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United States General Accounting Office  
Washington, DC 20548

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February 15, 2002

The Honorable Kenneth M. Mead  
Inspector General  
Department of Transportation

Subject: Applying Agreed-Upon Procedures: Airport and Airway Trust Fund  
Excise Taxes

Dear Mr. Mead:

We have performed the procedures contained in the enclosure to this letter, 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) for the fiscal year ended September 30, 2001, is supported by the underlying records. As agreed with your office, we evaluated fiscal year 2001 activity affecting distributions to AATF.

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

The adequacy of the procedures to meet your objectives is your responsibility, and we make no representation in that respect. The procedures we agreed to perform include (1) detailed tests of transactions that represent the underlying basis of amounts distributed to AATF, (2) review of the Internal Revenue Service's (IRS) quarterly AATF certifications, (3) review of the Department of the Treasury Financial Management Service (FMS) adjustments to AATF for fiscal year 2001, (4) review of certain procedures in the Office of Tax Analysis's (OTA) process for estimating amounts to be distributed to AATF for the fourth quarter of fiscal year 2001, (5) comparison of net excise tax distributions to AATF during fiscal year 2001 and amounts reported in the financial statements prepared by the Bureau of the Public Debt (BPD) for AATF and the Federal Aviation Administration's consolidated financial statements, and (6) review of key reconciliations of IRS records to Treasury records. The enclosure contains the agreed-upon procedures and our findings from performing each of the procedures.


We were not engaged to perform, and did not perform, an audit, the objective of which would have been to express an opinion on the amount of net excise taxes

distributed to AATF. 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.<sup>1</sup> We completed the agreed-upon procedures on February 1, 2002.

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

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 and have not taken responsibility for the sufficiency of the procedures for their purposes. However, this letter is a matter of public record and its distribution is not limited. Consequently, copies are available to others upon request. This letter will also be available on GAO's home page at <http://www.gao.gov>. If you have any questions, please call me at (202) 512-3406.

Sincerely yours,



Steven J. Sebastian  
Acting Director  
Financial Management and Assurance

Enclosure

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<sup>1</sup>In our reports on the results of our audit of IRS's fiscal year 2000 financial statements, we noted a reportable condition related to IRS's ability to allocate excise tax collections to the appropriate trust funds at the time deposits are made. This condition affects the adequacy of the distributions of federal excise tax revenue to recipient trust funds. (See U.S. General Accounting Office, *Financial Audit: IRS' Fiscal Year 2000 Financial Statements*, GAO-01-394 [Washington, D.C., Mar. 1, 2001] and U.S. General Accounting Office, *Internal Revenue Service: Progress Made, but Further Actions Needed to Improve Financial Management*, GAO-02-35 [Washington, D.C., Oct. 19, 2001]). This condition continued to exist during fiscal year 2001. Our report on the results of our audit of IRS's fiscal year 2001 financial statements will be issued shortly.

**Airport and Airway Trust Fund Excise Tax Procedures and Results**

**I. Detailed tests of transactions that represent the underlying basis of amounts distributed to AATF in fiscal year 2001**

A. Nonrepresentative selection of tax returns from the quarter ended September 30, 2000<sup>2</sup>

1. For the quarter ending September 30, 2000, select the 30 largest excise tax returns on the basis of total tax liability<sup>3</sup> amount from IRS's master file.<sup>4</sup>

Description of findings and results

We selected the 30 largest excise tax returns from the quarter ended September 30, 2000, for testing. The selection was based on the total tax liability amount, for each return, from IRS's master file.

The total tax liability amount related to these 30 returns was approximately \$8.5 billion, or 63 percent of the total excise tax liability amount (\$13.4 billion<sup>5</sup>) for the quarter ended September 30, 2000.

Of these 30 returns, 7 contained primarily AATF related taxes, 21 contained primarily Highway Trust Fund (HTF) taxes, and 2 contained telephone taxes related to the general fund.

2. For each of seven returns related primarily to AATF, we performed the following procedures which resulted in our testing approximately \$1.6 billion in prorated collections<sup>6</sup> affecting fiscal year 2001 distributions to AATF:

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<sup>2</sup>Since certifications are not completed until 6 months after the end of the quarter, the certification and corresponding FMS adjustment for the quarter ended September 30, 2000, was completed in March 2001 and thus affected fiscal year 2001 distributions to AATF.

<sup>3</sup>Although the certifications are based on amounts collected, we used the tax liability amounts to identify the taxpayers paying the largest amounts of excise taxes. Based on our experience, these taxpayers generally pay their excise taxes in full each quarter.

