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United States Government Accountability Office
Washington, DC 20548

November 4, 2005

The Honorable Kenneth M. Mead
Inspector General
Department of Transportation

Subject: *Applying Agreed-Upon Procedures: Highway Trust Fund Excise Taxes*

Dear Mr. Mead:

We have performed the procedures contained in the enclosure to this report, which we agreed to perform and with which you concurred, solely to assist your office in ascertaining whether the net excise tax revenue distributed to the Highway Trust Fund (HTF) for the fiscal year ended September 30, 2005, is supported by the underlying records. As agreed with your office, we evaluated fiscal year 2005 activity affecting distributions to the HTF.

In performing the agreed-upon procedures, we conducted our work in accordance with U.S. generally accepted government auditing standards, which incorporate financial audit and attestation standards established by the American Institute of Certified Public Accountants. These standards also provide guidance for performing and reporting the results of agreed-upon procedures.

The adequacy of the procedures to meet your objectives is your responsibility, and we make no representation in that respect. The procedures we agreed to perform relate to (1) transactions that represent the underlying basis of amounts distributed to the HTF, (2) the Internal Revenue Service's (IRS) quarterly HTF certifications, (3) the Department of the Treasury's Financial Management Service adjustments to the HTF during fiscal year 2005, (4) IRS's precertification¹ of receipts for each quarter of fiscal year 2005, (5) certain procedures of the Department of the Treasury's Office of Tax Analysis's (OTA) process for estimating amounts to be distributed to the HTF for the fourth quarter of fiscal year 2005, and other procedures related to (6) the net amount of fiscal year 2005 excise taxes distributed to the HTF, (7) transactions that represent total IRS tax revenue receipts and refunds, and (8) reconciliations of IRS records to Treasury records. The enclosure contains the agreed-upon procedures and our findings and results from performing each of the procedures.

¹To accommodate the Department of Transportation's accelerated reporting date for fiscal year 2005, IRS performed precertifications of excise tax collections. The data are for information purposes only and the precertification does not constitute an official certification.

We were not engaged to and did not conduct an examination, the objective of which would have been the expression of an opinion on the amount of net excise taxes distributed to the HTF. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.² We completed the agreed-upon procedures on October 27, 2005.

We provided a draft of this report to IRS and OTA officials for review and comment. IRS agreed with the results and findings presented in this report. OTA's review of the report only covered the procedures related to the estimation process for the quarter ended September 30, 2005. OTA agreed with the results and findings presented in this report relating to procedures performed on the estimation process for the quarter ended September 30, 2005.

This report is intended solely for the use of the Office of Inspector General of the Department of Transportation and should not be used by those who have not agreed to the procedures and have not taken responsibility for the sufficiency of the procedures for their purpose. However, this report is a matter of public record, and its distribution is not limited. Copies are available to others upon request. This report is also available at no charge on GAO's Web site at <http://www.gao.gov>. If you have any questions, please call me at (202) 512-3406. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report.

Sincerely yours,



Steven J. Sebastian
Director
Financial Management and Assurance

Enclosure

²In our report on the results of our audit of IRS's fiscal year 2004 financial statements, we noted a material weakness in IRS's financial reporting process; see GAO, *Financial Audit: IRS's Fiscal Years 2004 and 2003 Financial Statements*, GAO-05-103 (Washington, D.C.: Nov. 10, 2004). A component of this weakness includes IRS's inability to allocate excise tax collections to the appropriate trust funds at the time deposits are made. This condition affects the adequacy of the distributions of federal excise tax revenue to recipient trust funds and is a continuation of an issue that we have reported on in prior years.

