Audit Report

OIG-25-027

FINANCIAL MANAGEMENT

Audit of Treasury's Compliance with the PIIA Requirements for Fiscal Year 2024

May 27, 2025

Office of Inspector General
Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

May 27, 2025

MEMORANDUM FOR JOHN YORK
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 2024

We hereby transmit the attached subject report. Under a contract monitored by our office, RMA Associates (RMA), 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) 2024. As part of the audit, RMA also assessed Treasury's compliance with additional improper payment reporting requirements set forth in Executive Order 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*, 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*.

RMA 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, RMA determined that Treasury was not in compliance with PIIA for FY 2024. Treasury did not comply with 1 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: (i) Earned Income Tax Credit; (ii) American Opportunity Tax Credit; (iii) Additional Child Tax Credit; and (iv) Net Premium Tax Credit. Treasury complied with the remaining nine PIIA requirements.

RMA found that the Office of Capital Access (OCA) management's control activities are inefficient and ineffective in identifying overpayments for the Emergency Rental Assistance and Homeowners Assistance Fund (HAF) programs. RMA also noted that OCA management identified overpayments totaling $9,129 through a FY 2022 Single Audit Report for the HAF program that were inadvertently omitted in OCA's reporting of overpayments identified outside of payment recapture audits for FY 2024 on PaymentAccuracy.gov. In addition, OCA, Treasury Forfeiture Fund, Bureau of the Fiscal Service, and Bureau of the Fiscal Service – Managed Accounts managements' responses to certain questions in their qualitative risk assessments were inaccurate in determining the payment types' susceptibility to improper payments. RMA noted, however, 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 RMA'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 2024. RMA is responsible for the attached auditors' report dated May 22, 2025, and the conclusions expressed therein. However, our review disclosed no instances where RMA 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

RMA | Associates
Auditors. Consultants. Advisors.

Department of the Treasury
Audit of Treasury's Compliance with Payment Integrity Information Act of 2019 Requirements for Fiscal Year 2024

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Auditors. Consultants. Advisors.

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May 22, 2025

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

Dear Ms. Michel,

RMA Associates, LLC 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 2024.

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,

Reza Mahbod

Reza Mahbod, CPA, CISA, CGFM, CICA, CGMA, CDFM, CFE, CDPSE
President
RMA Associates, LLC

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Acronyms

ACTC	Additional Child Tax Credit
AFR	Agency Financial Report
AOTC	American Opportunity Tax Credit
CPF	Capital Projects Fund
EITC	Earned Income Tax Credit
EO	Executive Order
ERA	Emergency Rental Assistance
ERC	Employee Retention Credit
FSD	Bureau of the Fiscal Service
FSM	Bureau of the Fiscal Service – Managed Accounts
FY	Fiscal Year
GAO	Government Accountability Office
HAF	Homeowners Assistance Fund
IP	Improper Payment
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
IP PIN	Identity Protection Personal Identification Number
IRS	Internal Revenue Service
LATCF	Local Assistance and Tribal Consistency Fund
MDL	Management Decision Letter
Net PTC	Net Premium Tax Credit
OCA	Office of Capital Access
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
RMA	RMA Associates, LLC
RTC	Refundable Tax Credit
TFF	Treasury Forfeiture Fund
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: Requirements for Payment Integrity Improvement
UP	Unknown Payment

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Audit Report

May 22, 2025

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

RMA Associates, LLC (RMA) conducted a performance audit of the Department of the Treasury's (Treasury) Fiscal Year (FY) 2024 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 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] the 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 improper payment reporting requirements set forth in Executive Order (EO) 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*; 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*. We conducted our fieldwork from January 2025 through May 2025 in Arlington, VA. 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 the PIIA for FY 2024. This summarization includes IRS's management response to TIGTA's audit findings. TIGTA issued its report on May 9, 2025, which is included in its entirety as Appendix 2 of this report.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

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[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)

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As a result of our audit, we determined Treasury was not in compliance with PIIA for FY 2024. IRS did not report an improper payment rate of less than 10 percent for four of its programs identified as susceptible to significant improper payments (IPs): (1) Additional Child Tax Credit; (2) American Opportunity Tax Credit; (3) Earned Income Tax Credit; and (4) Net Premium Tax Credit. 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 2024 or (2) $100 million (OMB's threshold).