<sup>4</sup>The master file is a detailed database containing taxpayer information.

<sup>5</sup>IRS told us that this was the total excise tax liability amount, from its master file, for the quarter ended September 30, 2000.

<sup>6</sup>IRS certifies to trust funds the amount of actual excise taxes collected. Because there are occasions in which taxpayers have not paid their full tax liability at the time of IRS's certification, IRS must allocate the amount of payments actually received among the different excise taxes reported on the taxpayer's return. IRS's Collection Certification System prorates a taxpayer's

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- (a) Trace the liability amount for abstracts<sup>7</sup> 26, 27, and 28 from the tax return to IRS's master file.

### Description of findings and results

The liability amount for abstracts 26, 27, and 28 on the tax return agreed with IRS's master file for all seven of the returns.

- (b) Check the mathematical accuracy of the taxpayer's calculations on the tax return for the selected abstracts.

### Description of findings and results

The taxpayer's calculations on all seven of the returns were mathematically correct.

- (c) Recompute the prorated collection amount for the selected abstracts based on information from the master file and compare this amount to the amount from the Collection Certification System audit file.<sup>8</sup>

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payments proportionately among all taxes reported on the tax return. For example, if a taxpayer reports that they owe \$4 million for gasoline tax, \$2 million for diesel fuel tax, and \$1 million for gasohol tax on their Form 720 Quarterly Federal Excise Tax Return, but has only paid IRS \$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 gasohol tax.

<sup>7</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. If the return was related to AATF, we selected (1) tax on transportation of persons by air-ticket tax (abstract 26), (2) tax on use of international air facilities (abstract 27), and (3) tax on transportation of property by air (abstract 28). If the return was related to HTF, we selected (1) tax on 10 percent gasohol (abstract 59), (2) diesel fuel tax (abstract 60), and (3) gasoline tax (abstract 62). If the return was related to neither of these trust funds, we selected all abstracts on the return in which the taxpayer has reported a liability. The tax amounts related to the selected abstracts for each trust fund are the largest tax amounts reported on the taxpayer's excise tax return and make up over 90 percent of the total amount certified to AATF and over 86 percent of the total amount certified to HTF.

<sup>8</sup>The 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.

Description of findings and results

The recomputed prorated collection amounts for the three selected abstracts agreed with amounts in IRS's Collection Certification System audit file for all seven of the returns.

B. Dollar unit sample (DUS) of transactions from the quarters ended December 31, 2000, and March 31, 2001

1. Sampling

- (a) Obtain excise tax assessments and collection data from IRS's master file for the first 6 months of fiscal year 2001. Determine if excise tax collections per master file agree with IRS's general ledger. Reconcile total excise tax collections from the master file to total excise tax collections from the Collection Certification System audit files to determine if they materially<sup>9</sup> agree.

Description of findings and results

Excise tax collections for the first 6 months of fiscal year 2001 per the master file materially agreed with IRS's general ledger and with total excise tax collections from the Collection Certification System.

- (b) Select a random attribute sample of 78 excise tax assessments from IRS's master file.<sup>10</sup> Compare assessment and receipt information for each sample item from the master file to the assessment and receipt information in the Collection Certification System to determine if assessments and receipts from the master file are contained in the Collection Certification System.

Description of findings and results

For each sample item, assessments and receipts from the master file were contained in the Collection Certification System.

- (c) To determine if the Collection Certification System properly summarized the prorated collections, total the prorated collections for

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<sup>9</sup>For the purpose of this reconciliation, material is defined as \$205 million. This represents one percent of the total Form 720-related excise tax collections, related to the quarters ended December 31, 2000, and March 31, 2001.

<sup>10</sup>For this sample, if one error or none was found in testing the 78 items, we would be 90 percent confident that the error rate in the population would not exceed 5 percent.

selected abstracts<sup>11</sup> from the audit files and compare these amounts to amounts in the *Reports of Excise Tax Collection*.<sup>12</sup>

Description of findings and results

The Collection Certification System properly summarized the prorated collections for all of the selected abstracts related to AATF and HTF. Prorated collections for the above-mentioned trust funds from the audit files agreed with the corresponding amounts in the *Reports of Excise Tax Collection*.

- (d) Separate the total population of prorated collections from the audit files into the following distinct populations: (1) AATF, (2) HTF, and (3) other excise tax abstracts. Use DUS to select a sample of prorated excise tax collections from the AATF population.