Highway Trust Fund Excise Tax Procedures and Results

I. Procedures on detailed transactions that represent the underlying basis of amounts distributed to the Highway Trust Fund (HTF) in fiscal year 2005

- A. Nonrepresentative selection of tax returns from the quarters ended June 30, 2004, and September 30, 2004³
1. For each of the quarters ending June 30, 2004, and September 30, 2004, select the 30 largest excise tax returns containing excise taxes related primarily to the HTF and the Airport and Airway Trust Fund (AATF) on the basis of total tax liability amount⁴ from the Internal Revenue Service's (IRS) master file.⁵

Description of findings and results

We selected the 30 largest excise tax returns related primarily to the HTF and the AATF from each of the two quarters for testing. The selection was based on the total tax liability amount owed for each return from IRS's master file.

The total tax liability amount related to the 30 returns from the quarter ended June 30, 2004, was approximately \$8.4 billion, or 64 percent of the total excise tax liability amount of \$13.1 billion for all excise tax types for the quarter. Of these 30 returns, 21 contained primarily HTF-related taxes and 9 contained primarily AATF taxes.

The total tax liability amount related to the 30 returns from the quarter ended September 30, 2004, was approximately \$9.0 billion, or 65 percent of the total excise tax liability amount of \$13.8 billion for all excise tax types for the quarter. Of these 30 returns, 21 contained primarily HTF-related taxes and 9 contained primarily AATF taxes.

³Since certifications are not completed until 6 months after the end of the quarter, the certification and corresponding adjustment by the Department of the Treasury's Financial Management Service for the quarters ended June 30, 2004, and September 30, 2004, were completed in December 2004 and March 2005, respectively, and thus affected distributions to the HTF during fiscal year 2005.

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

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

2. For each of the 42 returns related primarily to the HTF from the quarters ended June 30, 2004, and September 30, 2004, we performed the following procedures, which encompassed approximately \$13 billion in prorated collections⁶ affecting fiscal year 2005 distributions to the HTF:

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

Description of findings and results

The liability amount for abstracts 59, 60, and 62 on the tax return agreed with the master file for all 42 returns.

- (b) Inspect taxpayers' calculations on the tax return for the selected abstracts to determine whether they are mathematically correct.

Description of findings and results

The taxpayers' calculations on all 42 returns were mathematically correct.

- (c) Calculate the prorated collection amount for the selected abstracts based on information from the master file and compare this amount to the amount from the Collection Certification System audit files.⁸

⁶IRS certifies to trust funds the amount of excise taxes collected. Because taxpayers have sometimes not fully paid their tax liability, IRS must allocate the amount of payments actually received among the different excise taxes reported on the taxpayer's return. IRS's Collection Certification System prorates a taxpayer's payments proportionately among all taxes reported as owed on the tax return. For example, if a corporation reports that it owes \$4 million for gasoline tax, \$2 million for diesel fuel tax, and \$1 million for gasohol tax on its Form 720, Quarterly Federal Excise Tax Return, but has paid IRS only \$3.5 million at the time IRS performs its certification, the program prorates the \$3.5 million in the following manner: \$2 million to gasoline tax, \$1 million to diesel fuel tax, and \$500,000 to gasohol tax.

⁷The abstract numbers identify the tax type (e.g., gasoline and ticket tax) and are used as the basis for determining the distribution of the excise taxes to the various trust funds. Abstract numbers are preprinted on Form 720, Quarterly Federal Excise Tax Return, and are used by the taxpayer to report excise tax assessments. If the return was related to the HTF, we selected (1) tax on 10 percent gasohol (abstract 59), (2) diesel fuel tax (abstract 60), and (3) gasoline tax (abstract 62). If the return was related to the AATF, we selected (1) tax on transportation of persons by air (abstract 26), (2) tax on the use of international air facilities (abstract 27), and (3) tax on transportation of property by air (abstract 28). The tax amounts related to the selected abstracts for each trust fund are the largest tax amounts reported on the taxpayers' excise tax returns and made up over 79 percent of the total amount certified to the HTF and over 91 percent of the total amount certified to the AATF for the quarters ended June 30, 2004, and September 30, 2004.

