



Audit Report



OIG-26-036

FINANCIAL MANAGEMENT

**Audit of Treasury's Compliance with the PIIA
Requirements for Fiscal Year 2025**

August 5, 2026

Office of Inspector General
Department of the Treasury

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OFFICE OF
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 5, 2026

**MEMORANDUM FOR WILLIAM SESSIONS
ACTING ASSISTANT SECRETARY FOR MANAGEMENT**

FROM: Shiela Michel /s/
Acting Director, Financial Statement Audits

SUBJECT: Audit of Treasury's Compliance with PIIA Requirements
for Fiscal Year 2025

We hereby transmit the attached subject report. Under a contract monitored by our office, GenTech Associates, Inc (GenTech), a certified independent public accounting firm, audited the Department of the Treasury's (Treasury) compliance with the Payment Integrity Information Act of 2019 (PIIA) for fiscal year (FY) 2025. As part of the audit, GenTech also assessed Treasury's compliance with additional improper payment reporting requirements set forth in the Office of Management and Budget (OMB) Circular No. A-123, Appendix C, *Requirements for Payment Integrity Improvement* and OMB Circular No. A-136, *Financial Reporting Requirements*.

GenTech considered the results of Treasury Inspector General for Tax Administration's audit of the Internal Revenue Service's (IRS) compliance with the improper payment reporting requirements in forming its conclusions on Treasury's compliance with PIIA, and the results were incorporated in the audit report.

In its audit report, GenTech determined that Treasury was not in compliance with PIIA for FY 2025. Treasury did not comply with 2 of 10 PIIA reporting requirements. Specifically, Treasury did not comply with the requirement to report an improper payment rate of less than 10 percent for four IRS programs identified as susceptible to significant improper payments: (1) Earned Income Tax Credit; (2) American Opportunity Tax Credit; (3) Additional Child Tax Credit; and (4) Net Premium Tax Credit. Treasury complied with the remaining eight PIIA requirements. Additionally, IRS failed to demonstrate improvements to payment integrity.

GenTech found that Treasury provided inaccurate responses to certain risk assessment questions for one fund group and inconsistent response for travel card and claims and/or voucher payment types used across eight fund groups in determining payment types' susceptibility to improper payments. However,

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GenTech noted that these inaccurate responses did not affect the overall risk assessment rating for all programs identified.

Our contract required that the audit be performed in accordance with generally accepted government auditing standards. In connection with the contract, we reviewed GenTech's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to conclude on Treasury's overall compliance with requirements contained in PIIA for FY 2025. GenTech is responsible for the attached auditors' report dated July 31, 2026, and the conclusions expressed therein. However, our review disclosed no instances where GenTech did not comply, in all material respects, with U.S. generally accepted government auditing standards.

If you wish to discuss this report, please contact me at (202) 486-1415, or a member of your staff may contact Catherine Yi, Manager, Financial Statement Audits, at (202) 553-7412.

Attachment



GenTech
— ASSOCIATES —

**Department of the Treasury
Audit of Treasury's Compliance with
Payment Integrity Information Act of 2019
Requirements for Fiscal Year 2025**



July 31, 2026

Ms. Shiela Michel
Acting Director, Financial Audit
Office of Inspector General
Department of the Treasury

Dear Ms. Michel,

GenTech Associates, Inc., is pleased to present our final report on the Department of the Treasury's (Treasury) compliance with Payment Integrity Information Act of 2019 requirements for Fiscal Year 2025.

Thank you for the opportunity to serve your organization and the assistance provided by your staff and that of Treasury. We will be happy to answer any questions you may have concerning the report.

Very respectfully,

Marcia Bischak

Marcia Bischak, CPA
Engagement Partner
GenTech Associates, Inc.



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Acronyms

ACTC	Additional Child Tax Credit
AFR	Agency Financial Report
AOTC	American Opportunity Tax Credit
BEP	Bureau of Engraving and Printing Fund
DO	Departmental Offices
EITC	Earned Income Tax Credit
EO	Executive Order
ERA	Emergency Rental Assistance
ERC	Employee Retention Credit
FRF	Federal Research Fund
FSA	Bureau of the Fiscal Service – Fiscal Service
	Administrative Salaries and Expenses
FY	Fiscal Year
GAO	Government Accountability Office
IP	Improper Payment
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act
IPIA	Improper Payments Information Act of 2002
IP PIN	Identity Protection Personal Identification Number
IRS	Internal Revenue Service
Net PTC	Net Premium Tax Credit
ODCFO	Office of the Deputy Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PIIA	Payment Integrity Information Act of 2019
RCG	Risk and Control Group
GenTech	GenTech Associates, Inc.
RTC	Refundable Tax Credit
TIGTA	Treasury Inspector General for Tax Administration
Treasury	U.S. Department of the Treasury
Treasury’s PIIA Guidance	FY 2024 Treasury Implementation Guide for OMB Circular A-123, Appendix C: <i>Requirements for Payment Integrity Improvement</i>
UP	Unknown Payment

Audit Report

July 31, 2026

Loren J. Sciurba
Deputy Inspector General
Department of the Treasury
Washington, D.C.

GenTech Associates, Inc. (GenTech), conducted a performance audit of the Department of the Treasury's (Treasury) Fiscal Year (FY) 2025 compliance with the Payment Integrity Information Act of 2019 (PIIA).

The objective of our audit was to assess and report on Treasury's overall compliance with requirements contained in PIIA,¹ enacted to establish requirements for federal agencies to cut down on improper payments (IPs) made by the federal government. PIIA replaced the Fraud Reduction and Data Analytics Act of 2015,² Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA),³ Improper Payments Elimination and Recovery Act of 2010 (IPERA),⁴ and Improper Payments Information Act of 2002 (IPIA).⁵ As part of our audit, we also assessed Treasury's compliance with additional IP reporting requirements set forth in Office of Management and Budget (OMB) Circular No. A-123, Appendix C, *Requirements for Payment Integrity Improvement*, and OMB Circular No. A-136, *Financial Reporting Requirements*. We conducted our fieldwork from January 2026 through July 2026 at our Contract Offices. Appendix 1 contains a more detailed description of our objective, scope, and methodology.

This report also summarizes the results of the Treasury Inspector General for Tax Administration's (TIGTA) assessment of the Internal Revenue Service's (IRS) compliance with the reporting requirements contained in PIIA for FY 2025. This summarization includes the IRS's management response to TIGTA's audit findings. TIGTA issued its report on July 27, 2026. We have included TIGTA's report in its entirety as Appendix 2 of this report.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

As a result of our audit, we determined Treasury was not in compliance with PIIA for FY 2025. The IRS did not report an IP rate of less than 10 percent for four of its programs identified as

¹ Pub. L. No. 116-117, 134 Stat. (March 2, 2020)

² Pub. L. No. 114-186, 130 Stat. (June 30, 2016)

³ Pub. L. No. 112-248, 126 Stat. (January 10, 2013)

⁴ Pub. L. No. 111-204, 124 Stat. (July 22, 2010)

⁵ Pub. L. No. 107-300, 116 Stat. (November 26, 2002)

susceptible to significant IPs: (1) Additional Child Tax Credit (ACTC), (2) American Opportunity Tax Credit (AOTC), (3) Earned Income Tax Credit (EITC), and (4) Net Premium Tax Credit (Net PTC). Susceptibility to significant IPs means that the result of the IP risk assessments determined these programs are likely to have annual IPs exceeding (1) both 1.5 percent of program outlays and \$10 million of all program or activity payments made during FY 2025, or (2) \$100 million (OMB's threshold). Additionally, the IRS failed to demonstrate improvements to payment integrity.

Treasury also provided inaccurate responses to certain risk assessment questions for one fund group⁶ and an inconsistent response for travel card and claims and/or voucher payment types used across eight fund groups. Treasury's inaccurate responses did not affect the overall risk assessment rating for these fund groups.

Additional information on the results of our audit is included in the accompanying report. A distribution list for this report is provided as Appendix 5.

Very respectfully,

GenTech Associates, Inc.

GenTech Associates, Inc.

⁶ A fund group is a set of activities recognized as a program within the Treasury bureaus and offices.

Results in Brief

Treasury was not in compliance with PIIA for FY 2025 because it did not report an improper payment rate of less than 10 percent for four of its programs identified as susceptible to significant IPs. Additionally, the IRS failed to demonstrate improvements to payment integrity. We determined that Treasury complied with eight of the ten PIIA requirements. Treasury: (1) published payment integrity information in the Agency Financial Report (AFR); (2) posted the AFR and accompanying materials to its website; (3) conducted IP risk assessments for each program with annual outlays greater than \$10 million at least once in the last three years; (4) adequately concluded whether the program is likely to make IPs and unknown payments (UPs) above or below the statutory threshold; (5) published IP and UP estimates for programs susceptible to significant IPs and UPs in the accompanying materials to the AFR; (6) published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the AFR; (7) published an IP and UP reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the AFR; and (8) developed a plan to meet the IP and UP reduction target. Treasury did not comply with the requirement to report an improper payment rate of less than 10 percent for its programs identified as susceptible to significant improper payments because IRS reported an improper payment rate of more than 10 percent for four of its programs identified as susceptible to significant improper payments, including:

- Additional Child Tax Credit (ACTC) – IRS estimates 13.6 percent (\$4.5 billion) of the total ACTC payments of \$33.4 billion in FY 2025 were improper.
- American Opportunity Tax Credit (AOTC) – IRS estimates 30.7 percent (\$1.5 billion) of the total AOTC payments of \$5 billion in FY 2025 were improper.
- Earned Income Tax Credit (EITC) – IRS estimates 32.7 percent (\$21.1 billion) of the total EITC payments of \$64.7 billion in FY 2025 were improper.
- Net Premium Tax Credit (Net PTC) – IRS estimates 31.6 percent (\$0.8 billion) of the total Net PTC payments of \$2.6 billion in FY 2025 were improper.

Treasury did not demonstrate improvements to payment integrity. IRS's overall improper payment rate increased from 21.9 percent in FY 2024 to 26.5 percent in FY 2025.

We determined that Treasury complied with all other OMB improper payment reporting requirements.

In addition to the compliance criteria, we reviewed Treasury's risk assessments and recapture audit programs to determine the accuracy and completeness of Treasury's improper payment reporting.

We determined responses to certain questions in their qualitative risk assessments were inaccurate and inconsistent in determining payment types' susceptibility to improper payments. Treasury's inaccurate responses did not affect the overall risk assessment rating for all programs identified.

As part of our reporting process, we provided a draft of this report to Treasury management for review and comment. In a written response, management noted that refundable tax credits (RTCs) generally have complex eligibility rules that may be difficult for the IRS to verify. Consequently, RTC overclaims are not the result of internal control weaknesses that can be remediated internally but are, in fact, the result of factors beyond Treasury's control under current law and existing authority. Management also noted that they are continuing to collaborate with IRS to identify a more effective way to report on estimated payment errors associated with the RTC programs in the Department's AFR as part of a broader discussion on the tax gap and tax burden.

Additionally, Treasury management concurred with all findings and recommendations related to payment integrity deliverables of non-IRS Treasury Components. Management also provided their planned corrective actions, implementation dates, and responsible officials in their response.

Management's response to our report is provided in Appendix 4.

