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United States Government Accountability Office  
Washington, DC 20548

November 7, 2012

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

Subject: *Fiscal Year 2012 Agreed-Upon Procedures: Excise Tax Distributions to the Airport and Airway Trust Fund and the Highway Trust Fund*

Dear Mr. Scovel:

We have performed the procedures described in the enclosures to this letter, which we agreed to perform and with which you concurred, solely to assist your office in ascertaining whether the net excise tax revenue distributed to the Airport and Airway Trust Fund (AATF) and the Highway Trust Fund (HTF) for the fiscal year ended September 30, 2012, is supported by the underlying records.

We conducted the engagement in accordance with U.S. generally accepted government auditing standards, which incorporate certain financial audit and attestation standards established by the American Institute of Certified Public Accountants.

You are solely responsible for the sufficiency of these agreed-upon procedures to meet your objectives, and we make no representation in that respect. 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 2012, (2) the Internal Revenue Service's (IRS) quarterly AATF and HTF excise tax receipt certifications prepared during fiscal year 2012, (3) the U.S. Department of the Treasury's Office of Tax Analysis's (OTA) estimates of excise tax amounts to be distributed to the AATF and the HTF for the fourth quarter of fiscal year 2012, and (4) the amount of net excise taxes to be distributed to the AATF and the HTF during fiscal year 2012. Enclosure I provides the details on 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.

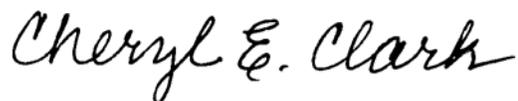
We were not engaged to perform, and did not perform, an examination, the objective of which would have been to express an opinion on the amount of net excise taxes distributed to the AATF and the HTF during fiscal year 2012. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that we would have reported to you. We completed the agreed-upon procedures on October 25, 2012.

We provided a draft of this letter, along with the report, to IRS and OTA officials for review and comment. IRS and OTA agreed with the results and findings related to the procedures performed concerning excise tax distributions to AATF and HTF during fiscal year 2012.

This report is intended solely for the use of the Office of Inspector General of the U.S. Department of Transportation and should not be used by those who have not agreed to the procedures or have not taken responsibility for the sufficiency of the procedures for their purposes. However, the 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 have any questions concerning this report, please contact me at (202) 512-9377 or [clarkce@gao.gov](mailto:clarkce@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Ted Hu, Assistant Director; Stephanie Chen; and Melanie Darnell made key contributions to this report.

Sincerely yours,

A handwritten signature in black ink that reads "Cheryl E. Clark". The signature is written in a cursive, flowing style.

Cheryl E. Clark  
Director  
Financial Management and Assurance

Enclosures - 2

## 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 2012

A. Statistical selection of attribute and monetary unit samples (MUS) from the quarters ended September 30, 2011; December 31, 2011; and March 31, 2012<sup>1</sup>

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.<sup>2,3</sup>

#### Description of Findings and Results

Excise tax collections for all three quarters from IRS's master file agreed with excise tax collections from IRS's Collection Certification System audit files with less than a 1 percent variance.

(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 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.<sup>4</sup>

#### Description of Findings and Results

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

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<sup>1</sup>The Internal Revenue Service certification of excise tax distributions and corresponding U.S. Department of the Treasury Financial Management Service adjustment for the quarter ended September 30, 2011, were completed in February 2012, and thus affected distributions to the AATF during fiscal year 2012.

<sup>2</sup>IRS's master file contains the detailed records of taxpayer accounts.

<sup>3</sup>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 claimed by taxpayers from the prorated collections, and then multiplying the result by the applicable trust fund distribution rates.

<sup>4</sup>For this sample, if no errors were 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.

