



United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-281570

February 25, 1999

The Honorable Kenneth M. Mead
Inspector General
Department of Transportation

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

Dear Mr. Mead:

We have performed the procedures contained in enclosure I to this letter, which we agreed to perform 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, 1998, is supported by the underlying records. As agreed upon with your office, we evaluated fiscal year 1998 AATF activity.

This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants (AICPA). Accordingly, the adequacy of the procedures to meet your objectives is your responsibility and we make no representations in that respect. The procedures we agreed to perform included (1) detailed tests of transactions that represent the underlying basis of amounts distributed to AATF, (2) review of the Internal Revenue Service's (IRS) quarterly AATF certifications, (3) review of the Department of the Treasury Financial Management Service adjustments to AATF for fiscal year 1998, (4) review of the Office of Tax Analysis process for estimating amounts to be distributed to AATF for the fourth quarter of fiscal year 1998, (5) comparison of net excise tax distributions to AATF during fiscal year 1998 and amounts reported in the financial statements prepared by the Bureau of Public Debt for AATF and the Federal Aviation Administration's consolidated financial statements, and (6) review of key reconciliations of IRS records to Treasury records. Enclosure I contains the agreed-upon procedures and our results and findings from performing each of the procedures.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the net excise taxes distributed to

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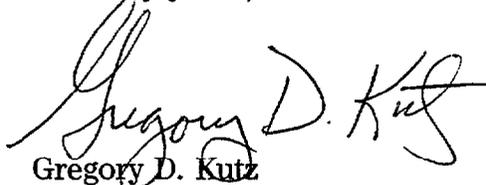
AATF. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

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

We completed the agreed-upon procedures on February 12, 1999. 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 AICPA. These standards also provide guidance when performing and reporting the results of agreed-upon procedures.

This report is intended for the use of the Office of Inspector General of the Department of Transportation. However, this report 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 me at 512-3406.

Sincerely yours,



Gregory D. Kutz

Associate Director, Governmentwide Accounting
and Financial Management Issues

Enclosure

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
<p>(A) PROCEDURES PERFORMED FOR FISCAL YEAR 1998 EXCISE TAX DISTRIBUTIONS RELATED TO QUARTERS ENDED JUNE 30, 1997, AND SEPTEMBER 30, 1997^a</p>	
<p>(1) Nonrepresentative selection of tax returns</p>	
<p>(a) For the quarters ending June 30, 1997, and September 30, 1997, select the 30 largest excise tax returns, on the basis of the assessment amount for each quarter. Select a minimum of 6 AATF returns for each quarter.</p>	<p>(a) A total of 67 excise tax returns from the quarters ended June 30, 1997, and September 30, 1997, were selected for review. The selection was based on total assessment amount and the inclusion of additional tax returns related to AATF. The selection exceeded 30 returns per quarter to obtain a minimum of 6 AATF tax returns in each quarter.</p>
	<p>The total assessment amount related to these 67 returns is approximately \$14.5 billion, or 64 percent of total excise tax assessment amounts (\$22.7 billion) for the two quarters combined. Of the 67 returns, 48 contained primarily Highway Trust Fund (HTF) related taxes, 16 contained primarily AATF related taxes, and 3 contained other excise taxes related to the general fund.</p>

^aAlthough the law requires that certifications be based on tax collections, IRS based certifications on tax assessments until June 1998. Since certifications usually are not completed until 6 months after the end of the quarter, the certifications for the quarters ended June 30 and September 30, 1997, were actually performed in fiscal year 1998, based on tax assessments. In June, for collections in the first quarter of fiscal year 1998, IRS began using a new certification method that brings IRS into compliance with the requirements of the law.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
<p>(b) For each of the selected returns:</p> <ul style="list-style-type: none"> - trace the assessment amount for selected abstracts^b from the tax return to IRS' master file and to the Automated Quarterly Excise Tax Listing system (AQETL)^c to determine if the amounts were properly input into the master file and properly transferred to AQETL. - check the mathematical accuracy of the taxpayer's calculations for selected abstracts. 	<p>(b) For each of the 16 returns related primarily to AATF, tax amounts for ticket tax (abstract 26), facilities use tax (abstract 27), and air freight tax (abstract 28), were selected for tracing to IRS' master file and AQETL system. This resulted in our testing approximately \$2.6 billion in net excise tax assessments related to AATF.</p> <p>The assessment amount for the 3 selected abstracts on the tax returns agreed with the amount in IRS' master file and AQETL system for all 16 cases. For one case related primarily to HTF, a data input error resulted in an understatement of \$826,000 to abstract 26. In this case, IRS inadvertently applied a credit related to a HTF abstract to an AATF abstract.</p> <p>Overall, for these 16 AATF and the 1 HTF case tested, less than 1 percent of total assessments of about \$2.6 billion were in error.</p>