We also summarized TIGTA's audit results in this report. TIGTA reported that IRS did not meet the PIIA goal of reducing improper payment rate for ACTC, AOTC, EITC, and Net PTC to less than 10 percent. Additionally, IRS failed to demonstrate improvements to payment integrity.

TIGTA reported that IRS has not been able to reduce its improper payment rate estimates to less than 10 percent for each of its high-risk refundable tax credit programs, and in FY 2025, these rates increased. According to the FY 2025 Treasury AFR, IRS would need to reduce improper payments for its RTC programs by \$17.5 billion to reach the goal of 10 percent. According to TIGTA, factors beyond IRS's control contribute to improper payments and IRS will continue to focus on outreach and education in lieu of increasing examinations.

TIGTA's report and IRS's management response are provided in Appendix 2.

Background

Improper Payments Compliance and Reporting Requirements

Under IPIA, Federal agencies were required to review and identify programs and activities susceptible to improper payments on an annual basis and report estimates of improper payments to Congress along with actions to reduce estimated improper payments that exceeded \$10 million.

On July 22, 2010, the President signed IPERA into law. IPERA amended IPIA, strengthening agencies' program reviews and reporting requirements. IPERA expanded the types of payments to be reviewed and established the requirement for agencies to conduct recovery audits if cost-effective. IPERA also required Inspectors General to report on their respective agencies' compliance with IPERA each fiscal year. IPERIA further expanded agency improper payment requirements to foster greater agency accountability.

In accordance with IPERIA, Offices of Inspectors General (OIGs) are required to review and report on their respective agencies' OMB-designated high-priority programs, if any. According to OMB, high-priority programs are all programs with IPs resulting in monetary loss that exceeds

\$100 million annually. Specifically, OIGs are to review management's assessment of the level of risk, the quality of the improper payment estimates and methodology, and the oversight and financial controls in place to identify and prevent improper payments. Recommendations, if any, are to be provided for modifying agency plans related to the agency's high-priority programs, to include improvements for determining and estimating improper payments.

For FY 2025 reporting, OMB determined that ACTC, AOTC, EITC, and Net PTC are high-priority programs.

In Memorandum 15-02, dated October 20, 2014, OMB issued revisions to OMB Circular No. A-123, Appendix C, to provide agencies guidance on implementing all improper payment compliance and reporting requirements. In June 2018, OMB further revised the OMB guidance (OMB M-18-20) in an effort to transform the improper payment compliance framework to create a more unified, comprehensive, and less burdensome set of requirements. According to OMB M-18-20, all agencies should institute a systematic method of reviewing all programs once every three years to determine the programs' improper payment risk.

On March 2, 2020, PIIA repealed IPERIA, IPERA, and IPIA but set forth similar improper payment reporting requirements. Under PIIA, agencies must conduct a program-specific risk assessment for each program or activity identified by the agency, provide the methodology for identifying and measuring improper payments, and report on actions the agency intends to take to prevent future improper payments. PIIA requires the OMB Director to identify a list of high priority Federal programs for greater levels of oversight and review, in which the highest dollar value or highest rate of improper payments occur or for which there is a higher risk of improper payments. Agencies with high-priority programs are required to submit an annual report to the Inspector General and OMB on actions (1) taken or planned to recover improper payments and (2) intended to prevent future improper payments. The annual report is also required to be available to the public through a website.

OMB once again updated Circular A-123, Appendix C, with guidance directly related to the Inspectors General review and issued OMB M-21-19, *Transmittal of Appendix C to OMB Circular A-123, Requirements for Payment Integrity Improvement*, on March 5, 2021. This guidance is effective starting in FY 2021. Each program with annual outlays over \$10 million must conduct an IP risk assessment at least once every three years to determine whether the program is likely to have IPs and UPs above the statutory threshold.

Treasury's Improper Payment Risk Assessment

Treasury issued *Comprehensive Treasury Guidance for Payment Integrity Reporting in Accordance with OMB Circular A-123 Appendix C, Requirements for Payment Integrity Improvement* (Treasury's PIIA Guidance) to all Treasury's Bureaus and Offices (hereafter referred to as "Components"). For all Fund Groups with more than \$10 million in Total Non-Federal Disbursements, a risk assessment is required once every three years. For Fund Groups that were new in the prior fiscal year, a risk assessment is required in the current fiscal year. An off-cycle risk assessment must be completed if there is a significant change in legislation and/or significant increase in funding levels.

Components have the option to conduct a qualitative or a quantitative risk assessment. Programs should choose the methodology that reasonably supports whether the program is or is not susceptible to significant IPs. The qualitative risk assessment consists of a questionnaire template (Qualitative Questionnaire) that Components must complete to assess their susceptibility to IPs.

The Qualitative Questionnaire aligns risk assessment questions and risk ratings to the 11 risk factors that could be considered when conducting a qualitative IP risk assessment according to OMB M-21-19:

- 1) Whether the program reviewed is new to the agency;
- 2) The complexity of the program reviewed;
- 3) The volume of payments made through the program reviewed;
- 4) Whether payments or payment eligibility decisions are made outside of the agency, such as by a state or local government;
- 5) Recent major changes in program funding, authorities, practices, or procedures;
- 6) The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate;
- 7) Significant deficiencies in the audit report or other relevant management findings of the agency that might hinder accurate payment certification;
- 8) Similarities (a combination of outlays, mission, payment process, etc.) to other programs that have reported IP and UP estimates or been deemed susceptible to significant IPs;
- 9) The accuracy and reliability of IP and UP estimates previously reported for the program, or other indicator of potential susceptibility to IPs and UPs identified by the OIG of the executive agency; the U.S. Government Accountability Office (GAO); other audits performed by or on behalf of the federal, state, or local government; disclosures by the executive agency; or any other means;
- 10) Whether the program lacks information or data systems to confirm eligibility or provide for other payment integrity needs; and
- 11) The risk of fraud as assessed by the agency under the *Standards for Internal Control in the Federal Government*, published by the GAO (commonly known as the “Green Book”).

Based on the Component responses, the Qualitative Questionnaire automatically calculates the risk assessment rating (Susceptible or Not Susceptible) for each payment type and the overall risk assessment rating for the Fund Group based on the annual percentages and risk assessment ratings for all payment types.

The quantitative risk assessment (Quantitative Summary) consists of a review of a sample of disbursements to calculate the IP and UP amount and rate. The IP and UP amount and rate are compared to OMB’s threshold to determine susceptibility to significant IPs. Fund Groups that are not required to complete a risk assessment for a given year are required to complete a certification

to attest that there has not been a significant change in legislation or funding since the last risk assessment has been completed.

After each component completes and reviews its risk assessment, the results are provided to Treasury's Risk and Control Group (RCG). Fund Groups identified as susceptible to significant IPs through the risk assessments and all OMB-designated high-priority programs will develop a statistical sampling methodology and perform testing and calculate the annual estimated amount of IPs and UPs and the respective rates the following fiscal year. They will also identify the reasons they are at risk of IPs and UPs and create a corrective action plan to prevent and reduce the IPs and UPs. Lastly, programs susceptible to IPs report the following payment integrity information with their annual financial statement and on PaymentAccuracy.gov:

- IP Reduction Outlook;
- IP Root Cause;
- Data and Information Themes;
- Corrective Actions; and
- Non-Compliance.

On August 1, 2022, the Office of the Deputy Chief Financial Officer (ODCFO) submitted a memorandum to OMB, *Limitations in Quantifying the Amount and Rate of Improper Payments for Short-Term Programs*, explaining that, due to the short timeframe over which the majority of disbursements will be made by a number of programs created by the American Rescue Plan Act of 2021; the Coronavirus Aid, Relief, and Economic Security Act; and the Consolidated Appropriations Act of 2021 (COVID-19 related programs) for which Treasury is responsible, quantifying the amount and rate of improper payments, assessing the root cause, and developing corrective action plans to reduce payment errors in the future would provide minimal value and be an ineffective use of resources. Therefore, for short-term programs such as the COVID-19 programs, Treasury will follow the guidance in OMB Circular A-123, Appendix C, for assessing risk to identify those programs deemed susceptible to significant improper payments. However, Treasury will not plan to report an improper payment estimate of such programs either in its AFR or on PaymentAccuracy.gov.

Recovery Audits

PIIA requires agencies to conduct recovery audits (also referred to as payment recapture audits) to prevent, detect, and recover overpayments, if conducting such audits would be cost-effective, for each program and activity that expends \$1 million or more annually. A payment recovery audit is a review and analysis of an agency's or program's accounting and financial records and other pertinent information supporting its payments that is specifically designed to identify overpayments.

Treasury's PIIA Guidance requires each component to complete, certify, and submit a worksheet providing a consistent reporting format that includes information on the results of the component's payment recovery audits and treatment of recaptured improper payments. The steps to perform a payment recovery audit include:



1. Develop and perform a cost benefit analysis;
2. Establish targets for the payment recapture audit program;
3. Perform the payment recapture audit;
4. Dispose of recaptured funds; and
5. Report the results.

The worksheets are submitted to the RCG for review and the data is consolidated and reported on the PaymentAccuracy.gov website.

Treasury's Improper Payment Reporting

On January 27, 2026, Treasury published its payment integrity information with its annual financial statement, in accordance with OMB Circular A-136, to include:

- A hyperlink to the PaymentAccuracy.gov website;
- A summary of their payment integrity activities and results;
- A summary discussing the nature of RTC programs;
- IRS's strategies to address the tax gap and reduce RTC errors; and
- A summary of Treasury's pandemic relief programs that were determined to be susceptible to significant improper payments.

The following payment integrity information is also published on PaymentAccuracy.gov through OMB's annual data request:

- IP and UP amounts and rates for the ACTC, AOTC, EITC, and Net PTC programs;
- High-priority program results;
- IP root causes;
- Confirmed fraud;
- Payment recapture reporting information; and
- All programs assessed for risk of improper payment during the risk assessment cycle.

Audit Results

According to OMB Circular A-123, an agency is required to meet ten specific requirements to be compliant with PIIA. The ten requirements are (1) publishing payment integrity information in the AFR; (2) posting the AFR and accompanying materials to its website; (3) conducting IP risk assessments for each program with annual outlays greater than \$10 million at least once in the last three years; (4) adequately concluding whether the program is likely to make IPs and UPs above or below the statutory threshold; (5) publishing IP and UP estimates for programs susceptible to significant IPs and UPs in the accompanying materials to the AFR; (6) publishing corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the AFR; (7) publishing an IP and UP reduction target for each program

for which an estimate above the statutory threshold was published in the accompanying materials to the AFR; (8) demonstrating improvements to payment integrity or reaching a tolerable IP and UP rate; (9) developing a plan to meet the IP and UP reduction target; and (10) reporting an IP and UP estimate of less than 10 percent for each program for which an estimate was published in the accompanying materials to the AFR.

We found that Treasury was not in compliance with PIIA for FY 2025 because IRS did not report an overall improper payment rate of less than 10 percent for the ACTC, AOTC, EITC, and Net PTC programs and failed to demonstrate improvements to payment integrity. We discuss this further in our Finding 1 below. Treasury complied with the other PIIA requirements, as outlined in **Table 1**. In addition, in Appendix 3, **Table 2** provides a summary of Treasury programs' compliance with PIIA reporting requirements for programs that are identified as susceptible to significant IPs for FY 2025 reporting, and **Table 3** provides a summary of Treasury programs' compliance with PIIA reporting criteria for programs that conducted an IP risk assessment in FY 2025. The risk assessment is based on Treasury's three-year rotation schedule in accordance with OMB guidance.

