



GAO

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United States General Accounting Office
Washington, DC 20548

February 26, 2001

The Honorable Kenneth M. Mead
Inspector General
Department of Transportation

Subject: Applying Agreed-Upon Procedures: Highway 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 Highway Trust Fund (HTF) for the fiscal year ended September 30, 2000, is supported by the underlying records. As agreed with your office, we evaluated fiscal year 2000 activity affecting distributions to HTF.

In performing the agreed-upon procedures, we conducted our work in accordance with generally accepted government auditing standards, which incorporate financial audit and attestation standards established by the American Institute of Certified Public Accountants. 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 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 2000, (4) review of the Office of Tax Analysis process for estimating amounts to be distributed to HTF for the fourth quarter of fiscal year 2000, (5) comparison of net excise tax distributions to the HTF during fiscal year 2000 and amounts reported in the financial statements prepared by the Bureau of the Public Debt for HTF and HTF's 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 the expression of an opinion on the amount of 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.¹ We completed the agreed-upon procedures on February 16, 2001.

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 letter 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 letter 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 Steven J. Sebastian, Acting Director, at (202) 512-3406.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Jeffrey C. Steinhoff". The signature is fluid and cursive, with the first name "Jeffrey" being more prominent and the last name "Steinhoff" following in a similar style.

Jeffrey C. Steinhoff
Managing Director
Financial Management and Assurance

Enclosure

¹In our reports on the results of our audit of IRS' fiscal year 1999 financial statements, we noted a reportable condition related to IRS' ability to allocate excise tax collections to the appropriate trust funds at the time deposits are made. This condition affects the adequacy of the distributions of federal excise tax revenue to recipient trust funds (*Financial Audit: IRS' Fiscal Year 1999 Financial Statements* (GAO/AIMD-00-76, February 29, 2000) and *Internal Revenue Service: Recommendations to Improve Financial and Operational Management* (GAO-01-42, November 17, 2000)). This condition continued to exist during fiscal year 2000. Our report on the results of our audit of IRS' fiscal year 2000 financial statements will be issued shortly.

Highway Trust Fund Excise Tax Procedures and Results

(A) Procedures performed for fiscal year 2000 excise tax distributions related to the quarter ended September 30, 1999^a

(1) Nonrepresentative selection of tax returns

- (a) For the quarter ending September 30, 1999, select the 30 largest excise tax returns on the basis of total tax liability^b amount from IRS' master file.^c

Description of findings and results

We selected the 30 largest excise tax returns from the quarter ended September 30, 1999, for testing. The selection was based on the total tax liability amount, for each return, from IRS' master file.

The total tax liability amount related to these 30 returns was approximately \$8.4 billion, or 63 percent of the total excise tax liability amount (\$13.3 billion^d) for the quarter ended September 30, 1999.

Of these 30 returns, 22 contained primarily HTF related taxes, 7 contained primarily Airport and Airway Trust Fund (AATF) taxes, and 1 contained telephone taxes related to the general fund.

- (b) For each of 22 returns related primarily to the HTF, we performed the following procedures which resulted in our testing approximately \$6.5 billion in prorated collections certified to the HTF for the quarter ended September 30, 1999:

^aSince certifications usually are not completed until 6 months after the end of the quarter, the certification for the quarter ended September 30, 1999, was actually performed in fiscal year 2000.

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

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

^dIRS told us that this was the total excise tax liability amount, from its master file, for the quarter ended September 30, 1999.

- Trace the liability amount for selected abstracts^e from the tax return to IRS' master file.

Description of findings and results

The liability amount for the three selected abstracts on the tax return agreed with IRS' master file for 21 of the 22 cases. On the remaining case, we identified an IRS input error that understated the taxpayer's excise tax liability by \$3,000. IRS corrected this error after we brought it to its attention.

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

Description of findings and results

The taxpayers' calculations on all 22 of the selected returns were mathematically correct.

- Recompute the prorated collection amount for the selected abstracts based on information from the master file and compare this amount to the amount from the Collection Certification System audit file.^f

Description of findings and results

The recomputed prorated collection amounts for the three selected abstracts agreed with amounts in IRS' Collection Certification System audit file for all 22 of the selected returns.

^eThe 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 and are used by the taxpayer to report excise tax assessments. 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 AATF, we selected (1) tax on transportation of persons by air—ticket tax (abstract 26), (2) tax on use of international air facilities (abstract 27), and (3) tax on transportation of property by air (abstract 28). If the return was related to neither of the above trust funds, we selected all abstracts on the return in which the taxpayer has reported a liability. The tax amounts related to the selected abstracts for each trust fund are the largest tax amounts reported on the taxpayer's excise tax return and make up at least 85 percent of the total amount certified to HTF and approximately 90 percent of the total amount certified to AATF.

