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United States General Accounting Office
Washington, DC 20548

January 23, 2003

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, 2002, is supported by the underlying records. As agreed with your office, we evaluated fiscal year 2002 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 include (1) detailed tests of transactions that represent the underlying basis of amounts distributed to the HTF, (2) review of the Internal Revenue Service's (IRS) quarterly HTF certifications, (3) review of the Department of the Treasury Financial Management Service (FMS) adjustments to the HTF for fiscal year 2002, (4) review of certain procedures in the Treasury Office of Tax Analysis' (OTA) process for estimating amounts to be distributed to the HTF for the fourth quarter of fiscal year 2002, (5) comparison of net excise tax distributions to the HTF during fiscal year 2002 and amounts reported in the financial statements prepared by the Bureau of the Public Debt (BPD) for the HTF and the HTF's draft financial statements, and (6) review of key reconciliations of IRS records to Treasury records. The enclosure contains the agreed-upon procedures and our findings from performing each of the procedures.

While performing these procedures, we became aware of a change that we wanted to bring to your attention. Specifically, OTA's fiscal year 2002 estimates of transfers from the HTF to the Aquatic Resources Trust Fund and the Land and Water

Conservation Fund contained an additional transfer of \$115.5 million from the HTF to the general fund. OTA officials advised us that this was the result of an update to Treasury's interpretation of Section 9503 of the Internal Revenue Code. Treasury's most recent interpretation appears to be consistent with the Code. As a result of this interpretation, net excise tax distributions to the HTF for fiscal year 2002 and for future years were, and will continue to be, less than what they would have been under the previous interpretation.

We were not engaged to perform, and did not perform, an audit, the objective of which would have been the expression of an opinion on the amount of net excise taxes distributed to the 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.¹ We completed the agreed-upon procedures on January 10, 2003.

We provided a draft of this report to IRS and Treasury officials, along with its enclosure, for review and comment. They agreed with the results and findings presented in this report.

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 home page at <http://www.gao.gov>. If you have any questions, please call me at (202) 512-3406.

Sincerely yours,



Steven J. Sebastian
Director
Financial Management and Assurance

Enclosure

¹In our report on the results of our audit of IRS's fiscal year 2002 financial statements, we noted a material weakness in IRS's financial reporting process (*Financial Audit: IRS's Fiscal Year 2002 and 2001 Financial Statements*, GAO-03-243, November 15, 2002). A component of this process includes IRS's ability to allocate excise tax collections to the appropriate trust funds at the time deposits are made. This condition affects the adequacy of the distributions of federal excise tax revenue to recipient trust funds and is a continuation of an issue that we have reported on in prior years.

Highway Trust Fund Excise Tax Procedures and Results

I. Detailed tests of transactions that represent the underlying basis of amounts distributed to the HTF in fiscal year 2002

A. Nonrepresentative selection of tax returns from the quarter ended September 30, 2001²

1. For the quarter ending September 30, 2001, 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 liability³ amount from IRS's master file.⁴

Description of findings and results

We selected the 31 largest excise tax returns from the quarter ended September 30, 2001, for testing.⁵ The selection was based on the total tax liability amount and the type of taxes owed, for each return, from IRS's master file.

The total tax liability amount related to these 31 returns was approximately \$8.1 billion, or 64 percent of the total excise tax liability amount (\$12.6 billion⁶) for all excise tax types for the quarter ended September 30, 2001.

Of these 31 returns, 25 contained primarily HTF-related taxes and 6 contained primarily AATF taxes.

²Since certifications are not completed until 6 months after the end of the quarter, the certification and corresponding FMS adjustment for the quarter ended September 30, 2001, were completed in March 2002, and thus affected fiscal year 2002 distributions to the HTF.

³Although the certifications are based on amounts collected, we used the tax liability amounts to identify the taxpayers paying the largest amounts of excise taxes. Our review shows that these taxpayers generally pay their excise taxes in full each quarter.

⁴The master file is a detailed database containing taxpayer information.

⁵Per our agreement with the Department of Transportation Inspector General regarding the AATF agreed-upon procedures, we selected one additional AATF related return in order to test a minimum of six AATF returns.

⁶Per IRS, this was the total excise tax liability amount, from its master file, for the quarter ended September 30, 2001.

