schedule for the quarter ended March 31, 1998, traced back to the "Report of Excise Tax Collection."</p>

^PUnder IRS' previous certification process, which was used for the June 30, 1997, and September 30, 1997, certification, the AQETL system added estimated tax amounts to the gross certified tax if a taxpayer's return was not posted to the master file when the certification was performed. IRS believed the accuracy of the specific quarter's certifications would be improved by including these estimates. The AQETL system would subsequently reverse the estimated amounts from the following quarter's certification, which would include the actual amounts per the return. When IRS began its new certification process that started with the December 31, 1997, certification, it reversed actual prorated collections related to previous quarters rather than the amount that had been originally estimated. These amounts differed by approximately \$13.6 million.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
<p>(e) Heavy vehicle use taxes, which go to HTF, are reported on the 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>(e) Heavy vehicle use tax per the HTF distribution schedule for the certifications related to the quarters ended December 31, 1997, and March 31, 1998, agreed with the master file.</p>
<p>(f) Review the HTF distribution rate schedule. Determine 1) if specific errors identified on the schedule in fiscal year 1997 have been corrected and 2) whether the distribution rates for diesel fuel tax (abstract 60), gasoline tax (abstract 62), truck and bus chassis tax (abstract 33), and tax on 10 percent gasohol (abstract 59) agree with the applicable laws.</p>	<p>(f) The HTF distribution rate schedules for the certifications related to the quarters ended December 31, 1997, and March 31, 1998, did not contain any of the same types of errors identified in fiscal year 1997.</p> <p>We saw no evidence that the distribution rates for diesel fuel tax (abstract 60), gasoline tax (abstract 62), truck and bus chassis tax (abstract 33), and tax on 10 percent gasohol (abstract 59) on both the December 31, 1997, and March 31, 1998, HTF distribution rate schedules did not agree with the applicable laws.</p>
<p>(4) Refunds/credit reclassification^a</p>	
<p>(a) Inspect the certification letters for authorizing signature.</p>	<p>(a) The certification letters for the certifications related to the quarters ended December 31, 1997, and March 31, 1998, had authorizing signatures.</p>

^aIRS 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 reported on the Form 720 excise tax returns, are netted against the excise tax receipt certification to trust funds.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
(b) Determine if evidence exists that the certification letter and accompanying schedule ^f were checked by the supervisor or another analyst.	(b) There was no evidence that data on the certification letter and accompanying schedule for the certifications related to the quarters ended December 31, 1997, and March 31, 1998, were checked by either the supervisor or another analyst.
(c) Recalculate the totals on the certification letters and accompanying schedules to determine if they are mathematically correct.	(c) The totals on the certification letters and accompanying schedules for the certifications related to the quarters ended December 31, 1997, and March 31, 1998, were mathematically correct.
(d) For selected excise taxes, ^g 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 ^h records.)	(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.

^fIRS 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).

^gThe information used by IRS to capture excise tax refunds and credits from corporate and personal returns comes from service center systems and IRACS. These systems do not capture excise tax data at the abstract level. For this reason, reference is made to excise taxes rather than abstracts.