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

(2) Receipt certifications

- (a) Inspect the certification letters^g for authorizing signatures.

Description of findings and results

The certification letters for the quarter ended September 30, 1999, had authorizing signatures.

- (b) 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 the certification letters and supporting worksheets were checked by another analyst and a supervisor.

- (c) 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 were mathematically correct.

- (d) Trace the certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59)^h from the certification letter back to the *Reports of Excise Tax Collections*.ⁱ

Description of findings and results

The certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) per the

^gIRS prepares two certification letters for HTF each quarter: one for the Highway Account and the other for the Mass Transit Account.

^hThe certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59), along with the heavy vehicle use tax (traced separately), make up approximately 90 percent of the total amount certified to HTF.

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

certification letters for the quarter ended September 30, 1999, agreed with the related *Report of Excise Tax Collections*.

- (e) Review the *Reports of Excise Tax Collections* used in the certification to determine if they contain significant^j collections from prior quarters.

Description of findings and results

The *Reports of Excise Tax Collections* used for the September 30, 1999, certification contained approximately \$346 million in HTF excise tax collections related to previous quarters. Of this amount, approximately \$344 million was from the quarter ended June 30, 1999.

- (f) Heavy vehicle use taxes, which go to HTF, are reported on Form 2290 and are not included in the Collection Certification System. Trace this amount from the Highway Account certification letter to the master file.

Description of findings and results

Heavy vehicle use tax per the Highway Account certification letter agreed with the master file.

- (g) Review the distribution rates used by IRS to determine whether the distribution rates for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) agree with the applicable laws.

Description of findings and results

We saw no evidence that the distribution rates used by IRS for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) did not agree with the applicable laws.

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

(3) FMS adjustments

- (a) Compare the Financial Management Service (FMS) adjustments made to HTF for fiscal year 2000 with original Office of Tax Analysis (OTA) estimates and IRS certified amounts to see if they agree with the supporting schedule.^k Recompute the difference between the OTA estimate and final IRS certified amount to see if the amount agrees with the difference computed by FMS.

Description of findings and results

For the FMS adjustments made to the HTF accounts (Highway and Mass Transit), the original OTA estimates and IRS certified amounts agreed with the supporting schedule. The independently recalculated difference between the OTA estimate and the final IRS certified amount for the Highway Account for the quarter ended September 30, 1999—(\$343,778,000)^l—and for the Mass Transit Account for the quarter ended September 30, 1999—(\$93,367,000)—agreed with the difference computed by FMS.

(B) Procedures performed for fiscal year 2000 excise tax distributions related to quarters ended December 31, 1999, and March 31, 2000

(1) Sampling

- (a) Obtain excise tax assessments and collection data from IRS' master file for the first 6 months of fiscal year 2000. Determine if excise tax collections per master file agree with IRS' general ledger. Reconcile total excise tax collections from the master file to total excise tax collections from the Collection Certification System audit files to determine if they materially^m agree.

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

^lA 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 trust funds.

^mFor the purpose of this reconciliation, material is defined as \$199 million. This represents 1 percent of the total Form 720-related excise tax collections, related to the quarters ended December 31, 1999, and March 31, 2000.

Description of findings and results

Excise tax collections for the first 6 months of fiscal year 2000 per the master file materially agreed with IRS' 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' master file. Compare assessment and receipt information for each sample item from the master file to the assessment and receipt information in the Collection Certification System to determine if assessments and receipts from the master file are contained in the Collection Certification System.

Description of findings and results

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

- (c) To determine if the Collection Certification System properly summarized the prorated collections, total the prorated collections for selected abstractsⁿ from the audit files and compare these amounts to amounts in the *Report of Excise Tax Collections*.

Description of findings and results

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

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

ⁿThe selected abstracts include the following: (1) tax on 10 percent gasohol (abstract 59), (2) diesel fuel tax (abstract 60), (3) gasoline tax (abstract 62), (4) tax on transportation of persons by air (abstract 26), (5) tax on use of international air facilities (abstract 27), (6) tax on transportation of property by air (abstract 28), and (7) tax on aviation fuel for commercial use (abstract 77). The tax amounts for the three HTF-related abstracts make up at least 85 percent of the total amount certified to HTF and the four AATF-related abstracts make up over 97 percent of the total amounts certified to AATF.

