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United States General Accounting Office
Washington, DC 20548

February 11, 2002

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, 2001, is supported by the underlying records. As agreed with your office, we evaluated fiscal year 2001 activity affecting distributions to 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 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 2001, (4) review of certain procedures in the Office of Tax Analysis's process for estimating amounts to be distributed to HTF for the fourth quarter of fiscal year 2001, (5) comparison of net excise tax distributions to HTF during fiscal year 2001 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 to express 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 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 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. 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,

A handwritten signature in black ink, reading "Steven J. Sebastian". The signature is fluid and cursive, with the first name "Steven" and last name "Sebastian" clearly legible.

Steven J. Sebastian
Acting Director
Financial Management and Assurance
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¹In 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., March 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., October 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.

Highway Trust Fund Excise Tax Procedures and Results

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

A. Nonrepresentative selection of tax returns from the quarter ended September 30, 2000²

1. For the quarter ending September 30, 2000, select the 30 largest excise tax returns on the basis of total tax liability³ amount from IRS's master file.⁴

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 billion⁵) for the quarter ended September 30, 2000.

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

2. For each of 21 returns related primarily to HTF, we performed the following procedures, which resulted in our testing approximately \$6.4 billion in prorated collections⁶ affecting fiscal year 2001 distributions to HTF:

²Since 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 HTF.

³Although 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.

⁴The master file is a detailed database containing taxpayer information.

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

⁶IRS 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

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- (a) Trace the liability amount for abstracts⁷ 59, 60, and 62 from the tax return to IRS's master file.

Description of findings and results

The liability amount for abstracts 59, 60, and 62 on the tax returns agreed with IRS's master file for all 21 of the selected items. However, we found an error on one of these returns where the taxpayer erroneously reported \$2.3 million of kerosene tax (abstract 35) on the line for liquefied petroleum gas (abstract 61). IRS did not identify this mistake and entered the erroneous information into the master file. As a result of this error, IRS certified collections to the HTF-Highway Account were understated by approximately \$81,000 and the HTF-Mass Transit Account were overstated by approximately \$91,000, for the quarter ended September 30, 2000.⁸

reported on the taxpayer's return. IRS's Collection Certification System prorates a taxpayer's 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.

⁷The 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 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 over 86 percent of the total amount certified to HTF and over 90 percent of the total amount certified to AATF.

⁸IRS calculates certified collections to the Highway Account (HA) and Mass Transit Account (MTA) using the tax amount, tax rate, and distributions rates applicable to each account. In this instance, the tax amount remained constant but the tax and distribution rates were different. The rates for kerosene (abstract 35) were 24.4 cents/gallon tax rate, 21.44 cent/gallon HA distribution rate, 2.86 cents/gallon MTA distribution rate, and .1 cent/gallon Leaking Underground Storage Tank Trust Fund distribution rate. The rates for liquefied petroleum gas (abstract 61) were 13.6 cents/gallon tax rate, 11.47 cents/gallon HA distribution rate, and 2.13 cents/gallon MTA distribution rate. As a result, the misclassification resulted in opposite effects on these two accounts but for different amounts.

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IRS corrected this error after we brought it to its attention. The correction was included in IRS's trust fund certification total for the quarter ended December 31, 2000. Consequently, there was no net impact on fiscal year 2001 distributions to HTF resulting from this error.

- (b) 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 21 selected 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.⁹

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 21 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 materially¹⁰ agree.

⁹The 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.

¹⁰For the purpose of this reconciliation, material is defined as \$205 million. This represents approximately 1 percent of the total Form 720-related excise tax collections, related to the quarters ended December 31, 2000, and March 31, 2001.

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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.¹¹ 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 selected abstracts¹² from the audit files and compare these amounts to amounts in the *Reports of Excise Tax Collection*.¹³

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 *Reports 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

¹¹For this sample, if one error or less 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.

¹²The 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 over 86 percent of the total amount certified to HTF and the four AATF-related abstracts make up over 96 percent of the total amounts certified to AATF.

¹³The *Report of Excise Tax Collection* contains classified prorated collections that serve as the basis for IRS's quarterly trust fund certifications.

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excise tax abstracts. Use DUS to select a sample of prorated excise tax collections from the HTF population.

