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United States Government Accountability Office
Washington, DC 20548

November 5, 2004

The Honorable Kenneth M. Mead
Inspector General
Department of Transportation

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

Dear Mr. Mead:

We have performed the procedures contained in the enclosure to this 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 Airport and Airway Trust Fund (AATF) for the fiscal year ended September 30, 2004, is supported by the underlying records. As agreed with your office, we evaluated fiscal year 2004 activity affecting distributions to the AATF.

In performing the agreed-upon procedures, we conducted our work in accordance with U.S. generally accepted government auditing standards, which incorporate financial audit and attestation standards established by the American Institute of Certified Public Accountants. These standards also provide guidance 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 (1) detailed tests of transactions that represent the underlying basis of amounts distributed to the AATF, (2) review of the Internal Revenue Service's (IRS) quarterly AATF certifications, (3) review of the Department of the Treasury's Financial Management Service adjustments to the AATF for fiscal year 2004, (4) review of IRS's precertification¹ of receipts for the second and third quarters of fiscal year 2004, (5) review of certain procedures of the Department of the Treasury's Office of Tax Analysis' (OTA) estimation procedures affecting excise tax distributions to the AATF for the fourth quarter of fiscal year 2004, and other procedures including (6) compiling and reporting the net amount of fiscal year 2004 excise taxes distributed to the AATF, (7) detailed tests of transactions that represent total IRS tax

¹To accommodate the Department of Transportation's accelerated reporting date for fiscal year 2004, IRS performed precertifications of excise tax collections. The data are for information purposes only, and the precertification does not constitute an official certification.

revenue receipts and refunds, and (8) 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 the AATF. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.² We completed the agreed-upon procedures on October 27, 2004.

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's review of the report only covered the procedures related to the estimation process for the quarter ended September 30, 2004. OTA agreed with the results and findings presented in this report relating to procedures performed on the estimation process for the quarter ended September 30, 2004.

This report is intended solely for the use of the Office of Inspector General of the Department of Transportation and should not be used by those who have not agreed to the procedures and have not taken responsibility for the sufficiency of the procedures for their purposes. However, this report is a matter of public record, and its distribution is not limited. Copies are available to others upon request. This report is also 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.

Sincerely yours,



Steven J. Sebastian
Director
Financial Management and Assurance

Enclosure

²In our report on the results of our audit of IRS's fiscal year 2003 financial statements, we noted a material weakness in IRS's financial reporting process (GAO, *Financial Audit: IRS's Fiscal Years 2003 and 2002 Financial Statements*, GAO-04-126, Nov. 13, 2003). A component of this process includes 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 and is a continuation of an issue that we have reported on in prior years.

Airport and Airway Trust Fund Excise Tax Procedures and Results

I. Detailed tests of transactions that represent the underlying basis of amounts distributed to the Airport and Airway Trust Fund (AATF) in fiscal year 2004

- A. Nonrepresentative selection of tax returns from the quarters ended June 30, 2003, and September 30, 2003³
1. For each of the quarters ending June 30, 2003, and September 30, 2003, select the 30 largest excise tax returns containing excise taxes related primarily to the AATF and the Highway Trust Fund (HTF) on the basis of total tax liability amount⁴ from the Internal Revenue Service's (IRS) master file.⁵

Description of findings and results

We selected the 30 largest excise tax returns related primarily to the AATF and the HTF 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 the master file.

The total tax liability amount related to the 30 returns from the quarter ended June 30, 2003, was approximately \$8.8 billion, or 68 percent of the total excise tax liability amount of \$13 billion for all excise tax types for the quarter. Of these 30 returns, 9 contained primarily AATF-related taxes and 21 contained primarily HTF taxes.

The total tax liability amount related to the 30 returns from the quarter ended September 30, 2003, was approximately \$8.9 billion, or 67 percent of the total excise tax liability amount of \$13.3 billion for all excise tax types for the quarter. Of these 30 returns, 9 contained primarily AATF-related taxes and 21 contained primarily HTF taxes.