Table 1: Treasury's Compliance with PIIA Requirements

PIIA Requirement	Compliance
Publish payment integrity information in the AFR	Yes
Post the AFR and accompanying materials to its website	Yes
Conduct IP risk assessments for each program with annual outlays greater than \$10 million at least once in the last three years	Yes
Adequately conclude whether programs are likely to make IPs and UPs above or below statutory threshold	Yes
Publish IP and UP estimates for programs susceptible to significant IPs and UPs in the accompanying materials to the AFR	Yes
Publish corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the AFR	Yes
Publish an IP and UP reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the AFR	Yes
Demonstrate improvements to payment integrity or reach a tolerable IP and UP rate	No
Develop a plan to meet IP and UP reduction target	Yes
Report an IP and UP estimate of less than 10 percent for each program for which an estimate was published in the accompanying materials to the AFR	No

Source: GenTech's and TIGTA's review of Treasury's compliance with PIIA requirements for FY 2025 for the programs listed in Appendix 3.

We also reviewed Treasury's risk assessment process and recapture audit programs to determine the accuracy and completeness of Treasury improper payments reporting. We noted that Treasury:

- (1) Included the required improper payment disclosures in the AFR;

- (2) Performed risk assessments using required criteria defined by OMB Circular A-123 (with exceptions noted);
- (3) Conformed to OMB guidance for payment recapture audits; and
- (4) Posted required improper payment information to the PaymentAccuracy.gov website.

Finding 1: Treasury Was Not in Compliance with PIIA for FY 2025

We determined that Treasury was not in compliance with PIIA for FY 2025 due to IRS not reporting an overall improper payment rate of less than 10 percent for ACTC, AOTC, EITC, and Net PTC. Specifically, according to TIGTA's report, IRS reported an improper payment rate of 13.6 percent (or \$4.5 billion), 30.7 percent (or \$1.5 billion), 32.7 percent (or \$21.1 billion), and 31.6 percent (or \$0.8 billion) for ACTC, AOTC, EITC, and Net PTC, respectively. PIIA requires an IP and UP estimate of less than 10 percent for each program for which an estimate was published in the accompanying materials to the annual financial statement. Additionally, the IRS failed to demonstrate improvements to payment integrity.

TIGTA did not make any recommendations related to this finding.

As part of our reporting process, we provided a draft of this report to Treasury management for review and comment. In a written response, management noted that RTCs generally have complex eligibility rules that may be difficult for the IRS to verify, particularly at the time the taxpayer files a return, due to the lack of available and relevant third-party data. Consequently, management noted RTC overclaims are not the result of internal control weaknesses that can remediate internally but are, in fact, the result of factors beyond their control under current law and existing authority. Additionally, management noted even if they could obtain legislative changes and invest in additional resources and verification solutions that would ultimately reduce overclaims, the benefits derived would be marginal relative to the cost of doing so. Audits by the Government Accountability Office and TIGTA have also concluded that RTC overclaims are largely due to the statutory design and complexity of the RTCs, not internal control weaknesses, financial management deficiencies, or reporting failures.

Finding 2: Inaccurate Completion of Program-Specific Risk Assessments

GenTech determined the Bureau of Engraving and Printing (BEP), Bureau of the Fiscal Service – Fiscal Service Administrative Salaries and Expenses (FSA), Departmental Offices (DO), Community Development Financial Institutions Fund (CDF), and Federal Research Fund (FRF) managements' responses to certain questions in their qualitative risk assessments were inaccurate in determining payment types' susceptibility to significant improper payments. Specifically:

- Six instances where BEP management indicated a rating of “susceptible” but should have indicated a rating of “not susceptible” in its qualitative risk assessment.
- One instance where the Administrative Resource Center (ARC)⁷ provided inconsistent

⁷ As of the date of this report, the Bureau of Fiscal Service's Administrative Resource Center (ARC) is now the Center for Financial Management.



responses that were used across eight fund groups for travel card and claims and/or voucher payment types for FSA, CDF, FRF, and DO.

GenTech noted these inaccurate responses did not affect the overall risk assessment rating for all programs identified.

FY 2025 Annual Treasury Guidance for Payment Integrity Reporting in Accordance with OMB Circular A-123, Appendix C, *Requirements for Payment Integrity Improvement*, Section III: Deliverables, Page 9, states, “Submit the completed Qualitative Risk Assessment questionnaires by Payment Type for each Fund Group if Component is performing a qualitative risk assessment, or the completed Quantitative Risk Assessment summary if the Component is performing a quantitative risk assessment. Both the Qualitative questionnaires and the Quantitative summaries should be certified by a senior level official of the Component.”

Additionally, Page 11 states, “Work performed is subject to review by the ODCFO and the Department’s auditors. Components must maintain their documentation at a level that can withstand management and auditor scrutiny. As such, Components should ensure all deliverables are reviewed for accuracy and completeness prior to submission to ODCFO.”

During FY 2025, Treasury revised the Qualitative Risk Assessment Questionnaire by removing the answer key and incorporating additional guidance. Although Treasury’s RCG provided training on these changes, BEP and ARC did not adequately apply the revised guidance when completing program-specific risk assessments. In addition, BEP, ARC, and RCG review controls did not detect the inaccurate responses prior to submission.

These inaccuracies increase the risk that programs may be improperly assessed as more or less susceptible to improper payments, which may affect the design and implementation of appropriate mitigation controls.

Recommendations

We recommend that:

1. Treasury’s RCG develop and disseminate supplemental guidance that provides clearer instructions for completing qualitative risk assessment questions, including how responses to identified risks should align with the related susceptibility determination.
2. The component’s management implement enhanced supervisory review procedures to ensure qualitative risk assessment responses are accurate, consistent, and supported prior to submission. This should include a documented secondary review focused on the appropriateness of susceptibility determinations and alignment with Treasury guidance.
3. The component’s management should establish procedures to validate responses provided by shared service providers (e.g., ARC) to ensure consistency, accuracy, and alignment with program conditions prior to incorporating those responses into Component risk assessments.

Management's Concurrence and GenTech's Response

Treasury concurs with GenTech's recommendations. Treasury's RCG will provide clearer instructions for completing the qualitative risk assessment questions beginning in the upcoming fiscal year. RCG will also provide guidance to Components on performing reviews of their qualitative risk assessments prior to submitting them to the ODCFO.

Additionally, RCG will provide the Components with further instructions on reviewing the shared service providers' qualitative risk assessment(s).

Treasury's response meets the intent of the audit recommendations.

Management's response to our report is provided in Appendix 4.

Treasury Inspector General for Tax Administration's Audit Results

The following are excerpts from TIGTA's FY 2025 PIIA audit report. TIGTA made five recommendations in their report.

Finding 1: Assessment of FY 2025 Compliance With Improper Payment Reporting Requirements

TIGTA's review found that IRS has still not met the PIIA goal of reducing the improper payment rate for ACTC, AOTC, EITC, and Net PTC to less than 10 percent and IRS failed to demonstrate improvements to payment integrity. The IRS's overall improper payment rate increased from 21.9 percent in FY 2024 to 26.5 percent in FY 2025.

Finding 2: Legislative Changes Are Needed to Reduce Refundable Tax Credit Improper Payments

TIGTA reported that IRS runs various automated checks on a tax return before paying a refund. For example, the IRS reported that from FYs 2023 through 2025, it used math error authority to reduce refundable credit claims by approximately 2 percent (\$7.6 billion). Using this authority, it adjusted total claims from \$330.5 billion to approximately \$322.8 billion.⁸ The IRS also conducts prerefund and post refund examinations. However, these processes only address a small percentage of refundable tax credit claims. The IRS examined less than one percent of refundable credit claims for FYs 2023 through 2025. Also, during this same period, prerefund examinations of refundable credits decreased approximately 70 percent along with the total credits that were disallowed. For example, in FY 2025, the IRS reported that for pre and post refund examinations it selected 79,000 (0.3 percent) of the 24.6 million tax returns claiming EITC.

One reason examinations are decreasing is due to reductions in staffing. Specifically, in FY 2025, the IRS's Refundable Credits Examination Operations Unit lost about 20 percent (86 examiners) of its 439 examiners. The IRS has also reported that budget reductions resulted in decreased

⁸ Figures surrounding math error authority are rounded and may not reconcile.

examination staffing. Moreover, when the IRS received additional funding through the Inflation Reduction Act, the Secretary of Treasury directed the IRS not to increase examinations for Taxpayers earning \$400,000 per year or less.⁹ For example, the EITC is an anti-poverty credit established by Congress for working families and is available to low and moderate-income taxpayers.

In October 2020, the IRS estimated it would need to examine 4.2 million more tax returns before issuing the refunds to be compliant with this goal. This is more than the IRS identifies annually for potential examinations. At the time, the IRS estimated that the additional examinations would cost more than \$2.5 billion (an average of \$595 per exam). Applying the IRS's current average cost of \$804 for prerefund examinations, we estimate the cost to conduct 4.2 million additional examinations has increased to \$3.4 billion a year. In addition, TIGTA estimated that the IRS would need 12,700 more examiners to conduct the additional examinations the IRS estimates are needed.

The IRS could allocate examiners from other functions to conduct refundable tax credit examinations. However, doing so would negatively affect the IRS's ability to balance its enforcement efforts across tax administration.

Recently proposed legislation to address improper payments in federal programs indicates that reducing financial loss to the government should be preventative in nature and that agencies should have access to appropriate records and data assets.¹⁰ In May 2025, TIGTA recommended that the IRS work with the Office of Tax Policy to request additional legislative considerations that will help the IRS reduce improper payments of refundable tax credits.¹¹ Accordingly, the IRS submitted to the Treasury Department a proposed legislative change addressing duplicate dependent claims, which are associated with refundable credit noncompliance. However, there has not been any progress with these proposed changes.

Legislative changes to simplify refundable credit requirements will make it easier for taxpayers to correctly determine whether they are eligible and could reduce taxpayer errors. Ensuring that the simplified requirements can be verified to reliable government data and providing the IRS access to that data will enable it to accurately verify refundable credit claims when they are filed. Finally, authorizing the IRS to systemically correct refundable credit claims when reliable data indicates the taxpayer is ineligible will enable it to efficiently prevent the issuance of erroneous refunds.

Recommendations

TIGTA recommended that IRS:

- Request that the Office of Tax Policy and Congress work on legislative changes that would simplify and streamline refundable credit eligibility.

⁹ Inflation Reduction Act of 2022, Pub. L. No. 117-169, 136 Stat. 1818.

¹⁰ H.R. 8467, 119th Cong. (Introduced in House April 23, 2026), Zeroing Out Monetary Benefits Improperly Expended Act (ZOMBIE Act).

¹¹ TIGTA, Report No. 2025-400-025, *Assessment of Fiscal Year 2025 Compliance With Improper Payment Reporting Requirements* p. 8 (May 2025).

- Identify specific areas within refundable credit tax administration where additional correctable error authority could be requested. Once identified, request these increased authorities via the Office of Tax Policy and Congress.
- Identify opportunities to work with external partners (*i.e.*, other federal agencies, states, and private institutions) and leverage available data to systemically verify refundable credit eligibility. This should include working with the external partners to establish data sharing agreements, and with the Office of Tax Policy and Congress to obtain access to the data, if needed.

