



441 G St. N.W.
Washington, DC 20548

November 8, 2018

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

Agreed-Upon Procedures: Fiscal Year 2018 Excise Tax Distributions to the Airport and Airway and Highway Trust Funds

Independent Accountant's Report

Dear Mr. Scovel:

We performed the procedures described in the enclosures to this report on fiscal year 2018 net excise tax distributions to the Airport and Airway Trust Fund (AATF) and the Highway Trust Fund (HTF), with which you agreed. The Internal Revenue Service (IRS) is responsible for certifying quarterly net excise tax collections to be distributed to the AATF and the HTF that are supported by underlying records. The Department of the Treasury's Office of Tax Analysis (OTA) is responsible for developing reasonable estimates of net excise tax collections to be distributed to the AATF and the HTF. These IRS certifications and OTA estimates are the bases of the net excise tax distributions to the AATF and the HTF. The sufficiency of these procedures is solely the responsibility of the Office of Inspector General of the Department of Transportation. We performed these procedures solely to assist your office in ascertaining whether the net excise tax revenue distributed to the AATF and the HTF for the fiscal year ended September 30, 2018, is supported by underlying records. We make no representation regarding the sufficiency of the procedures described in the report either for the purpose for which this report has been requested or for any other purpose.

We conducted the engagement in accordance with U.S. generally accepted government auditing standards, which incorporate attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to perform, and did not perform, an examination or review, the objective of which would have been to express an opinion or conclusion, respectively, on the amount of net excise taxes distributed to the AATF and the HTF during fiscal year 2018. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that we would have reported to you. We completed the agreed-upon procedures on October 26, 2018.

The procedures we agreed to perform were related to (1) transactions that represent the underlying basis of amounts distributed from the General Fund to the AATF and the HTF during fiscal year 2018,¹ (2) IRS's quarterly AATF and HTF excise tax certifications prepared during fiscal year 2018, (3) OTA's estimates of excise tax amounts to be distributed to the AATF and the HTF for the fourth quarter of fiscal year 2018, and (4) the amount of net excise taxes to be distributed to the AATF and the HTF during fiscal year 2018. Enclosure I provides the details on

¹The General Fund of the U.S. government (General Fund) consists of assets and liabilities used to finance the daily and long-term operations of the U.S. government as a whole. It also includes accounts used in managing the budget of the U.S. government.

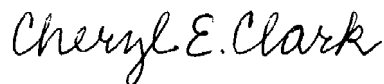
the agreed-upon procedures and our results with respect to the AATF. Enclosure II provides the details on the agreed-upon procedures and our results with respect to the HTF.

We requested comments on a draft of this report from IRS and OTA. We received email responses from the Deputy Associate Chief Financial Officer for Custodial Financial Management, IRS, and the Financial Economist, OTA. IRS agreed with the findings related to the procedures performed concerning excise tax distributions to the AATF and the HTF during fiscal year 2018. OTA stated that it had no comments on the report.

This report is intended solely for the use of the Office of Inspector General of the Department of Transportation and is not suitable for any other purpose. However, this report is a matter of public record, and its distribution is not limited. The report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions concerning this report, please contact me at (202) 512-9377 or clarkce@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Shirley Abel (Assistant Director), Mark Cheung, Jeremy Choi, Tabitha FitzGibbon, and Gary Wiggins made key contributions to this report.

Sincerely yours,



Cheryl E. Clark
Director
Financial Management and Assurance

Enclosures – 2

Enclosure I

Airport and Airway Trust Fund Excise Tax Procedures

I. Procedures on Transactions That Represent the Underlying Basis of Amounts Distributed to the Airport and Airway Trust Fund (AATF) in Fiscal Year 2018

A. Statistical selection of attribute and monetary unit samples (MUS) from the quarters ended September 30, 2017; December 31, 2017; and March 31, 2018.¹

1. Procedures on population of transactions and sample selection:

- (a) Compare the total excise tax collections from the Internal Revenue Service's (IRS) master file with excise tax collections from IRS's Collection Certification System audit files for all three quarters to determine whether there is any variance that exceeds 1 percent of total excise tax collections per the master file.²

Description of Findings or Results

The variance between excise tax collections in IRS's master file and those in IRS's Collection Certification System for all three quarters was less than 1 percent.