Description of findings and results

Use of DUS with a confidence level of 80 percent, a test materiality of \$304.9 million, and an expected aggregate error amount of \$91.5 million resulted in a sample of 114^o prorated collections for the first 6 months of fiscal year 2000.

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

Description of findings and results

Use of DUS with a confidence level of 80 percent, a test materiality of \$76.1 million, and an expected aggregate error amount of \$22.8 million resulted in a sample of 74^p prorated collections for the first 6 months of fiscal year 2000 for AATF.

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

(2) Detailed tests of transactions

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

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

^oThe actual sample size using DUS was 153 items. However, because DUS selects dollars versus specific transaction items as the sampling unit, 39 items were selected more than once. Consequently, 114 unique sample transactions were selected for testing.

^pThe actual sample size using DUS was 163 items. However, because DUS selects dollars versus specific transaction items as the sampling unit, 26 items were selected more than once. Consequently, 74 unique sample transactions were selected for testing.

^qFor 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.

Description of findings and results

The assessment amounts on the tax returns agreed with the amounts recorded in IRS' master file for 106 of 114 sampled abstracts. For eight sample items, IRS could not provide support for credit adjustments^r to abstract 60. In addition, for 4 of the 15 sample items, IRS could not provide support for credit adjustments to the non sample abstract 35.^s The unsupported credit adjustments resulted in an understatement of \$621,644 to abstract 60 and overstatements of \$189,560 and \$1,920,434 respectively, to abstracts 59 and 62.

- 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.

- 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.^t

Description of findings and results

The recomputed prorated collection based on information from the master file agreed with the amounts for all items sampled from the Collection Certification System audit file. (Note: Even though the recomputed prorated collections for all HTF sample items were correct, an error in IRS' Collection Certification System resulted in an understatement of \$145,261 to the HTF certifications for fiscal year 2000)

^rTaxpayers are allowed to make claims or adjustments to prior quarters' excise taxes by using Form 720, Schedule C. Two of these credits are for diesel fuel sold for use by a state or local government (abstract 60) and for kerosene sold for use by a state or local government (abstract 35). For both abstract 60 and abstract 35 claims, taxpayers must attach to the Form 720 a list of the names and tax identification numbers of each governmental unit to which the fuel was sold and the number of gallons sold to each.

^sAn error in the amount of any abstract in a tax return affects the ratio used by the IRS Collection Certification System to determine the prorated collection amount for all abstracts related to that tax return.

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

- (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.

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 2000, the net most likely error is \$1.8 million with an upper error limit of \$181 million at the 80 percent confidence level.

(3) Receipt certifications

- (a) Inspect the certification letters for authorizing signatures.

Description of findings and results

The certification letters for the quarters ended December 31, 1999, and March 31, 2000, had authorizing signatures.

- (b) 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 the certification letters and supporting worksheets were checked by another analyst and a supervisor.

- (c) 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 were mathematically correct.

- (d) Trace the certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) from the certification letters back to the *Reports of Excise Tax Collections*.

Description of findings and results

The certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) per the certification letters for the quarters ended December 31, 1999, and March 31, 2000, agreed with the related *Report of Excise Tax Collections*.

- (e) Review the *Reports of Excise Tax Collections* used in the certifications to determine if they contain significant collections from prior quarters.

Description of findings and results

The *Reports of Excise Tax Collections* used for the December 31, 1999, and March 31, 2000, certifications did not contain significant collections from prior quarters.

- (f) Heavy vehicle use taxes, which go to HTF, are reported on Form 2290 and are not included in the Collection Certification System. Trace this amount from the Highway Account certification letters to the master file.

Description of findings and results

Heavy vehicle use tax per the Highway Account certification letters agreed with the master file.

- (g) Review the distribution rates used by IRS to determine whether the distribution rates for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) agree with the applicable laws.

Description of findings and results

We saw no evidence that the distribution rates used by IRS for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) did not agree with the applicable laws.

(4) Refunds/credit reclassification¹¹

- (a) Inspect the certification letters for authorizing signatures.

Description of findings and results

The certification letters for the quarters ended December 31, 1999, and March 31, 2000, had authorizing signatures.

- (b) Determine if evidence exists that the certification letters and accompanying schedules^v were checked by the supervisor or another analyst.

Description of findings and results

There was evidence that the certification letters and accompanying schedules were checked by another analyst and a supervisor.

- (c) 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.