Finding 3: IRS Could Expand Social Media Outreach to Increase Awareness for Refundable Credit Eligibility

The IRS indicates in its corrective action plans that it will continue to focus on outreach and education to reduce improper payments in lieu of increasing examinations. The IRS balances its outreach strategies by focusing on reaching eligible taxpayers who are not claiming credits and educating taxpayers and tax return preparers on the eligibility requirements.

Strategies include the Nationwide Tax Forum, targeted communication and education, updates to guidance, and expanded engagement with tax professionals. As part of the outreach and education strategies, the IRS has a Return Preparer Strategy Program, which combines education and enforcement of tax return preparers. The treatment of return preparers is based on egregiousness and may lead to barring preparers from preparing or filing tax returns. In FY2025, the Return Preparer Strategy Program reported protecting \$467 million in revenue through its various treatment strategies.

Moreover, the IRS generally uses the same strategies year after year. While these strategies are helpful, they are not effective in significantly reducing the improper payment rate. As noted previously, the improper payment rate for FY 2025 increased from the prior year.

Additionally, the IRS uses social media to share updates on tax changes and scam alerts, promote online account tools and provide other informational content regarding refundable credit eligibility.

TIGTA found that the IRS can improve its use of social media strategies by leveraging paid services to reach additional taxpayers and expand its messaging surrounding refundable credit eligibility and compliance.

As of May 2025, the IRS indicated that it had approximately 1.5 million followers on its various social media platforms. Additionally, for FY 2025, the IRS reported that 2 percent of posts (178 out of 8,246 posts) on five different social media platforms were related to the refundable credit programs.

TIGTA believes the IRS is missing the opportunity to expand its reach to taxpayers via social media. If complex eligibility requirements are a factor in the IRS's improper payments error rates, increasing communications to taxpayers beyond those who currently follow its social media platforms, may help reduce improper claims.

In 2024, research indicated that 68 percent of Americans (232 million) used social media. Additionally, social media has become a growing channel of communication and information sharing. According to the Pew Research Center, about half of U.S. adults report getting news from these platforms. Increasing the IRS's social media content and expanding its distribution to educate taxpayers on refundable credit eligibility increases awareness and potentially compliance in these areas.

Recommendations

TIGTA recommended that IRS:

- Use funding to distribute social media content for refundable credits beyond current followers and increase taxpayer and preparer awareness of the refundable tax credit eligibility requirements.
- Monitor the paid social media distributions to determine the impact and effectiveness to inform future decisions on educational needs.

Appendix 1: Objective, Scope, and Methodology

The overall objective of our audit was to determine the Department of the Treasury's (Treasury) fiscal year (FY) 2025 compliance with the Payment Integrity Information Act of 2019 (PIIA). We assessed Treasury's compliance with the reporting requirements set forth in PIIA. Our audit scope covered the period October 1, 2024, through September 30, 2025, and did not include the review of programs and activities administered by the Internal Revenue Service (IRS). The Treasury Inspector General for Tax Administration (TIGTA) is responsible for the audit of IRS's compliance with reporting requirements contained in PIIA.

To accomplish our objective, we performed the following activities during audit fieldwork conducted from January 2026 through July 2026:

- We reviewed applicable laws, regulations, and guidance issued by OMB, as well as *Comprehensive Treasury Guidance for Payment Integrity Reporting in Accordance with OMB Circular A-123 Appendix C: Requirements for Payment Integrity Improvement*.
- We reviewed the FY 2025 Agency Financial Report (AFR) and any accompanying information to assess whether Treasury:
 - Published payment integrity information with the annual financial statement;
 - Posted the annual financial statement and accompanying materials on the agency website;
 - Conducted improper payment (IP) risk assessments for each program with annual outlays greater than \$10 million at least once in the last three years;
 - Adequately concluded whether the program is likely to make IPs and unknown payments (UPs) above or below the statutory threshold;
 - Published IP and UP estimates for programs susceptible to significant IPs and UPs in the accompanying materials to the annual financial statement;
 - Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement;
 - Published an IP and UP reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement;
 - Demonstrated improvements to payment integrity or reached a tolerable IP and UP rate;
 - Developed a plan to meet the IP and UP reduction target; and
 - Reported an IP and UP estimate of less than 10 percent for each program for which an estimate was published in the accompanying materials to the annual financial statement.
- To assess Treasury's program-specific risk assessment process, we selected the population of all non-IRS programs that completed a risk assessment for year three in the three-year



rotation. To determine the completeness and accuracy of the information reported and compliance with the applicable guidance, we reviewed the program risk assessments and supporting documentation. GenTech issued Finding 2: Inaccurate Completion of Program-Specific Risk Assessments.

- To assess Treasury's payment recapture audit program, we tested all non-IRS reporting entities' recapture audit programs. To determine the completeness and accuracy of the information reported and compliance with the applicable guidance, we reviewed the components' submissions of the payment recapture audit results and determined if the component (1) employed an internal control program to prevent, detect, and recover overpayments; (2) considered all programs that expend \$1 million or more annually; (3) prepared and submitted justifications for those programs that did not complete a payment recapture audit; (4) completed and submitted Payment Recapture Audit Results worksheets to Treasury's Risk and Control Group; and (5) disposed of recovered funds in accordance with OMB guidance. In addition, we reviewed the supporting documentation related to the payment recapture audit results for all non-IRS components that completed a payment recapture audit. We determined if the component accurately reported the payment recapture audit results on PaymentAccuracy.gov.

Management is responsible for the design, implementation, and operating effectiveness of the agency's internal controls over payment integrity. We assessed Treasury's internal controls and compliance with policies and procedures necessary to satisfy the audit objectives. We determined that the principles of designing and implementing control activities within the control activities component of internal controls, as well as the principle of performing monitoring activities within the monitoring component of internal controls, were significant to Treasury's improper payment reporting.

We assessed whether internal controls are properly designed, implemented, and operated effectively by reviewing and inspecting relevant documents and data and re-performing procedures. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

We also assessed the reliability of the improper payment data by (1) reconciling the data to supporting documentation, (2) reviewing existing information about the data and the system that produced them, and (3) conducting an interview with Treasury's personnel knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.



Appendix 2: TIGTA's Assessment of IRS Compliance with the Improper Payment Reporting Requirements in FY 2025 and IRS Management's Response

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Assessment of Fiscal Year 2025 Compliance With Improper Payment Reporting Requirements

July 27, 2026

Report Number: 2026-400-039

Why TIGTA Did This Audit

The Inspectors General are required to annually assess and report on agency improper payment requirements contained in the Payment Integrity Information Act (PIIA).

We assessed whether the IRS complied with annual improper payment reporting requirements for Fiscal Year (FY) 2025.

Impact on Tax Administration

An improper payment is any payment that should not have been made or that was made in an incorrect amount.

The IRS has four programs that they have deemed susceptible to improper payments. All four programs are refundable tax credits and include the Additional Child Tax Credit, American Opportunity Tax Credit, Earned Income Tax Credit, and Net Premium Tax Credit. A refundable tax credit can result in a refund even if the taxpayer does not have a tax liability. Therefore, improperly issuing these credits to taxpayers represents a significant financial loss to the government.

For FY 2025, the overall improper payment rate for the four refundable tax credits was 26.5 percent and the total estimated improper payments were approximately \$28.1 billion.

What TIGTA Found

For FY 2025, the IRS did not comply with all PIIA requirements because it did not reduce the improper payment rate to less than 10 percent for the 4 high-risk refundable tax credit programs.

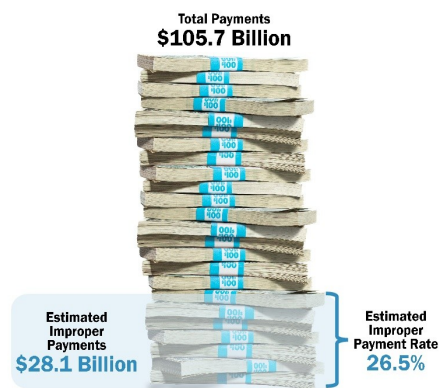
Additionally, the IRS's overall

improper payment rate increased from 21.9 percent in FY 2024 to 26.5 percent in FY 2025.

For the IRS to effectively reduce improper payment rates and prevent financial loss to the government, it would need to prevent refunds from being issued during return processing. The IRS runs various automated checks on a tax return before paying a refund, but it has limited ability and information to timely verify taxpayer eligibility. For example, the IRS reported that from FYs 2023 through 2025, it used math error authority to reduce total claims by approximately 2 percent (\$7.6 billion), adjusting claims from \$330.5 billion to approximately \$322.8 billion.

Outside of its existing math error authority, however, the IRS does not have sufficient or reliable data to systemically prevent ineligible individuals from receiving refundable credits. For example, relationship eligibility criteria cannot be verified at the time of filing. Therefore, the IRS generally must examine questionable refundable tax credit claims before issuing a refund to prevent financial loss to the government. However, the IRS reported that it examines less than one percent of returns claiming these credits. Additionally, in the past three FYs, prerefund examinations of refundable credits have declined by approximately 70 percent.

The IRS indicated that it would continue to focus on outreach and education in lieu of increasing examinations in a prerefund environment. However, these strategies make little impact on the IRS's overall improper payment rate. Without legislative intervention, it is likely the IRS's improper payment rate will continue to remain above the 10 percent threshold.



What TIGTA Recommended

We made five recommendations to the IRS including: work with Office of Tax Policy and Congress to request legislative changes to refundable credits eligibility; increase correctable error authority; create data sharing agreements with external partners to systemically verify refundable credit eligibility; and improve its social media strategies. IRS management agreed with all of our recommendations.

U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20024

July 27, 2026

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE



FROM: Diana M. Tengesdal
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Assessment of Fiscal Year 2025 Compliance With
Improper Payment Reporting Requirements (Audit No.: 2026400001)

This report presents the results of our review to determine whether the Internal Revenue Service complied with the annual improper payment reporting requirements for Fiscal Year 2025. This review is part of our Fiscal Year 2026 Annual Program Plan and addresses the major management and performance challenge of *Ensuring Tax Compliance*.

Management's complete response to the draft report is included as Appendix IV. If you have any questions, please contact me or Deann L. Baiza, Assistant Inspector General for Audit (Returns Processing and Account Services).

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Background

An improper payment is any payment that should not have been made or that was made in an incorrect amount (including both overpayments and underpayments). The Payment Integrity Information Act of 2019 (PIIA) requires agencies to annually report on all programs and activities and identify those that may be susceptible to significant improper payments.¹ Agencies must estimate annual improper payments in susceptible programs and activities and report the results of their efforts to address improper payments.

Further, the Office of Management and Budget (OMB) Circular A-123 Appendix C, *Requirements for Payment Integrity Improvement*, directs agencies to conduct an improper payment risk assessment at least once every three years for programs with annual outlays of more than \$10 million. The Department of the Treasury (herein referred to as the Treasury Department) identifies the programs that the IRS must assess for the risk of improper payments each fiscal year (FY). The IRS must also complete a Treasury certification for each program that was not identified as needing a risk assessment stating there were no material changes (*e.g.*, legislative changes, internal control changes, or audit reports impacting improper payments) to the program since the last risk assessment was completed.² Every year, Inspectors General must review agency compliance with improper payment legislation and guidance.