³Since certifications are not completed until 6 months after the end of the quarter, the certification and corresponding adjustment by the Department of the Treasury's Financial Management Service for the quarters ended June 30, 2003, and September 30, 2003, were completed in December 2003 and March 2004, respectively, and thus affected fiscal year 2004 distributions to the AATF.

⁴Although the certifications are based on amounts collected, we used the tax liability amounts to identify the taxpayers paying the largest amounts of excise taxes. Our review shows that these taxpayers generally pay their excise taxes in full each quarter.

⁵The master file is a detailed database containing taxpayer information.

2. For each of the 18 returns related primarily to the AATF from the quarters ended June 30, 2003, and September 30, 2003, we performed the following procedures, which resulted in our testing approximately \$3.2 billion in prorated collections⁶ affecting fiscal year 2004 distributions to the AATF:

- (a) Trace the liability amount for abstracts⁷ 26, 27, and 28 from the tax return to the master file.

Description of findings and results

The liability amount for abstracts 26, 27, and 28 on the tax return agreed with the master file for all 18 returns.

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

Description of findings and results

The taxpayers' calculations on all 18 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 files.⁸

⁶IRS 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 gasohol 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 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 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 AATF, we selected (1) tax on transportation of persons by air (abstract 26), (2) tax on the use of international air facilities (abstract 27), and (3) tax on transportation of property by air (abstract 28). If the return was related to the HTF, we selected (1) tax on 10 percent gasohol (abstract 59), (2) diesel fuel tax (abstract 60), and (3) gasoline tax (abstract 62). 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 89 percent of the total amount certified to the AATF and over 82 percent of the total amount certified to the HTF each quarter.

⁸The Collection Certification System produces what IRS refers to as audit files. These audit files contain the individual prorated collections, by abstract and taxpayer identification number, that make up the certified total amounts for each abstract.

Description of findings and results

The recomputed prorated collection amounts for the three selected abstracts agreed with amounts in IRS's Collection Certification System for all 18 returns.

B. Dollar unit sample (DUS) of transactions from the quarters ended December 31, 2003, and March 31, 2004

1. Sampling

- (a) Obtain excise tax collection data from the master file for the first two quarters of fiscal year 2004. Determine if excise tax collection data from the master file agree with data from 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 materially⁹ agree.

Description of findings and results

Excise tax collections for the first two quarters of fiscal year 2004 from the master file materially agreed with IRS's general ledger and with excise tax collections from the Collection Certification System.

- (b) Select a random attribute sample of 78 excise tax assessments from the master file.¹⁰ 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.

⁹For the purpose of this reconciliation, "material" is defined as 1 percent of the Form 720-related excise tax collections for the quarters ended December 31, 2003, and March 31, 2004. For fiscal year 2004, the materiality amount was \$226 million for the two quarters combined.

¹⁰For 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) To determine if the Collection Certification System properly summarized the prorated collections, total the prorated collections for selected abstracts¹¹ from the audit files and compare these amounts to amounts in the *Report of Excise Tax Collection*.¹²

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) AATF, (2) HTF, and (3) other excise tax abstracts. Use DUS to select a sample of prorated excise tax collections from the AATF population.

Description of findings and results

Use of DUS with a confidence level of 80 percent, a test materiality of \$88 million, and an expected aggregate error amount of \$26.4 million resulted in a sample of 73¹³ prorated collections for the AATF for the first two quarters of fiscal year 2004.

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

¹¹The selected abstracts are (1) tax on transportation of persons by air (abstract 26), (2) tax on the use of international air facilities (abstract 27), (3) tax on transportation of property by air (abstract 28), (4) tax on aviation fuel for commercial use (abstract 77), (5) tax on 10 percent gasohol (abstract 59), (6) diesel fuel tax (abstract 60), and (7) gasoline tax (abstract 62). The tax amounts for the four AATF-related abstracts made up over 95 percent of the total amount certified to the AATF, and the tax amounts for the three HTF-related abstracts made up over 82 percent of the total amounts certified to the HTF each quarter.