- (c) For each quarter, sum the prorated collections for selected abstracts from IRS's Collection Certification System audit files and compare these amounts to amounts in the *Report of Excise Tax Collection* to determine if the Collection Certification System properly summarized the prorated collections.<sup>5,6,7</sup>

#### Description of Findings and 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 separate the combined population into the following distinct subpopulations: (1) AATF, (2) Highway Trust Fund (HTF), and (3) all other abstracts. Use MUS to select a sample of prorated excise tax collections from the AATF population using a confidence level of 63 percent, a tolerable misstatement of \$161 million, and an expected aggregate error amount of \$28 million.<sup>8</sup>

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<sup>5</sup>The abstract numbers identify the tax type (e.g., gasoline and ticket tax) and are used as the basis for determining the distribution of the excise taxes to the various trust funds. Abstract numbers are preprinted on the Form 720, Quarterly Federal Excise Tax Return, and are used by the taxpayer to report excise tax assessments. 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 AATF, and diesel fuel tax (abstract 60) and gasoline tax (abstract 62) for Highway Trust Fund (HTF). The tax amounts for the four AATF-related abstracts made up over 97 percent of the total amount of excise tax receipts certified by IRS to the AATF in fiscal year 2012. The tax amounts for the two HTF-related abstracts made up over 84 percent of the total amount of excise tax receipts certified by IRS to the HTF in fiscal year 2012.

<sup>6</sup>The *Report of Excise Tax Collection* contains prorated collections, classified by abstracts, which serve as the basis for IRS's quarterly trust fund certifications.

<sup>7</sup>IRS 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 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 \$4 million for gasoline tax, \$2 million for diesel fuel tax, and \$1 million for kerosene 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 kerosene tax.

<sup>8</sup>The \$161 million tolerable misstatement represents 1.4 percent of the net excise tax revenue distributed to the AATF in fiscal year 2011. The expected aggregate error amount of \$28 million represents approximately 17 percent of the tolerable misstatement amount.

Description of Findings and Results

Use of MUS with a confidence level of 63 percent, a tolerable misstatement of \$161 million, and an expected aggregate error amount of \$28 million resulted in a sample of 49 prorated excise tax collections for the AATF.<sup>9</sup>

- (e) Select samples of prorated excise tax collections from the two non-AATF populations. Use MUS to select a sample of prorated excise tax collections from the HTF population using a confidence level of 63 percent, a tolerable misstatement of \$727 million, and an expected aggregate error amount of \$124 million.<sup>10</sup> Select a random attribute sample of 45 items from the population of prorated tax collections related to all abstracts other than the AATF and the HTF.<sup>11</sup>

Description of Findings and Results

Use of MUS with a confidence level of 63 percent, a tolerable misstatement of \$727 million, and an expected aggregate error amount of \$124 million resulted in a sample of 47 prorated excise tax collections for the HTF.<sup>12</sup>

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

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<sup>9</sup>The planned sample size using MUS was 68 items. MUS selects dollars versus specific transaction items by dividing the population of prorated excise tax collections by dollar intervals. The dollar interval for AATF was \$128 million. Accordingly, any item with a dollar value equal to or exceeding the interval would be selected. Items with a dollar value less than the interval might not be selected, but may also be selected more than once. The 49 unique sampled transactions selected represented 68 dollar intervals.

<sup>10</sup>The \$727 million tolerable misstatement represents 1.97 percent of the net excise tax revenue distributed to the HTF in fiscal year 2011. The expected aggregate error amount of \$124 million represents approximately 17 percent of the tolerable misstatement amount.

<sup>11</sup>For this sample, if no errors are found in performing procedures on the 45 items, we would be 90 percent confident that the error rate in the population would not exceed 5 percent.

<sup>12</sup>The planned sample size using MUS was 50 items. As explained in footnote 9, MUS selects dollars instead of specific transaction items by dividing the population of prorated excise tax collections by dollar intervals. The dollar interval for the HTF was \$591 million. Accordingly, any item with a dollar value equal to or exceeding the interval would be selected. Items with a dollar value less than the interval might not be selected but may also be selected more than once. The 47 unique sampled transactions represented 50 dollar intervals.