For FY 2025, the IRS completed 12 certifications and 9 risk assessments for the required programs.³ If a program is identified as susceptible to significant improper payments, the following must be reported:

- The rate and dollar amount of improper payments.
- The root causes of the improper payments.
- The actions taken to address the root causes.
- The annual improper payment reduction targets.
- A discussion of any limitations to the IRS's ability to reduce improper payments.

The IRS has identified four programs as being susceptible to improper payments. All four programs are refundable tax credits and include the Additional Child Tax Credit (ACTC), American Opportunity Tax Credit (AOTC), Earned Income Tax Credit (EITC), and Net Premium Tax Credit (PTC). A refundable tax credit can result in a refund even if the taxpayer does not have a tax liability. As a result, improperly issuing these credits to taxpayers represents a significant financial loss to the government.

For FY 2025, the overall improper payment rate for the four refundable tax credits was 26.5 percent and the total estimated improper payments were approximately \$28.1 billion. The improper payment rates for these four programs ranged from 13.6 percent for the ACTC to

¹ 31 U.S.C. §§ 3351-3358.

² See Appendix II for a list of additional legislation governing improper payments.

³ See Appendix III for a detailed list of the nine programs that had risk assessments.

32.7 percent for the EITC. Figure 1 provides a breakdown of the total payment amount for each of the refundable credits and the estimated improper payment amount and rate.

Figure 1: FY 2025 IRS Estimated Improper Payment Rates for Refundable Credits

IRS Program	Estimated Improper Payment Rate	Total Payments (in Billions)	Estimated Improper Payments (in Billions)
ACTC	13.6%	\$33.4	\$4.5
AOTC	30.7%	\$5.0	\$1.5
EITC	32.7%	\$64.7	\$21.1
Net PTC	31.6%	\$2.6	\$0.8
Total⁴	26.5%	\$105.7	\$28.1

Source: FY 2025 Treasury Department Agency Financial Report. For FY 2025, the IRS reported on claims and improper payments associated with Tax Year 2023 tax returns filed in 2024 and 2025. Total amounts may not add up due to rounding.

Results of Review

Fiscal Year 2025 Assessment of the IRS's Compliance With Improper Payment Reporting Requirements

For FY 2025, we determined that the IRS did not comply with all PIIA requirements. The IRS did not meet the PIIA goal of reducing the improper payment rate to less than 10 percent for the 4 high-risk refundable tax credit programs. Additionally, the IRS failed to demonstrate improvements to payment integrity. The IRS's overall improper payment rate increased from 21.9 percent in FY 2024 to 26.5 percent in FY 2025. Figure 2 summarizes our evaluation of the IRS's compliance with the FY 2025 improper payment requirements.

⁴ The Total Improper Payment Rate is calculated by dividing the total estimated improper payment by the total payment amount.

Figure 2: Compliance With Improper Payment Requirements for FY 2025

Improper Payment Requirement
IRS Compliance Met – Yes
Published payment integrity information with the annual financial statement.
Posted the annual financial statement and accompanying materials to agency website.
Conducted improper payment risk assessments for each program with annual outlays greater than \$10 million at least once in the last 3 years.
Adequately concluded whether programs are likely to make improper payments and unknown payments above or below statutory threshold. ⁵
Published improper payment and unknown payment estimates for programs susceptible to significant improper payments and unknown payments in the accompanying materials to the annual financial statement.
Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.
Published an improper payment and unknown payment reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.
Developed a plan to meet the improper payment and unknown payment reduction target.
IRS Compliance Met – No
Demonstrated improvements to payment integrity or reached a tolerable improper payment and unknown payment rate.
Reported an improper payment and unknown payment estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the annual financial statement.

Source: Analysis of the IRS's compliance with improper payment requirements for FY 2025.

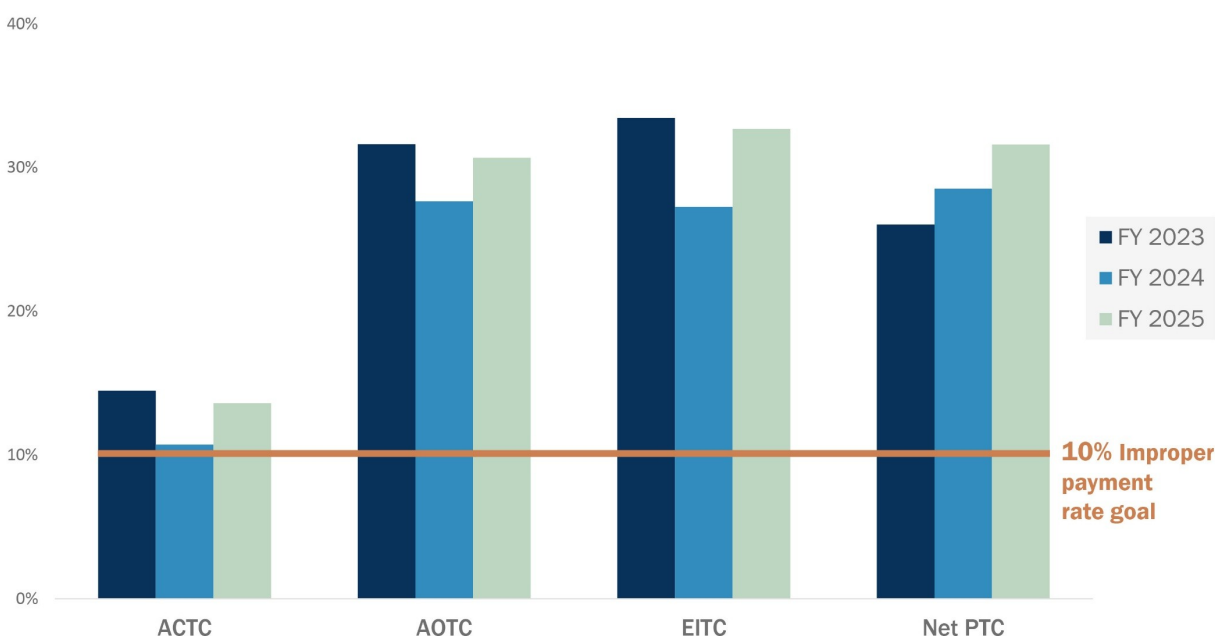
Legislative Changes Are Needed to Reduce Refundable Tax Credit Improper Payments

The IRS has not been able to reduce its improper payment rate estimates to less than 10 percent for each of its high-risk refundable tax credit programs, and in FY 2025 these rates increased. However, we do not believe the IRS can achieve this goal with its current authority and resources.

According to the FY 2025 Treasury Department Agency Financial Report (AFR), to meet this target, the IRS would need to reduce refundable credit improper payments by \$17.5 billion to reach the goal of 10 percent. Figure 3 provides a comparison of the improper payment rates for FYs 2023 through 2025.

⁵ Unknown payments are payments made by a program where it is still unknown whether the payment is proper or improper. Payments are reported as unknown so that a program does not unintentionally over or under report the payment type results.

Figure 3: FYs 2023 Through 2025 Improper Payment Rates



Source: FYs 2023 through 2025 Treasury Department AFRs.

Factors that contribute to improper payments of refundable credits

The FY 2025 Treasury Department AFR explains the complexities of the IRS's refundable tax credit programs and notes that errors are not caused by internal control weaknesses. Rather, they are mostly due to factors beyond the IRS's control. Our independent reviews of IRS refundable tax credit programs support the Treasury Department's assessment.⁶

The agency continues to report the following as the primary causes of refundable tax credit errors.

- **Complex statutory eligibility rules.** Refundable tax credits generally have complex eligibility rules, often relating to personal family and living arrangements. These eligibility rules can vary across the refundable tax credits and can change from year to year. The eligibility rules contribute to errors by taxpayers when claiming these credits.
- **Inability to verify taxpayer-provided information.** Taxpayer information, especially relating to eligibility rules, is difficult for the IRS to verify at the time a taxpayer files a return. Much of the information necessary to validate the accuracy of a refundable tax credit claim before issuing a refund is not comprehensively available in any U.S. government database.
- **Limited correctable error authority.** The IRS has limited authority, referred to as math error authority, to correct mismatches at filing. Math error authority allows the IRS to

⁶ TIGTA, Report No. 2021-40-070, *Addressing Complex and Inconsistent Earned Income Tax Credit and Additional Child Tax Credit Rules May Reduce Unintentional Errors and Increase Participation* (September 2021), TIGTA, Report No. 2023-47-037, *American Rescue Plan Act: Assessment of the Expanded Child and Dependent Care and Earned Income Tax Credits* (June 2023), and TIGTA, Report No. 2026-4S0-022, *Reliable Data is Needed to Effectively Reduce Improper Earned Income Tax Credit Payments for Nonwork Social Security Numbers* (May 2026). Additional reports assessing the IRS's administration of refundable tax credits can be found at www.oversight.gov.

systemically correct mathematical errors, certain scenarios related to Taxpayer Identification Numbers, or entries on a tax return exceeding the statutory limit of the credit claimed. However, this authority cannot be used to systemically evaluate refundable credit claims for ineligibility. For example, the IRS cannot use math error authority to systemically deny a claim if the taxpayer does not meet the required relationship criteria. Therefore, outside of math error authority, the IRS must examine the tax return when it has indications that the taxpayer is ineligible to claim refundable credits.

- **Statutory Refund Issuance Deadline.** To prevent improper payments on refundable credits, the IRS would need to stop refunds before they are paid to taxpayers. However, this creates a challenge for the IRS given the statutory requirement to pay interest on refunds that are issued more than 45 days from the return due date. Holding all refundable credit claims to verify eligibility before refunds are issued would increase the costs of interest payments on valid refund claims that could not be verified within the 45-day period. Consequently, the IRS is balancing the need to detect and prevent improper payments and the requirement to timely issue refunds on valid claims.