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 100¹⁴ prorated collections for the first 6 months of fiscal year 2001.

- (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 \$99 million, and an expected aggregate error amount of \$29.7 million resulted in a sample of 69¹⁵ prorated collections for the first 6 months of fiscal year 2001 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.¹⁶

2. Detailed tests of transactions

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

¹⁴The 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 \$258 million would cover 2 dollar intervals, but represent 1 sample item. Due to large dollar items covering more than 1 interval, the 100 unique sampled transactions selected represent 129 dollar intervals.

¹⁵The 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. Due to large dollar items covering more than 1 interval, the 69 unique sampled transactions selected represent 135 dollar intervals.

¹⁶For 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.

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- 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 items 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.

- 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.¹⁷

Description of findings and results

The recomputed prorated collection based on information from the master file agreed with the amounts in 97 of 100 items sampled from the Collection Certification System audit file. For the other three cases an error in IRS's pro-ratio computer program resulted in an understatement of \$1,075,858 for sample abstract 60 and a net understatement of \$3,806,796 for sample abstract 62. In these three cases, 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-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.

¹⁷The 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.

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- (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 (\$5.2 million) with an upper error limit of \$200.7 million at the 80-percent confidence level. Collections go through additional calculations to produce certification amounts for distribution. Consequently, the magnitude of the error cannot be quantified with respect to the impact on recorded distributions to HTF.

II. Review of IRS's quarterly HTF certifications

A. Receipt certifications

Perform the following steps on IRS's HTF receipt certifications for the quarters ended September 30, 2000, December 31, 2000, March 31, 2001, and June 30, 2001:¹⁸

1. Inspect the certification letters¹⁹ for authorizing signatures.

Description of findings and results

The HTF certification letters for all four 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.

¹⁸Since certifications are not completed until 6 months after the end of the quarter, the certification and corresponding Financial Management Service adjustment for the quarter ended September 30, 2001, will not be completed in time to affect the recorded fiscal year 2001 distributions to HTF.

¹⁹IRS prepares two certification letters for HTF each quarter: one for the HA and the other for the MTA.

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Description of findings and results

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

4. Trace the certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59)²⁰ from the certification letters back to the *Reports of Excise Tax Collection*.²¹

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 agreed with the related *Reports of Excise Tax Collection* for all four quarters.

5. Review the *Reports of Excise Tax Collection* used in the certification to determine if they contain significant²² collections from prior quarters.

Description of findings and results

The *Reports of Excise Tax Collection* supporting IRS's certifications to HTF did not contain significant prior quarter collections, in any of the four quarters.

6. Heavy vehicle use taxes, which go to HTF, are reported on Form 2290 and are not included in the Collection Certification System. Trace these amounts from the Highway Account certification letters to the master file.

²⁰The 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 over 91 percent of the total amount certified to HTF.

²¹IRS 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.

²²For this test, "significant" is defined as \$90 million. This represents approximately 1 percent of the total amount certified to HTF for a quarter.

Description of findings and results

Heavy vehicle use tax per the Highway Account certification letters agreed with the master file for all four quarters.

7. 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 in effect during the quarters ended September 30, 2000, December 31, 2000, and June 30, 2001.

On its certification to HTF for the quarter ended March 31, 2001, IRS used the excise tax and distribution rates that were in effect beginning December 22, 2000, rather than those that became effective on January 1, 2001. As a result, IRS understated certified collections to the HTF-Highway Account by \$2 million and overstated certified collections to the HTF-Mass Transit Account by \$1 million.²³ IRS corrected the error after we brought it to its attention. The correction was made in IRS's HTF certification for the quarter ended June 30, 2001. As a result, there was no net impact on distributions to the HTF for fiscal year 2001.

²³IRS calculates certified collections to the HA and MTA using the total prorated collection amount, tax rate, and distribution rates applicable to each account. In this case, the total prorated collection amounts and distribution rate for MTA of 2.86 cents/gallon remained constant. However, the tax rate and distribution rate for HA changed. For gasohol (abstract 59), the January 1, 2001, rates were 13.1 cents/gallon tax rate and 7.64 cents/gallon distribution rate, while the December 22, 2000, rates were 13 cents/gallon tax rate and 7.54 cent/gallon distribution rate. As a result, using the incorrect rates resulted in opposite effects on these two accounts but for different amounts.