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

Description of findings and results

The independently calculated prorated collection amounts for the three selected abstracts agreed with amounts in IRS's Collection Certification System for all 42 returns.

B. Dollar unit sample (DUS) of transactions from the quarters ended December 31, 2004, and March 31, 2005

1. Sampling

- (a) Obtain excise tax collection data from the master file for the first two quarters of fiscal year 2005. Compare excise tax collection data from the master file with data from IRS's general ledger to determine if they materially agree.⁹ Compare total excise tax collections from the master file with total excise tax collections from the Collection Certification System audit files to determine if they materially agree.

Description of findings and results

Excise tax collections for the first two quarters of fiscal year 2005 from the master file materially agreed with IRS's general ledger and with total excise tax collections from the Collection Certification System.

- (b) Select a random attribute sample of 78 excise tax assessments from the master file.¹⁰ Compare assessment and receipt information for each sample item from the master file to the assessment and receipt information in the Collection Certification System to determine if assessments and receipts from the master file are contained in the Collection Certification System.

Description of findings and results

For each sample item, assessments and receipts from the master file were contained in the Collection Certification System.

⁹For the purpose of this procedure, "material" is defined as 1 percent of the Form 720-related excise tax collections for the quarters ended December 31, 2004, and March 31, 2005. For fiscal year 2005, the materiality amount was \$220 million for the two quarters combined.

¹⁰For this sample, if one or no errors were found in testing the 78 items, we would be 90 percent confident that the error rate in the population would not exceed 5 percent.

- (c) Sum the prorated collections for selected abstracts¹¹ from the audit files and compare these amounts to amounts in the *Report of Excise Tax Collection*¹² to determine if the Collection Certification System properly summarized the prorated collections.

Description of findings and results

The Collection Certification System properly summarized the prorated collections for all of the selected abstracts. Prorated collections from the audit files for the selected abstracts agreed with the corresponding amounts in the *Report of Excise Tax Collection*.

- (d) Separate the total population of prorated collections from the audit files into the following distinct populations: (1) HTF, (2) AATF, and (3) other excise tax abstracts. Use DUS to select a sample of prorated excise tax collections from the HTF population using a confidence level of 80 percent, a test materiality of \$347 million, and an expected aggregate error amount of \$104.1 million.

Description of findings and results

Use of DUS with a confidence level of 80 percent, a test materiality of \$347 million, and an expected aggregate error amount of \$104.1 million resulted in a sample of 101¹³ prorated collections for the HTF for the first two quarters of fiscal year 2005.

¹¹The selected abstracts are (1) tax on 10 percent gasohol (abstract 59), (2) diesel fuel tax (abstract 60), (3) gasoline tax (abstract 62), (4) tax on transportation of persons by air (abstract 26), (5) tax on the use of international air facilities (abstract 27), (6) tax on transportation of property by air (abstract 28), and (7) tax on aviation fuel for commercial use (abstract 77). As of January 1, 2005, abstract 59 was eliminated as a result of the American Jobs Creation Act of 2004, Pub. L. No. 108-357, § 301(c)(7), (d)(1), 118 Stat. 1418, 1461, 1463 (Oct. 22, 2004). Abstract 59, along with all other gasohol taxes, was reported under abstract 62 as gasoline for the quarter ended March 31, 2005. The tax amounts for the three HTF-related abstracts made up over 81 percent of the total amount certified to the HTF for the quarter ended December 31, 2004, and over 88 percent for abstracts 60 and 62 for the quarter ended March 31, 2005. The tax amounts for the four AATF-related abstracts made up over 87 percent of the total amount certified to the AATF for the quarters ended December 31, 2004, and March 31, 2005.

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

¹³The planned sample size using DUS was 147 items. DUS selects dollars instead of specific transaction items by dividing the population by dollar intervals. The dollar interval for the HTF was \$126 million. Accordingly, any item with a dollar value matching or exceeding the sampling interval would be selected, whereas items with dollar values below the sampling interval might not be selected. For example, an item of \$252 million would cover 2 dollar intervals, but represent one sample item. Due to large-dollar items covering more than one interval, the 101 unique sampled transactions selected represent 147 dollar intervals.

