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United States Government Accountability Office  
Washington, DC 20548

November 2, 2007

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

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

Dear Mr. Scovel:

We have performed the procedures contained in the enclosure 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 Highway Trust Fund (HTF) for the fiscal year ended September 30, 2007, is supported by the underlying records. As agreed with your office, we evaluated fiscal year 2007 activity affecting distributions to the HTF.

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 for 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 were related to (1) transactions that represent the underlying basis of amounts distributed to the HTF, (2) the Internal Revenue Service's (IRS) quarterly HTF receipt certifications, (3) the Department of the Treasury's Financial Management Service adjustments to the HTF during fiscal year 2007, (4) the Department of the Treasury's Office of Tax Analysis's (OTA) process for estimating excise tax amounts to be distributed to the HTF for the fourth quarter of fiscal year 2007, and other procedures related to (5) adjustments to the HTF for tax on kerosene used in aviation, (6) the net amount of fiscal year 2007 excise taxes distributed to the HTF, and (7) transactions that represent total IRS tax revenue receipts and refunds. 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 the expression of an opinion on the amount of net excise taxes distributed to the HTF. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you. We completed the agreed-upon procedures on October 24, 2007.

We provided a draft of this report to IRS and OTA officials for review and comment. IRS agreed with the results and findings presented in this report. OTA agreed with the results and findings presented in this report relating to its responsibilities, that is, the procedures performed in the estimation process for the quarter ended September 30, 2007.

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 purpose. However, this report is a matter of public record, and its distribution is not limited. This report is available at no charge on GAO's Web site at <http://www.gao.gov>. If you have any questions, please call me at (202) 512-3406. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Steven J. Sebastian". The signature is written in a cursive style with a large, sweeping initial "S".

Steven J. Sebastian  
Director  
Financial Management and Assurance

Enclosure

## Highway Trust Fund Excise Tax Procedures and Results

### I. Procedures on transactions that represent the underlying basis of amounts distributed to the Highway Trust Fund (HTF) in fiscal year 2007

#### A. Nonstatistical selection of tax returns from the quarters ended June 30, 2006, and September 30, 2006<sup>1</sup>

1. For each of the quarters ending June 30, 2006, and September 30, 2006, select the 30 largest excise tax returns containing excise taxes related primarily to the HTF and the Airport and Airway Trust Fund (AATF) on the basis of total tax liability amount<sup>2</sup> from the Internal Revenue Service's (IRS) master file.<sup>3</sup>

#### Description of findings and results

We selected the 30 largest excise tax returns related primarily to HTF and AATF from each of the two quarters for testing. The selection was based on the total tax liability amount and type of taxes owed for each return from IRS's master file.

The total tax liability amount related to the 30 returns from the quarter ended June 30, 2006, was approximately \$9.9 billion or 65 percent of the total tax liability amount of \$15.3 billion for all excise tax returns for the quarter. Of these 30 returns, 21 contained primarily HTF-related taxes and 9 contained primarily AATF taxes.

The total tax liability amount related to the 30 returns from the quarter ended September 30, 2006, was approximately \$9.9 billion or 70 percent of the total tax liability amount of \$14.2 billion for all excise tax returns for the quarter. Of these 30 returns, 21 contained primarily HTF-related taxes and 9 contained primarily AATF taxes.

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<sup>1</sup>The Internal Revenue Service (IRS) certifications and corresponding adjustments by the Department of the Treasury's Financial Management Service for the quarters ended June 30, 2006, and September 30, 2006, were completed in December 2006 and January 2007, respectively, and thus affected distributions to the HTF during fiscal year 2007.

<sup>2</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. These taxpayers generally pay their excise taxes in full each quarter.

<sup>3</sup>The master file is a detailed database containing taxpayer information.

2. For each of the 42 returns related primarily to the HTF from the quarters ended June 30, 2006, and September 30, 2006, we performed the following procedures, which encompassed approximately \$14.9 billion in prorated collections<sup>4</sup> affecting fiscal year 2007 distributions to the HTF:

- (a) Trace the liability amount for abstracts<sup>5</sup> 60 and 62 from the tax return to IRS's master file for agreement.

Description of findings and results

The liability amount for abstracts 60 and 62 on the tax return agreed with the master file for all 42 returns.