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B. Refund/credit reclassification²⁴

Perform the following steps on IRS's HTF 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 four quarters had authorizing signatures.

2. Determine if evidence exists that the certification letters and accompanying schedules²⁵ 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 four 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 four quarters.

4. Trace the refund and credit amounts for diesel and gasoline²⁶ from the schedules accompanying the certification letters to other summary

²⁴IRS performs a quarterly reclassification of excise tax refunds and credits originally entered into its master file as a 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.

²⁵IRS 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 campus systems and its Interim Revenue Accounting Control System. IRS has 10 service center campuses that process tax returns and tax receipts.

²⁶The certified refund/credit amounts for diesel and gasoline make up at least 91 percent of the total certified refund/credit amount for HTF.

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

Description of findings and results

The refund and credit amounts for gasoline tax and diesel tax, on the schedules accompanying the certification letters 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 \$244 million in HTF refunds as credits and the \$83 million in HTF credits as refunds. There was no impact on distributions to the HTF because the Bureau of Public Debt (BPD) uses the total amount of refunds and credits in calculating distributions to the trust fund.

III. Review of Department of the Treasury Financial Management Service (FMS) adjustments

Perform the following steps on FMS adjustments to HTF 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 HTF 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.²⁷

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 schedules for all four 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.

²⁷ An FMS accountant compiles this schedule, called the Subsidiary Quarterly Account of Estimates and Actual Related Excise Taxes Appropriated to the Highway Account. It computes the difference between IRS-certified amounts and the OTA estimate for excise taxes, individually and in total, that relate to the HA. A similar schedule is prepared for the MTA. The schedules, 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 HA agreed with the differences computed by FMS for all four quarters.

These amounts were²⁸

- for the quarter ended September 30, 2000, (\$1,089,389,000);
- for the quarter ended December 31, 2000, (\$262,394,000);
- for the quarter ended March 31, 2001, (\$416,677,000); and
- for the quarter ended June 30, 2001, (\$192,874,000).

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

These amounts were

- for the quarter ended September 30, 2000, (\$116,022,000);
- for the quarter ended December 31, 2000—\$40,430,000;
- the quarter ended March 31, 2001, (\$10,169,000); and
- for the quarter ended June 30, 2001, \$29,203,000.

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

- A. Determine if OTA's process for identifying and incorporating into its trust fund estimates²⁹ 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

²⁸A 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.

²⁹Under its new estimation process, OTA makes semimonthly estimates of excise tax collections for transfer to trust funds.

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rate table³⁰ 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 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 the Airport and Airway Trust Fund.

- 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 HTF for the quarter ended September 30, 2001.

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

Description of findings and results

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

- D. Trace the transfer amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), tax on 10 percent gasohol (abstract 59), and heavy vehicle use tax,³¹ from the transfer letter, through the supporting schedules and back to the related source documents.³²

³⁰OTA 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.

³¹The transfer amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), tax on 10 percent gasohol (abstract 59), and heavy vehicle use tax made up over 91 percent of the total amount transferred to HTF during the fourth quarter of fiscal year 2001.

³²The 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.

Description of findings and results

The transfer amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), tax on 10 percent gasohol (abstract 59), and heavy vehicle use tax from the transfer forms affecting distributions to HTF for the quarter ended September 30, 2001, agreed with the supporting schedules and source documents.

V. Other procedures

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

Description of findings and results

Fiscal year 2001 excise taxes of \$31.5 billion distributed to HTF agree with amounts reported on (1) draft BPD fiscal year 2001 financial statements for HTF and (2) draft HTF fiscal year 2001 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 class³³ 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 IRS service center campuses' 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 center campuses' monthly Treasury SF-224

³³IRS assigns a tax class number to specific types of taxes. Excise taxes are tax class 4.

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reconciliations to determine if IRS-reported total refunds (all tax classes) materially³⁴ reconciled to Treasury FMS records.³⁵

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 tax revenue receipt balances by tax class, including excise tax, per IRS's general ledger materially agree with IRS's 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.

(191007)

³⁴For 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.

³⁵IRS 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.