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.<sup>13</sup>

Description of Findings and Results

The assessment or adjustment amount on the supporting documentation agreed with the assessment or adjustment amount recorded in IRS's master file for 48 of the 49 sampled items. On the remaining sample item, IRS erroneously recorded an abatement of ticket tax as a refundable credit. This error resulted in IRS certifying about \$612,000 in ticket tax collections to the AATF that it had not collected.<sup>14</sup> While IRS intends to correct this error, it did not do so before completing its certification to the AATF for the quarter ended June 30, 2012. Consequently, the effect of this error is included in IRS's certified distributions to the AATF for fiscal year 2012.

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

Description of Findings and Results

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

- Calculate the prorated collection amount for the sampled item 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.

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<sup>13</sup>Supporting documentation includes Form 720 excise tax returns and other forms submitted by the taxpayer or prepared by IRS.

<sup>14</sup>The Collection Certification System treats a refundable credit as a collection when computing the prorated collection amount for each tax type reported by a taxpayer. Because the transaction was not actually a refundable credit and IRS certifies 100 percent of ticket tax collections to the AATF, this error resulted in IRS certifying amounts to the AATF that it had not actually collected.

Description of Findings and 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 items.

- (b) Inspect the supporting documentation and master file information for 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 supporting documentation and master file information for the two samples of 92 prorated collections from the non-AATF populations did not contain any AATF excise tax collections.

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

Description of Findings and Results

The net most likely error related to AATF was \$127 million with an upper error limit of \$266 million at the 63 percent confidence level. The upper error limit exceeded the \$161 million tolerable misstatement 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, 2011; December 31, 2011; March 31, 2012; and June 30, 2012:

- A. Inspect the certification letters for authorizing signatures.

Description of Findings and Results

The certification letters for all four quarters had authorizing signatures.

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

Description of Findings and 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 if they are mathematically correct.

Description of Findings and Results

The totals on the certification letters for the quarters ended September 30, 2011; December 31, 2011; and March 31, 2012, were mathematically correct.

On its certification letter to the AATF for the quarter ended June 30, 2012, IRS omitted \$3 million in collections for liquid fuel used in a fractional aircraft ownership program. As a result, total excise taxes certified to the AATF was \$3 million less than it should have been. IRS corrected its error after we brought this to IRS's attention.

- 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) from the certification letters back to the *Report of Excise Tax Collection* and the *Treasury 90 Report* for agreement.<sup>15,16,17</sup>

Description of Findings and Results

The certified amounts for 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 *Report of Excise Tax Collection* and the *Treasury 90 Report* for the quarters ended September 30, 2011; December 31, 2011; and March 31, 2012.

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<sup>15</sup>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) made up over 97 percent of the total amount of excise tax receipts certified by IRS to the AATF for each quarter of fiscal year 2012.

<sup>16</sup>The *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 interval covered by the report.

<sup>17</sup>The *Treasury 90 Report* summarizes excise tax credit information and is produced quarterly by IRS service center campuses. IRS has six service center campuses that receive and process tax returns and payments.

For the quarter ended June 30, 2012, IRS used the wrong version of the *Report of Excise Tax Collection*.<sup>18</sup> As a result, the amount IRS certified to the AATF was almost \$270 million less than it should have been. IRS detected this error when researching another issue, and after it had sent out its original certification letter for the AATF. Once IRS detected its error, IRS made corrections and issued a revised certification letter for the AATF 6 days after issuing its original certification letter. The certified amounts for 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 revised certification letter agreed with the correct *Report of Excise Tax Collection* and the *Treasury 90 Report*.

- E. Compare the distribution rates used by IRS 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 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 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 if it contains more than \$55 million in AATF collections from prior quarters.<sup>19,20</sup>

#### Description of Findings and Results

None of these reports used in the AATF certification for any of the four quarters contained more than \$55 million in collections from prior quarters.