- (e) Select samples of prorated excise tax collections from the two non-HTF populations. Use DUS to select a sample of prorated excise tax collections from the AATF population using a confidence level of 80 percent, a test materiality of \$92 million, and an expected aggregate error amount of \$27.6 million. Select a random attribute sample of 45 items from the population of prorated tax collections related to all excise taxes other than the HTF and the AATF.

Description of findings and results

Use of DUS with a confidence level of 80 percent, a test materiality of \$92 million, and an expected aggregate error amount of \$27.6 million resulted in a sample of 80¹⁴ prorated collections for the AATF for the first two quarters of fiscal year 2005.

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.¹⁵

2. Detailed transactions

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

- Compare the assessment amount on the tax return for the sampled abstract with the amount recorded in the master file.

Description of findings and results

The assessment amount on the tax return agreed with the amount recorded in the master file for all of the sampled items.

- Inspect the taxpayers' calculations on the tax returns for the related abstract to determine whether they are mathematically correct.

¹⁴The planned sample size using DUS was 151 items. As explained in footnote 13, DUS selects dollars instead of specific transaction items by dividing the population by dollar intervals. The dollar interval for the AATF was \$34 million. Because large-dollar items cover more than one interval, the 80 unique sampled transactions selected represent 151 dollar intervals.

¹⁵For this sample, if no errors are found in the 45 items, we would be 90 percent confident that the error rate in the population would not exceed 5 percent.

Description of findings and results

The taxpayers' calculations were mathematically correct on the tax return for 100 of the 101 sampled items. On one return, the taxpayer miscalculated the assessment amount for the sampled abstract by \$2 million. As a result, the prorated collection amount for the sampled item was understated by \$2 million.

- Calculate the prorated collection amount based on information from the master file and compare this amount to the sample items selected from the Collection Certification System audit files.¹⁶

Description of findings and results

The independently calculated prorated collection, based on information from the master file, agreed with the amounts for all of the sampled items selected from the Collection Certification System audit files.

- (b) Inspect the tax returns 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 two samples of prorated collections from the non-HTF populations did not contain any HTF excise tax collections.

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

Description of findings and results

For the first 6 months of fiscal year 2005, the net most likely error is (\$2 million) with an upper error limit of \$197 million at the 80 percent confidence level.

II. Procedures on IRS's quarterly HTF receipt certifications

Perform the following procedures on IRS's HTF receipt certification for the quarters ended September 30, 2004, December 31, 2004, and March 31, 2005:

¹⁶The purpose of this procedure is to determine whether the Collection Certification System prorates correctly. This procedure is not intended to determine whether amounts provided to the system are correct.

Enclosure I

- A. Inspect the certification letters¹⁷ for authorizing signatures.

Description of findings and results

The certification letters for all three 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 three 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 all three quarters were mathematically correct.

- D. Trace the certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59)¹⁸ from the certification letters back to the *Report of Excise Tax Collection*¹⁹ and the *Treasury 90 Report*.²⁰

¹⁷IRS prepares two certification letters for the HTF each quarter: one for the Highway Account and the other for the Mass Transit Account.

¹⁸The certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59), along with the heavy vehicle use tax (traced separately), made up over 82 percent of the total amount certified to the HTF for the quarters ended September 30, 2004, and December 31, 2004, and over 91 percent for abstracts 60, 62, and the heavy vehicle use tax for the quarter ended March 31, 2005. Since abstract 59 was eliminated as a result of the American Jobs Creation Act of 2004, Pub. L. No. 108-357, § 301(c)(7), (d)(1), 118 Stat. 1418, 1461, 1463 (Oct. 22, 2004), we did not perform procedures on abstract 59 for the quarter ended March 31, 2005.