^hThe IRS has 10 service centers that process tax returns and tax receipts.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
(5) FMS adjustments	
(a) Compare the FMS adjustments made to HTF for fiscal year 1998 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 differences between the OTA estimates and the final IRS certified amounts for the Highway account for the quarters ended December 31, 1997—(\$320,351,137)—and March 31, 1998—(\$605,427,882)—and for the Mass Transit account for the quarters ended December 31, 1997—(\$58,175,112)—and March 31, 1998—(\$105,867,112)—agree with the difference computed by FMS.
(C) PROCEDURES PERFORMED FOR FISCAL YEAR 1998 EXCISE TAX DISTRIBUTIONS RELATED TO THE QUARTER ENDED JUNE 30, 1998	
(1) Receipt certifications	
(a) Inspect the certification letter for authorizing signature.	(a) The certification letter for the certification related to the quarter ended June 30, 1998, had an authorizing signature.
(b) Determine if evidence exists that the certification letter and accompanying HTF distribution schedule were checked by the supervisor or another analyst.	(b) There was evidence that data on the certification letter, HTF distribution schedule, and documents supporting the certification results for the certification related to the quarter ended June 30, 1998, were checked by another analyst.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
(c) Recalculate the totals on the certification letters and accompanying HTF distribution schedule to determine if they are mathematically correct.	(c) The totals on the certification letter and the HTF distribution schedule for the certification related to the quarter ended June 30, 1998, were mathematically correct.
(d) Trace the gross certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), truck and bus chassis tax (abstract 33), and tax on 10 percent gasohol (abstract 59) from the HTF distribution schedule to the "Report of Excise Tax Collections."	(d) The gross certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), truck and bus chassis tax (abstract 33), and tax on 10 percent gasohol (abstract 59) per the HTF distribution schedule agreed with the related "Report of Excise Tax Collections." The total gross prorated collections certified to HTF for the quarter ended June 30, 1998, included approximately \$590 million related to the quarter ended March 31, 1998. This resulted in the amount certified to HTF being \$590 million higher for the June quarter and \$590 million lower for the March quarter.
(e) Heavy vehicle use taxes, which go to HTF, are reported on the Form 2290 and are not included in the Collection Certification System. Trace this amount from the HTF distribution schedule to the master file.	(e) Heavy vehicle use tax per the HTF distribution schedule for the certification related to the quarter ended June 30, 1998, agreed with the master file.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
<p>(f) Review the HTF distribution rate schedule. Determine 1) if specific errors identified on the schedule in fiscal year 1997 have been corrected and 2) whether the distribution rates for diesel fuel tax (abstract 60), gasoline tax (abstract 62), truck and bus chassis tax (abstract 33), and tax on 10 percent gasohol (abstract 59) agree with the applicable laws.</p>	<p>(f) The HTF distribution rate schedules for the certification related to the quarter ended June 30, 1998, did not contain any of the same types of errors identified in fiscal year 1997.</p> <p>However, IRS made an error when attempting to correct amounts previously misapplied to the Highway account related to diesel fuel inventory (abstract 88). As a result, it understated the certified amount to the Highway account and overstated the certified amount to the Mass Transit account by approximately \$20,000.^u IRS did not correct this error in fiscal year 1998.</p> <p>We saw no evidence that the distribution rates for diesel fuel tax (abstract 60), gasoline tax (abstract 62), truck and bus chassis tax (abstract 33), and tax on 10 percent gasohol (abstract 59) on the HTF distribution rate schedule for the certification related to the quarter ended June 30, 1998, did not agree with the applicable laws.</p>
<p>(2) Refunds/credit reclassification</p>	
<p>(a) Inspect the certification letter for authorizing signature.</p>	<p>(a) The certification letter for the certification related to the quarter ended June 30, 1998, had an authorizing signature.</p>

^uThis error has no net impact on HTF since both the Highway account and Mass Transit account are components of HTF.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
(b) Determine if evidence exists that the certification letter and accompanying schedule were checked by the supervisor or another analyst.	(b) There was no evidence that data on the certification letter and accompanying schedules for the certification related to the quarter ended June 30, 1998, were checked by either the supervisor or another analyst.
(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 for the certification related to the quarter ended June 30, 1998, 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 1998 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 differences between the OTA estimates and the final IRS certified amounts for the Highway account for the quarter ended June 30, 1998—\$799,609,926—and for the Mass Transit account—\$117,776,636—agree with the difference computed by FMS.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
<p>(D) PROCEDURES PERFORMED FOR FISCAL YEAR 1998 EXCISE TAX DISTRIBUTIONS RELATED TO THE QUARTER ENDED SEPTEMBER 30, 1998</p>	
<p>(1) OTA estimation process</p>	
<p>(a) Determine if OTA has a process to determine whether new legislation affecting excise tax receipts is identified and included in the receipt estimates.</p>	<p>(a) OTA has a process for identifying and including new laws and regulations affecting excise tax receipts into its receipt estimates. This process includes consultations with Treasury's Tax Legislative Counsel, IRS' Chief Counsel, Office of Management and Budget, and the Joint Committee on Taxation. These communications are not routinely documented.</p>
	<p>An OTA 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 and the Federal Highway Administration (FHA), Federal Transit Administration (FTA), and Department of Transportation (DOT). OTA does not obtain documentation indicating review and concurrence with the information in this table by relevant Treasury offices, FHA, FTA, or DOT.</p>
	<p>OTA does not routinely compile a comprehensive listing of laws and regulations that affect the receipt estimates.</p>