^bThe abstract numbers identify the tax type (e.g., ticket tax) and are used as the basis to determine the distribution of the excise taxes to the various trust funds. Abstract numbers are preprinted on the Form 720 and are used by taxpayers to report excise tax assessments.

^cAQETL contains excise tax data extracted from the master file. This system is used by IRS to monitor excise tax assessments reported on Forms 720 and to generate gross certified tax amounts for each tax type.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
(2) Receipt certifications	
(a) Inspect the certification letters for authorizing signatures.	(a) The certification letters for the certifications related to the quarters ended June 30, 1997, and September 30, 1997, had authorizing signatures.
(b) Determine if evidence exists that the certification letters and accompanying AATF distribution schedules ^d were checked by the supervisor or another analyst.	(b) There was no evidence that data on the AATF certification letters, distribution schedules, or supporting documents for the certifications related to the quarters ended June 30, 1997, and September 30, 1997, were checked by either the supervisor or another analyst.
(c) Recalculate the totals on the certification letter and AATF distribution schedule to determine if they are mathematically correct.	(c) The totals on the certification letters and the AATF distribution schedules for the certifications related to the quarters ended June 30, 1997, and September 30, 1997, were mathematically correct.
(d) Trace the gross certified amounts for ticket tax (abstract 26), facilities use tax (abstract 27), and air freight tax (abstract 28) from the AATF distribution schedule to the AQETL system. (The gross tax assessment amounts for these three abstracts generally make up over 85 percent of total excise tax assessments related to AATF.)	(d) The gross certified amounts for ticket tax (abstract 26), facilities use tax (abstract 27), and air freight tax (abstract 28) per the AATF distribution schedules for the certifications related to the quarters ended June 30, 1997, and September 30, 1997, were the same as the amounts for these abstracts on the AQETL system.

^dThe AATF distribution schedule, which is attached to the AATF certification letter, shows the distribution of gross certified tax amounts for each abstract to the general fund, AATF, and the Leaking Underground Storage Tank (LUST) Trust Fund. The IRS analyst uses this electronic schedule, which contains tax rates provided by Office of Tax Analysis (OTA), to distribute the gross tax amounts.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
	<p>However, IRS omitted gross assessment amounts for aviation gas (abstract 95) and aviation O/T gas (abstract 96) from its certification for the quarter ended June 30, 1997. As a result, IRS understated the certified amount to AATF by \$506,000 on its certification for the quarter ended December 31, 1997. IRS subsequently adjusted its certification for the quarter ended June 30, 1998, which was completed in December 1998, to correct the error.</p>
<p>(e) Compare totals from the supporting reports of master file data to the AQETL certification results to determine if they agree.</p>	<p>(e) Supporting reports of master file data agreed with the AQETL certification results.</p>
<p>(f) For one abstract, total the individual assessments per this abstract from the master file and compare the amount to the AQETL computed total to determine if AQETL included all the assessments when computing the total gross certified amount.</p>	<p>(f) For the tire tax (abstract 66), the AQETL system included all of the assessments when computing the total gross certified amount.</p>
<p>(g) Review the AATF distribution schedules to determine if the distribution rates for ticket tax (abstract 26), facilities use tax (abstract 27), and air freight tax (abstract 28) agree with the applicable law.</p>	<p>(g) We saw no evidence that the distribution rates for ticket tax (abstract 26), facilities use tax (abstract 27), and air freight tax (abstract 28) on both the June 30, 1997, and September 30, 1997, AATF distribution schedules did not agree with the applicable laws.</p>

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
(3) FMS adjustments	
(a) Compare the Financial Management Service (FMS) adjustments made to AATF for fiscal year 1998 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.	(a) For the FMS adjustments made to AATF, the original OTA estimates and IRS certified amounts agreed with the supporting schedule. ^e The independently recalculated differences between the OTA estimates and the final IRS certified amounts for AATF for the quarters ended June 30, 1997–(\$100,447,666) ^f –and September 30, 1997–(\$106,612,350)–agree with the difference computed by FMS.