¹²The *Report of Excise Tax Collection* contains prorated collections, classified by abstracts, that serve as the basis for IRS's quarterly trust fund certifications.

¹³The planned sample size using DUS was 143 items. DUS selects dollars instead of specific transaction items by dividing the population by dollar intervals. The dollar interval for the AATF was \$32 million. Accordingly, any item with a dollar value matching or exceeding the sampling interval would be selected, whereas items with dollar values below the sampling interval might not be selected. For example, an item of \$64 million would cover 2 dollar-intervals, but represent one sample item. Due to large dollar items covering more than one interval, the 73 unique sampled transactions selected represent 143 dollar-intervals.

Description of findings and results

Use of DUS with a confidence level of 80 percent, a test materiality of \$341 million, and an expected aggregate error amount of \$102.3 million resulted in a sample of 102¹⁴ prorated collections for the HTF for the first two quarters of fiscal year 2004.

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

2. Detailed tests of transactions

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

- Check to determine whether the assessment amount on the tax return, for the sampled abstract, agrees with the amount recorded in the master file.

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.

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

Description of findings and results

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

- 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 files.¹⁶

¹⁴The planned sample size using DUS was 139 items. As explained in footnote 13, DUS selects dollars instead of specific transaction items by dividing the population by dollar intervals. The dollar interval for the HTF was \$125 million. Because large dollar items cover more than one interval, the 102 unique sampled transactions selected represent 139 dollar-intervals.

¹⁵For 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.

¹⁶The 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.

Description of findings and results

The recomputed prorated collection, based on information from the master file, agreed with the amounts for all of the sampled items.

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

Description of findings and results

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

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

Description of findings and results

As noted in the results from steps (a) and (b), we found no errors.

II. Review of IRS's quarterly AATF certifications

A. Receipt certifications

Perform the following steps on IRS's AATF receipt certifications for the quarters ended September 30, 2003, December 31, 2003, and March 31, 2004:

- 1. Inspect the certification letters for authorizing signatures.

Description of findings and results

The certification letters for all three 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 the supervisor or another analyst checked the certification letters and supporting worksheets for all three quarters.

- 3. Recalculate the totals on the certification letters to determine if they are mathematically correct.

Description of findings and results

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

4. Trace the certified amounts for tax on transportation of persons by air (abstract 26), tax on the use of international air facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on aviation fuel for commercial use (abstract 77)¹⁷ from the certification letters back to the *Report of Excise Tax Collection*¹⁸ and the *Treasury 90 Report*.¹⁹

Description of findings and results

The certified amounts for tax on transportation of persons by air (abstract 26), tax on the use of international air facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on aviation fuel for commercial use (abstract 77) from the certification letters agreed with the related *Report of Excise Tax Collection* and the *Treasury 90 Report* for all three quarters.

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

Description of findings and results

The distribution rates used by IRS for tax on transportation of persons by air (abstract 26), tax on the use of international air facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on aviation fuel for commercial use (abstract 77) agreed with the applicable laws in effect during all three quarters.

¹⁷The certified amounts for tax on transportation of persons by air (abstract 26), tax on the use of international air facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on aviation fuel for commercial use (abstract 77) made up over 95 percent of the total amount certified to the AATF each quarter.

¹⁸IRS 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 recorded in 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 by abstract until the current quarter because the related return was not recorded on the master file until the current quarter.

¹⁹The *Treasury 90 Report* summarizes excise tax credit information and is produced quarterly by IRS submission processing campus systems. IRS has nine submission processing campuses that receive and process tax returns and payments.

6. Review the *Report of Excise Tax Collection* used in the certification to determine if it contains significant²⁰ collections from prior quarters.