- (b) Inspect the taxpayers' calculations on the tax return for the selected abstracts to determine whether they are mathematically correct.

Description of findings and results

The taxpayers' calculations on all 42 returns were mathematically correct.

- (c) Calculate 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 files<sup>6</sup> for agreement.

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<sup>4</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 taxpayer's return. 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 Form 720, Quarterly Federal Excise Tax Return, 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>5</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 Form 720, Quarterly Federal Excise Tax Return, and are used by the taxpayer to report excise tax assessments. If the return was related to the HTF, we selected (1) diesel fuel tax (abstract 60), and (2) gasoline tax (abstract 62). If the return was related to the AATF, we selected (1) tax on transportation of persons by air (abstract 26), (2) tax on the use of international air travel facilities (abstract 27), and (3) tax on transportation of property by air (abstract 28). 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 made up over 81 percent of the total amount certified to the HTF and over 97 percent of the total amount certified to the AATF for the quarters ended June 30, 2006, and September 30, 2006.

<sup>6</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. The certified amounts

Description of findings and results

The independently calculated prorated collection amounts for the selected abstracts agreed with amounts in IRS's Collection Certification System audit files for all 42 returns.

B. Attribute and Monetary unit samples (MUS) from the quarters ended December 31, 2006, and March 31, 2007

1. Sampling

- (a) Obtain excise tax collection data from the master file for the first two quarters of fiscal year 2007. Compare excise tax collection data from the master file with data from IRS's general ledger to determine if they materially agree.<sup>7</sup> Compare total excise tax collections from the master file with total excise tax collections from the Collection Certification System audit files to determine if they materially agree.

Description of findings and results

Excise tax collections for the first two quarters of fiscal year 2007 from 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 the master file.<sup>8</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 assessment and receipt information from the master file are contained in the Collection Certification System.

Description of findings and results

For all 78 sample items, assessment and receipt information from the master file were contained in the Collection Certification System.

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to the trust funds are calculated by subtracting credits from prorated collections and then multiplying the difference by the applicable trust fund distribution rates.

<sup>7</sup>For the purpose of this procedure, "material" is defined as 1 percent of the Form 720-related excise tax collections for the quarters ended December 31, 2006, and March 31, 2007. For fiscal year 2007, the materiality amount was \$226 million for the two quarters combined.

<sup>8</sup>For this sample, if one or no errors were found in testing the 78 items, we would be 90 percent confident that the error rate in the population would not exceed 5 percent.

- (c) Sum the prorated collections for selected abstracts<sup>9</sup> from the audit files and compare these amounts to amounts in the *Report of Excise Tax Collection*<sup>10</sup> to determine if the Collection Certification System properly summarized the prorated collections.

Description of findings and results

The Collection Certification System properly summarized the prorated collections for all of the selected abstracts. Prorated collections from the audit files for the selected abstracts agreed with the corresponding amounts in the *Report of Excise Tax Collection*.

- (d) Separate the total population of prorated collections from the audit files into the following distinct populations: (1) HTF, (2) AATF, and (3) other excise tax abstracts. Use MUS to select a sample of prorated excise tax collections from the HTF population using a confidence level of 80 percent, a test materiality of \$388 million, and an expected aggregate error amount of \$116 million.

Description of findings and results

Use of MUS with a confidence level of 80 percent, a test materiality of \$388 million, and an expected aggregate error amount of \$116 million resulted in a sample of 95<sup>11</sup> prorated collections for the HTF for the first two quarters of fiscal year 2007.

- (e) Select samples of prorated excise tax collections from 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 80 percent, a test materiality of \$102 million, and an expected aggregate

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<sup>9</sup>The selected abstracts are (1) diesel fuel tax (abstract 60), (2) gasoline tax (abstract 62), (3) tax on transportation of persons by air (abstract 26), (4) tax on the use of international air travel facilities (abstract 27), (5) tax on transportation of property by air (abstract 28), and (6) tax on kerosene for use in commercial aviation (abstract 77). The tax amounts for the two HTF-related abstracts made up over 88 percent of the total amount certified to the HTF and the tax amounts for the four AATF-related abstracts made up over 97 percent of the total amount certified to the AATF for the quarters ended December 31, 2006, and March 31, 2007.