¹⁹IRS uses data from two of these reports, covering sequential processing intervals, for each quarterly certification. Collections are classified by abstract on the report when the related Form 720 tax return has been posted to IRS's master file during the processing interval covered by the report. The second of the two reports used may contain collections related to prior quarters that IRS certifies as part of the current quarter's collections because the related return was not posted to the master file until the processing interval covered by this report.

²⁰The *Treasury 90 Report* summarizes excise tax credit information and is produced quarterly by IRS submission processing campus systems. IRS has eight submission processing campuses that receive and process tax returns and payments.

Description of findings and results

The certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) from the certification letters agreed with the related *Report of Excise Tax Collection* and the *Treasury 90 Report* for the quarters ended September 30, 2004, and December 31, 2004, and for abstracts 60 and 62 for the quarter ended March 31, 2005.

- E. Compare the distribution rates used by IRS for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) with the applicable laws.²¹

Description of findings and results

The distribution rates used by IRS for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) agreed with the applicable laws in effect during the quarters ended September 30, 2004, and December 31, 2004, and for abstracts 60 and 62 agreed with the applicable laws in effect during the quarter ended March 31, 2005.

- F. Inspect the *Report of Excise Tax Collection* used in the certification to determine if it contains significant²² collections from prior quarters.

Description of findings and results

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

- G. Trace heavy vehicle use tax amounts from the Highway Account certification letters to the master file. These taxes, which go to HTF, are reported on Form 2290 and are not included in the Collection Certification System.

Description of findings and results

The heavy vehicle use tax amounts from the Highway Account certification letter agreed with the master file for all three quarters.

²¹IRS calculates certified collections to the Highway Account and the Mass Transit Account using the total prorated collection amount, tax rate, and distribution rates applicable to each account.

²²For this procedure, “significant” is defined as \$175 million, which represents approximately 2 percent of the quarterly total certified to HTF.

III. Procedures on Financial Management Service adjustments

Perform the following procedures on Financial Management Service (FMS) adjustments to HTF excise tax distributions for the quarters ended September 30, 2004, December 31, 2004, and March 31, 2005:

- A. Compare the FMS adjustments made to the HTF with original Office of Tax Analysis (OTA) estimates and IRS-certified amounts to determine if they agree with the supporting schedules.²³

Description of findings and results

For the FMS adjustments made to the HTF accounts (Highway and Mass Transit), the original OTA estimates and IRS-certified amounts agreed with the supporting schedules for all three quarters.

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

Description of findings and results

The independently calculated differences between the OTA estimates and the IRS-certified amounts for the Highway Account agreed with the differences computed by FMS for all three quarters. These amounts were²⁴

- \$279,061,000 for the quarter ended September 30, 2004,
- (\$592,317,000) for the quarter ended December 31, 2004, and
- (\$135,718,000) for the quarter ended March 31, 2005.

The independently calculated differences between the OTA estimates and IRS-certified amounts for the Mass Transit Account agreed with the differences computed by FMS for all three quarters. These amounts were

²³ An FMS accountant compiles this schedule, called the "Subsidiary Quarterly Account of Estimates and Actual Related Taxes Appropriated to Highway Trust Fund." This schedule computes the difference between IRS-certified amounts and the OTA estimate for excise taxes, individually and in total, that relate to the Highway Account. A similar schedule is prepared for the Mass Transit Account. The schedules, along with OTA transfer forms and IRS certifications, support the FMS adjustment.

²⁴ A positive amount indicates that the FMS adjustment increased excise taxes distributed to the trust fund. A negative amount, shown in parentheses, indicates that the FMS adjustment decreased excise taxes distributed to the trust fund. Since the adjustment amount is the difference between OTA's estimate and IRS's certified amount, it may be affected by IRS's ability to certify receipts in the appropriate quarter.