- (b) Select a random attribute sample of 45 excise tax assessments from IRS's master file, which are based on Form 720 excise tax returns that IRS received and recorded during these three quarters. Compare assessment and receipt information for each return from IRS's master file to IRS's Collection Certification System for agreement.³

Description of Findings or Results

For all 45 excise tax assessments sampled from these three quarters, assessment and receipt information from IRS's master file agreed with the information in IRS's Collection Certification System.

¹The Internal Revenue Service certifications of excise tax distributions and corresponding Department of the Treasury Bureau of the Fiscal Service adjustment for the quarter ended September 30, 2017, were completed in February 2018 and thus affect distributions to the AATF during fiscal year 2018.

²IRS's master file contains the detailed records of taxpayer accounts. The Collection Certification System produces what IRS refers to as audit files. These audit files contain the individual prorated collections by tax type and taxpayer identification number. IRS calculates the amount it certifies to the trust funds by first subtracting credits that taxpayers claim from the prorated collections and then multiplying the result by the applicable trust fund distribution rates.

³For this sample, if no errors are found in our comparison of 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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- (c) For each of the three quarters, sum the prorated collections for selected abstracts⁴ from IRS's Collection Certification System audit files and compare these amounts to amounts in the *Report of Excise Tax Collection*⁵ to determine whether IRS's Collection Certification System properly summarized the prorated collections.⁶

Description of Findings or Results

For each of the three quarters, the independently calculated sum of prorated collections from the audit files for the selected abstracts agreed with the corresponding amounts in the quarterly *Report of Excise Tax Collection*.

- (d) Combine the total population of prorated collections from IRS's Collection Certification System audit files for all three quarters and then extract the subpopulation of the AATF.⁷ Use MUS to select a sample of unique excise tax collections from the AATF population using a confidence level of 63 percent, a tolerable misstatement of \$211 million, and an expected error amount of \$36 million.⁸

⁴The abstract numbers identify the tax type (e.g., kerosene 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. The selected abstracts are tax on transportation of persons by air (abstract 26), tax on the use of international air travel facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on kerosene for use in commercial aviation (abstract 77) for the AATF. See Internal Revenue Manual, § 21.7.8, *Excise Taxes* (Aug. 18, 2017). The tax amounts for the four AATF-related abstracts made up over 98 percent of the total amount of excise tax receipts that IRS certified to the AATF in fiscal year 2018.

⁵The quarterly *Report of Excise Tax Collection* contains prorated collections, classified by abstracts, which serve as the basis for IRS's quarterly trust fund certifications.

⁶IRS certifies to trust funds the amount of excise taxes collected. Because taxpayers have sometimes not fully paid their tax liability, IRS allocates the amount of payments actually received among the different excise taxes reported on the taxpayers' returns. 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 \$3 million for transportation of property by air tax and \$3 million for kerosene tax on its quarterly Form 720, but has paid IRS only \$4 million at the time IRS performs its certification, the program prorates the \$4 million in the following manner: \$2 million to transportation of property by air tax and \$2 million to kerosene tax.

⁷The combined total population of prorated collections from IRS's Collection Certification System audit files for all three quarters includes all types of excise tax collections, including those for the AATF.

⁸The \$211 million tolerable misstatement represents 1.4 percent of the net excise tax revenue distributed to the AATF in fiscal year 2017. The expected aggregate error amount of \$36 million represents approximately 17 percent of the tolerable misstatement amount.

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Description of Findings or Results

Use of MUS with a confidence level of 63 percent, a tolerable misstatement of \$211 million, and an expected error of \$36 million resulted in a sample of 44 unique excise tax collections for the AATF.⁹

2. Procedures on transactions:

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

- Compare the assessment or adjustment amount from the supporting document to IRS's master file for agreement.¹⁰

Description of Findings or Results

The assessment or adjustment amount on the supporting documentation agreed with the amount recorded in IRS's master file for each of the 44 sampled transactions.

- Calculate the assessment or adjustment amount on the supporting documentation to determine whether it is mathematically correct.

Description of Findings or Results

The assessment or adjustment amount on the supporting documentation was mathematically correct for each of the 44 sampled transactions.

- Calculate the prorated collection amount for the sampled transactions based on information from IRS's master file and compare this amount to the amount in IRS's Collection Certification System audit files for agreement.