<sup>10</sup>The *Report of Excise Tax Collection* contains prorated collections, classified by abstracts, which serve as the basis for IRS's quarterly trust fund certifications.

<sup>11</sup>The planned sample size using MUS was 142 items. MUS selects dollars instead of specific transaction items by dividing the population by dollar intervals. The dollar interval for HTF was \$141 million. Accordingly, any item with a dollar value matching or exceeding the interval would be selected, whereas items less than the interval might not be selected. For example, an item of \$282 million would cover 2 dollar intervals, but represent 1 sample item. Because large-dollar items cover more than 1 interval, the 95 unique sample transactions selected represented 142 dollar intervals.

error amount of \$31 million. Select a random attribute sample of 45 items from the population of prorated tax collections related to all excise taxes other than the HTF and the AATF.<sup>12</sup>

Description of findings and results

Use of MUS with a confidence level of 80 percent, a test materiality of \$102 million, and an expected aggregate error amount of \$31 million resulted in a sample of 70<sup>13</sup> prorated collections for the AATF for the first two quarters of fiscal year 2007.

A random attribute sample of 45 items was selected from the population of prorated tax collections related to all excise taxes 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 amount on the tax return for the sampled abstract with the amount recorded in IRS's master file for agreement.

Description of findings and results

The assessment amount on the tax return agreed with the amount recorded in the master file for all of the sampled items.

- Inspect the taxpayers' calculations on the tax returns for the related abstract to determine whether they are mathematically correct.

Description of findings and results

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

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<sup>12</sup>For this sample, if no errors were found in testing the 45 items, we would be 90 percent confident that the error rate in the population would not exceed 5 percent.

<sup>13</sup>The planned sample size using MUS was 144 items. As explained in footnote 11, MUS selects dollars instead of specific transaction items by dividing the population by dollar intervals. The dollar interval for the AATF was \$37 million. Because large-dollar items cover more than 1 interval, the 70 unique sampled transactions represent 144 dollar intervals.

- Calculate 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 files for agreement.<sup>14</sup>

Description of findings and results

The independently calculated prorated collection, based on information from the master file, agreed with the amounts for 93 of the 95 sampled items selected from the Collection Certification System audit files.

On one tax return that included two sample items, IRS denied a tax credit on the tax return but gave the taxpayer the credit in the system. As a result, the prorated collection amounts for the two sample items were overstated by a total of \$26,924.

- (b) Inspect the tax returns and master file information for the two samples of prorated collections from the non-HTF populations to determine if they contain any HTF excise tax collections.

Description of findings and results

The two samples of prorated collections from the non-HTF populations did not contain any HTF 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 2007, the net most likely error is \$26,924 with an upper error limit of \$225 million at the 80-percent confidence level.

**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, 2006, December 31, 2006, March 31, 2007, and June 30, 2007:

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<sup>14</sup>The purpose of this procedure is to determine whether the Collection Certification System prorates correctly. This procedure is not intended to determine whether amounts provided to the system are correct.



## Enclosure

- A. Inspect the certification letters<sup>15</sup> 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 diesel fuel tax (abstract 60) and gasoline tax (abstract 62)<sup>16</sup> from the certification letters back to the *Report of Excise Tax Collection*<sup>17</sup> and the *Treasury 90 Report*<sup>18</sup> for agreement.

### 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.

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<sup>15</sup>IRS prepares two certification letters for the HTF each quarter: one for the Highway Account and the other for the Mass Transit Account.

<sup>16</sup>The certified amounts for diesel fuel tax (abstract 60) and gasoline tax (abstract 62), along with the heavy vehicle use tax (traced separately), made up over 89 percent of the total amount certified to the HTF for the quarters ended September 30, 2006, December 31, 2006, March 31, 2007, and June 30, 2007.

<sup>17</sup>IRS uses data from two of these reports, covering sequential processing intervals, for each quarterly certification. 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. The two reports used may contain collections related to prior quarters that IRS certifies as part of the current quarter's collections because the related return was not posted to the master file until the processing intervals covered by these reports.

<sup>18</sup>The *Treasury 90 Report* summarizes excise tax credit information and is produced quarterly by IRS submission processing campus systems. IRS has eight submission processing campuses that receive and process tax returns and payments.