Description of findings and results

Use of DUS with a confidence level of 80 percent, a test materiality of \$99 million, and an expected aggregate error amount of \$29.7 million resulted in a sample of 69<sup>13</sup> prorated collections for the first 6 months of fiscal year 2001.

- (e) Select samples of prorated excise tax collections from the two non-AATF populations.

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<sup>11</sup>The selected abstracts include the following: (1) tax on transportation of persons by air (abstract 26), (2) tax on use of international air facilities (abstract 27), (3) tax on transportation of property by air (abstract 28), (4) tax on aviation fuel for commercial use (abstract 77), (5) tax on 10 percent gasohol (abstract 59), (6) diesel fuel tax (abstract 60), and (7) gasoline tax (abstract 62). The tax amounts for the four AATF-related abstracts make up over 96 percent of the total amount certified to AATF and the three HTF-related abstracts make up over 86 percent of the total amounts certified to HTF.

<sup>12</sup>The *Report of Excise Tax Collection* contains classified prorated collections that serve as the basis for IRS's quarterly trust fund certifications.

<sup>13</sup>The planned sample size using DUS was 135 items. DUS selects dollars versus specific transaction items by dividing the population by dollar intervals. The dollar interval for AATF was \$36 million. Accordingly, any item with a dollar value matching or exceeding the sampling interval would be selected, whereas items less than the sampling interval might not be selected. For example, an item of \$72 million would cover 2 dollar intervals but represent 1 sample item. Because the large dollar items cover more than 1 interval, the 69 unique sampled transactions selected represent 135 dollar intervals.

Description of findings and results

Use of DUS with a confidence level of 80 percent, a test materiality of \$350 million, and an expected aggregate error amount of \$105 million resulted in a sample of 100<sup>14</sup> prorated collections for the first 6 months of fiscal year 2001 for HTF.

A random attribute sample of 45 items from the population of prorated tax collections related to all excise taxes other than AATF and HTF was selected for testing.<sup>15</sup>

2. Detailed tests of transactions

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

Check to see that the assessment amount on the tax return, for the sampled abstract, agrees with the amount recorded in IRS's master file.

Description of findings and results

The assessment amounts on the tax returns agreed with the amounts recorded in IRS's master file for all of the sampled abstracts.

Check the mathematical accuracy of the taxpayers' calculations on the tax returns for the related abstract.

Description of findings and results

The taxpayers' calculations on the tax returns for the related abstracts were mathematically correct for all of the sampled abstracts.

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<sup>14</sup>The planned sample size using DUS was 129 items. DUS selects dollars versus specific transaction items by dividing the population by dollar intervals. The dollar interval for HTF was \$129 million. Accordingly, any item with a dollar value matching or exceeding the sampling interval would be selected, whereas items less than the sampling interval might not be selected. For example, an item of \$260 million would cover 2 dollar intervals but represent 1 sample item. Because the large dollar items cover more than 1 interval, the 100 unique sampled transactions selected represent 129 dollar intervals.

<sup>15</sup>For 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.

Recompute the prorated collection amount based on information from the master file and compare this amount to the sample items selected from the Collection Certification System audit file.<sup>16</sup>

Description of findings and results

The recomputed prorated collection based on information from the master file agreed with the amounts for 68 of the 69 items sampled from the Collection Certification System audit file. For the other case, an error in IRS's proration computer program resulted in an understatement of \$6,984,964 for abstract 26. In this case, a programming error in handling certain credit adjustments caused a double counting of collections and resulted in an incorrect allocation.

- (b) Perform detailed testing on the two samples of prorated collections from the non-AATF populations to determine if they contain any AATF excise tax collections.

Description of findings and results

The two samples of prorated collections from the non-AATF populations did not contain any AATF excise tax collections.

- (c) Evaluate the results of conducting steps (a) and (b).

Description of findings and results

For the first 6 months of fiscal year 2001, the net most likely error is (\$7.0 million) with an upper error limit of \$51.2 million at the 80 percent confidence level. Collections go through additional calculations to produce certification amounts for distribution. Consequently, the magnitude of this error cannot be quantified with respect to the impact on recorded distributions to AATF.

**II. Review of IRS's quarterly AATF certifications**

**A. Receipt certifications**

Perform the following steps on IRS's AATF receipt certifications for the quarters ended September 30, 2000; December 31, 2000; March 31, 2001; and June 30, 2001:<sup>17</sup>

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<sup>16</sup>The purpose of this test is to determine whether the Collection Certification System prorates correctly. This test is not intended to determine whether amounts provided to the system are correct.