We also noted the following findings:

- Inefficient and ineffective recovery activities for the Emergency Rental Assistance (ERA) and Homeowners Assistance Fund (HAF) programs in identifying overpayments.
- Incomplete reporting of payment recapture data due to overpayment amounts totaling $9,129 that were inadvertently omitted in the Office of Capital Access (OCA)'s reporting of overpayments identified outside of payment recapture audits for FY 2024.
- Inaccurate responses to certain risk assessment questions during the completion of the risk assessment for four fund groups.[6] However, RMA noted that these 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,

RMA Associates

RMA Associates, LLC

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

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Results in Brief

Treasury was not in compliance with PIIA for FY 2024 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. We determined that Treasury complied with nine 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; 8) demonstrated improvements to payment integrity or reached a tolerable IP and UP rate; and 9) 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 10.7 percent ($3.4 billion) of the total ACTC payments of $32.1 billion in FY 2024 were improper.
- American Opportunity Tax Credit (AOTC) – IRS estimates 27.7 percent ($1.4 billion) of the total AOTC payments of $5.2 billion in FY 2024 were improper.
- Earned Income Tax Credit (EITC) – IRS estimates 27.3 percent ($15.9 billion) of the total EITC payments of $58.4 billion in FY 2024 were improper.
- Net Premium Tax Credit (Net PTC) – IRS estimates 28.5 percent ($0.7 billion) of the total Net PTC payments of $2.3 billion in FY 2024 were improper.

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 improper payment reporting. We determined that OCA management's control activities are inefficient and ineffective in identifying overpayments for the ERA and HAF programs.

We also determined that OCA management identified overpayments totaling $9,129 through a FY 2022 Single Audit Report for the HAF program that were inadvertently omitted in OCA's reporting of overpayments identified outside of payment recapture audits for FY 2024 on PaymentAccuracy.gov.

Lastly, we determined OCA, Treasury Forfeiture Fund (TFF), Bureau of the Fiscal Service (FSD), and Bureau of the Fiscal Service – Managed Accounts (FSM) managements' responses to certain questions in their qualitative risk assessments were inaccurate in determining payment types' susceptibility to improper payments. RMA noted, however, that these 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 they have long held that refundable tax credits (RTCs) are not "payments" as defined by the improper payments legislation, as the tax system is a collection system rather than a payment system. 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 partially complied with reporting requirements contained in the PIIA for FY 2024. However, IRS has still not satisfied the PIIA goal of reducing the overall improper payment rate for ACTC, AOTC, EITC, and Net PTC to less than 10 percent. TIGTA also reported that IRS's improper payment rate reporting does not extend to pandemic-related credits.

Additionally, TIGTA reported that IRS has not reduced the improper payment rate estimates to less than 10 percent for any of its reported high-risk programs. In the FY 2024 Treasury AFR, IRS would need to reduce erroneous payments for its RTC programs by $11.7 billion. According to TIGTA, factors beyond IRS's control contribute to improper payments and IRS continues its focus on outreach and education to reduce the improper payment error rates.

TIGTA also reported that IRS is piloting a new process for taxpayers who claim dependents who have already been claimed on another taxpayer's return. However, the impact of this new process on improper payment rates is unknown.

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.

In 2009, EO 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*, required Federal agencies to intensify their efforts to eliminate payment error, waste, fraud, and abuse in major Federal programs while continuing to ensure that these programs serve and provide access to their intended beneficiaries. It increased Federal agencies' accountability and required that Federal agencies provide their agency Inspector General with detailed information on efforts to identify and reduce the number of improper payments in Federal programs with the highest dollar value of improper payments.