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<sup>18</sup>IRS used the *Report of Excise Tax Collection* that was produced by the Collection Certification System 5 weeks earlier than its actual cut-off for performing the certification.

<sup>19</sup>The \$55 million represents approximately 2 percent of the total amount of excise tax receipts certified by IRS to the AATF for each quarter of fiscal year 2012.

<sup>20</sup>The *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 return to its master file until the current processing period. This may result from IRS processing delays or from delay by the taxpayer in filing the tax return.

- G. Inspect the *Report of Excise Tax Collection* used in the certification to determine if it contains more than \$55 million in collections from future quarters.<sup>21</sup>

Description of Findings and Results

None of these reports used in the AATF certification for any of the four quarters contained more than \$55 million in collections from future quarters.

- H. For the quarter ended June 30, 2012, only, inquire with IRS whether any excise tax returns from its list of the largest excise taxpayers were omitted from the certification.<sup>22</sup> For any such returns that were omitted but were subsequently received by IRS, report the total amount of AATF-related tax collections from these tax returns. For any such returns that were omitted and where IRS has not yet received these, report the average quarterly amount of AATF-related tax collections from the taxpayer(s) based on the previous four quarters

Description of Findings and Results

According to IRS, no tax returns from its list of the largest excise taxpayers were omitted from its certification for the quarter ended June 30, 2012.

**III. Procedures on Excise Tax Distributions to the AATF for the Quarter Ended September 30, 2012**

- A. Determine if the Department of the Treasury's Office of Tax Analysis (OTA) prepares a tax rate table to capture information concerning tax rates, tax basis, accounts, and deposit rules in effect during the quarter ended September 30, 2012, and whether OTA uses this rate table in its trust fund estimates for the quarter.<sup>23</sup>

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<sup>21</sup>The *Report of Excise Tax Collection* may contain collections related to future quarters that IRS certifies as part of the current quarter's collections because the taxpayer filed the tax return before the due date and paid the taxes owed, and IRS posted the tax return to its master file during the current processing period.

<sup>22</sup>IRS maintains a listing of approximately 150 taxpayers that are 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.

<sup>23</sup>OTA makes semimonthly estimates of excise tax collections for transfer 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 2012 cover July 16, 2012, through October 15, 2012. While there are six semimonthly estimates related to the quarter, only five of these affect fiscal year 2012 distributions to the AATF. The sixth semimonthly estimate, covering the period from October 1 through 15, will affect distribution to AATF for fiscal year 2013.

Description of Findings and 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, 2012. OTA used the rate table in preparing the five semimonthly estimates that affect fiscal year 2012 distributions to the AATF.

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

Description of Findings and 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, 2012.

- C. Calculate 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, 2012, 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) from the transfer forms back to the related source documents for agreement.<sup>24,25</sup>

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 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, 2012.

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<sup>24</sup>The OTA 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 at least 97 percent of the total amount transferred to the AATF for the fourth quarter of fiscal year 2012.

<sup>25</sup>The 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 table.

**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 2012.

Description of Findings and 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 2012 was \$12,532,215,000.

## 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 2012

A. Statistical selection of attribute and monetary unit samples (MUS) from the quarters ended September 30, 2011; December 31, 2011; and March 31, 2012<sup>1</sup>

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.<sup>2,3</sup>

#### Description of Findings and Results

Excise tax collections for all three quarters from IRS's master file agreed with excise tax collections from IRS's Collection Certification System audit files with less than a 1 percent variance.

- (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 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.<sup>4</sup>

#### Description of Findings and Results

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

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<sup>1</sup>The Internal Revenue Service certification of excise tax distributions and corresponding U.S. Department of the Treasury Financial Management Service adjustment for the quarter ended September 30, 2011, were completed in February 2012, and thus affected distributions to the HTF during fiscal year 2012.

<sup>2</sup>IRS's master file contains the detailed records of taxpayer accounts.

<sup>3</sup>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 claimed by taxpayers from the prorated collections, and then multiplying the result by the applicable trust fund distribution rates.