<sup>17</sup>Since certifications are not completed until 6 months after the end of the quarter, the certification and corresponding FMS adjustment for the quarter ended September 30, 2001, will



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1. Inspect the certification letters for authorizing signatures.

### Description of findings and results

The certification letters for all 4 quarters had authorizing signatures.

2. Determine if evidence exists that the supervisor or another analyst checked the certification letters and supporting worksheets.

### Description of findings and results

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

3. Recalculate 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 4 quarters were mathematically correct.

4. Trace the certified amounts for tax on transportation of persons by air (abstract 26), tax on use of international air facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on aviation fuel for commercial use (abstract 77)<sup>18</sup> from the certification letters back to the *Reports of Excise Tax Collection*.<sup>19</sup>

### Description of findings and results

The certified amounts for tax on transportation of persons by air (abstract 26), tax on use of international air facilities (abstract 27), tax on

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not be completed in time to affect the recorded fiscal year 2001 distributions to AATF.

<sup>18</sup>The certified amounts for tax on transportation of persons by air (abstract 26), tax on use of international air facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on aviation fuel for commercial use (abstract 77) make up over 96 percent of the total amount certified to AATF.

<sup>19</sup>IRS uses data from two of these reports, covering sequential processing intervals, for each quarterly certification. Collections are classified on the report when the related Form 720 tax return has been recorded on IRS's master file during the processing interval covered by the report. The second of the two reports used may contain collections related to previous quarters not classified until the current quarter because the related return was not recorded on the master file until the current quarter.

transportation of property by air (abstract 28), and tax on aviation fuel for commercial use (abstract 77) per the certification letters agreed with the related *Report of Excise Tax Collection* for all 4 quarters.

5. Review the *Reports of Excise Tax Collection* used in the certification to determine if they contain significant<sup>20</sup> collections from prior quarters.

Description of findings and results

The *Reports of Excise Tax Collection* supporting IRS's certifications to AATF did not contain significant prior quarter collections for the quarters ended September 30, 2000; March 31, 2001; and June 30, 2001.

The *Reports of Excise Tax Collection* supporting IRS's certification to AATF for the quarter ended December 31, 2000, contained approximately \$28 million in AATF excise tax collections related to previous quarters. Of this amount, approximately \$20 million was from the quarter ended September 30, 2000.

6. Review the distribution rates used by IRS to determine whether the distribution rates for tax on transportation of persons by air (abstract 26), tax on use of international air facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on aviation fuel for commercial use (abstract 77) agree with the applicable laws.

Description of findings and results

We saw no evidence that the distribution rates used by IRS for tax on transportation of persons by air (abstract 26), tax on use of international air facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on aviation fuel for commercial use (abstract 77) did not agree with the applicable laws in effect during the 4 quarters.

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<sup>20</sup>For this test, "significant" is defined as \$20 million. This represents approximately 1 percent of the total amount certified to AATF for a quarter.

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### B. Refund/credit reclassification<sup>21</sup>

Perform the following steps on IRS's AATF refund/credit certifications for the quarters ended December 31, 2000; March 31, 2001; June 30, 2001; and September 30, 2001:

1. Inspect the certification letters for authorizing signatures.

#### Description of findings and results

The certification letters for all 4 quarters had authorizing signatures.

2. Determine if evidence exists that the certification letters and accompanying schedules<sup>22</sup> were checked by the supervisor or another analyst.

#### Description of findings and results

There was evidence that another analyst and a supervisor checked the certification letters and accompanying schedules for all 4 quarters.

3. Recalculate the totals on the certification letters and accompanying schedules to determine if they are mathematically correct.

#### Description of findings and results

The totals on the certification letters and accompanying schedules were mathematically correct for all 4 quarters.

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<sup>21</sup>IRS performs a quarterly reclassification of excise tax refunds and credits originally entered into its master file as personal or corporate refund/credit. IRS refers to these reclassifications as "refund/credit certifications." These amounts do not represent the total excise tax refund/credit activity to the trust funds. Other routine excise tax refunds and credits (e.g., overpayments), which are claimed on taxpayers' Form 720 excise tax returns, are included in IRS's excise tax receipt certification to trust funds.

<sup>22</sup>IRS attaches a separate schedule to the AATF 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 campus systems and its Interim Revenue Accounting Control System. IRS has 10 service center campuses that process tax returns and tax receipts.

4. Trace the refund and credit amount for aviation gas and aviation O/T gas,<sup>23</sup> from the schedules accompanying the certification letters to other summary refund/credit schedules. (These other refund/credit summary schedules summarize refund and credit data obtained from service center campus records.)