Description of findings and results

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

III. Review of Financial Management Service adjustments

Perform the following steps on Financial Management Service (FMS) adjustments to AATF excise tax distributions for the quarters ended September 30, 2003, December 31, 2003, and March 31, 2004:

- A. Compare the FMS adjustments made to the AATF for fiscal year 2004 with original Office of Tax Analysis (OTA) estimates and IRS-certified amounts to determine if they agree with the supporting schedules.²¹

Description of findings and results

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

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

Description of findings and results

The independently recalculated differences between the OTA estimates and the final IRS-certified amounts for the AATF agreed with the differences computed by FMS for all three quarters. These amounts were²²

²⁰For this test, “significant” is defined as \$45 million, which represents approximately 2 percent of the quarterly total certified to the AATF.

²¹An FMS accountant compiles this schedule, called the “Subsidiary Quarterly Account of Estimates and Actual Related Taxes Appropriated to Airport and Airway Trust Fund.” This schedule computes the difference between IRS-certified amounts and the OTA estimate for excise taxes, individually and in total, that relate to the AATF. The schedule, along with OTA transfer forms and IRS certifications, supports the FMS adjustment.

²²A 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. Since the adjustment amount is the difference between OTA’s estimate and IRS’s certified amount, it may be significantly affected by IRS’s ability to certify receipts in the appropriate quarter.

- (\$41,806,000) for the quarter ended September 30, 2003,
- (\$39,881,000) for the quarter ended December 31, 2003, and
- \$54,196,000 for the quarter ended March 31, 2004.

IV. Review of IRS precertification for the quarters ended March 31, 2004, and June 30, 2004²³

- A. Determine if evidence exists that the supervisor or another analyst checked the results and supporting worksheets.

Description of findings and results

There was evidence that the supervisor or another analyst checked the results and supporting worksheets for both quarters.

- B. Recalculate the totals on the precertification to determine if they are mathematically correct.

Description of findings and results

The totals on the precertification were mathematically correct for both quarters.

- C. Trace the amounts for tax on transportation of persons by air (abstract 26), tax on the use of international air facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on aviation fuel for commercial use (abstract 77)²⁴ from the precertification back to the *Report of Excise Tax Collection* and the *Treasury 90 Report*.

Description of findings and results

The amounts for tax on transportation of persons by air (abstract 26), tax on the use of international air facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on aviation fuel for commercial use (abstract 77) from the precertification agreed with the related *Report of Excise Tax Collection* and the *Treasury 90 Report* for the quarter ended June 30, 2004.

²³In order to accommodate the Department of Transportation's November 15 reporting date for fiscal year 2004, IRS performed precertifications. The data in the precertification are for information purposes only and do not represent an official certification.

²⁴The certified amounts for tax on transportation of persons by air (abstract 26), tax on the use of international air facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on aviation fuel for commercial use (abstract 77) made up over 95 percent of the precertified total to the AATF.

In the precertification for the quarter ended March 31, 2004, IRS erroneously omitted returns related to the quarter that posted during the month of March. The total amount of prorated collections related to the AATF for these returns was approximately \$300. Because IRS's precertification is not an actual certification that results in any redistributions of excise taxes among the trust funds, this error did not have an effect on fiscal year 2004 distributions to the AATF.

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

Description of findings and results

The distribution rates used by IRS for tax on transportation of persons by air (abstract 26), tax on the use of international air facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on aviation fuel for commercial use (abstract 77) agreed with the applicable laws in effect during both quarters.

- E. Review the *Report of Excise Tax Collection* used in the precertification to determine if it contains significant²⁵ collections from prior quarters.

Description of findings and results

The *Report of Excise Tax Collection* supporting IRS's precertification for both quarters did not contain significant collections from prior quarters.

- F. Review the Collection Certification System information to determine whether IRS omitted any significant²⁶ returns from the precertification. If so, report (1) the average amount of AATF-related excise taxes from these taxpayers' returns that were included in IRS's certification from the four previous quarters and (2) the amount of AATF-related excise taxes from these taxpayers' returns that were included in IRS's certification for the quarters ended March 31, 2003, and June 30, 2003.