- (\$22,284,000) for the quarter ended September 30, 2004,
- (\$32,504,000) for the quarter ended December 31, 2004, and
- (\$54,408,000) for the quarter ended March 31, 2005.

IV. Procedures on IRS's HTF precertification for the quarters ended September 30, 2004, December 31, 2004, March 31, 2005, and June 30, 2005²⁵

- A. Compare the precertified amount to the actual certified amount to the HTF for the quarters ended September 30, 2004, December 31, 2004, and March 31, 2005. If there is a significant variance,²⁶ request from the IRS their data on any large returns omitted from the precertification.

Description of findings and results

There were no significant variances between the precertified amounts and the actual certified amounts for the quarters ended September 30, 2004, and December 31, 2004. For the quarter ended March 31, 2005, there was a significant variance of \$541 million. \$505 million of this was attributable to IRS's identification of two large tax returns that were omitted from the precertification for the quarter ended March 31, 2005.

- B. Perform the following procedures on IRS's HTF precertification for the quarter ended June 30, 2005:
1. Inspect the precertification results 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 results and supporting worksheets.

2. Calculate the totals on the precertification letters to determine if they are mathematically correct.

Description of findings and results

The totals on the precertification letters were mathematically correct.

²⁵In order to accommodate the Department of Transportation's November 15 reporting date for fiscal year 2005, IRS performed precertifications. The data in the precertification are for information purposes only and do not represent an official certification.

²⁶Significant is defined as 5 percent of the actual certified amount for the quarter.

3. Trace the amounts for diesel fuel tax (abstract 60) and gasoline tax (abstract 62)²⁷ from the precertification letters back to the *Report of Excise Tax Collection* and the *Treasury 90 Report*.

Description of findings and results

The amounts for diesel fuel tax (abstract 60) and gasoline tax (abstract 62) from the precertification letters agreed with the related *Report of Excise Tax Collection* and the *Treasury 90 Report* for the quarter ended June 30, 2005.

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

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 the quarter.

5. Inspect the *Report of Excise Tax Collection* used in the precertification to determine if it contains significant²⁸ collections from prior quarters.

Description of findings and results

The *Report of Excise Tax Collection* supporting the precertification did not contain significant collections from prior quarters.

6. Inspect the Collection Certification System information to determine whether IRS omitted any significant²⁹ returns from the precertification. If so, report for the Highway Account and the Mass Transit Account (1) the average amount of HTF-related excise taxes from these taxpayers' returns that were included in IRS's certification from the four previous quarters and (2) the amount of HTF-related excise taxes from these taxpayers' returns that were included in IRS's certification for the quarter ended June 30, 2004.

²⁷The certified amounts for diesel fuel tax (abstract 60) and gasoline tax (abstract 62) made up over 89 percent of the precertified total to the HTF.

²⁸For this procedure, "significant" is defined as \$175 million. This represents approximately 2 percent of the precertified amount to the HTF for the quarter ended June 30, 2004.

²⁹For this procedure, "significant" is defined as tax returns with a total quarterly excise tax liability equal to or greater than \$10 million during each of the prior four quarters. Tax returns related specifically to the HTF with liabilities equal to or greater than \$10 million have, in the aggregate, historically accounted for over 91 percent of distributions certified to HTF.

Description of findings and results

IRS did not omit any significant returns from the precertification.

7. Trace the heavy vehicle use tax amount from the Highway Account precertification letter to the master file.

Description of findings and results

The heavy vehicle use tax amount from the Highway Account precertification letter agreed with the master file.

V. Procedures performed on excise tax distributions to the HTF for the quarter ended September 30, 2005

- A. Determine if OTA's process for identifying and incorporating the effect of new legislation on excise tax receipts into its trust fund estimates³⁰ was in place during the quarter ended September 30, 2005.