Description of Findings or Results

The independently calculated prorated collection amount agreed with the amount in IRS's Collection Certification System audit files for each of the 44 sampled transactions.

(b) Statistically project the results of conducting the steps in 2(a).

⁹The 44 unique sampled transactions selected represented 32 dollar interval sample items and 12 high-dollar sample items. MUS select dollars versus specific transaction items by dividing the population of prorated excise tax collections by dollar intervals. The dollar interval for the AATF was \$168 million, with each dollar interval representing one sample item. Accordingly, all transactions with a dollar value equal to or exceeding this dollar interval would be selected and may represent more than one sample item. For example, a transaction with a value of \$336 million could encompass two \$168 million intervals and be counted as two sample items based on the dollar interval.

¹⁰Supporting documentation includes quarterly Form 720 excise tax returns and other forms that taxpayers submit or that IRS prepares.

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Description of Findings or Results

The net most likely error related to the AATF was \$0 with an upper error limit of \$167 million at a 63 percent confidence level. The upper error limit did not exceed the tolerable misstatement amount of \$211 million designed for this procedure.

II. Procedures on IRS's Quarterly AATF Receipt Certifications

Perform the following procedures on IRS's AATF receipt certifications for the quarters ended September 30, 2017; December 31, 2017; March 31, 2018; and June 30, 2018:

- A. Inspect the certification letters for authorizing signatures.

Description of Findings or Results

The certification letters for all four quarters had authorizing signatures.

- B. Inspect the certification letters and supporting worksheets to determine whether evidence exists that they were reviewed by the supervisor or another analyst.

Description of Findings or Results

There was evidence that the supervisor or another analyst reviewed the certification letters and supporting worksheets for all four quarters.

- C. Calculate the totals on the certification letters to determine whether they are mathematically correct.

Description of Findings or Results

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

- D. Trace the certified amounts for tax on transportation of persons by air (abstract 26), tax on the use of international air travel facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on kerosene for use in commercial aviation (abstract 77)¹¹ from the certification letters back to the *Report of Excise Tax Collection*¹² and the *Treasury 90 Report* for agreement.¹³

¹¹The certified amounts for tax on transportation of persons by air (abstract 26), tax on the use of international air travel facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on kerosene for use in commercial aviation (abstract 77) made up over 98 percent of the total amount of excise tax receipts that IRS certified to the AATF for fiscal year 2018.

¹²The *Report of Excise Tax Collection* is produced by the Collection Certification System. Collections are classified by abstract on the report when the related Form 720 tax return has been posted to IRS's master file during the processing period that the report covers. IRS uses data from one report for each quarterly certification.

¹³The *Treasury 90 Report* summarizes excise tax credit information and is produced quarterly by IRS service center campuses. See Internal Revenue Manual, § 3.17.41, *Accounting and Operating Reports* (Sept. 18, 2009). IRS has 10 service center campuses.

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Description of Findings or Results

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

However, IRS's certification letter for the quarter ended March 31, 2018, included erroneous amounts for tax on transportation of persons by air (abstract 26) and tax on kerosene for use in commercial aviation (abstract 77), because an IRS analyst entered inaccurate data from the *Treasury 90 Report* into the sections of a schedule accompanying the certification letter. As a result, IRS understated its AATF certification by approximately \$4.8 million. After we brought this to its attention, IRS issued a revised certification, which agreed with the related *Report of Excise Tax Collection* and the *Treasury 90 Report*. Since the adjustments were made prior to the end of the fiscal year, the error did not have an effect on the fiscal year 2018 distribution to the AATF.

- E. Compare the distribution rates IRS used for tax on transportation of persons by air (abstract 26), tax on the use of international air travel facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on kerosene for use in commercial aviation (abstract 77) for agreement with the applicable laws.

Description of Findings or Results

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

- F. Inspect the *Report of Excise Tax Collection* used in the certification to determine whether it contains more than \$93 million¹⁴ in AATF collections from prior quarters.¹⁵

¹⁴The \$93 million represents the quarterly average of 2.5 percent of the total amount of excise tax receipts that IRS certified to the AATF for fiscal year 2017.

¹⁵The *Report of Excise Tax Collection* may contain collections related to prior quarters that IRS certifies as part of the current quarter's collections because IRS did not post the related tax returns to its master file until the current processing period. This may result from IRS processing delays or from delays by taxpayers in filing tax returns.