- (d) For selected excise taxes,^w trace the refund and credit amount from the schedule accompanying the certification letters to other summary

¹¹IRS performs a quarterly reclassification of excise tax refunds and credits originally entered into its master file as personal or corporate refunds/credits. IRS refers to these reclassifications as "refunds/credits certifications." These amounts do not represent the total excise tax refund/credit activity to the trust funds. Other routine excise tax refunds and credits (e.g., overpayments), which are claimed on taxpayers' Form 720 excise tax returns, are included in IRS' excise tax receipt certification to trust funds.

^vIRS 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). IRS has 10 service centers (referred to as "campuses" under IRS' current reorganization) that process tax returns and tax receipts.

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

refund/credit schedules. (These other refund/credit summary schedules summarize refund and credit data obtained from service center records.)

Description of findings and results

The refund and credit amounts for the selected excise taxes, gasoline and diesel, on the schedule accompanying the certification letters for the quarters ended December 31, 1999, and March 31, 2000, agreed with the amounts on the summary schedules.

(5) FMS adjustments

- (a) Compare the FMS adjustments made to HTF for fiscal year 2000 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.

Description of findings and results

For the FMS adjustments made to the HTF accounts (Highway and Mass Transit), the original OTA estimates and IRS certified amounts agreed with the supporting schedule. The independently recalculated difference between the OTA estimate and the final IRS certified amount for the Highway Account for the quarters ended December 31, 1999—\$639,514,000—and March 31, 2000—\$166,915,000—and for the Mass Transit Account for the quarters ended December 31, 1999—\$96,772,000—and March 31, 2000—\$19,968,000—agreed with the difference computed by FMS.

(C) Procedures performed for fiscal year 2000 excise tax distributions related to the quarter ended June 30, 2000

(1) Receipt certifications

- (a) Inspect the certification letters for authorizing signatures.

Description of findings and results

The certification letters for the quarter ended June 30, 2000, had authorizing signatures.

- (b) 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 the certification letters and supporting worksheets were checked by another analyst and a supervisor.

- (c) 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 were mathematically correct.

- (d) Trace the certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) from the certification letters back to the *Reports of Excise Tax Collections*.

Description of findings and results

The certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) per the certification letters for the quarter ended June 30, 2000, agreed with the related *Reports of Excise Tax Collections*.

- (e) Review the *Reports of Excise Tax Collections* used in the certification to determine if they contain significant collections from prior quarters.

Description of findings and results

The *Reports of Excise Tax Collections* used in the certification did not contain significant collections from prior quarters.

- (f) Heavy vehicle use taxes, which go to HTF, are reported on Form 2290 and are not included in the Collection Certification System. Trace this amount from the Highway Account certification letter to the master file.

Description of findings and results

Heavy vehicle use tax per the Highway Account certification letter agreed with the master file.

- (g) Review the distribution rates used by IRS to determine whether the distribution rates for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) agree with the applicable laws.

Description of findings and results

We saw no evidence that the distribution rates used by IRS for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) did not agree with the applicable laws.

(2) Refunds/credit reclassification

- (a) Inspect the certification letter for authorizing signature.

Description of findings and results

The certification letter for the quarter ended June 30, 2000, had an authorizing signature.

- (b) Determine if evidence exists that the certification letter and accompanying schedule were checked by the supervisor or another analyst.

Description of findings and results

There was evidence that the certification letter and accompanying schedule were checked by another analyst and a supervisor.

- (c) Recalculate the totals on the certification letter and accompanying schedule to determine if they are mathematically correct.

Description of findings and results

The totals on the certification letter and accompanying schedule were mathematically correct.

- (d) For selected excise taxes, 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 records.)

Description of findings and results

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 2000 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.

Description of findings and results

For the FMS adjustments made to the HTF accounts (Highway and Mass Transit), the original OTA estimates and IRS certified amounts agreed with the supporting schedule. The independently recalculated difference between the OTA estimate and the final IRS certified amount for the Highway Account for the quarter ended June 30, 2000—(\$449,806,000)—and for the Mass Transit Account for the quarter ended June 30, 2000—(\$76,473,000)—agreed with the difference computed by FMS.

(D) Procedures performed for fiscal year 2000 excise tax distributions related to the quarter ended September 30, 2000

(1) OTA estimation process

- (a) Determine if OTA's process for identifying and incorporating into its revenue estimates the effect of new legislation on excise tax receipts was in place during fiscal year 2000.

Description of findings and results

OTA told us that its process for identifying and including new laws and regulations affecting excise taxes in its revenue receipt estimates includes consultations with Treasury's Tax Legislative Counsel, IRS' Chief Counsel, the Office of Management and Budget, and the Joint Committee on Taxation. OTA, in consultation with others, determined that no new enactments affected excise tax receipts in fiscal year 2000. Communications supporting this determination were not documented.