^eThis schedule, called the "Subsidiary Quarterly Account of Estimates and Actual Related Excise Taxes Appropriated to the AATF," 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 AATF. The schedule, along with OTA transfer forms and IRS certifications, supports the FMS adjustment.

^fA positive amount indicates that the FMS adjustment increased the excise taxes distributed to the trust fund. A negative amount indicates a decrease in the excise taxes distributed to the trust funds.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
<p>(B) PROCEDURES PERFORMED FOR FISCAL YEAR 1998 EXCISE TAX DISTRIBUTIONS RELATED TO QUARTERS ENDED DECEMBER 31, 1997, AND MARCH 31, 1998</p>	
<p>(1) Sampling</p>	
<p>(a) Obtain excise tax assessments and collections data from IRS' master file for the first 6 months of fiscal year 1998. Determine if excise tax collections per the 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^g to determine if they materially^h agree.</p>	<p>(a) Excise tax collections for the first 6 months of fiscal year 1998 per the master file materially agreed with IRS' general ledger and with total excise tax collections from the Collection Certification System.</p>

^gIRS' 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.

^hFor purposes of this reconciliation, we are defining materiality as \$200 million. This represents 1 percent of total Form 720-related excise tax collections, related to the quarters ended December 31, 1997, and March 31, 1998.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
<p>(b) Select an attribute sample of 78 excise tax assessments. Compare assessment information for each sample item from the master file to the assessment information in the Collection Certification System to determine if assessments from the master file are contained in the Collection Certification System.</p>	<p>(b) For each sample item, assessments from the master file are contained in the Collection Certification System.</p>
<p>(c) To determine if the Collection Certification System properly summarized the prorated collections, total the prorated collections for selected abstracts from the audit files and compare these amounts to amounts indicated on the "Report of Excise Tax Collection."ⁱⁱ</p>	<p>(c) The Collection Certification System properly summarized the prorated collections for abstracts related to AATF, HTF, and the Black Lung Disability Trust Fund. Prorated collections for the above mentioned trust funds from the audit files agreed with the corresponding amounts on the "Report of Excise Tax Collection."</p>

ⁱⁱThe "Report of Excise Tax Collection" is produced by the Collection Certification System. The IRS analyst uses information from these reports as the basis for calculating the gross certified amount for each abstract.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
<p>(d) Separate the total population of prorated collections from the audit files into the following distinct sampling populations 1) AATF, 2) HTF, and 3) remaining other excise taxes. Use Dollar Unit Sampling (DUS) to extract a sample of prorated excise tax collections from the AATF population.</p>	<p>(d) Use of DUS with a confidence level of 80 percent, a test materiality of \$90 million, and an expected aggregate error amount of \$27 million resulted in a sample of 57^j prorated collections for the first 6 months of fiscal year 1998.</p>
<p>(e) Extract samples of prorated excise tax collections from the two non-AATF populations.</p>	<p>(e) Use of DUS with a confidence level of 80 percent, a test materiality of \$230 million, and an expected aggregate error amount of \$69 million resulted in a sample of 125^k prorated collections for the first 6 months of fiscal year 1998 for HTF.</p> <p>Forty-five random items from the population of prorated tax collections related to all excise taxes other than AATF and HTF were selected for testing.^l</p>

^jThe actual sample size using DUS was 108 items. However, because DUS selects dollars versus specific transaction items as the sampling unit, 51 items were selected twice. Consequently, 57 unique sample transactions were selected for testing.

^kThe actual sample size using DUS was 182 items. However, because DUS selects dollars versus specific transaction items as the sampling unit, 57 items were selected twice. Consequently, 125 unique sample transactions were selected for testing.