Description of Findings or Results

The reports used in the AATF certification for the quarters ended September 30, 2017 and June 30, 2018 did not contain more than \$93 million in collections from prior quarters.

For the quarter ended December 31, 2017, the report used in the AATF certification contained approximately \$143 million from prior quarters. According to IRS, two taxpayers were in hurricane disaster areas and were granted extensions to file their tax returns. Subsequently, two large-dollar excise tax returns totaling \$54 million for the quarter ended September 30, 2017, were posted in the quarter ended December 31, 2017.

For the quarter ended March 31, 2018, the report used in the AATF certification contained \$95.6 million in collections from prior quarters, which exceeded the \$93 million threshold by about \$2.6 million. According to IRS officials, they were not able to identify a specific cause for the amount of the prior quarter collections. IRS confirmed that there have been no law or policy changes that would affect the timeliness of taxpayer filings or the certification of the AATF for the quarter ended March 31, 2018.

Since IRS's excise tax certification to the AATF for the quarters ended December 31, 2017, and March 31, 2018, are both used in determining fiscal year 2018 excise tax distributions to the AATF, these had no effect on the dollar amount of excise tax distributions to the AATF for fiscal year 2018.

- G. Inspect the *Report of Excise Tax Collection* used in the certification to determine whether it contains more than \$93 million in AATF collections from future quarters.¹⁶

Description of Findings or Results

None of the reports used in the AATF certification for any of the four quarters reported more than \$93 million in AATF collections from future quarters.

- H. For the quarter ended June 30, 2018, inquire with IRS whether any excise tax returns from its list of the largest excise taxpayers were omitted from the certification.¹⁷ For any such returns that were omitted but that IRS subsequently

¹⁶The *Report of Excise Tax Collection* may contain collections related to future quarters that IRS certifies as part of the current quarter's collections because taxpayers filed tax returns before the due date and paid the taxes owed, and IRS posted the tax returns to its master file during the current processing period.

¹⁷IRS maintains a listing of its largest excise taxpayers. To help ensure that tax return data for the largest excise taxpayers are included in each quarterly excise tax certification, IRS tracks the receipt of these returns and contacts these taxpayers when necessary.

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received, report the total amount of AATF-related tax collections from these tax returns. For any such returns that were omitted and that IRS has not yet received, report the amount of AATF-related tax collections from the taxpayer(s) based on the previous quarter.

Description of Findings or Results

According to IRS, no AATF-related tax returns from its list of the largest excise taxpayers were omitted from its certification for the quarter ended June 30, 2018.

III. Procedures on Excise Tax Distributions to the AATF for the Quarter Ended September 30, 2018

- A. Determine whether the Department of the Treasury's Office of Tax Analysis (OTA) prepared a tax rate table to capture information concerning tax rates, tax basis, accounts, and deposit rules in effect during the quarter ended September 30, 2018, and whether OTA used this rate table in its trust fund estimates for the quarter.¹⁸

Description of Findings or Results

OTA prepared a tax rate table to capture information concerning tax rates, tax basis, accounts, and deposit rules in effect during the quarter ended September 30, 2018. OTA used the rate table in preparing the five semimonthly estimates that affect fiscal year 2018 distributions to the AATF.

- B. Inspect the transfer forms and supporting schedules to determine whether there is evidence of review.

Description of Findings or Results

There was evidence that an OTA economist, other than the one who prepared the estimate, reviewed the transfer forms and supporting schedules affecting distributions from the General Fund to the AATF for the quarter ended September 30, 2018.

- C. Calculate the totals on the transfer forms to determine whether they are mathematically correct.

¹⁸OTA makes semimonthly estimates of excise tax collections for transfer from the General Fund to trust funds. To better match excise tax collections with the corresponding quarter, OTA's estimates for each quarter cover the period starting on the 16th day of the first month in the quarter and go through the 15th day of the first month of the next quarter. For example, OTA's estimates for the fourth quarter of fiscal year 2018 will cover July 16, 2018, through October 15, 2018. While there are six semimonthly estimates related to the quarter, only five of these affect fiscal year 2018 distributions to the AATF. The sixth semimonthly estimate, covering the period from October 1 through 15, will affect distributions to the AATF for fiscal year 2019.

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Description of Findings or Results

The totals on the transfer forms affecting distributions from the General Fund to the AATF for the quarter ended September 30, 2018, were mathematically correct.