²⁵For this test, "significant" is defined as \$45 million. This represents approximately 2 percent of the precertified total to the AATF.

²⁶For this test, "significant" is defined as tax returns with a total quarterly excise tax liability equal to or greater than \$10 million during each of the prior four quarters. Tax returns related specifically to the AATF with liabilities equal to or greater than \$10 million have, in the aggregate, historically accounted for over 85 percent of distributions certified to the AATF.

Description of findings and results

IRS did not omit any significant returns from the precertifications for both quarters.

V. Procedures performed on excise tax distributions to the AATF for the quarter ended September 30, 2004

- A. Determine if OTA's process for identifying and incorporating the effect of new legislation on excise tax receipts into its trust fund estimates²⁷ was in place during the quarter ended September 30, 2004.

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, 2004. OTA prepares a tax rate table²⁸ to capture information relating to legislation that affects tax rates, tax basis, accounts, and deposit rules in effect during the quarter.

- 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 the AATF for the quarter ended September 30, 2004.

- 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 the AATF for the quarter ended September 30, 2004, were mathematically correct.

²⁷OTA makes semimonthly estimates of excise tax collections for transfer to trust funds. There are five semimonthly estimates for the quarter ended September 30, 2004, which affect fiscal year 2004 distributions to the AATF.

²⁸OTA 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 distribution rates from this table in its subsequent certification of collections to trust funds.

- D. Trace the transfer amounts for tax on transportation of persons by air (abstract 26), tax on the use of international air facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on aviation fuel for commercial use (abstract 77)²⁹ from the transfer letter through the supporting schedules and back to the related source documents.³⁰

Description of findings and results

The transfer amounts for tax on transportation of persons by air (abstract 26), tax on the use of international air facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on aviation fuel for commercial use (abstract 77) from the transfer letter agreed with the supporting schedules and source documents for the semimonthly transfers affecting distributions to the AATF for the quarter ended September 30, 2004.

VI. Other procedures

- A. Compile and report the net amount of fiscal year 2004 excise taxes distributed to the AATF.

Description of findings and results

Based on a compilation of IRS's certifications, OTA's estimations, and adjustments, the net amount of fiscal year 2004 excise taxes distributed to the AATF was \$9,174,242,800.

- B. Procedures performed as part of the fiscal year 2004 IRS financial statement audit:
1. From IRS's master files for the first 8 months of fiscal year 2004, 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 class³¹ from source documentation agree with those recorded in the master files.

²⁹The transfer amounts for tax on transportation of persons by air (abstract 26), tax on the use of international air facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on aviation fuel for commercial use (abstract 77) made up 96 percent of the total amount transferred to the AATF for the fourth quarter of fiscal year 2004.

³⁰The 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 tables.

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

Description of findings and results

Detailed testing of 135 revenue receipts and 48 refund sample transactions showed that the collection or refund amount, tax period, and tax class from source documents agreed with amounts recorded in the 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 reconciliations to determine if IRS-reported total refunds (all tax classes) materially³² reconciled to Treasury FMS records.³³

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

3. Perform procedures to determine whether tax revenue receipt balances by tax class, including excise taxes, recorded in IRS's general ledger materially agree with the master files and Treasury records. For refunds, perform a comparison of total refund balances between the master files, the general ledger, and Treasury records.

Description of findings and results

Tax receipt balances for all tax classes, including excise taxes, recorded in IRS's general ledger materially agreed with the master files and Treasury records. Refund balances recorded in IRS's general ledger materially agreed with the master files and with Treasury records.

(196010)

³²For the purpose of this procedure and procedure VI.B.3, we define "material" as \$20 billion. This represents 1 percent of the estimated total tax revenue receipts collected by IRS in fiscal year 2004.

³³IRS 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 in Treasury records.

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