Following EO 13520, 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 and EO 13520, Offices of Inspector General (OIG) 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 exceed $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 its high priority programs to include improvements for determining and estimating improper payments.

For the FY 2024 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.

<u>Treasury's Improper Payment Risk Assessment</u>

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 over $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 eleven 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

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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 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;
- Root cause for IPs;
- Tolerable rates;
- Data and information themes;
- Corrective actions; and
- Non-compliant programs.

For FY 2024, Treasury identified ACTC, AOTC, EITC, and Net PTC as programs susceptible to significant improper payments.

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, 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 November 15, 2024, 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 2024 because IRS did not report an overall improper payment rate of less than 10 percent for the ACTC, AOTC, EITC, and Net PTC programs. We discuss this further in our Finding 1 below. Treasury complied with the other PIIA requirements as outlined in **Table 1**. In addition, Appendix 3, **Table 2** provides a summary of Treasury programs' compliance with PIIA reporting requirements for programs that are identified as susceptible to significant improper payments for FY 2024 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 2024. The risk assessment is based on Treasury's three-year rotation schedule in accordance with OMB guidance.

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***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	Yes
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: RMA's and TIGTA's review of Treasury's Compliance with PIIA requirements for FY 2024 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); and (3) conformed to OMB guidance for payment recapture audits (with exceptions noted). In addition, we determined that Treasury posted required improper payment information to the PaymentAccuracy.gov website (with exceptions noted).

Finding 1: Treasury Was Not in Compliance with PIIA for FY 2024

We determined that Treasury was not in compliance with PIIA for FY 2024 due to IRS not reporting an overall improper payment rate of less than 10 percent for EITC, ACTC, AOTC, and Net PTC. Specifically, according to TIGTA's report, IRS reported an improper payment rate of 10.7 percent (or $3.4 billion), 27.7 percent (or $1.4 billion), 27.3 percent (or $15.9 billion), and 28.5 percent (or $0.7 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. As TIGTA has reported previously, OMB provided IRS an alternative to reducing the improper payment rate to less than 10 percent, which included noting that if a reduction target remained constant due to the

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complexities of the programs, this situation should be explained in the Treasury AFR, which the IRS did.[7]

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 they have long held that RTCs are not "payments" as defined by the improper payment legislation, as the tax system is a collection system rather than a payment system. Management noted that whereas a payment system is generally designed to implement internal controls that provide for appropriate verification and validation prior to payments being made, the statutory structure for administering RTCs prevents IRS from verifying or validating such amounts prior to making the refund payment. Management also noted that RTC overclaims are not the result of internal control weaknesses that they can remediate internally but are the result of factors beyond their control under current law and existing authority. Additionally, management 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.

Finding 2: Inefficient and Ineffective Recovery Activities for ERA and HAF Programs in Identifying Overpayments

OCA management provided a justification memo for ERA and HAF programs dated October 18, 2024, stating OCA has implemented multiple levels of control activities for its programs, specifically:

1. Single Audit Requirement; and
2. Compliance Testing and Noncompliance Remediation Procedures.

However, RMA determined these control activities are inefficient and ineffective in identifying overpayments. Specifically:

- While OCA reported $927,909 in identified overpayments from FY 2024 Single Audit Reports, $72 million in questioned cost findings identified from Single Audit reports are pending OCA's review to reach a determination on the amount of overpayments.
- OCA acknowledged overpayment amounts exist as a result of conducting their Compliance Testing and Noncompliance Remediation procedures but not reported in FY 2024.

OMB Circular A-123, Appendix C requires "When determining the cost-effectiveness of a recovery audit, an agency should assess the likelihood that the expected recoveries will be greater than the costs incurred to identify and recover the overpayments. When assessing the cost-effectiveness of the overpayment identification, agencies should consider whether their current business practices that make up their Recovery Activities (e.g., Single Audit reports; self-reported

[7] TIGTA, Report No. 2021-40-036, *Improper Payment Rates for Refundable Tax Credits Remain High* (May 2021).

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overpayments, statistical samples conducted under PIIA, agency post-payment reviews, etc.) provide an efficient and effective means for the identification of overpayments."