OTA does not routinely compile a comprehensive list of laws and regulations that affect the receipt estimates. However, a tax rate table is used to capture information relating to legislation that affects tax rates, tax basis, accounts, and deposit rules in effect during the tax period and to communicate this information to interested parties at Treasury, the Federal Highway Administration, the Federal Transit Administration, and the Department of Transportation. OTA documented consultations with legal staff at Treasury in updating the table.

- (b) Determine if OTA's process for reviewing and incorporating into its revenue receipt estimates the new information received between the budget preparation cycles was in place in fiscal year 2000.

Description of findings and results

OTA told us that its review process to ensure that new information received between the budget preparation cycles is reflected in the revenue receipt estimates involves at least two reviews conducted by OTA's Director of the Revenue Estimation Division (RED) for the impact of various technical, economic, and legislative factors on the receipt estimates. OTA informed us that the Director of RED reviews the changes to the earlier forecasts, provides input to each staff economist, and approves changes to the forecasts. OTA does not document this review. Also, director approval of final changes is not documented by signature.

The Director of RED reviews the monthly receipt forecasts prepared by OTA staff economists, which are based on fiscal year forecasts described above, and indicates his concurrence by his signature on the monthly transfer documents transmitted to FMS.

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 the transmittal memo to FMS. OTA prepared no such adjustments in fiscal year 2000 based on its determination that no new enactments affected receipts in the fiscal year.

- (c) Determine if OTA's process for considering and incorporating into its revenue receipt estimates the impact of variances between actual and previously forecasted excise tax receipts was in place in fiscal year 2000.

Description of findings and results

OTA told us that its process consists of comparing prior estimates of excise tax receipts to actual excise tax collections, as reported by Treasury's FMS, to adjust its excise tax receipts estimation models.^x This information is considered along with other factors to determine if adjustments to the excise tax receipts estimation models are warranted.

(2) Refunds/credit reclassification

- (a) Inspect the certification letter for authorizing signature.

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

Description of findings and results

The certification letter for the quarter ended September 30, 2000, had an authorizing signature.

- (b) Determine if evidence exists that the certification letter and accompanying schedule were checked by the supervisor or another analyst.

Description of findings and results

There was evidence that the certification letter and accompanying schedule were checked by another analyst and a supervisor.

- (c) Recalculate the totals on the certification letter and accompanying schedule to determine if they are mathematically correct.

Description of findings and results

The totals on the certification letter and accompanying schedule were mathematically correct.

- (d) For selected excise taxes, 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 records.)

Description of findings and results

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 2000 excise tax distributions

- (1) Compare total fiscal year 2000 excise taxes distributed to HTF with drafts of the (1) Bureau of the Public Debt's (BPD) financial statements for HTF and (2) HTF financial statements to determine if they agree.

Description of findings and results

Fiscal year 2000 excise taxes of \$35 billion distributed to the HTF agree with amounts reported on (1) audited BPD financial statements for HTF and (2) draft HTF financial statements.

(F) Other procedures

- (1) Performed as part of fiscal year 2000 IRS financial statement audit.

- (a) Use DUS to select statistical samples of (1) total revenue receipts and (2) refunds from IRS' master files for the first 9 months of fiscal year 2000. For each item in the samples of revenue receipts and refunds, test that the collection or refund amount and tax class^y from source documentation agrees with amounts recorded in IRS' master files.

Description of findings and results

Detailed testing of 199 revenue receipts and 18 refund sample transactions showed that the collection or refund amount and tax class from source documents agreed with amounts recorded in IRS' master files.

- (b) Review selected service centers' monthly Treasury SF-224 reconciliations to determine if IRS-reported revenue receipts were properly classified and reconciled to Treasury FMS records. For refunds, review selected IRS service centers' monthly Treasury SF-224 reconciliations to determine if IRS-reported total refunds (all tax classes) materially^z reconciled to Treasury FMS records.^{aa}

Description of findings and results

Tax revenue receipts reported by selected IRS service centers via 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 centers via the monthly Treasury SF-224 reconciliation process materially agreed with Treasury FMS records.

- (c) Perform a proof of cash for fiscal year 2000 to determine whether revenue receipt balances by tax class, including excise tax, per IRS' general ledger materially agree with IRS master files and Treasury records. For refunds, perform a comparison of total refund balances between the master file, the general ledger, and Treasury records. Also, compare excise tax refunds per the master file to the general ledger.

^yIRS assigns a tax class number to specific types of taxes. Excise taxes are tax class 4.

^zFor the purpose of this section, we define material as \$20 billion.

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

Description of findings and results

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

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