- D. Trace the transfer amounts for tax on transportation of persons by air (abstract 26), tax on the use of international air travel facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on kerosene for use in commercial aviation (abstract 77)¹⁹ from the transfer forms back to the related source documents for agreement.²⁰

Description of Findings or Results

The transfer amounts for tax on transportation of persons by air (abstract 26), tax on the use of international air travel facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on kerosene for use in commercial aviation (abstract 77) from the transfer forms agreed with the related source documents for the quarter ended September 30, 2018.

IV. Other Procedures

- A. Using IRS's quarterly certifications, OTA's estimated distributions, and any adjustments, compile and report the amount of net excise taxes to be distributed to the AATF in fiscal year 2018.

Description of Findings or Results

Based on a compilation of IRS's quarterly certifications, OTA's estimations, and adjustments, the amount of net excise taxes to be distributed to the AATF in fiscal year 2018 is \$15,792,523,000.

¹⁹OTA's estimated transfer amounts for tax on transportation of persons by air (abstract 26), tax on the use of international air travel facilities (abstract 27), tax on transportation of property by air (abstract 28), and tax on kerosene for use in commercial aviation (abstract 77) made up over 98 percent of the total amount transferred to the AATF for the fourth quarter of fiscal year 2018.

²⁰The source documents include the *Report of Excise Taxes* used to derive the percentages applied to reported receipts, the Daily Treasury Statement, the Monthly Treasury Statement, and the excise tax rate table.

Enclosure II

Highway Trust Fund Excise Tax Procedures

I. Procedures on Transactions That Represent the Underlying Basis of Amounts Distributed to the Highway Trust Fund (HTF) in Fiscal Year 2018

A. Statistical selection of attribute and monetary unit samples (MUS) from the quarters ended September 30, 2017; December 31, 2017; and March 31, 2018.¹

1. Procedures on population of transactions and sample selection:

- (a) Compare the total excise tax collections from Internal Revenue Service's (IRS) master file with excise tax collections from IRS's Collection Certification System audit files for all three quarters to determine whether there is any variance that exceeds 1 percent of total excise tax collections per the master file.²

Description of Findings or Results

The variance between excise tax collections in IRS's master file and those in IRS's Collection Certification System audit files for all three quarters was less than 1 percent.

- (b) Select a random attribute sample of 45 excise tax assessments from IRS's master file, which are based on Form 720 excise tax returns that IRS received and recorded during these three quarters. Compare assessment and receipt information for each return from IRS's master file to IRS's Collection Certification System for agreement.³

Description of Findings or Results

For all 45 excise tax assessments sampled from these three quarters, assessment and receipt information from IRS's master file agreed with the information in IRS's Collection Certification System.

¹The Internal Revenue Service certifications of excise tax distributions and corresponding Department of the Treasury Bureau of the Fiscal Service adjustment for the quarter ended September 30, 2017, were completed in February 2018 and thus affect distributions to the HTF during fiscal year 2018.

²IRS's master file contains the detailed records of taxpayer accounts. The Collection Certification System produces what IRS refers to as audit files. These audit files contain the individual prorated collections by tax type and taxpayer identification number. IRS calculates the amount it certifies to the trust funds by first subtracting credits that taxpayers claim from the prorated collections and then multiplying the result by the applicable trust fund distribution rates.

³For this sample, if no errors are found in our comparison of 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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- (c) For each of the three quarters, sum the prorated collections for selected abstracts⁴ from IRS's Collection Certification System audit files and compare these amounts to amounts in the *Report of Excise Tax Collection*⁵ to determine whether IRS's Collection Certification System properly summarized the prorated collections.⁶

Description of Findings or Results

For each of the three quarters, the independently calculated sum of prorated collections from the audit files for the selected abstracts agreed with the corresponding amounts in the *Report of Excise Tax Collection*.