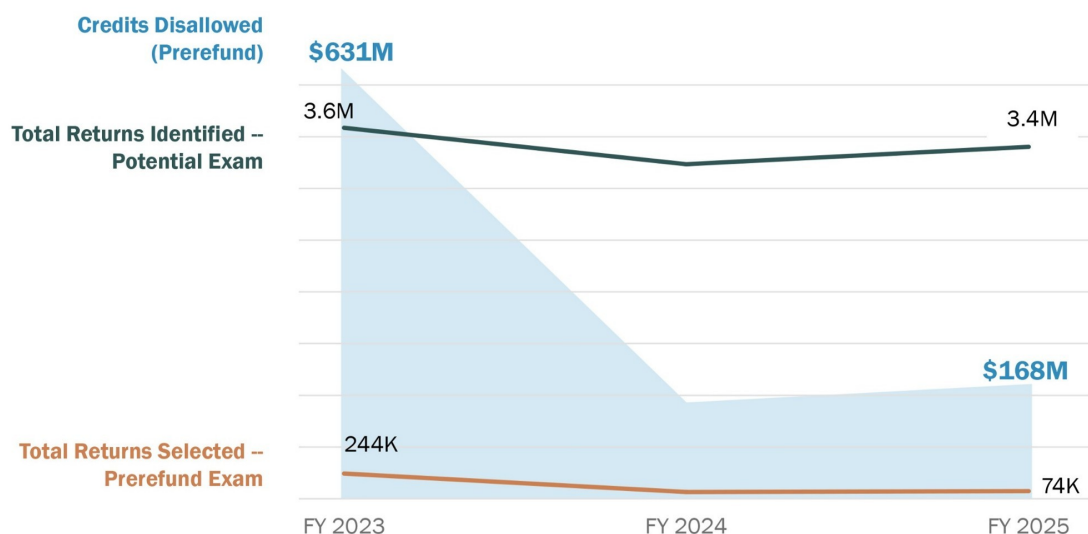
Significantly reducing improper payments through prerefund examinations is unachievable

The IRS runs various automated checks on a tax return before paying a refund. For example, the IRS reported that from FYs 2023 through 2025, it used math error authority to reduce refundable credit claims by approximately 2 percent (\$7.6 billion). Using this authority, it adjusted total claims from \$330.5 billion to approximately \$322.8 billion.⁷

The IRS also conducts prerefund and post refund examinations. However, these processes only address a small percentage of refundable tax credit claims. The IRS examined less than one percent of refundable credit claims for FYs 2023 through 2025. Also, during this same period, prerefund examinations of refundable credits decreased approximately 70 percent along with the total credits that were disallowed. For example, in FY 2025, the IRS reported that for pre and post refund examinations it selected 79,000 (0.3 percent) of the 24.6 million tax returns claiming EITC. Figure 4 provides a detailed breakdown of the IRS's efforts to reduce refundable tax credit improper payments through prerefund examinations.

⁷ Figures surrounding math error authority are rounded and may not reconcile.

Figure 4: IRS Prerefund Examinations and Refundable Credits Disallowed Have Decreased Substantially From FYs 2023 Through 2025



Source: The IRS's examination metrics for FYs 2023 through 2025, M=million, K=thousand. Multiple refundable credits can be claimed on a tax return.

One reason examinations are decreasing is due to reductions in staffing. Specifically, in FY 2025, the IRS's Refundable Credits Examination Operations Unit lost about 20 percent (86 examiners) of its 439 examiners. The IRS has also reported that budget reductions resulted in decreased examination staffing. Moreover, when the IRS received additional funding through the Inflation Reduction Act, the Secretary of Treasury directed the IRS not to increase examinations for taxpayers earning \$400,000 per year or less.⁸ For example, the EITC is an anti-poverty credit established by Congress for working families and is available to low and moderate-income taxpayers.

In October 2020, the IRS estimated it would need to examine 4.2 million more tax returns before issuing the refunds to be compliant with this goal. This is more than the IRS identifies annually for potential examinations. At the time, the IRS estimated that the additional examinations would cost more than \$2.5 billion (an average of \$595 per exam). Applying the IRS's current average cost of \$804 for prerefund examinations, we estimate the cost to conduct 4.2 million additional examinations has increased to \$3.4 billion a year. In addition, we estimate that the IRS would need 12,700 more examiners to conduct the additional examinations the IRS estimates are needed.

The IRS could allocate examiners from other functions to conduct refundable tax credit examinations. However, doing so would negatively affect the IRS's ability to balance its enforcement efforts across tax administration. We are conducting a separate review to assess the IRS's plans to improve the efficiency and effectiveness of the examination function with fewer employees and enhanced technology.

Recently proposed legislation to address improper payments in federal programs indicates that reducing financial loss to the government should be preventative in nature and that agencies

⁸ Inflation Reduction Act of 2022, Pub. L. No. 117-169, 136 Stat. 1818.

should have access to appropriate records and data assets.⁹ In May 2025, we recommended that the IRS work with the Office of Tax Policy to request additional legislative considerations that will help the IRS reduce improper payments of refundable tax credits.¹⁰ Accordingly, the IRS submitted to the Treasury Department a proposed legislative change addressing duplicate dependent claims, which are associated with refundable credit noncompliance. However, there has not been any progress with these proposed changes.

Legislative changes to simplify refundable credit requirements will make it easier for taxpayers to correctly determine whether they are eligible and could reduce taxpayer errors. Ensuring that the simplified requirements can be verified to reliable government data and providing the IRS access to that data will enable it to accurately verify refundable credit claims when they are filed. Finally, authorizing the IRS to systemically correct refundable credit claims when reliable data indicates the taxpayer is ineligible will enable it to efficiently prevent the issuance of erroneous refunds.

The Chief, Taxpayer Services, should:

Recommendation 1: Request that the Office of Tax Policy and Congress work on legislative changes that would simplify and streamline refundable credit eligibility.

Management's Response: IRS management agreed with this recommendation and will share the report and recommendation with the Office of Tax Policy for consideration.

Recommendation 2: Identify specific areas within refundable credit tax administration where additional correctable error authority could be requested. Once identified, request these increased authorities via the Office of Tax Policy and Congress.

Management's Response: IRS management agreed with this recommendation and will identify the specific areas within refundable credit tax administration where additional correctable error authority would be helpful and will share the information and this report with the Office of Tax Policy.

Recommendation 3: Identify opportunities to work with external partners (*i.e.*, other federal agencies, states, and private institutions) and leverage available data to systemically verify refundable credit eligibility. This should include working with the external partners to establish data sharing agreements, and with the Office of Tax Policy and Congress to obtain access to the data, if needed.

Management's Response: IRS management agreed with this recommendation and will identify opportunities to work with external partners and evaluate where sharing agreements could leverage available data to systemically verify refundable credit eligibility.

⁹ H.R. 8467, 119th Cong. (Introduced in House April 23, 2026), Zeroing Out Monetary Benefits Improperly Expended Act (ZOMBIE Act).

¹⁰ TIGTA, Report No. 2025-400-025, *Assessment of Fiscal Year 2024 Compliance With Improper Payment Reporting Requirements* p. 8 (May 2025).

The IRS Could Expand Social Media Outreach to Increase Awareness for Refundable Credit Eligibility

The IRS indicates in its corrective action plans that it will continue to focus on outreach and education to reduce improper payments in lieu of increasing examinations. The IRS balances its outreach strategies by focusing on reaching eligible taxpayers who are not claiming credits and educating taxpayers and tax return preparers on the eligibility requirements.

Strategies include the Nationwide Tax Forum, targeted communication and education, updates to guidance, and expanded engagement with tax professionals. As part of the outreach and education strategies, the IRS has a Return Preparer Strategy Program, which combines education and enforcement of tax return preparers. The treatment of return preparers is based on egregiousness and may lead to barring preparers from preparing or filing tax returns. In FY 2025, the Return Preparer Strategy Program reported protecting \$467 million in revenue through its various treatment strategies.

Moreover, the IRS generally uses the same strategies year after year. While these strategies are helpful, they are not effective in significantly reducing the improper payment rate. As noted previously, the improper payment rate for FY 2025 increased from the prior year. Figure 5 provides a comparative list of outreach and education strategies for the last three fiscal years.

Figure 5: IRS Outreach and Education Strategies

FY 2023	FY 2024	FY 2025
Nationwide Tax Forums		
Interactive Due Diligence Training Module		
Tax Preparer Toolkit		
Software Developers Working Group		
Tax Preparer Alerts		
Refundable Credits Summit		
Filing Season Readiness Webinars		Filing Season Readiness Webinars
	Tax Professional Awareness Week	
	Dependent Database Meeting	

Source: FYs 2023 through 2025 Treasury Department AFRs.

Additionally, the IRS uses social media to share updates on tax changes and scam alerts, promote online account tools, and provide other informational content regarding refundable credit eligibility. We found that the IRS can improve its use of social media strategies by leveraging paid services to reach additional taxpayers and expand its messaging surrounding refundable credit eligibility and compliance.

As of May 2025, the IRS indicated that it had approximately 1.5 million followers on its various social media platforms. Additionally, for FY 2025, the IRS reported that 2 percent of posts (178 out of 8,246 posts) on five different social media platforms were related to the refundable credit programs.

The IRS Communications and Liaison's Social Media Branch does not pay social media platforms for visibility, promotion, outreach, or activity of any kind. The Social Media Branch indicated it does not have the legislative authority to use appropriated funds for social media promotion or paid marketing to disseminate information. Additionally, the IRS indicated that Communications and Liaison does not have funding allocated for paid marketing purposes.

The annual appropriations language states that,

No part of any appropriation contained in this or any other Act shall be used directly or indirectly, including by private contractor, for publicity or propaganda purposes within the United States not heretofore authorized by Congress.

While the appropriations language does not provide a definition of either term (*i.e.*, publicity or propaganda), the Government Accountability Office has identified three activities that are prohibited by the annual appropriation's language, including: 1) self-aggrandizement, 2) covert propaganda, and 3) purely partisan materials. It is not clear if paying to disseminate informational content to taxpayers would fall into these categories.

The IRS General Legal Services indicated that so long as there is a logical relationship between the IRS's mission and outreach activities and the activities would not fall within any of the above three prohibitions, the IRS generally has flexibility to spend money on advertisement for public outreach. They indicated that fact-specific determinations could be made accordingly for the purposes of paid social media outreach.

We believe the IRS is missing the opportunity to expand its reach to taxpayers via social media. If complex eligibility requirements are a factor in the IRS's improper payments error rates, increasing communications to taxpayers beyond those who currently follow its social media platforms, may help reduce improper claims.

In 2024, research indicated that 68 percent of Americans (232 million) used social media. Additionally, social media has become a growing channel of communication and information sharing. According to the Pew Research Center, about half of U.S. adults report getting news from these platforms. Increasing the IRS's social media content and expanding its distribution to educate taxpayers on refundable credit eligibility increases awareness and potentially compliance in these areas.

The Chief, Communications and Liaison, should:

Recommendation 4: Use funding to distribute social media content for refundable credits beyond current followers and increase taxpayer and preparer awareness of the refundable tax credit eligibility requirements.

Management's Response: IRS management agreed with this recommendation and will analyze and assess current social media content to determine if funding is necessary to increase taxpayer and preparer awareness of refundable tax credit eligibility requirements.

Recommendation 5: Monitor the paid social media distributions to determine the impact and effectiveness, and inform future decisions on educational outreach.

Management's Response: IRS management agreed with this recommendation. If funds are expended on paid social media activity, the IRS will monitor the results to inform future decision-making.

Detailed Objective, Scope, and Methodology

The overall objective of this audit is to determine whether the IRS complied with the annual improper payment reporting requirements for FY 2025. To accomplish our objective, we:

- Obtained and reviewed the information the IRS provided to the Department of the Treasury for inclusion in the AFR to determine if information was provided to satisfy the reporting requirements.
- Evaluated the adequacy of the IRS's FY 2025 risk assessment for the IRS revenue program funds identified by the Department of the Treasury.
- Identified the IRS's efforts to reduce improper payment rates.

Performance of This Review

This review was performed with information obtained from the Office of the Chief Financial Officer, Research Applied Analytics and Statistics, Return Integrity and Compliance Services, and Communications & Liaison located at the IRS National Headquarters in Washington, D.C. during the period October 2025 through July 2026. We conducted this performance audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Data Validation Methodology

During this review, we obtained data from the published FY 2025 AFR. We also obtained information from the IRS, which included metrics from Taxpayers Services Refundable Credits Program Management and the Compliance Data Warehouse in the form of analyzed results. We performed tests to assess the reliability of data reported by the IRS. We evaluated the data by (1) reviewing various sources for consistent reporting, (2) evaluating the data logic for accuracy, and (3) interviewing agency officials knowledgeable about the data. We did not test IRS systems or perform data analyses in this audit. We determined that the data were sufficiently reliable for purposes of this report.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the controls established to ensure IRS compliance with PIIA improper payment reporting requirements. We tested these controls by reviewing reports, analyzing support documents, and meeting with IRS officials.