^lFor 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.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
(2) Detailed test of transactions	
(a) For each prorated excise tax collection sampled from the AATF population: - check to see that the assessment on the tax return, for the sampled abstract, agrees with the amount recorded in IRS' master file.	- The assessment amounts on the tax return agreed with the amount recorded in IRS' master file for all 57 sample items.
- test the mathematical accuracy of the taxpayer's calculations on the tax return for the related abstract.	- The taxpayer's calculations on the tax return for the related abstracts were mathematically correct.
- recompute the prorated collection amount per the master file and compare this amount to the sample items pulled from the Collection Certification System audit file.	- The recomputed prorated collection amount per the master file agreed with the amounts for all items sampled from the Collection Certification System audit file.
(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.	(b) The two samples of prorated collections from the non-AATF populations did not contain any AATF excise tax collections.
(c) Project the results of conducting steps (a) and (b) for the samples of prorated excise tax collections to the population of AATF prorated collections.	(c) There were no errors for the sample items selected from the AATF population, and no AATF excise tax collections in the two samples of prorated collections from the non-AATF populations.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
(3) Receipt certifications	
(a) Inspect the certification letters for authorizing signatures.	(a) The certification letters for the certifications related to the quarters ended December 31, 1997 and March 31, 1998, had authorizing signatures.
(b) Determine if evidence exists that the certification letters and accompanying AATF distribution schedule were checked by the supervisor or another analyst.	(b) There was evidence that data on the certification letters, AATF distribution schedules, and documents supporting the certification results for the certifications related to the quarters ended December 31, 1997, and March 31, 1998, were checked by another analyst.
(c) Recalculate the totals on the certification letter and accompanying AATF distribution schedule to determine if they are mathematically correct.	(c) The totals on the certification letters and the AATF distribution schedule for the certifications related to the quarters ended December 31, 1997, and March 31, 1998, were mathematically correct.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
<p>(d) Trace the gross certified amounts for ticket tax (abstract 26), facilities use tax (abstract 27), and tax on commercial use aviation fuel (abstract 77)^m from the AATF distribution schedule back to the "Report of Excise Tax Collections."</p>	<p>(d) The gross certified amounts for ticket tax (abstract 26), facilities use tax (abstract 27), and tax on commercial use aviation fuel (abstract 77) per the AATF distribution schedule for the quarter ended December 31, 1997, did not agree with the "Report of Excise Tax Collections." This occurred because IRS incorrectly reversed some prorated collections related to previous quarters from its December 31, 1997, certification.</p> <p>IRS also omitted prorated collections for aviation gas (abstract 95) and aviation O/T gas (abstract 96) from its certification for the quarter ended December 31, 1997.</p> <p>As a result of these two errors, IRS understated gross prorated collections related to AATF by approximately \$57.3 million on its certification for the quarter ended December 31, 1997. IRS subsequently made adjustments on its certification for the quarter ended June 30, 1998, which was completed in December 1998, to correct the error.</p>

^mAir freight tax (abstract 28) was replaced with tax on commercial use aviation fuel (abstract 77) beginning with the certification for the quarter ended December 31, 1997, because a change in the law during fiscal year 1998 caused this tax to be more significant to AATF.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
	<p>Additionally, IRS did not reverse the total amount of "estimates"^m included in the previous quarter's certification. Since the "estimates" are not supported by underlying tax returns or collections, the amounts IRS certified to AATF in fiscal year 1998 were overstated by approximately \$76 million. IRS did not correct this error for fiscal year 1998.</p> <p>The gross certified amounts for ticket tax (abstract 26), facilities use tax (abstract 27), and tax on commercial use aviation fuel (abstract 77) per the AATF distribution schedule for the quarter ended March 31, 1997, traced back to the "Report of Excise Tax Collections."</p>
<p>(e) Review the AATF distribution schedule to determine if the distribution rates for ticket tax (abstract 26), facilities use tax (abstract 27), and tax on commercial use aviation fuel (abstract 77) agree with the applicable law.</p>	<p>(e) We saw no evidence that the distribution rates for ticket tax (abstract 26), facilities use tax (abstract 27), and tax on commercial use aviation fuel (abstract 77) on both the December 31, 1997, and March 31, 1998, AATF distribution schedules did not agree with the applicable laws.</p>

^mUnder IRS' previous certification process, which was used for the June 30, 1997, and September 30, 1997, certification, the AQETL system added estimated tax amounts to the gross certified tax if a taxpayer's return was not posted to the master file when the certification was performed. IRS believed the accuracy of the specific quarter's certification would be improved by including these estimates. The AQETL system would subsequently reverse the estimated amounts from the following quarter's certification, which would include the actual amounts per the tax returns. When IRS began its new certification process that started with the December 31, 1997, certification, it reversed actual prorated collections related to previous quarters rather than the amount that had been originally estimated. These amounts differed by approximately \$76 million.