- (d) Combine the total population of prorated collections from IRS's Collection Certification System audit files for all three quarters and then extract the subpopulation of the HTF.⁷ Use MUS to select a sample of unique excise tax collections from the HTF population using a confidence level of 63 percent, a tolerable misstatement of \$799 million, and an expected aggregate error amount of \$136 million.⁸

Description of Findings or Results

Use of MUS with a confidence level of 63 percent, a tolerable misstatement of \$799 million, and an expected error amount of

⁴The abstract numbers identify the tax type (e.g., gasoline and diesel fuel 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. The selected abstracts are diesel fuel tax (abstract 60) and gasoline tax (abstract 62) for the HTF. See Internal Revenue Manual, § 21.7.8, *Excise Taxes* (Aug. 18, 2017). The tax amounts for the two HTF-related abstracts, along with the heavy vehicle use tax, made up over 88 percent of the total excise tax receipts that IRS certified to the HTF in fiscal year 2018.

⁵The quarterly *Report of Excise Tax Collection* contains prorated collections, classified by abstracts, which serve as the basis for IRS's quarterly trust fund certifications.

⁶IRS certifies to trust funds the amount of excise taxes collected. Because taxpayers have sometimes not fully paid their tax liability, IRS allocates the amount of payments actually received among the different excise taxes reported on the taxpayers' returns. 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 \$3 million for gasoline tax and \$3 million for diesel fuel tax on its quarterly Form 720, but has paid IRS only \$4 million at the time IRS performs its certification, the program prorates the \$4 million in the following manner: \$2 million to gasoline tax and \$2 million to diesel fuel tax.

⁷The combined total population of prorated collections from IRS's Collection Certification System audit files for all three quarters includes all types of excise tax collections, including those for the HTF.

⁸The \$799 million tolerable misstatement represents 1.95 percent of the net excise tax revenue distributed to the HTF in fiscal year 2017. The expected aggregate error of \$136 million represents approximately 17 percent of the tolerable misstatement amount.

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\$136 million resulted in a sample of 49 unique excise tax collections for the HTF.⁹

2. Procedures on transactions:

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

- Compare the assessment or adjustment amount from the supporting document to IRS's master file for agreement.¹⁰

Description of Findings or Results

The assessment or adjustment amount on the supporting documentation agreed with the amount recorded in IRS's master file for each of the 49 sampled transactions.

- Calculate the assessment or adjustment amount on the supporting documentation to determine whether it is mathematically correct.

Description of Findings or Results

The assessment or adjustment amount on the supporting documentation was mathematically correct for each of the 49 sampled transactions.

- Calculate the prorated collection amount for the sampled transactions based on information from IRS's master file and compare this amount to the amount in IRS's Collection Certification System audit files for agreement.

Description of Findings or Results

The independently calculated prorated collection amount agreed with the amount in IRS's Collection Certification System audit files for each of the 49 sampled transactions.

(b) Statistically project the results of conducting steps in 2(a).

⁹The 49 unique sampled transactions selected represented 49 dollar interval sample items. There were no high-dollar sample items. MUS select dollars versus specific transaction items by dividing the population of prorated excise tax collections by dollar intervals. The dollar interval for the HTF was \$649 million, with each dollar interval representing one sample item. Accordingly, all transactions with a dollar value equal to or exceeding this dollar interval would be selected and may represent more than one sample item. For example, a transaction with a value of \$1.298 billion could encompass two \$649 million intervals and be counted as two sample items based on the dollar interval.

¹⁰Supporting documentation includes quarterly Form 720 excise tax returns and other forms that taxpayers submit or that IRS prepares.

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Description of Findings or Results

The net most likely error related to the HTF was \$0 with an upper error limit of \$651 million at the 63 percent confidence level. The upper error limit did not exceed the tolerable misstatement of \$799 million designed for this procedure.

II. Procedures on IRS's Quarterly HTF Receipt Certifications

Perform the following procedures on IRS's HTF receipt certifications for the quarters ended September 30, 2017; December 31, 2017; March 31, 2018; and June 30, 2018:

- A. Inspect the certification letters for authorizing signatures.¹¹

Description of Findings or Results

The certification letters for all four quarters had authorizing signatures.

- B. Inspect the certification letters and supporting worksheets to determine whether evidence exists that they were reviewed by the supervisor or another analyst.

Description of Findings or Results

There was evidence that the supervisor or another analyst reviewed the certification letters and supporting worksheets for all four quarters.

- C. Calculate the totals on the certification letters to determine whether they are mathematically correct.

Description of Findings or Results

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

¹¹IRS prepares two certification letters for the HTF each quarter: one for the Highway Account and the other for the Mass Transit Account.