Description of findings and results

OTA's process for identifying and incorporating into its trust fund estimates the effect of new legislation on excise tax receipts was in place during the quarter ended September 30, 2005. OTA prepares a tax rate table³¹ to capture information relating to legislation that affects tax rates, tax basis, accounts, and deposit rules in effect during the quarter.

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

Description of findings and results

There was evidence that another OTA economist reviewed the transfer forms and supporting schedules for the semimonthly transfers affecting distributions to the HTF for the quarter ended September 30, 2005.

³⁰OTA makes semimonthly estimates of excise tax collections for transfer to trust funds. There are five semimonthly estimates for the quarter ended September 30, 2005, which affect fiscal year 2005 distributions to the HTF.

³¹OTA communicates this information to interested parties at Treasury and the Department of Transportation. IRS uses the tax and distribution rates from this table in its subsequent certification of collections to trust funds.

- 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, 2005, were mathematically correct.

- D. Trace the transfer amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and heavy vehicle use tax³² from the transfer forms through the supporting schedules and back to the related source documents.³³

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 supporting schedules and source documents for the semimonthly transfers affecting distributions to the HTF for the quarter ended September 30, 2005.

VI. Other procedures

- A. Using IRS's quarterly certifications, OTA's estimated distributions, and any adjustments, compile and report excise taxes distributed to the HTF in fiscal year 2005.

Description of findings and results

Based on a compilation of IRS's quarterly certifications, OTA's estimations, and adjustments, the net amount of excise taxes distributed to the HTF in fiscal year 2005 was \$37,632,909,000.

- B. Procedures performed as part of the fiscal year 2005 IRS financial statement audit:

³²The transfer amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and heavy vehicle use tax made up over 92 percent of the total amount transferred to the HTF for the fourth quarter of fiscal year 2005.

³³The source documents include the IRS report of excise taxes used to derive the percentages applied to reported receipts, the Daily Treasury Statement, the Monthly Treasury Statement, and the excise tax rate tables.

Enclosure I

1. From IRS's master files for the first 8 months of fiscal year 2005, use DUS to select statistical samples of (1) total tax revenue receipts and (2) refunds. For each sample item, compare the collection or refund amount, tax period, and tax class³⁴ from source documentation with those recorded in IRS's master files.

Description of findings and results

The receipt or refund amount, tax period, and tax class from source documents for 158 revenue receipts and 48 refund sample transactions were consistent with amounts recorded in IRS's master files.

2. Obtain selected IRS service center campuses' monthly Treasury FMS 224 reconciliations³⁵ and determine whether IRS-reported revenue receipts were properly classified and materially reconciled³⁶ to Treasury FMS records. For refunds, obtain selected IRS service center campuses' monthly Treasury FMS 224 reconciliations and determine whether IRS-reported total refunds (all tax classes) materially reconciled to Treasury FMS records.

Description of findings and results

Tax revenue receipts reported by selected IRS service center campuses through the monthly Treasury FMS 224 reconciliation process were properly classified and materially reconciled to Treasury FMS records. Total refunds reported by selected IRS service center campuses through the monthly Treasury FMS 224 reconciliation process materially reconciled to Treasury FMS records.

3. Compare tax revenue receipt balances by tax class, including excise taxes, recorded in IRS's general ledger with the master files and Treasury records to determine if they agree in all material respects. For refunds, compare total refund balances between the master files, the general ledger, and Treasury records to determine if they agree in all material respects.

³⁴IRS assigns a tax class number to specific types of taxes. Excise taxes are tax class 4.

³⁵At the end of each month, each IRS campus provides Treasury its FMS 224 (Statement of Transactions) generated from IRS's general ledger, reporting receipts and refunds journalized during the month. Treasury reconciles the amounts on the FMS 224 with its records and provides IRS a Statement of Differences for any differences identified.

³⁶For the purpose of this procedure and procedure VI.B.3, we define "material" as \$20 billion. This represents 1 percent of the estimated total tax revenue receipts to be collected by IRS in fiscal year 2005.

Description of findings and results

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

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