Agreed-upon procedures	Description of findings and results
(4) Refunds/credit reclassification ^o	
(a) Inspect the certification letters for authorizing signatures.	(a) The certification letters for the certifications related to the quarters ended December 31, 1997, and March 31, 1998, had authorizing signatures.
(b) Determine if evidence exists that the certification letters and accompanying schedules ^p were checked by the supervisor or another analyst.	(b) There was no evidence that data on the certification letters and accompanying schedules for the certifications related to the quarters ended December 31, 1997, and March 31, 1998, were checked by either the supervisor or another analyst.
(c) Recalculate the totals on the certification letters and accompanying schedule to determine if they are mathematically correct.	(c) The totals on the certification letters and accompanying schedules for the certifications related to the quarters ended December 31, 1997, and March 31, 1998, were mathematically correct.

^oIRS 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 reported on the Form 720 excise tax returns, are netted against the excise tax receipt certification to trust funds.

^pIRS attaches a supporting schedule to the AATF refund/credit certification letter that includes the detailed excise tax amounts that support the total amount shown on the letter. IRS compiles the amounts on these schedules from service center systems and its Interim Revenue Accounting Control System (IRACS).

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
<p>(d) For selected excise taxes,⁹ trace the refund and credit amounts 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^r records.)</p>	<p>(d) The refund and credit amounts for the selected excise taxes, aviation gas, and aviation O/T gas, on the schedule accompanying the certification letter agreed with the amounts on the summary schedules.</p>
<p>(5) FMS adjustments</p>	
<p>(a) Compare the FMS adjustment made to the AATF for fiscal year 1998 with original OTA estimates and IRS certified amounts to see if these 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.</p>	<p>(a) For the FMS adjustments made to AATF, the original OTA estimates and IRS certified amounts agreed with the supporting schedule. The independently recalculated differences between the OTA estimates and the final IRS certified amounts for AATF for the quarters ended December 31, 1997—(\$55,749,000)—and March 31, 1998—(\$275,854,000)—agree with the difference computed by FMS.</p>

⁹The information used by IRS to capture excise tax refunds and credits from corporate and personal returns comes from service center systems and IRACS. These systems do not capture excise tax data at the abstract level. For this reason, reference is made to excise taxes rather than abstracts.