<sup>4</sup>For this sample, if no errors were 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.

- (c) For each quarter, sum the prorated collections for selected abstracts from IRS's Collection Certification System audit files and compare these amounts to amounts in the *Report of Excise Tax Collection* to determine if the Collection Certification System properly summarized the prorated collections.<sup>5,6,7</sup>

#### Description of Findings and 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 separate the combined population into the following distinct subpopulations: (1) HTF, (2) Airport and Airway Trust Fund (AATF), and (3) all other abstracts. Use MUS to select a sample of prorated excise tax collections from the HTF population using a confidence level of 63 percent, a tolerable misstatement of \$727 million, and an expected aggregate error amount of \$124 million.<sup>8</sup>

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<sup>5</sup>The abstract numbers identify the tax type (e.g., gasoline and ticket tax) and are used as the basis for determining the distribution of the excise taxes to the various trust funds. Abstract numbers are preprinted on the Form 720, Quarterly Federal Excise Tax Return, and are used by the taxpayer to report excise tax assessments. The selected abstracts are diesel fuel tax (abstract 60) and gasoline tax (abstract 62) for HTF, and 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 Airport and Airway Trust Fund (AATF). The tax amounts for the two HTF-related abstracts made up over 84 percent of the total amount of excise tax receipts certified by IRS to the HTF in fiscal year 2012. The tax amounts for the four AATF-related abstracts made up over 97 percent of the total amount of excise tax receipts certified by IRS to the AATF in fiscal year 2012.

<sup>6</sup>The *Report of Excise Tax Collection* contains prorated collections, classified by abstracts, which serve as the basis for IRS's quarterly trust fund certifications.

<sup>7</sup>IRS 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 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 \$4 million for gasoline tax, \$2 million for diesel fuel tax, and \$1 million for kerosene 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 kerosene tax.

<sup>8</sup>The \$727 million tolerable misstatement represents 1.97 percent of the net excise tax revenue distributed to the HTF in fiscal year 2011. The expected aggregate error amount of \$124 million represents approximately 17 percent of the tolerable misstatement amount.

Description of Findings and Results

Use of MUS with a confidence level of 63 percent, a tolerable misstatement of \$727 million, and an expected aggregate error amount of \$124 million resulted in a sample of 47 prorated excise tax collections for the HTF.<sup>9</sup>

- (e) Select samples of prorated excise tax collections from the two non-HTF populations. Use MUS to select a sample of prorated excise tax collections from the AATF population using a confidence level of 63 percent, a tolerable misstatement of \$161 million, and an expected aggregate error amount of \$28 million.<sup>10</sup> Select a random attribute sample of 45 items from the population of prorated tax collections related to all abstracts other than the HTF and the AATF.<sup>11</sup>

Description of Findings and Results

Use of MUS with a confidence level of 63 percent, a tolerable misstatement of \$161 million, and an expected aggregate error amount of \$28 million resulted in a sample of 49 prorated excise tax collections for the AATF.<sup>12</sup>

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

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<sup>9</sup>The planned sample size using MUS was 50 items. MUS selects dollars versus specific transaction items by dividing the population of prorated excise tax collections by dollar intervals. The dollar interval for HTF was \$591 million. Accordingly, any item with a dollar value equal to or exceeding the interval would be selected. Items with a dollar value less than the interval might not be selected but may also be selected more than once. The 47 unique sampled transactions selected represented 50 dollar intervals.

<sup>10</sup>The \$161 million tolerable misstatement represents 1.4 percent of the net excise tax revenue distributed to the AATF in fiscal year 2011. The expected aggregate error amount of \$28 million represents approximately 17 percent of the tolerable misstatement amount.

<sup>11</sup>For this sample, if no errors are found in performing procedures on the 45 items, we would be 90 percent confident that the error rate in the population would not exceed 5 percent.