OCA management is experiencing delays in reviewing Single Audit reports and completing the compliance testing and data analysis of recipient submitted data for the ERA and HAF programs due to the high volume of Single Audit reports, the average amount of full-time equivalent hours it takes to review a Single Audit report and issue the resulting Management Decision Letter (MDL), and OCA's finite resources. In addition, OCA needs more data regarding ongoing recapture activities before determining whether additional payment recovery audits are cost-effective for the ERA and HAF programs.

Inefficient and ineffective recapture activities increase the risk of not identifying and recovering overpayments that ensure the greatest financial benefit for the agency. In addition, not conducting recovery audits and activities increase the risk of noncompliance with PIIA requirements.

Recommendations

RMA recommends Treasury's RCG work with OCA management to:

- Determine the necessary measures to eliminate the delays in reviewing and reporting overpayments through recapture activities for the ERA and HAF programs; and
- Update its analysis and justifications for concluding whether additional payment recovery audits are cost-effective for the ERA and HAF programs

Management's Concurrence and RMA's Response

Treasury concurs with RMA's recommendations. RCG will work with OCA to determine additional measures that could eliminate the delays in reviewing and reporting potential overpayments through recapture activities for the ERA and HAF programs. Additionally, based on available data and resources, OCA will reevaluate their analysis for concluding whether additional payment recovery audits are cost-effective and determine whether further justifications are warranted.

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

Finding 3: Incomplete Reporting of Payment Recapture Data

OCA management identified $9,129 in overpayments through a FY 2022 Single Audit Report for the HAF program; however, OCA did not issue an MDL until FY 2024. RMA determined that since OCA reports overpayments on a cumulative basis, this amount were inadvertently omitted in OCA's reporting of overpayments identified outside of payment recapture audits for FY 2024 on PaymentAccuracy.gov.

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OMB Circular A-123, Appendix C requires, "At a minimum, all agencies will provide OMB with data related to the status of their IP risk assessments, their identification and recovery of overpayments, and other agencywide reporting requirements…"

According to OCA management, the MDL related to this amount was issued in FY 2024. Based on the HAF recipient response, OCA determined that no recovery was required and thus did not include the amount in its reporting of Overpayments Recaptured Outside of Recovery Audits (Attachment G). OCA management did not adequately review its FY 2024 results of overpayments identified outside of payment recapture audits prior to reporting and submission to Treasury's RCG.

This incomplete reporting of identified overpayments led to Treasury's inaccurate payment recapture information published on PaymentAccuracy.gov for FY 2024.

Recommendation

RMA recommends Treasury's RCG work with OCA management to adequately review its payment recapture data to ensure the information published on PaymentAccuracy.gov is complete and accurate.

Management's Concurrence and RMA's Response

Treasury concurs with RMA's recommendation. RCG will meet with OCA to review their process for ensuring that all overpayments identified and/or recovered through MDLs are included on the Overpayments Recaptured Outside of Recovery Audits deliverable and reported to PaymentAccuracy.gov.

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

Finding 4: Inaccurate Completion of Program-Specific Risk Assessments

RMA determined OCA, TFF, FSD, and FSM 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 OCA management indicated a rating as not susceptible but should have been rated susceptible in its qualitative risk assessment over the HAF program;
- Two instances where TFF management provided inaccurate responses;
- One instance where FSD management indicated a rating as susceptible but should have been rated not susceptible in its qualitative risk assessment over the Restitution of Forgone Interest; and
- One instance where FSM management indicated a rating as susceptible but should have been rated not susceptible in its qualitative risk assessment over the American Indian and Alaskan Native program.

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

FY 2024 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 "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."

OCA, TFF, FSD, and FSM management did not adequately complete its program-specific risk assessments over the HAF program, TFF, Restitution of Foregone Interest, and American Indian and Alaskan Native program. In addition, OCA, TFF, FSD, FSM, and Treasury's RCG did not identify these inaccurate responses during their review of the risk assessments.