^rIRS has 10 service centers that process tax returns and tax receipts.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
(C) PROCEDURES PERFORMED FOR FISCAL YEAR 1998 EXCISE TAX DISTRIBUTIONS RELATED TO THE QUARTER ENDED JUNE 30, 1998	
(1) Receipt certifications	
(a) Inspect the certification letter for authorizing signature.	(a) The certification letter for the certification related to the quarter ended June 30, 1998, had an authorizing signature.
(b) Determine if evidence exists that the certification letter and accompanying AATF distribution schedule were checked by the supervisor or another analyst.	(b) There was evidence that data on the certification letter, AATF distribution schedule, and documents supporting the certification results for the certification related to the quarter ended June 30, 1998 were checked by another analyst.
(c) Recalculate the totals on the certification letter and accompanying AATF distribution schedule to determine if they are mathematically correct.	(c) The totals on the certification letter and the AATF distribution schedule for the certification related to the quarter ended June 30, 1998, were mathematically correct.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
(d) Trace the gross certified amounts for ticket tax (abstract 26), facilities use tax (abstract 27), and tax on commercial use aviation fuel (abstract 77) from the AATF distribution schedule to the "Report of Excise Tax Collections."	(d) The gross certified amounts for ticket tax (abstract 26), facilities use tax (abstract 27), and tax on commercial use aviation fuel (abstract 77) per the AATF distribution schedule agreed with the related "Report of Excise Tax Collections." The total gross prorated collections certified to AATF for the quarter ended June 30, 1998, included approximately \$457 million related to the quarter ended March 31, 1998. This resulted in the amount certified to AATF being \$457 million higher for the June quarter and \$457 million lower for the March quarter.
(e) Review the AATF distribution schedule to determine if the distribution rates for ticket tax (abstract 26), facilities use tax (abstract 27), and tax on commercial use aviation fuel (abstract 77) agree with the applicable laws.	(e) We saw no evidence that the distribution rates for ticket tax (abstract 26), facilities use tax (abstract 27), and tax on commercial use aviation fuel (abstract 77) on the AATF distribution schedule for the certification related to the quarter ended June 30, 1998, did not agree with the applicable laws.
(2) Refunds/credit reclassification	
(a) Inspect the certification letter for authorizing signature.	(a) The certification letter for the certification related to the quarter ended June 30, 1998, had an authorizing signature.
(b) Determine if evidence exists that the certification letter and accompanying schedule were checked by the supervisor or another analyst.	(b) There was no evidence that data on the certification letter and accompanying schedule for the certification related to the quarter ended June 30, 1998, were checked by either the supervisor or another analyst.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
(c) Recalculate the totals on the certification letter and accompanying schedule to determine if they are mathematically correct.	(c) The totals on the certification letters and accompanying schedules for the certification related to the quarter ended June 30, 1998, were mathematically correct.
(d) For selected excise taxes, trace the refund and credit amounts from the schedule accompanying the certification letter to other summary refund/credit schedules.	(d) The refund and credit amounts for the selected excise taxes, aviation gas and aviation O/T gas, on the schedule accompanying the certification letter agreed with the amounts on the summary schedules.
(3) FMS adjustments	
(a) Compare the FMS adjustment made to AATF for fiscal year 1998 with original OTA estimates and IRS certified amounts to see if these 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.	(a) For the FMS adjustments made to AATF, the original OTA estimates and IRS certified amounts agreed with the supporting schedule. The independently recalculated differences between the OTA estimates and the final IRS certified amounts for AATF for the quarter ended June 30, 1998—\$598,063,000—agree with the difference computed by FMS.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
<p>(D) PROCEDURES PERFORMED FOR FISCAL YEAR 1998 EXCISE TAX DISTRIBUTIONS RELATED TO THE QUARTER ENDED SEPTEMBER 30, 1998</p>	
<p>(1) OTA estimation process</p>	
<p>(a) Determine if OTA has a process to determine whether new legislation affecting excise tax receipts is identified and included in the receipt estimates.</p>	<p>(a) OTA has a process for identifying and including new laws and regulations affecting excise tax receipts into its receipt estimates. This process includes consultations with Treasury's Tax Legislative Counsel, IRS' Chief Counsel, Office of Management and Budget, and the Joint Committee on Taxation. These communications are not routinely documented.</p>
	<p>An OTA 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, Federal Aviation Administration (FAA), and Department of Transportation (DOT). OTA does not obtain documentation indicating review and concurrence with the information in this table by relevant Treasury offices, FAA or DOT.</p>
	<p>OTA does not routinely compile a comprehensive listing of laws and regulations that affect the receipt estimates.</p>

Agreed-upon procedures	Description of findings and results
<p>(b) Determine if OTA has a process that considers the views of DOT and FAA prior to its finalizing the receipt estimates.</p>	<p>(b) OTA has a process that considers the views of FAA and DOT prior to its finalizing the receipt estimates. During the development of the receipts estimates, OTA staff economists communicate with analysts at FAA and DOT about the development of the estimates. These communications are not documented. Prior to finalizing the full year estimates, which are the basis for the monthly tax distributions, OTA transmits the full year estimates to FAA and DOT for their review. The documentation maintained does not indicate the nature of review comments and whether the FAA and DOT concurred with the final estimates.</p>
<p>(c) Determine if OTA has a review process to ensure that new information received between the budget preparation cycles is reflected in the receipt estimates.</p>	<p>(c) OTA has a review process to ensure that new information received between the budget preparation cycles is reflected in the receipt estimates. At least two reviews are 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. The Director of RED reviews the changes to the earlier forecasts, provides input to each staff economist, and approves the changes to the forecasts. Documentation of review comments is not maintained and Director approval of the final changes is not documented by signature.</p>