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
<p>(b) Determine if OTA has a process that considers the views of FHA, FTA, and DOT prior to its finalizing the receipt estimates.</p>	<p>(b) OTA has a process that considers the views of the FHA, FTA, and DOT prior to its finalizing of the receipt estimates. During the development of the receipts estimates, OTA staff economists communicate with analysts at FHA, 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 FHA, FTA, and DOT for their review. The documentation maintained does not indicate the nature of review comments and whether FHA, FTA, and DOT concurred with the final estimates.</p>
<p>(c) Determine if OTA has a review process to ensure that new information received between the budget preparation cycles is reflected in the receipt estimates.</p>	<p>(c) OTA has a review process to ensure that new information received between the budget preparation cycles is reflected in the receipt estimates. At least two reviews are 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. The Director of RED reviews the changes to the earlier forecasts, provides input to each staff economist, and approves the changes to the forecasts. Documentation of review comments is not maintained and Director approval of the final changes is not documented by signature.</p>

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
	<p>The Director of RED reviews the monthly receipt forecasts prepared by OTA staff economists, which are based on the 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.</p>
<p>(d) Determine if OTA has a process to consider the impact of variances between actual and previously forecasted excise tax receipts and incorporate these into its receipt estimates.</p>	<p>(d) OTA has a process to consider the impact of variances between actual and previously forecasted excise tax receipts and incorporate these into its receipts estimation process. OTA compares 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.^v In addition, 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>

^vOTA uses economic models to develop estimates for the amounts of excise tax receipts to be transferred to HTF.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
(2) Refunds/credit reclassification	
(a) Inspect the certification letter for authorizing signature.	(a) The certification letter for the certification related to the quarter ended September 30, 1998, 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 no evidence that data on the certification letter and accompanying schedule for the certification related to the quarter ended September 30, 1998, were checked by either the supervisor or another analyst.
(c) Recalculate the totals on the certification letters and accompanying schedule to determine if they are mathematically correct.	(c) The totals on the certification letter and accompanying schedule for the certification related to the quarter ended September 30, 1998, were mathematically correct.
(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.	(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.
(E) OTHER PROCEDURES RELATED TO TOTAL FISCAL YEAR 1998 EXCISE TAX DISTRIBUTIONS	
(1) Compare total fiscal year 1998 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 materially agree.	(1) Fiscal year 1998 excise taxes distributed to HTF materially agreed with the draft of the BPD financial statements for HTF, and agreed with the draft of the HTF financial statements except for the \$917,386,562 FMS adjustment for the quarter ended June 30, 1998—see procedure (C)(3)(a).

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
(F) OTHER PROCEDURES	
(1) Performed as part of fiscal year 1998 IRS financial statement audit	
(a) Use DUS to extract statistical samples of 1) total revenue receipts and 2) refunds from IRS master files for the first 9 months of fiscal year 1998. 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 413 revenue collection and 109 refund sample transactions did not reveal any instances of misclassifications related to excise taxes.
(b) Review selected service centers' monthly Treasury 224 reconciliations by tax class ^w to determine if IRS-reported revenue receipts and refunds, including excise taxes, are properly classified and reconciled to Treasury FMS records.	(b) - Tax revenue collections reported by selected IRS service centers via the monthly Treasury 224 reconciliation process were properly classified and materially ^x 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.

^wIRS assigns a tax class number to specific types of taxes. Excise taxes are Tax Class 4.

^xFor the purposes of this section, we defined materiality as \$17 billion.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
<p>(c) Perform a proof of cash for fiscal year 1998, to determine whether revenue receipt balances by tax class, including excise tax, and refund balances per IRS' general ledger materially agree with IRS master files and Treasury records.</p>	<p>(c) - Fiscal year-end tax collection 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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