However, for the quarter ended December 31, 2006, the certified amounts for kerosene tax (abstract 35) from the certification letters were not deducted for related credits from the *Treasury 90 Report*. This resulted in a \$153 million overstatement of the total amount certified to the HTF for the quarter ended December 31, 2006. After we brought this to the attention of IRS officials, IRS corrected the error in subsequent adjustments to the certifications for the quarter ended December 31, 2006. Since the adjustments were made prior to the end of the fiscal year, the error did not have an effect on fiscal year 2007 distributions to the HTF.

- 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.<sup>19</sup>

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.

- F. Inspect the *Report of Excise Tax Collection* used in the certification to determine if it contains significant<sup>20</sup> collections from prior quarters.

Description of findings and results

The *Report of Excise Tax Collection* used in the certification for all four quarters did not contain significant collections from prior quarters.

- G. Trace heavy vehicle use tax amounts from the Highway Account certification letters to the master file.<sup>21</sup>

Description of findings and results

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

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<sup>19</sup>IRS calculates certified collections to the Highway Account and the Mass Transit Account using the prorated collection amounts, credit amounts, tax rates, and distribution rates applicable to each account.

<sup>20</sup>For this procedure, “significant” is defined as \$175 million, which represents approximately 2 percent of the total amount certified to the HTF for each quarter of fiscal year 2007.

<sup>21</sup>These taxes, which go to the HTF, are reported on Form 2290 and are not included in the Collection Certification System.

### III. Procedures on Financial Management Service adjustments

Perform the following procedures on Financial Management Service (FMS) adjustments to HTF excise tax distributions for the quarters ended June 30, 2006, September 30, 2006, December 31, 2006, March 31, 2007, and June 30, 2007:

- A. Compare the adjustment amounts from the FMS journal vouchers to the supporting schedules<sup>22</sup> and to the Office of Tax Analysis (OTA) transfer forms<sup>23</sup> and IRS certification letters for agreement.

#### Description of findings and results

The adjustment amounts from the FMS journal vouchers agreed with the supporting schedules, OTA transfer forms, and IRS certification letters for all five quarters.

However, the FMS adjustments for the quarter ended September 30, 2006, which were made in February 2007, included a negative adjustment of approximately \$375 million to transfer estimated amounts of excise taxes collected on kerosene used in aviation from the HTF to the AATF.<sup>24</sup> This transfer had already been made by FMS in January 2007. As a result, FMS erroneously duplicated the transfer out of the HTF. Consequently, the HTF received \$375 million less in excise tax distributions than what it should have received for the quarter ended September 30, 2006. After we brought this to the attention of an FMS official, FMS corrected the erroneous adjustment in March 2007 by transferring back \$375 million from the AATF to the HTF for the quarter ended September 30, 2006.

- B. Calculate the differences between the OTA estimates and IRS certified amounts to determine if the amounts agree with the differences computed by FMS.

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<sup>22</sup>An FMS accountant compiles this schedule, called the "Subsidiary Quarterly Account of Estimates and Actual Related Excise Taxes Appropriated to Highway Trust Fund." This schedule computes the difference between the OTA estimates and IRS certified amounts that relate to the Highway Account. A similar schedule is prepared for the Mass Transit Account. The schedules, along with the OTA estimations and IRS certifications, support the FMS adjustment.

<sup>23</sup>The transfer forms denote the amounts estimated by OTA for transferring excise taxes to the trust funds.

<sup>24</sup>On January 5, 2007, the OTA issued guidance that the fiscal year 2006 HTF and AATF amounts did not accurately account for the provisions of Public Law 109-59 (2005), which requires monthly transfers of amounts equivalent to estimates of the taxes collected on kerosene used in aviation from the HTF to the AATF. The guidance provided estimates of the amounts that would be necessary to adjust the HTF and AATF.

Description of findings and results

The independently calculated differences between the OTA estimates and IRS certified amounts for the Highway Account agreed with the differences computed by FMS for all five quarters. These amounts were<sup>25</sup>

- \$185,212,000 for the quarter ended June 30, 2006;
- \$842,023,000 for the quarter ended September 30, 2006;
- \$618,554,000 for the quarter ended December 31, 2006;
- (\$193,764,000) for the quarter ended March 31, 2007; and
- (\$138,729,000) for the quarter ended June 30, 2007.