2. For each of 25 returns related primarily to the HTF, we performed the following procedures, which resulted in our testing approximately \$6.6 billion in prorated collections⁷ affecting fiscal year 2002 distributions to the HTF:

(a) Trace the liability amount for abstracts⁸ 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 returns agreed with IRS's master file for 24 of the 25 selected items. On one return, IRS netted credits for abstracts 59, 60, and 62 into abstract 60. This resulted in a difference between the liability amounts, per abstract, on the tax return and the master file, but had no effect on the overall liability of the three abstracts combined. This is also discussed in the description of findings and results for Step 2 (c).

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

⁷IRS certifies to trust funds the amount of actual excise taxes collected. Because there are occasions in which taxpayers have not fully paid their tax liability at the time of IRS's certification, IRS must allocate the amount of payments actually received among the different excise taxes reported as owed on the taxpayer's return. This proration is based on (1) the amount of tax reported by the taxpayer or assessment amount and (2) the amount of taxpayer payments and credits. IRS's Collection Certification System prorates a taxpayer's payments proportionately among all taxes reported on the tax return. For example, if a taxpayer 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.

⁸The 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. 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-ticket tax (abstract 26), (2) tax on 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 taxpayer's excise tax return and make up over 87 percent of the total amount certified to the HTF and over 90 percent of the total amount certified to the AATF.

Description of findings and results

The taxpayers' calculations on all 25 selected returns were mathematically correct.

- (c) Recompute the prorated collection amount for the selected abstracts based on information from the master file and compare this amount to the amount from the Collection Certification System audit file.⁹

Description of findings and results

The recomputed prorated collection amounts for the three selected abstracts agreed with amounts in IRS's Collection Certification System audit file for 23 of the 25 returns. On the remaining two returns, IRS made data entry errors when recording credits claimed by the taxpayer. On one return, IRS did not record a credit the taxpayer claimed for aviation fuel. As a result, IRS understated prorated collections to the HTF by approximately \$2.3 million.¹⁰ On the other return, IRS combined the credit amounts for abstracts 59, 60, and 62 and recorded the total into abstract 60. This resulted in the individual prorated collection amounts for the three abstracts being misstated. However, there was no significant effect on IRS-certified amounts to the HTF since all three abstracts are related to the HTF.¹¹

IRS corrected these errors after we brought them to its attention. The corrections were included in IRS's subsequent trust fund certifications

⁹The Collection Certification System produces what IRS refers to as "audit files." These audit files contain the individual prorated collections, by abstract and taxpayer identification number, that make up the certified total amounts for each abstract.

¹⁰As explained in footnote 7, IRS prorates the amount of excise tax collections based on (1) the amount of tax reported by the taxpayer or assessment amount and (2) the amount of taxpayer payments and credits. When IRS omitted the credit, it understated the amount available for allocation. As a result, IRS understated the prorated collections to the HTF.

¹¹IRS calculates certified collections to the HTF using the total prorated collection amount, tax rate, and distribution rates to trust funds and trust fund accounts, for each tax type. Although the prorated collections amounts are primarily distributed to the HTF for all three of the abstracts, the distribution rates vary. For 10 percent gasohol (abstract 59), the distribution rates are 7.64 cents/gallon to the Highway Account, 2.86 cents/gallon to the Mass Transit Account, 0.1 cents/gallon to the Leaking Underground Storage Tank Trust Fund, and 2.5 cents/gallon to the General Fund. For diesel fuel (abstract 60) the distribution rates are 21.44 cents/gallon to the Highway Account, 2.86 cents/gallon to the Mass Transit Account, and 0.1 cents/gallon to the Leaking Underground Storage Tank Trust Fund. For gasoline (abstract 62) the distribution rates are 15.44 cents/gallon to the Highway Account, 2.86 cents/gallon to the Mass Transit Account, and 0.1 cents/gallon to the Leaking Underground Storage Tank Trust Fund.

for fiscal year 2002. Consequently, there was no net impact on fiscal year 2002 distributions to the HTF resulting from these errors.

B. Dollar unit sample (DUS) of transactions from the quarters ended December 31, 2001, and March 31, 2002

1. Sampling

- (a) Obtain excise tax assessments and collection data from IRS's master file for the first 6 months of fiscal year 2002. Determine if excise tax collections per master file agree with IRS's general ledger. Reconcile total excise tax collections from the master file to total excise tax collections from the Collection Certification System audit files to determine if they materially¹² agree.