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- D. Trace the certified amounts for diesel fuel tax (abstract 60) and gasoline tax (abstract 62)¹² from the certification letters back to the *Report of Excise Tax Collection*¹³ and the *Treasury 90 Report* for agreement.¹⁴

Description of Findings or Results

The certified amounts for diesel fuel tax (abstract 60) and gasoline tax (abstract 62) from the certification letters agreed with the related *Report of Excise Tax Collection* and the *Treasury 90 Report* for three of four quarters.

However, IRS's certification letter for the quarter ended March 31, 2018, included erroneous amounts for diesel fuel tax (abstract 60) and gasoline tax (abstract 62), because an IRS analyst entered inaccurate data from the *Treasury 90 Report* into the sections of a schedule accompanying the certification letter. As a result, IRS understated its Highway Account by approximately \$2.3 million and overstated its Mass Transit Account by approximately \$1.3 million for its HTF certification. After we brought this to its attention, IRS issued a revised certification, which agreed with the related *Report of Excise Tax Collection* and the *Treasury 90 Report*. Since the adjustments were made prior to the end of the fiscal year, the error did not have an effect on fiscal year 2018 distribution to the HTF.

- E. Compare the distribution rates IRS used for diesel fuel tax (abstract 60) and gasoline tax (abstract 62) for agreement with the applicable laws.

Description of Findings or Results

The distribution rates IRS used for diesel fuel tax (abstract 60) and gasoline tax (abstract 62) agreed with the applicable laws in effect during all four quarters.

¹²The certified amounts for diesel fuel tax (abstract 60) and gasoline tax (abstract 62), along with the heavy vehicle use tax (traced separately in procedure II. H), made up over 88 percent of the total amount of excise tax receipts that IRS certified to the HTF for each quarter during fiscal year 2018.

¹³The *Report of Excise Tax Collection* is produced by the Collection Certification System. Collections are classified by abstract on the report when the related Form 720 tax return has been posted to IRS's master file during the processing period that the report covers. IRS uses data from one report for each quarterly certification.

¹⁴The *Treasury 90 Report* summarizes excise tax credit information and is produced quarterly by IRS service center campuses. See Internal Revenue Manual, § 3.17.41, *Accounting and Operating Reports* (Sept. 18, 2009). IRS has 10 service center campuses.

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- F. Inspect the *Report of Excise Tax Collection* used in the certification to determine whether it contains more than \$258 million¹⁵ in collections from prior quarters.¹⁶

Description of Findings or Results

None of the reports used in the HTF certification for any of the four quarters reported more than \$258 million in collections from prior quarters.

- G. Inspect the *Report of Excise Tax Collection* used in the certification to determine whether it contains more than \$258 million in HTF collections from future quarters.¹⁷

Description of Findings or Results

None of the reports used in the HTF certification for any of the four quarters reported more than \$258 million in HTF collections from future quarters.

- H. Trace heavy vehicle use tax amounts from the Highway Account certification letters to the master file and *Treasury 90 Report*.¹⁸

Description of Findings or Results

The heavy vehicle use tax amounts from the Highway Account certification letters agreed with the master file and *Treasury 90 Report* for three of four quarters.

However, IRS's certification letter for the quarter ended March 31, 2018, included erroneous amounts for the heavy vehicle use tax, because an IRS analyst entered inaccurate data from the *Treasury 90 Report* into the sections of a schedule accompanying the certification letter. As a result, IRS understated its heavy vehicle use tax by approximately \$1.7 million for its HTF certification. After we brought this to its attention, IRS issued a revised certification, which agreed with the related *Report of Excise Tax Collection* and the *Treasury 90 Report*. Since the adjustments were made prior to the end of the fiscal year, the error did not have an effect on fiscal year 2018 distribution to the HTF.

¹⁵The \$258 million represents the quarterly average of 2.5 percent of the total amount of excise tax receipts that IRS certified to the HTF for fiscal year 2017.

¹⁶The *Report of Excise Tax Collection* may contain collections related to prior quarters that IRS certifies as part of the current quarter's collections because IRS did not post the related tax returns to its master file until the current processing period. This may result from IRS processing delays or from delay by taxpayers in filing tax returns.

¹⁷The *Report of Excise Tax Collection* may contain collections related to future quarters that IRS certifies as part of the current quarter's collections because taxpayers filed tax returns before the due date and paid the taxes owed, and IRS posted the tax returns to its master file during the current processing period.