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
	<p>The Director of RED reviews the monthly receipt forecasts prepared by OTA staff economists, which are based on the fiscal year forecasts described above, and indicates his concurrence by his signature on the monthly transfer documents transmitted to FMS.</p>
	<p>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 transmittal memo to FMS.</p>
<p>(d) Determine if OTA has a process to consider the impact of variances between actual and previously forecasted excise tax receipts and incorporate these into its receipt estimates.</p>	<p>(d) OTA has a process to consider the impact of variances between actual and previously forecasted excise tax receipts and incorporate these into its receipts estimation process. OTA compares 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.⁵ In addition, OTA staff economists review the differences between prior quarterly estimates and IRS certified amounts at the trust fund level. This information is considered along with other factors to determine if adjustments to the excise tax receipts estimation models are warranted.</p>

⁵OTA uses economic models to develop estimates for the amounts of excise tax receipts to be transferred to AATF.

Agreed-upon procedures	Description of findings and results
(2) Refunds/credit reclassification	
(a) Inspect the certification letter for authorizing signature.	(a) The certification letter for the certification related to the quarter ended September 30, 1998, had an authorizing signature.
(b) Determine if evidence exists that the certification letter and accompanying schedule were checked by the supervisor or another analyst.	(b) There was no evidence that data on the certification letter and accompanying schedule for the certification related to the quarter ended September 30, 1998, were checked by either the supervisor or another analyst.
(c) Recalculate the totals on the certification letter and accompanying schedule to determine if they are mathematically correct.	(c) The totals on the certification letter and accompanying schedule for the certification related to the quarter ended September 30, 1998, were mathematically correct.
(d) For selected excise taxes, trace the refund and credit amounts from the schedule accompanying the certification letter to other summary refund/credit schedules.	(d) The refund and credit amounts for the selected excise taxes, aviation gas and aviation O/T gas, on the schedule accompanying the certification letter agreed with the amounts on the summary schedules.
(E) OTHER PROCEDURES RELATED TO TOTAL FISCAL YEAR 1998 EXCISE TAX DISTRIBUTIONS	
(1) Compare total fiscal year 1998 excise taxes distributed to AATF with drafts of the 1) Bureau of Public Debts' (BPD) financial statements for AATF, and 2) FAA consolidated financial statements to determine if they agree.	(1) Fiscal year 1998 excise tax distributions for AATF materially agreed with drafts of the 1) BPD financial statements for AATF and 2) FAA consolidated financial statements.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
(F) OTHER PROCEDURES	
(1) Performed as part of fiscal year 1998 IRS financial statement audit	
(a) Use DUS to extract statistical samples of 1) total revenue receipts and 2) refunds from IRS master files for the first 9 months of fiscal year 1998. For each item in the samples of revenue receipts and refunds, test that the collection or refund amount and tax class from source documentation agrees with amounts recorded in IRS' master files.	(a) Detailed testing of a total of 413 revenue collection and 109 refund sample transactions did not reveal any instances of misclassifications related to excise taxes.
(b) Review selected service centers' monthly Treasury 224 reconciliations by tax class ^t to determine if IRS-reported revenue receipts and refunds, including excise taxes, are properly classified and reconciled to Treasury FMS records.	(b) - Tax revenue collections reported by the selected IRS service centers via the monthly Treasury 224 reconciliation process were properly classified and materially ^u agreed with Treasury FMS records. - Total refunds reported by the selected IRS service centers via the monthly Treasury 224 reconciliation process materially agreed with Treasury FMS records.

^tIRS assigns a tax class number to specific types of taxes. Excise taxes are Tax Class 4.

^uFor the purposes of this section, we defined materiality as \$17 billion.

<u>Agreed-upon procedures</u>	<u>Description of findings and results</u>
<p>(c) Perform a proof of cash for fiscal year 1998 to determine if revenue receipt balances by tax class, including excise tax, and refund balances per IRS' general ledger materially agree with IRS master files and Treasury records.</p>	<p>(c) - Fiscal year-end tax collection balances for all tax classes, including excise taxes, per IRS' general ledger materially agreed with IRS' master files and with Treasury records.</p> <p>- Fiscal year-end refund balances per IRS' general ledger materially agreed with the master file and with Treasury records.</p>

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