<sup>12</sup>The planned sample size using MUS was 68 items. As explained in footnote 9, MUS selects dollars instead of specific transaction items by dividing the population of prorated excise tax collections by dollar intervals. The dollar interval for the AATF was \$128 million. Accordingly, any item with a dollar value equal to or exceeding the interval would be selected. Items with a dollar value less than the interval might not be selected, but may also be selected more than once. The 49 unique sampled transactions represented 68 dollar intervals.

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.<sup>13</sup>

Description of Findings and Results

The assessment or adjustment amount on the supporting documentation agreed with the amount recorded in IRS's master file for each of the 47 sampled items.

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

Description of Findings and Results

The assessment or adjustment amount on the supporting documentation was mathematically correct for each of the 47 sampled items.

- Calculate the prorated collection amount for the sampled item 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 and Results

The independently calculated prorated collection amount agreed with the amount in IRS's Collection Certification System audit files for each of the 47 sampled items.

(b) Inspect the supporting documentation and master file information for the two samples of prorated collections from the non-HTF populations to determine if they contain any HTF excise tax collections.

Description of Findings and Results

The supporting documentation and master file information for the two samples of 94 prorated collections from the non-HTF populations did not contain any HTF excise tax collections.

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<sup>13</sup>Supporting documentation includes Form 720 excise tax returns and other forms submitted by the taxpayer or prepared by IRS.

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

Description of Findings and Results

The net most likely error related to HTF was \$0 with an upper error limit of \$582 million at the 63 percent confidence level. The upper error limit did not exceed the tolerable misstatement amount of \$727 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, 2011; December 31, 2011; March 31, 2012; and June 30, 2012:

- A. Inspect the certification letters for authorizing signatures.<sup>14</sup>

Description of Findings and Results

The certification letters for all four quarters had authorizing signatures.

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

Description of Findings and 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 if they are mathematically correct.

Description of Findings and Results

The totals on the final certification letters for all four quarters were mathematically correct. However, for the quarter ended March 31, 2012, IRS twice reissued its certification letters for the HTF to correct errors identified by the Financial Management Service and the Department of Transportation.

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<sup>14</sup>IRS prepares two certification letters for the HTF each quarter: one for the Highway Account and the other for the Mass Transit Account.

- D. Trace the certified amounts for diesel fuel tax (abstract 60) and gasoline tax (abstract 62) from the certification letters back to the *Report of Excise Tax Collection* and the *Treasury 90 Report* for agreement.<sup>15,16,17</sup>

Description of Findings and 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 the quarters ended December 31, 2011, and March 31, 2012.

For the quarter ended September 30, 2011, IRS calculated certified collections for diesel fuel tax (abstract 60) using a diesel fuel credit amount of \$94,609,888, when the correct amount was \$94,612,134. As a result, the amount IRS certified to the HTF was about \$2,000 more than it should have been.

For the quarter ended June 30, 2012, IRS used the wrong version of the *Report of Excise Tax Collection*.<sup>18</sup> As a result, the amount IRS certified to the HTF was almost \$1.7 billion less than it should have been. IRS detected this error when researching another issue, and after it had sent out its original certification letters for the HTF. Once IRS detected its error, IRS made corrections and issued revised certification letters for the HTF 6 days after issuing its original certification letters. The certified amounts for diesel fuel tax (abstract 60) and gasoline tax (abstract 62) from the revised certification letters agreed with the correct *Report of Excise Tax Collection* and the *Treasury 90 Report*.

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

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<sup>15</sup>The certified amounts for diesel fuel tax (abstract 60) and gasoline tax (abstract 62), along with the heavy vehicle use tax (traced separately), made up over 88 percent of the total amount of excise tax receipts certified by IRS to the HTF for each quarter during fiscal year 2012.

<sup>16</sup>The *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 covered by the report. IRS uses data from one report for each quarterly certification.

<sup>17</sup>The *Treasury 90 Report* summarizes excise tax credit information and is produced quarterly by IRS service center campuses. IRS has six service center campuses that receive and process tax returns and payments.