Description of findings and results

The refund and credit amounts for aviation gas and aviation O/T gas on the schedules accompanying the certification letters for the quarters agreed with the amounts on the summary schedules for the quarters ended December 31, 2000; June 30, 2001; and September 30, 2001.

On IRS's refund and credit certification for the quarter ended March 31, 2001, the IRS analyst entered data onto the wrong summary schedules. As a result, IRS reported \$10 million in AATF refunds as credits and \$5 million in AATF credits as refunds. There was no impact on distributions to the AATF because BPD uses the total amount of refunds and credits in calculating distributions to the trust fund.

**III. Review of FMS adjustments**

Perform the following steps on FMS adjustments to AATF excise tax distributions for the quarters ended September 30, 2000; December 31, 2000; March 31, 2001; and June 30, 2001.

- A. Compare the FMS adjustments made to AATF for fiscal year 2001 with original Office of Tax Analysis (OTA) estimates and IRS certified amounts to see if they agree with the supporting schedules.<sup>24</sup>

Description of findings and results

For the FMS adjustments made to AATF, the original OTA estimates and IRS certified amounts agreed with the supporting schedule for all 4 quarters.

- B. Recompute the difference between the OTA estimates and final IRS certified amounts to see if the amounts agree with the differences computed by FMS.

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<sup>23</sup>Aviation Gas and Aviation O/T gas are the only two excise taxes on the AATF refund/credit certification.

<sup>24</sup>An FMS accountant compiles this schedule, called the Subsidiary Quarterly Account of Estimates and Actual Related Excise Taxes Appropriated to the Airport and Airway Trust Fund. It computes the difference between IRS certified amounts and the OTA estimate for excise taxes, individually and in total, that relate to the Airport and Airway Trust Fund. The schedule, along with OTA transfer forms and IRS certifications, support the FMS adjustment.

Description of findings and results

The independently recalculated differences between the OTA estimates and the final IRS certified amounts for the AATF agreed with the differences computed by FMS for all 4 quarters.

These amounts were<sup>25</sup>

for the quarter ended September 30, 2000, (\$164,133,000);  
for the quarter ended December 31, 2000, \$86,598,000;  
for the quarter ended March 31, 2001, \$44,862,000; and  
for the quarter ended June 30, 2001, \$76,855,000.

**IV. Procedures performed on excise tax distributions to AATF for the quarter ended September 30, 2001**

- A. Determine if OTA's process for identifying and incorporating into its trust fund estimates<sup>26</sup> the effect of new legislation on excise tax receipts was in place during fiscal year 2001.

Description of findings and results

OTA's process for identifying and incorporating into its trust fund estimates the effect of new legislation on excise tax receipts was in place during fiscal year 2001. OTA does not routinely compile a comprehensive list of laws and regulations that affect the receipt estimates. However, OTA prepares a tax rate table<sup>27</sup> to capture information relating to legislation that affects tax rates, tax basis, accounts, and deposit rules in effect during the tax period.

For example, in calculating its trust fund estimates for the period from September 16 through September 30, 2001, OTA took into consideration the effect of Section 301 of the Air Transportation Safety and System Stabilization Act (Public Law 107-42). This legislation provided relief to domestic air

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<sup>25</sup> A positive amount indicates that the FMS adjustment increased excise taxes distributed to the trust fund. A negative amount, shown in parentheses, indicates that the FMS adjustment decreased excise taxes distributed to the trust fund.

<sup>26</sup> Under its new estimation process, OTA makes semimonthly estimates of excise tax collections for transfer to trust funds.

<sup>27</sup> OTA communicates this information to interested parties at Treasury, the Federal Highway Administration, the Federal Transit Administration, and the Department of Transportation. IRS uses the tax and distributions rates from this table in its subsequent certification of collections to trust funds.

carriers by suspending required excise tax deposits due after September 10, 2001, until November 15, 2001. As a result, OTA assumed air carriers would make no payments for tax on transportation of persons by air (abstract 26) or tax on use of international air facilities (abstract 27) until November 15, thereby decreasing the amount of estimated excise taxes transferred to AATF.

- B. Determine if there is evidence of review of the transfer forms and supporting schedules.

Description of findings and results

There was evidence that another OTA economist reviewed the transfer forms and supporting schedules for the semimonthly transfers affecting distributions to AATF for the quarter ended September 30, 2001.

- C. Recalculate the totals on the transfer letters to determine if they are mathematically correct.