Additional Guidance for Improper Payments

In addition to PIIA, improper payment reporting is also governed by or related to the following guidance:

- **Executive Order 14247, *Modernizing Payments To and From America's Bank Account***, effective March 25, 2025, mandates the transition to electronic payments for all federal disbursements and receipts by digitizing payments to the extent permissible under applicable law. The phase out of paper checks for all federal disbursements and receipts was effective as of September 30, 2025. The executive order addresses the increase in mail-theft complaints since the pandemic. In addition, Department of Treasury checks are 16 times more likely to be reported lost or stolen, returned undeliverable, or altered than Electronic Funds Transfer.
- **Executive Order 14249, *Protecting America's Bank Account Against Fraud, Waste, and Abuse***, effective March 25, 2025, enables the Department of Treasury to more easily conduct improper payment and fraud prevention screening before disbursing funds on behalf of agencies. It requires agencies to provide the Department of Treasury with information needed to track transactions through the United States General Fund in greater detail. This executive order was implemented due to the lack of sufficient controls to track transactions flowing through the General Fund to determine if they were proper. Agencies' past underinvestment in technology and longstanding challenges with access to accurate data have prevented them from more fully safeguarding taxpayer dollars against fraud and improper payments.
- **OMB Circular A-136, *Financial Reporting Requirements***, effective on July 14, 2025, includes guidance to federal agencies that are required to report improper payments. The circular states that agencies must include a link to [PaymentAccuracy.gov](https://www.paymentaccuracy.gov) and provide a summary of its payment integrity activities and results in its AFR or Performance and Accountability Report.
- **OMB Circular A-123 Appendix C, *Requirements for Payment Integrity Improvement***, issued on March 5, 2021. Appendix C provides agencies and Inspectors General with guidance on improper payment determinations and reporting. Every year, each agency Inspector General must review its agency's improper payment reporting in the AFR and any accompanying material, such as that provided on www.paymentaccuracy.gov, to determine if the agency complies with improper payment legislation and OMB guidance.

Programs Identified for Improper Payment Risk Assessments

The Treasury Department identified the following IRS programs for improper payment risk assessments for FY 2025.

Figure 1: IRS Programs Identified for Risk Assessments

IRS Program	Treasury Fund Symbol	Risk Assessment Determination
Build America Bonds and Recovery Zone Economic Development Bonds	20X0935	Not susceptible
Qualified School Construction Bonds	20X0946	
New Clean Renewable Energy Bonds	20X0947	
Qualified Energy Conservation Bonds	20X0948	
Energy Security	20X0958	
Advanced Manufacturing Investment Credit	20X0962	
Elective Credit for Energy Property and Electricity Produced	20X0963	
Clean Vehicle Credit	20X0964	
Credit for Previously Owned Clean Vehicles	20X0965	

Source: IRS Office of the Chief Financial Officer.

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

July 17, 2026

MEMORANDUM FOR DIANA M. TENGESDAL
ASSISTANT INSPECTOR GENERAL FOR AUDIT

FROM: Todd R. Newnam Todd R.
Chief Financial Officer Newnam

SUBJECT: Response to Draft Audit Report – Assessment of Fiscal
Year 2025 Compliance With Improper Payment
Reporting Requirements (Audit #2026400001)

Digitally signed by Todd
R. Newnam
Date: 2026.07.17
13:30:38 -04'00'

Thank you for the opportunity to review and comment on your draft audit report entitled *Assessment of Fiscal Year 2025 Compliance With Improper Payment Report Requirements*.

The refundable tax credit (RTC) programs examined in this report provide critical financial support to millions of eligible taxpayers each year. The IRS remains committed to administering these programs effectively, ensuring that eligible taxpayers receive the credits to which they are entitled while maintaining program integrity and compliance with the Payment Integrity Information Act of 2019 (PIIA) reporting requirements.

As your report recognizes, the primary drivers of refundable tax credit improper payments are the complexity of statutory eligibility requirements and the limited ability to verify certain taxpayer self-certified information before refunds are issued. Unlike traditional payment programs, refundable tax credit improper payments generally are overclaims that arise within overall tax administration. These challenges are more appropriately considered within the broader context of tax compliance and the tax gap, where they can be evaluated alongside other forms of noncompliance.

The IRS will continue to strengthen payment integrity through taxpayer outreach and education, data-driven compliance strategies and collaboration with the Department of Treasury and Congress to address the underlying statutory and systemic challenges associated with RTCs.

Our response to each recommendation is attached.

We appreciate your office's thoughtful evaluation of these programs and its recognition of the unique challenges associated with administering RTCs. If you have any questions, please contact me at 202-528-0814, or a member of your staff may contact Jonathan L. Edelson, Associate Chief Financial Officer for Internal Controls, at Jonathan.L.Edelson@irs.gov or 202-317-3546.

Attachment

RECOMMENDATION 1

The Chief, Taxpayer Services, should request that the Office of Tax Policy and Congress work on legislative changes that would simplify and streamline refundable credit eligibility.

CORRECTIVE ACTION

We agree. We will share the report and recommendation with the Office of Tax Policy for consideration.

IMPLEMENTATION DATE

October 15, 2026

RESPONSIBLE OFFICIAL

Director, Refundable Credits Program Management, Return Integrity and Compliance Services, Taxpayer Services Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 2

The Chief, Taxpayer Services, should identify specific areas within refundable credit tax administration where additional correctable error authority could be requested. Once identified, request these increased authorities via the Office of Tax Policy and Congress.

CORRECTIVE ACTION

We agree. We will identify the specific areas within refundable credit tax administration where additional correctable error authority would be helpful and will share the information and this report with the Office of Tax Policy.

IMPLEMENTATION DATE

October 15, 2026

RESPONSIBLE OFFICIAL

Director, Refundable Credits Program Management, Return Integrity and Compliance Services, Taxpayer Services Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 3

The Chief, Taxpayer Services, should identify opportunities to work with external partners (*i.e.*, other federal agencies, state, and private institutions) and leverage available data to systematically verify refundable credit eligibility. This should include working with the external partners to establish data sharing agreements, and with the Office of Tax Policy and Congress to obtain access to the data, if needed.

CORRECTIVE ACTION

We agree. We will identify opportunities to work with external partners and evaluate where sharing agreements could leverage available data to systemically verify refundable credit eligibility.

IMPLEMENTATION DATE

October 15, 2026

RESPONSIBLE OFFICIAL

Director, Refundable Credits Program Management, Return Integrity and Compliance Services, Taxpayer Services Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 4

The Chief, Communications and Liaison, should use funding to distribute social media content for refundable credits beyond current followers and increase taxpayer and preparer awareness of the refundable tax credit eligibility requirements.

CORRECTIVE ACTION

The IRS agrees to analyze and assess current social media content to determine if funding is necessary to increase taxpayer and preparer awareness of refundable tax credit eligibility requirements.

IMPLEMENTATION DATE

October 30, 2026

RESPONSIBLE OFFICIAL

Chief, Communications and Liaison

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 5

The Chief, Communications and Liaison, should monitor the paid social media distributions to determine the impact and effectiveness, and inform future decision on educational outreach.

CORRECTIVE ACTION

The IRS agrees. If funds are expended on paid social media activity, the IRS will monitor the results to inform future decision making.

IMPLEMENTATION DATE

October 30, 2026

RESPONSIBLE OFFICIAL

Chief, Communications and Liaison

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

Abbreviations

ACTC	Additional Child Tax Credit
AFR	Agency Financial Report
AOTC	American Opportunity Tax Credit
EITC	Earned Income Tax Credit
FY	Fiscal Year
IRS	Internal Revenue Service
OMB	Office of Management and Budget
PIIA	Payment Integrity Information Act
PTC	Premium Tax Credit
TIGTA	Treasury Inspector General for Tax Administration



**To report fraud, waste, or abuse,
contact our hotline on the web at
<https://www.tigta.gov/reportcrime-misconduct>.**

**To make suggestions to improve IRS policies, processes, or systems
affecting taxpayers, contact us at
TIGTACommunications@tigta.treas.gov.**

Information you provide is confidential, and you may remain anonymous.



Appendix 3: Treasury Programs' Compliance with PIIA Criteria

Table 2 summarizes Treasury programs' compliance with the PIIA reporting requirements by program for programs that are identified as susceptible to significant improper payments for FY 2025 reporting.

Table 2: Treasury Programs' Compliance with PIIA Criteria for Programs Identified as Susceptible to Significant Improper Payments

Program Name	Published payment integrity information with the annual financial statement (1)	Posted the annual financial statement and accompanying materials on the agency website (1)	Conducted IP risk assessments for each program with annual outlays greater than \$10 million at least once in the last three years	Adequately concluded whether the program is likely to make IPs and UPs above or below the statutory threshold	Published IP and UP estimates for programs susceptible to significant IPs in the accompanying materials to the annual financial statement (2)	Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Published an IP and UP reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Has demonstrated improvements to payment integrity or reached a tolerable IP and UP rate (2)	Has developed a plan to meet the IP and UP reduction target (2)	Reported an IP and UP estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the annual financial statement (2)
Internal Revenue Service – Payment-Child Credit Exceeds Liability (ACTC)	Yes	Yes	N/A	N/A	Yes	Yes	Yes	No	Yes	No
Internal Revenue Service – Payment-Where American Opportunity Credit, Recovery Act (AOTC)	Yes	Yes	N/A	N/A	Yes	Yes	Yes	No	Yes	No
Internal Revenue Service – HQ Disbursement EIC (EITC)	Yes	Yes	N/A	N/A	Yes	Yes	Yes	No	Yes	No
Internal Revenue Service – Refundable Premium Assistance Tax Credit (Net PTC)	Yes	Yes	N/A	N/A	Yes	Yes	Yes	No	Yes	No
Internal Revenue Service – US Coronavirus Payments – Economic Impact Payments and Recovery Rebate Credits (3)	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service – US Coronavirus Refundable Credits – Sick and Family Leave Credit and Employee Retention Credit (3)	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – Emergency Rental Assistance (3)	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A



(1) For the “Published payment integrity information with the annual financial statement” and “Posted the annual financial statement and accompanying materials on the agency website” criteria, which are applicable at an agency level, if the agency is compliant, then the programs are all compliant.

(2) The requirements apply only to programs for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement. For short-term programs such as the COVID-19 programs, Treasury will not plan to report an IP estimate either in its AFR or on PaymentAccuracy.gov, per the memorandum, *Limitations in Quantifying the Amount and Rate of Improper Payments for Short-Term Programs*, submitted to OMB on August 1, 2022.

(3) Risk assessments were performed for FY 2024 and programs were deemed susceptible to significant IPs.

Table 3 summarizes Treasury programs’ compliance with the PIIA reporting requirements by program for programs not susceptible to improper payments that conducted an improper payment risk assessment in FY 2025 based on Treasury’s three-year rotation schedule in accordance with OMB guidance.