Description of findings and results

Excise tax collections for the first 6 months of fiscal year 2002 per 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 IRS's master file.¹³ 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.

¹²For the purpose of this reconciliation, material is defined as 1 percent of the total Form 720-related excise tax collections, related to the quarters ended December 31, 2001, and March 31, 2002. For fiscal year 2002, the materiality amount was \$210 million for the two quarters combined.

¹³For this sample, if one or no errors were found in testing the 78 items, we would be 90 percent confident that the error rate in the population would not exceed 5 percent.

- (c) To determine if the Collection Certification System properly summarized the prorated collections, total the prorated collections for selected abstracts¹⁴ from the audit files and compare these amounts to amounts in the *Reports of Excise Tax Collection*.¹⁵

Description of findings and results

The Collection Certification System properly summarized the prorated collections for all of the selected abstracts related to the HTF and the AATF. Prorated collections for the above-mentioned trust funds from the audit files agreed with the corresponding amounts in the *Reports 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.

Description of findings and results

Use of DUS with a confidence level of 80 percent, a test materiality of \$315 million, and an expected aggregate error amount of \$94.5 million resulted in a sample of 94¹⁶ prorated collections for the first 6 months of fiscal year 2002.

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

¹⁴The selected abstracts include the following: (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 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). The tax amounts for the three HTF-related abstracts make up over 87 percent of the total amount certified to the HTF and the tax amounts for the four AATF-related abstracts make up over 96 percent of the total amounts certified to the AATF.

¹⁵The *Report of Excise Tax Collection* contains prorated collections, classified by abstracts, that serve as the basis for IRS's quarterly trust fund certifications.

¹⁶The planned sample size using DUS was 136 items. DUS selects dollars versus specific transaction items by dividing the population by dollar intervals. The dollar interval for the HTF was \$116 million. Accordingly, any item with a dollar value matching or exceeding the sampling interval would be selected, whereas items less than the sampling interval might not be selected. For example, an item of \$232 million would cover two dollar-intervals, but represent one sample item. Due to large dollar items covering more than one interval, the 94 unique sampled transactions selected represent 136 dollar-intervals.

Description of findings and results

Use of DUS with a confidence level of 80 percent, a test materiality of \$91 million, and an expected aggregate error amount of \$27.3 million resulted in a sample of 62¹⁷ prorated collections for the first 6 months of fiscal year 2002 for the AATF.

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 was selected for testing.¹⁸

2. Detailed tests of transactions

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

- Check to see that the assessment amount on the tax return, for the sampled abstract, agrees with the amount recorded in IRS's master file.

Description of findings and results

The assessment amounts on the tax returns agreed with the amounts recorded in IRS's master file for 76 of the 94 sampled items. On 18 of the sampled items, IRS data entry errors erroneously decreased the assessment amount for the abstract. As a result, the prorated amounts for these sample items were understated by an aggregate amount of \$10.5 million.¹⁹

IRS became aware of and corrected these errors. The correction was included in IRS's trust fund certification total for the quarter ended

¹⁷The planned sample size using DUS was 111 items. As explained in footnote 16, DUS selects dollars versus specific transaction items by dividing the population by dollar intervals. The dollar interval for the AATF was \$34 million. Due to large dollar items covering more than one interval, the 62 unique sampled transactions selected represent 111 dollar-intervals.

¹⁸For this sample, if no errors are found in testing the 45 items, we would be 90 percent confident that the error rate in the population would not exceed 5 percent.

¹⁹As explained in footnote 7, IRS prorates the amount of excise tax collections based on (1) the amount of tax reported by the taxpayer or assessment amount and (2) the amount of taxpayer payments and credits. Since IRS's Collection Certification System is programmed to allocate no more than 100 percent of the tax assessment, decreasing the assessment amount will decrease the amount available for allocation. For example, if the taxpayer reports that it owes \$1 million for gasoline tax and paid \$1 million, but IRS erroneously decreases the tax owed by \$200,000, IRS's Collection Certification System will allocate only \$800,000 to gasoline tax.

June 30, 2002. Consequently, there was no net impact on fiscal year 2002 distributions to the HTF resulting from these errors.