¹⁸Heavy vehicle use taxes, which go to the HTF, are reported on Form 2290. IRS obtains these amounts directly from its master file and campus systems, rather than from its Collection Certification System.

Enclosure II

- I. For the quarter ended June 30, 2018, inquire with IRS whether any excise tax returns from its list of the largest excise taxpayers were omitted from its certification.¹⁹ For any such returns that were omitted but that IRS subsequently received, report the total amount of HTF-related tax collections from these tax returns. For any such returns that were omitted and that IRS has not yet received, report the amount of HTF-related tax collections from the taxpayer(s) based on the previous quarter.

Description of Findings or Results

According to IRS, no HTF-related tax returns from its list of the largest excise taxpayers were omitted from its certification for the quarter ended June 30, 2018.

III. Procedures on Excise Tax Distributions to the HTF for the Quarter Ended September 30, 2018

- A. Determine whether the Department of the Treasury's Office of Tax Analysis (OTA) prepared a tax rate table to capture information concerning tax rates, tax basis, accounts, and deposit rules in effect during the quarter ended September 30, 2018, and whether OTA used this rate table in its trust fund estimates for the quarter.²⁰

Description of Findings or Results

OTA prepared a tax rate table to capture information concerning tax rates, tax basis, accounts, and deposit rules in effect during the quarter ended September 30, 2018. OTA used the rate table in preparing the five semimonthly estimates that affect fiscal year 2018 distributions to the HTF.

- B. Inspect the transfer forms and supporting schedules to determine whether there is evidence of review.

¹⁹IRS maintains a list of its largest excise taxpayers. To help ensure that tax return data for the largest excise taxpayers are included in each quarterly excise tax certification, IRS tracks the receipt of these returns and contacts these taxpayers when necessary.

²⁰OTA makes semimonthly estimates of excise tax collections for transfer from the General Fund to trust funds. To better match excise tax collections with the corresponding quarter, OTA's estimates for each quarter cover the period starting on the 16th day of the first month in the quarter and go through the 15th day of the first month of the next quarter. For example, OTA's estimates for the fourth quarter of fiscal year 2018 cover July 16, 2018, through October 15, 2018. While there are six semimonthly estimates related to the quarter, only five of these affect fiscal year 2018 distributions to the HTF. The sixth semimonthly estimate, covering the period from October 1 through 15, will affect distributions to the HTF for fiscal year 2019.

Enclosure II

Description of Findings or Results

There was evidence that an OTA economist other than the one who prepared the estimate reviewed the transfer forms and supporting schedules affecting distributions from the General Fund to the HTF for the quarter ended September 30, 2018.

- C. Calculate the totals on the transfer forms to determine whether they are mathematically correct.

Description of Findings or Results

The totals on the transfer forms affecting distributions from the General Fund to the HTF for the quarter ended September 30, 2018, were mathematically correct.

- D. Trace the transfer amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and heavy vehicle use tax²¹ from the transfer forms back to the related source documents for agreement.²²

Description of Findings or Results

The transfer amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and heavy vehicle use tax from the transfer forms agreed with the related source documents for the quarter ended September 30, 2018.

IV. Other Procedures

- A. Using IRS's quarterly certifications, OTA's estimated distributions, and any adjustments, compile and report the amount of net excise taxes and penalties to be distributed to the HTF in fiscal year 2018.²³

Description of Findings or Results

Based on a compilation of IRS's quarterly certifications, OTA's estimations, and adjustments, the amount of net excise taxes and penalties to be distributed to the HTF in fiscal year 2018 is \$42,587,551,000.

(102712)

²¹OTA's estimated transfer amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and heavy vehicle use tax made up over 89 percent of the total amount transferred to the HTF for the fourth quarter of fiscal year 2018.

²²The source documents include the *Report of Excise Taxes* used to derive the percentages applied to reported receipts, the Daily Treasury Statement, the Monthly Treasury Statement, and the excise tax rate table.

²³The American Jobs Creation Act of 2004 amended transfers to the HTF from the General Fund to include certain fuel-related penalties. IRS assesses and collects these penalties and distributes them to the HTF. Pub. L. No. 108-357, § 868,118 Stat. 1418, 1622 (Oct. 22, 2004). IRS includes such amounts in its quarterly certification to the HTF.

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