<sup>18</sup>IRS used the *Report of Excise Tax Collection* that was produced by the Collection Certification System 5 weeks earlier than its actual cut-off for performing the certification.

Description of Findings and Results

The distribution rates used by IRS for diesel fuel tax (abstract 60) and gasoline tax (abstract 62) 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 if it contains more than \$185 million in collections from prior quarters.<sup>19</sup>

Description of Findings and Results

None of these reports used in the certification for any of the four quarters contained more than \$185 million in collections from prior quarters.

- G. Inspect the *Report of Excise Tax Collection* used in the certification to determine if it contains more than \$185 million in collections from future quarters.<sup>20</sup>

Description of Findings and Results

None of these reports used in the certification for any of the four quarters contained more than \$185 million in 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*.<sup>21</sup>

Description of Findings and Results

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

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<sup>19</sup>The \$185 million represents approximately 2 percent of the total amount of excise tax receipts certified by IRS to the HTF for each quarter of fiscal year 2012.

<sup>20</sup>The *Report of Excise Tax Collection* may contain collections related to future quarters that IRS certifies as part of the current quarter's collections because the taxpayer filed the tax return before the due date and paid the taxes owed, and IRS posted the tax return to its master file during the current processing period.

<sup>21</sup>These 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.

- I. For the quarter ended June 30, 2012, only, inquire with IRS whether any excise tax returns from its list of the largest excise taxpayers were omitted from its certification.<sup>22</sup> For any such returns that were omitted but were subsequently received by IRS, report the total amount of HTF-related tax collections from these tax returns. For any such returns that were omitted and where IRS has not yet received these, report the average quarterly amount of HTF-related tax collections from the taxpayer(s) based on the previous four quarters.

Description of Findings and Results

According to IRS, no tax returns from its list of the largest excise taxpayers were omitted from its certification for the quarter ended June 30, 2012.

**III. Procedures on Excise Tax Distributions to the HTF for the Quarter Ended September 30, 2012**

- A. Determine if the Department of the Treasury's Office of Tax Analysis (OTA) prepares a tax rate table to capture information concerning tax rates, tax basis, accounts, and deposit rules in effect during the quarter ended September 30, 2012, and whether OTA uses this rate table in its trust fund estimates for the quarter.<sup>23</sup>

Description of Findings and 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, 2012. OTA used the rate table in preparing the five semimonthly estimates that affect fiscal year 2012 distributions to the HTF.

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

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<sup>22</sup>IRS maintains a list of approximately 150 taxpayers that are 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.

<sup>23</sup>OTA makes semimonthly estimates of excise tax collections for transfer 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 2012 cover July 16, 2012, through October 15, 2012. While there are six semimonthly estimates related to the quarter, only five of these affect fiscal year 2012 distributions to the HTF. The sixth semimonthly estimate, covering the period from October 1 through 15, will affect distributions to HTF for fiscal year 2013.

Description of Findings and 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, 2012.

- C. Calculate 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 HTF for the quarter ended September 30, 2012, were mathematically correct.

- D. Trace the transfer amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and heavy vehicle use tax from the transfer forms back to the related source documents for agreement.<sup>24,25</sup>

Description of Findings and 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, 2012.

**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 2012.<sup>26</sup>

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<sup>24</sup>The OTA estimated transfer amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and heavy vehicle use tax made up over 91 percent of the total amount transferred to the HTF for the fourth quarter of fiscal year 2012.

<sup>25</sup>The 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 table.

<sup>26</sup>Section 868 of Pub. L. No. 108-357 (Oct. 22, 2004), Dedication of Revenues from Certain Penalties to the Highway Trust Fund, requires that certain fuel-related penalties, which are assessed and collected by IRS, be distributed to the HTF. IRS includes such amounts in its quarterly certification to the HTF.

Description of Findings and 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 2012 was \$42,550,042,000.

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