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

Description of findings and results

The taxpayers' calculations on the tax returns for the related abstracts were mathematically correct for all of the sampled abstracts.

- Recompute the prorated collection amount based on information from the master file and compare this amount to the sample items selected from the Collection Certification System audit file.²⁰

Description of findings and results

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

- (b) Perform detailed testing on 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 2002, the net most likely error is (\$14.1 million) with an upper error limit of (\$198.2 million) at the 80 percent confidence level. Collections go through additional calculations to produce certification amounts for distribution. Consequently, the magnitude of the error cannot be quantified with respect to the impact on recorded distributions to the HTF.

²⁰The purpose of this test is to determine whether the Collection Certification System prorates correctly. This test is not intended to determine whether amounts provided to the system are correct.

II. Review of IRS's quarterly HTF certifications

A. Receipt certifications

Perform the following steps on IRS's HTF receipt certifications for the quarters ended September 30, 2001, December 31, 2001, March 31, 2002, and June 30, 2002:²¹

1. Inspect the certification letters²² for authorizing signatures.

Description of findings and results

The HTF certification letters for all four quarters had authorizing signatures.

2. Determine if evidence exists that the supervisor or another analyst checked the certification letters and supporting worksheets.

Description of findings and results

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

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

Description of findings and results

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

²¹Since certifications are not completed until 6 months after the end of the quarter, the certification and corresponding FMS adjustment for the quarter ended September 30, 2002, will not be completed in time to affect the recorded fiscal year 2002 distributions to the HTF.

²²IRS prepares two certification letters for the HTF each quarter: one for the Highway Account and the other for the Mass Transit Account.

4. Trace the certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59)²³ from the certification letters back to the *Reports of Excise Tax Collection*.²⁴

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) per the certification letters agreed with the related *Reports of Excise Tax Collection* for all four quarters.

However, IRS omitted \$847.5 million in excise tax collections from its normal receipt certification for the quarter ended March 31, 2002, because of processing delays. Specifically, IRS did not record information from two large excise tax returns into its master file in time for inclusion in the *Report of Excise Tax Collection*. As a result, IRS performed a supplemental certification in order to timely certify an additional \$714.1 million to the Highway Account and \$133.4 million to the Mass Transit Account. We (1) recalculated the totals on the supplemental certification letters and (2) traced the certified amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) from the supplemental certification letters back to the two supporting tax returns. We did not find any discrepancies.

5. Review the *Reports of Excise Tax Collection* used in the certification to determine if they contain significant²⁵ collections from prior quarters.

Description of findings and results

IRS-certified collections to the HTF did not contain significant prior quarter collections in any of the four quarters.

²³The 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), make up over 90 percent of the total amount certified to the HTF.

²⁴IRS uses data from two of these reports, covering sequential processing intervals, for each quarterly certification. Collections are classified by abstract on the report when the related Form 720 tax return has been recorded in IRS's master file during the processing interval covered by the report. The second of the two reports used may contain collections related to previous quarters not classified by abstract until the current quarter because the related return was not recorded on the master file until the current quarter.

²⁵For this test, "significant" is defined as \$90 million. This represents approximately 1 percent of the total amount certified to the HTF for a quarter.

6. Heavy vehicle use taxes, which go to the HTF, are reported on Form 2290 and are not included in the Collection Certification System. Trace these amounts from the Highway Account certification letters to the master file.

Description of findings and results

Heavy vehicle use tax per the Highway Account certification letters agreed with the master file for all four quarters.

7. Review the distribution rates used by IRS to determine whether the distribution rates for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) agree with the applicable laws.²⁶

Description of findings and results

We saw no evidence that the distribution rates used by IRS for diesel fuel tax (abstract 60), gasoline tax (abstract 62), and tax on 10 percent gasohol (abstract 59) did not agree with the applicable laws in effect during the four quarters.

B. Refund/credit reclassification²⁷

Perform the following steps on IRS's HTF refund/credit certifications for the quarters ended December 31, 2001, March 31, 2002, June 30, 2002, and September 30, 2002:²⁸

1. Inspect the certification letters for authorizing signatures.

Description of findings and results

The certification letters for all four quarters had authorizing signatures.

²⁶IRS 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.