The independently calculated differences between the OTA estimates and IRS certified amounts for the Mass Transit Account agreed with the differences computed by FMS for all five quarters. These amounts were

- \$10,356,000 for the quarter ended June 30, 2006;
- \$98,286,000 for the quarter ended September 30, 2006;
- \$84,839,000 for the quarter ended December 31, 2006;
- (\$18,202,000) for the quarter ended March 31, 2007; and
- \$35,512,000 for the quarter ended June 30, 2007.

**IV. Procedures on excise tax distributions to the HTF for the quarter ended September 30, 2007**

- A. Determine if OTA's process for identifying and incorporating the effect of new legislation on excise tax receipts into its trust fund estimates<sup>26</sup> was in place during the quarter ended September 30, 2007.

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 the quarter ended September 30, 2007. OTA prepares a tax rate table to capture information relating to legislation that affects tax rates, tax basis, accounts, and deposit rules in effect during the quarter.

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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> OTA makes semimonthly estimates of excise tax collections for transfer to trust funds. There are five semimonthly estimates for the quarter ended September 30, 2007, which affect fiscal year 2007 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 another OTA economist reviewed the transfer forms and supporting schedules for the semimonthly transfers affecting distributions to the HTF for the quarter ended September 30, 2007.

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

Description of findings and results

The totals on the transfer forms affecting distributions to the HTF for the quarter ended September 30, 2007, were mathematically correct.

- D. Trace the transfer amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and heavy vehicle use tax<sup>27</sup> from the transfer forms through the supporting schedules and back to the related source documents<sup>28</sup> for agreement.

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 supporting schedules and source documents for the quarter ended September 30, 2007.

**V. Other procedures**

- A. Determine if the adjustments to the HTF for tax on kerosene used in aviation were made during fiscal year 2007 and calculate the adjustment amounts based on the *Treasury 90 Report* to determine if they are mathematically correct.<sup>29</sup>

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<sup>27</sup>The transfer amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and heavy vehicle use tax made up over 90 percent of the total amount transferred to the HTF for the fourth quarter of fiscal year 2007.

<sup>28</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>29</sup>Section 11161 of P.L. 109-59 (2005), "Treatment of Kerosene for Use in Aviation," taxes all kerosene taxpayers at the standard kerosene rate, unless the taxpayer had removed the kerosene from a refinery or terminal directly into an aircraft's fuel tank and thus qualified for the lower aviation kerosene tax rate. Amounts received under the standard kerosene tax are initially deposited in the HTF. If a taxpayer

Description of findings and results

The adjustments to the HTF for tax on kerosene used in aviation were made during fiscal year 2007 and were mathematically correct.

- B. Using IRS's quarterly certifications, OTA's estimated distributions, and any adjustments, compile and report excise taxes distributed to the HTF in fiscal year 2007.

Description of findings and results

Based on a compilation of IRS's quarterly certifications, OTA's estimations, and adjustments, the net amount of excise taxes distributed to the HTF in fiscal year 2007 was \$40,082,021,440.

- C. Procedures performed as part of the fiscal year 2007 IRS financial statement audit:

From IRS's master files for the first 8 months of fiscal year 2007, use MUS to select statistical samples of (1) total tax revenue receipts and (2) refunds. For each sample item, compare the receipt or refund amount, tax period, and tax class<sup>30</sup> from source documentation with those recorded in IRS's master files for consistency.

Description of findings and results

The receipt or refund amount, tax period, and tax class from source documents for 165 of the 167 revenue receipts and 57 of the 57 refund sample transactions were consistent with those recorded in IRS's master files.

For two revenue receipt sample items, the IRS did not properly classify the receipts in the appropriate tax class. These two sample items were not related to excise taxes.

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subsequently used the kerosene in aviation, the taxpayer is eligible for the lower tax rate associated with aviation kerosene and can request a refund. Section 11161 requires that the amount of kerosene tax collected from that taxpayer, net of refunds, be transferred from the HTF to AATF.

<sup>30</sup>IRS assigns a tax class number to specific types of taxes. Excise taxes are tax class 4.

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