Table 3: Treasury Programs’ Compliance with PIIA Criteria for Programs Not Susceptible to Improper Payments that Conducted an Improper Payment Risk Assessment

Program Name	Published payment integrity information with the annual financial statement (1)	Posted the annual financial statement and accompanying materials on the agency website (1)	Conducted IP risk assessments for each program with annual outlays greater than \$10 million at least once in the last three years	Adequately concluded whether the program is likely to make IPs and UPs above or below the statutory threshold	Published IP and UP estimates for programs susceptible to significant IPs in the accompanying materials to the annual financial statement (2)	Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Published an IP and UP reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Has demonstrated improvements to payment integrity or reached a tolerable IP and UP rate (2)	Has developed a plan to meet the IP and UP reduction target (2)	Reported an IP and UP estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the annual financial statement (2)
Internal Revenue Service - Build America Bonds and Recovery Zone Economic Development Bonds	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service – Qualified School Construction Bonds	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service – New Clean Renewable Energy Bonds	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service – Qualified Energy Conservation Bonds	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service – Energy Security	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service – Advanced Manufacturing Investment Credit	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A



Program Name	Published payment integrity information with the annual financial statement (1)	Posted the annual financial statement and accompanying materials on the agency website (1)	Conducted IP risk assessments for each program with annual outlays greater than \$10 million at least once in the last three years	Adequately concluded whether the program is likely to make IPs and UPs above or below the statutory threshold	Published IP and UP estimates for programs susceptible to significant IPs in the accompanying materials to the annual financial statement (2)	Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Published an IP and UP reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Has demonstrated improvements to payment integrity or reached a tolerable IP and UP rate (2)	Has developed a plan to meet the IP and UP reduction target (2)	Reported an IP and UP estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the annual financial statement (2)
Internal Revenue Service – Elective Credit for Energy Property and Electricity Produced	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Services – Clean Vehicle Credit	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Services – Credit for Previously Owned Clean Vehicles	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Bureau of Engraving and Printing – Bureau of Engraving and Printing Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Community Development Financial Institutions Fund – Capital Magnet Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Community Development Financial Institutions Fund – Community Development Financial Institutions Program-Native Initiatives	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Community Development – Capital Magnet Fund – Non-Financial Assistance Related Payments	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Community Development Financial Institutions Fund – Community Development Financial Institutions (CDFI) Program	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Community Development Financial Institutions Fund – Community Development Financial Institutions (CDFI) Program Bank Enterprise Award Program	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A



Program Name	Published payment integrity information with the annual financial statement (1)	Posted the annual financial statement and accompanying materials on the agency website (1)	Conducted IP risk assessments for each program with annual outlays greater than \$10 million at least once in the last three years	Adequately concluded whether the program is likely to make IPs and UPs above or below the statutory threshold	Published IP and UP estimates for programs susceptible to significant IPs in the accompanying materials to the annual financial statement (2)	Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Published an IP and UP reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Has demonstrated improvements to payment integrity or reached a tolerable IP and UP rate (2)	Has developed a plan to meet the IP and UP reduction target (2)	Reported an IP and UP estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the annual financial statement (2)
Community Development Financial Institutions Fund – Community Development Financial Institutions (CDFI) Program – Non-Federal Financial Assistance Payments	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Community Development Financial Institutions Fund – Community Development Financial Institutions (CDFI) Program – Small Dollar Loan Program	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – Coronavirus Capital Projects Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – Cybersecurity Enhancement Account	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – Federal Research Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – Office of Terrorism and Financial Intelligence	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – Salaries and Expenses	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
District of Columbia (DC) Pensions – DC Federal Pension Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
District of Columbia Pensions – DC Judicial Retirement & Survivors Annuity Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Federal Payment of School Improvement	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Check Forgery Insurance Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A



Program Name	Published payment integrity information with the annual financial statement (1)	Posted the annual financial statement and accompanying materials on the agency website (1)	Conducted IP risk assessments for each program with annual outlays greater than \$10 million at least once in the last three years	Adequately concluded whether the program is likely to make IPs and UPs above or below the statutory threshold	Published IP and UP estimates for programs susceptible to significant IPs in the accompanying materials to the annual financial statement (2)	Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Published an IP and UP reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Has demonstrated improvements to payment integrity or reached a tolerable IP and UP rate (2)	Has developed a plan to meet the IP and UP reduction target (2)	Reported an IP and UP estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the annual financial statement (2)
Fiscal Service – Claims for Contract Disputes	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Corporation for Public Broadcasting	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Debt Collection Special Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Emergency Planning & Security	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Financial Agent Services	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Fiscal Service Administrative Salaries and Expenses	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Judgements, U.S. Courts	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Payment to Legal Services Corporation	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Payment to Resolution Funds Corporation	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Resident Tuition Sup	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Travel Promotion Fund, Corp for Travel Promotion	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Office of International Assistance – Clean Tech Fund Loans Financing Acct	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Office of International Assistance – Contribution to African Development Bank	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Office of International Assistance – Contribution to International Bank Reconstruction	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A



Program Name	Published payment integrity information with the annual financial statement (1)	Posted the annual financial statement and accompanying materials on the agency website (1)	Conducted IP risk assessments for each program with annual outlays greater than \$10 million at least once in the last three years	Adequately concluded whether the program is likely to make IPs and UPs above or below the statutory threshold	Published IP and UP estimates for programs susceptible to significant IPs in the accompanying materials to the annual financial statement (2)	Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Published an IP and UP reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Has demonstrated improvements to payment integrity or reached a tolerable IP and UP rate (2)	Has developed a plan to meet the IP and UP reduction target (2)	Reported an IP and UP estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the annual financial statement (2)
Office of International Assistance – Contribution to Multilat INV Guar	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Office of International Assistance – Contribution to the Asian Development Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A

(1) For the “Published payment integrity information with the annual financial statement” and “Posted the annual financial statement and accompanying materials on the agency website” criteria, which are applicable at an agency level, if the agency is compliant, then the programs are all compliant.

(2) The requirements apply only to programs for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement. For short-term programs such as the COVID-19 programs, Treasury will not plan to report an IP estimate either in its AFR or on PaymentAccuracy.gov, per the memorandum, *Limitations in Quantifying the Amount and Rate of Improper Payments for Short-Term Programs*, submitted to OMB on August 1, 2022.

Appendix 4 Treasury Management's Response



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

MEMORANDUM FOR ACTING DIRECTOR SHIELA MICHEL FINANCIAL AUDIT, OFFICE OF INSPECTOR GENERAL

FROM: John W. York, Assistant Secretary for Management

SUBJECT: Audit of Treasury's Compliance with the Payment Integrity Reporting Requirements for Fiscal Year (FY) 2025

We have reviewed the draft audit report of GenTech Associates (as contracted by Treasury's Office of Inspector General) on Treasury's improper payment reporting for FY 2025 and appreciate the opportunity to respond. We recognize the importance of achieving full compliance with the Payment Integrity Information Act of 2019 (PIIA), which includes complying with the Office of Management and Budget (OMB) Memorandum M-19-21 Appendix C to Circular A-123, *Requirements for Payment Integrity Improvement*; Executive Order 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*; and OMB Circular A-136, *Financial Reporting Requirements*.

Your audit concluded that Treasury was not in compliance with PIIA for FY 2025 because the Internal Revenue Service (IRS), as reported by the Treasury Inspector General for Tax Administration (TIGTA), did not report an overall improper payment rate of less than 10 percent for four refundable tax credit (RTC) programs—the Earned Income Tax Credit, the Additional Child Tax Credit, the American Opportunity Tax Credit, and the Net Premium Tax Credit. Additionally, the IRS failed to demonstrate improvements to payment integrity. We appreciate your acknowledgement that Treasury complied with all other PIIA requirements.

RTCs generally have complex eligibility rules that may be difficult for the IRS to verify, particularly at the time the taxpayer files a return, due to the lack of available and relevant third-party data. Consequently, RTC overclaims are not the result of internal control weaknesses that we can remediate internally but are, in fact, the result of factors beyond our control under current law and existing authority. Even if we could obtain legislative changes and invest in additional resources and verification solutions that would ultimately reduce overclaims, the benefits derived would be marginal relative to the cost of doing so. Audits by the Government Accountability Office and TIGTA have also concluded that RTC overclaims are largely due to the statutory design and complexity of the RTCs, not internal control weaknesses, financial management deficiencies, or reporting failures.

We are continuing to collaborate with the IRS to identify a more effective way to report on estimated payment errors associated with the RTC programs in the Department's Agency Financial Report as part of a broader discussion on the tax gap and tax burden.

Attached is our response to the other finding and recommendations made in your report related to payment integrity deliverables of non-IRS Treasury Components. If you have any questions, please contact Carole Banks, Deputy Chief Financial Officer, at (202) 286-2202.

Appendix 4 Treasury Management's Response

Attachment

Attachment 1: Management's Response to PIIA Audit Recommendations

Appendix 4 Treasury Management's Response

Attachment 1

Management's Response to PIIA Audit Recommendations

GenTech's Finding

During FY 2025, the Bureau of Engraving and Printing (BEP) and Fiscal Service's Administrative Resource Center (ARC) did not adequately apply Treasury's guidance when completing program-specific risk assessments, nor did the review controls within those components or within Treasury's Risk and Control Group (RCG) properly detect the inaccurate responses.

GenTech's Recommendations:

1. Treasury's RCG should develop and disseminate supplemental guidance that provides clearer instructions for completing qualitative risk assessment questions, including how responses to identified risks should align with the related susceptibility determination.
2. The components' management should implement enhanced supervisory review procedures to ensure qualitative risk assessment responses are accurate, consistent, and supported prior to submission. This should include a documented secondary review focused on the appropriateness of susceptibility determinations and alignment with Treasury guidance.
3. The components' management should establish procedures to validate responses provided by shared service providers (e.g., ARC) to ensure consistency, accuracy, and alignment with program conditions prior to incorporating those responses into component risk assessments.

Management's Response:

Treasury management concurs with GenTech's recommendations. Treasury's RCG will provide components with clearer instructions for completing the qualitative risk assessment questions beginning in Fiscal Year 2027. The RCG will also provide guidance to components on performing reviews of their qualitative risk assessments prior to submission.

Additionally, RCG will provide the components with further guidance on how to review the qualitative risk assessment(s) of shared service providers.

Implementation Date: May 15, 2027

Responsible Official(s): Assistant Secretary for Management and Deputy Chief Financial Officer



Appendix 5: Report Distribution

Department of the Treasury

- Secretary of the Treasury
- Deputy Secretary
- Assistant Secretary for Management
- Deputy Chief Financial Officer
- Director, Risk and Control Group

Office of Management and Budget

- Controller, Office of Federal Financial Management
- OIG Budget Examiner

U.S. Senate

- Chairman and Ranking Member
- Committee on Homeland Security and Governmental Affairs
- Chairman and Ranking Member
- Committee on Finance
- Chairman and Ranking Member
- Committee on Appropriations

U.S. House of Representatives

- Chairman and Ranking Member
- Committee on Oversight and Accountability
- Chairman and Ranking Member
- Committee on Ways and Means
- Chairman and Ranking Member
- Committee on Appropriations

U.S. Government Accountability Office

- Comptroller General of the United States

U.S. Congress

- Joint Committee on Taxation

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