²⁷IRS performs a quarterly reclassification of excise tax refunds and credits originally entered into its master file as a personal or corporate refund/credit. IRS refers to these reclassifications as "refund/credit certifications." These amounts do not represent the total excise tax refund/credit activity to the trust funds. Other routine excise tax refunds and credits (e.g., overpayments), which are claimed on taxpayers' Form 720 excise tax returns, are included in IRS's excise tax receipt certification to trust funds.

²⁸In order to meet certain reporting deadlines, IRS-certified refunds and credits for the fourth quarter of fiscal year 2002 as of September 6, 2002.

2. Determine if evidence exists that the certification letters and accompanying schedules²⁹ were checked by the supervisor or another analyst.

Description of findings and results

There was evidence that another analyst and a supervisor checked the certification letters and accompanying schedules for all four quarters.

3. Recalculate the totals on the certification letters and accompanying schedules to determine if they are mathematically correct.

Description of findings and results

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

4. Trace the refund and credit amounts for diesel and gasoline³⁰ from the schedules accompanying the certification letters to other summary refund/credit schedules. These other refund/credit summary schedules summarize refund and credit data obtained from service center campuses' records.

Description of findings and results

The refund and credit amounts for gasoline tax and diesel tax on the schedules accompanying the certification letters agreed with the amounts on the summary schedules for the quarters ended March 31, 2002, and June 30, 2002.

IRS's certification letter for the quarter ended December 31, 2001, included erroneous amounts for gasohol and bus diesel fuel refunds. As a result, IRS overstated its HTF refund certification by approximately \$81 million. After we brought this to its attention, IRS made a correction on the subsequent certification. As a result, there was no net impact on fiscal year 2002 distributions to the HTF.

On IRS's refund and credit certification for the quarter ended September 30, 2002, the IRS analyst entered data from the summary schedules into the wrong sections of a schedule accompanying the certification letter. As a result, IRS reported

²⁹IRS attaches a separate schedule to the HTF refund/credit certification letter that includes the detailed excise tax amounts that support the total amount shown on the letter. IRS compiles the amounts on these schedules from service center campus systems and its Interim Revenue Accounting Control System. IRS has 10 service center campuses that process tax returns and tax receipts.

³⁰The certified refund/credit amounts for diesel and gasoline make up at least 88 percent of the total certified refund/credit amount for the HTF.

\$152.2 million in HTF refunds as credits and \$38.4 million in HTF credits as refunds. There was no impact on distributions to the HTF because the BPD deducts the total amount of refunds and credits in calculating distributions to the trust fund.

III. Review of FMS adjustments

Perform the following steps on FMS adjustments to the HTF excise tax distributions for the quarters ended September 30, 2001, December 31, 2001, March 31, 2002, and June 30, 2002.

- A. Compare the FMS adjustments made to the HTF for fiscal year 2002 with original OTA estimates and IRS-certified amounts to see if they agree with the supporting schedules.³¹

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 four quarters.

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

Description of findings and results

The independently recalculated differences between the OTA estimates and the final IRS-certified amounts for the Highway Account agreed with the differences computed by FMS for all four quarters.

These amounts were³²

- for the quarter ended September 30, 2001, \$81,501,000;
- for the quarter ended December 31, 2001, (\$29,699,000);
- for the quarter ended March 31, 2002, \$7,806,000; and

³¹An FMS accountant compiles this schedule, called the Subsidiary Quarterly Account of Estimates and Actual Related Excise Taxes Appropriated to the Highway Account. It 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.

³²A 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.

- for the quarter ended June 30, 2002, (\$378,864,000).

The independently recalculated differences between the OTA estimates and the final IRS-certified amounts for the Mass Transit Account agreed with the differences computed by FMS for all four quarters.

These amounts were

- for the quarter ended September 30, 2001, \$11,830,000;
- for the quarter ended December 31, 2001, \$52,115,000;
- for the quarter ended March 31, 2002, (\$1,262,000); and
- for the quarter ended June 30, 2002, (\$9,697,000).

IV. Procedures performed on excise tax distributions to the HTF for the quarter ended September 30, 2002

- A. Determine if OTA's process for identifying and incorporating into its trust fund estimates³³ the effect of new legislation on excise tax receipts was in place during fiscal year 2002.