Description of findings and results

The totals on the transfer forms affecting distributions to AATF for the quarter ended September 30, 2001, were mathematically correct.

- D. Trace the transfer amounts for tax on transportation of persons by air (abstract 26), tax on use of international air facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax aviation fuel for commercial use (abstract 77)<sup>28</sup> from the transfer letter, through the supporting schedules and back to the related source documents.<sup>29</sup>

Description of findings and results

The transfer amounts for tax on transportation of persons by air (abstract 26), tax on use of international air facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax aviation fuel for commercial use (abstract 77), from the transfer forms affecting distributions to AATF for the quarter ended September 30, 2001, agreed with the supporting schedules and source documents.<sup>30</sup>

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<sup>28</sup>The transfer amounts for tax on transportation of persons by air (abstract 26), tax on use of international air facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax aviation fuel for commercial use (abstract 77), typically made up over 97 percent of the total amount transferred to AATF during the fourth quarter of fiscal year 2001.

<sup>29</sup>The source documents include the IRS report of excise taxes used to derive the percentages applied to reported receipts, the Daily Treasury Statement, Monthly Treasury Statement, and the excise tax rate table.

<sup>30</sup>As noted in step IV.A, OTA took into consideration the effect of Section 301 of P.L. 107-42. As a

**V. Other procedures**

- A. Compare total fiscal year 2001 excise taxes distributed to AATF with drafts of (1) BPD's fiscal year 2001 financial statements for AATF and (2) Federal Aviation Administration fiscal year 2001 consolidated financial statements to determine if they agree.

Description of findings and results

Fiscal year 2001 excise taxes of \$9.1 billion distributed to the AATF agreed with amounts reported on (1) draft BPD fiscal year 2001 financial statements for AATF and (2) draft FAA fiscal year 2001 consolidated financial statements.

- B. Procedures performed as part of fiscal year 2001 IRS financial statement audit:
  1. From IRS's master files for the first 9 months of fiscal year 2001, use DUS to select statistical samples of (1) total tax revenue receipts and (2) refunds. For each sample item, test that the collection or refund amount, tax period, and tax class<sup>31</sup> from source documentation agrees with amounts recorded in IRS's master files.

Description of findings and results

Detailed testing of 188 revenue receipts and 19 refund sample transactions showed that the collection or refund amount, tax period, and tax class from source documents agreed with amounts recorded in IRS's master files.

2. Review selected service center campuses' monthly Treasury SF-224 reconciliations to determine if IRS-reported revenue receipts were properly classified and reconciled to Treasury FMS records.

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result, OTA's estimated excise tax collections to AATF for the period September 16 through September 30, 2001, was only \$88.5 million, compared to over \$400 million in each of the other semimonthly periods affecting fourth quarter distributions to AATF.

<sup>31</sup>IRS assigns a tax class number to specific types of taxes. Excise taxes are tax class 4.

For refunds, review selected IRS service center campuses' monthly Treasury SF-224 reconciliations to determine if IRS-reported total refunds (all tax classes) were materially<sup>32</sup> reconciled to Treasury FMS records.<sup>33</sup>

Description of findings and results

Tax revenue receipts reported by selected IRS service center campuses through the monthly Treasury SF-224 reconciliation process were properly classified and materially agreed with Treasury FMS records.

Total refunds reported by the selected IRS service center campuses through the monthly Treasury SF-224 reconciliation process materially agreed with Treasury FMS records.

3. Perform a proof of cash for fiscal year 2001 to determine whether revenue receipt balances by tax class, including excise tax, per IRS's general ledger materially agree with IRS master files and Treasury records. For refunds, perform a comparison of total refund balances between the master file, the general ledger, and Treasury records. Also, compare excise tax refunds per the master file to the general ledger.

Description of findings and results

Fiscal year-end tax receipt balances for all tax classes, including excise taxes, per IRS's general ledger materially agreed with IRS's master files and with Treasury records.

Fiscal year-end refund balances per IRS's general ledger materially agreed with the master file and with Treasury records.

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<sup>32</sup>For the purpose of this procedure and procedure V.B.3, we define material as \$22 billion. This represents 1 percent of the estimated total tax revenue receipts to be collected by IRS for fiscal year 2001.

<sup>33</sup>IRS maintains records of refund balances by tax class in its master file and reports this information monthly to Treasury on the SF-224. Treasury provides IRS with a Statement of Differences (TFS-6652), which reports differences between total refunds reported by IRS on the SF-224 and the total refunds per Treasury records.