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 fiscal year 2002. OTA prepares a tax rate table³⁴ to capture information relating to legislation that affects tax rates, tax basis, accounts, and deposit rules in effect during the tax period.

- B. Determine if there is evidence of review of the transfer forms and supporting schedules.

Description of findings and results

There was evidence that another OTA economist reviewed the transfer forms and supporting schedules for the semimonthly transfers affecting distributions to the HTF for the quarter ended September 30, 2002.

- C. Recalculate the totals on the transfer forms to determine if they are mathematically correct.

³³OTA makes semimonthly estimates of excise tax collections for transfer to trust funds.

³⁴OTA communicates this information to interested parties at Treasury, the Federal Highway Administration, the Federal Transit Administration, and the Department of Transportation. IRS uses the tax and distribution rates from this table in its subsequent certification of collections to trust funds.

Description of findings and results

The totals on the transfer forms affecting distributions to the HTF for the quarter ended September 30, 2002, were mathematically correct.

- D. Trace the transfer amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), tax on 10 percent gasohol (abstract 59), and heavy vehicle use tax,³⁵ from the transfer letter, through the supporting schedules and back to the related source documents.³⁶

Description of findings and results

The transfer amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), tax on 10 percent gasohol (abstract 59), and heavy vehicle use tax from the transfer forms affecting distributions to the HTF for the quarter ended September 30, 2002, agreed with the supporting schedules and source documents.

V. Other procedures

- A. Compare total fiscal year 2002 excise taxes distributed to the HTF with (1) draft HTF fiscal year 2002 financial statements and (2) BPD fiscal year 2002 financial statements for the HTF to determine if they agree.

Description of findings and results

Fiscal year 2002 excise taxes of \$32.2 billion distributed to the HTF agreed with the amount reported on the draft HTF financial statements but did not agree with the amount reported on the BPD fiscal year 2002 financial statements for the HTF. The BPD fiscal year 2002 financial statements for the HTF reported excise tax distributions to the HTF of \$32.6 billion. The difference is due to the \$388.6 million downward FMS adjustment for the quarter ended June 30, 2002 – \$378.9 million to the Highway Account and \$9.7 million to the Mass Transit Account, which FMS recorded in December 2002. This was after the November 1, 2002, issue date of BPD’s financial statements for the HTF.

- B. Procedures performed as part of fiscal year 2002 IRS financial statement audit:

³⁵The transfer amounts for diesel fuel tax (abstract 60), gasoline tax (abstract 62), tax on 10 percent gasohol (abstract 59), and heavy vehicle use tax made up over 92 percent of the total amount transferred to the HTF during the fourth quarter of fiscal year 2002.

³⁶The 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.

1. From IRS's master files for the first 8 months of fiscal year 2002, use DUS to select statistical samples of (1) total tax revenue receipts and (2) refunds. For each sample item, test that the collection or refund amount, tax period, and tax class³⁷ from source documentation agree with the information recorded in IRS's master files.

Description of findings and results

Detailed testing of 153 revenue receipts and 50 refund sample transactions showed that the collection or refund amount, tax period, and tax class from source documents agreed with the information recorded in IRS's master files.

2. Review selected IRS service center campuses' monthly Treasury SF-224 reconciliations to determine if IRS-reported revenue receipts were properly classified and reconciled to Treasury FMS records. For refunds, review selected IRS service center campuses' monthly Treasury SF-224 reconciliations to determine if IRS-reported total refunds (all tax classes) materially³⁸ reconciled to Treasury FMS records.³⁹

Description of findings and results

Tax revenue receipts reported by selected IRS service center campuses through the monthly Treasury SF-224 reconciliation process were properly classified and materially agreed with Treasury FMS records.

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

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

³⁷ IRS assigns a tax class number to specific types of taxes. Excise taxes are tax class 4.

³⁸ For the purpose of this procedure and procedure V.B.3, we define material as \$20 billion. This represents 1 percent of the total tax revenue receipts collected by IRS in fiscal year 2002.

³⁹ IRS maintains records of refund balances by tax class in its master file and reports this information monthly to Treasury on the SF-224. Treasury provides IRS with a Statement of Differences (TFS-6652), which reports differences between total refunds reported by IRS on the SF-224 and the total refunds per Treasury records.

Description of findings and results

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

Refund balances per IRS's general ledger materially agreed with the master file and with Treasury records.