These inaccurate responses can lead to an inaccurate assessment of a program's susceptibility to significant improper payments, increasing the likelihood of improper payments occurring in the future.

<u>Recommendation</u>

Since this is a repeat finding from prior years, RMA recommends Treasury's RCG work with all components and provide training to accurately complete and review the program-specific risk assessments.

<u>Management's Concurrence and RMA's Response</u>

Treasury concurs with RMA's recommendation. RCG streamlined their risk assessment process to include revising the FY 2025 risk assessment template to provide clarity to the risk factors and improve efficiencies with completing the assessment. RCG also conducted risk assessment training to communicate the process improvements and introduce the revised risk assessment template.

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

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 2024 PIIA audit report. TIGTA made three recommendations in their report.

Finding 1: Assessment of FY 2024 Compliance With Improper Payment Reporting Requirements

TIGTA's review found that IRS partially complied with reporting requirements contained in the PIIA for FY 2024. However, IRS has still not satisfied the PIIA goal of reducing the overall improper payment rate for ACTC, AOTC, EITC, and Net PTC to less than 10 percent.

In addition, TIGTA reported that for FY 2024, IRS completed the required risk assessments for the Economic Impact Payments and Recovery Rebate Credits and the Employee Retention Credit (ERC)/Paid Sick and Family Leave Credit after determining that these programs are susceptible to significant improper payments. IRS did not calculate or report improper payment rates for the ERC/Paid Sick and Family Leave Credit as high-risk and susceptible to improper payments.

TIGTA reported that the FY 2024 Treasury AFR noted that the ERC was the most significant component of the pandemic refundable credit fund expenditures. However, IRS recognizes the risk for fraud for these claims and has reported that the ERC increasingly became the target of aggressive marketing by unscrupulous promoters who caused businesses to claim the credit when they were not eligible. IRS took steps to address this by placing a moratorium on processing ERC claims, implementing a voluntary disclosure program, allowing taxpayers to withdraw their claims, etc. As of January 2025, IRS still has over 1 million unprocessed ERC claims in inventory.

Finding 2: The Strategies for Reducing Improper Payments May Not Significantly Reduce Error Rates

TIGTA reported that IRS has not reduced improper payment rate estimates to less than 10 percent for any of its reported high-risk programs. According to the FY 2024 Treasury AFR, IRS would need to reduce erroneous payments for its RTC programs by $11.7 billion. IRS has reported a reduction in improper payment rates in recent years. However, the EITC improper payment rate has been consistently above 22 percent despite IRS's efforts over the years to reduce these rates.

TIGTA reported that the FY 2024 Treasury AFR attributes the causes of RTC errors to factors such as the complexity of the statutory eligibility rules, inability to verify taxpayer-provided information prior to issuing refunds, lack of correctable error authority, and requirement to issue refunds within 45 days of the filing deadline to prevent paying interest. IRS noted that a meaningful reduction in the estimated error rate is unlikely without independent data sources that IRS can use to verify taxpayer-provided information.

In addition, IRS needs the resources, both time and people, to address improper payments. According to the FY 2024 Treasury AFR, reducing the improper payment rates for refundable credits would require increasing audits. However, IRS recently reduced the number of RTC audits because these taxpayers are primarily low-income individuals and historically, they were disproportionately audited. Further, if IRS reallocated enforcement resources from other examination programs to comply with the PIIA, it would lose substantial revenue.

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IRS stated that an over-reliance on pre-refund audits to resolve basic errors results in delayed refunds to taxpayers and additional interest payments made by the federal government. To address this, IRS previously requested but has not been provided with additional correctable or math error authority, which allows IRS to correct certain mathematical or clerical errors on returns at filing.[8] TIGTA agrees that if IRS had this additional authority, it could help address improper payments.

Furthermore, TIGTA reported that the FY 2024 Treasury AFR notes that preparer outreach and education continue as part of IRS's overall strategy to raise public awareness and encourage eligible taxpayers to claim refundable credits. This includes things like:

- Nationwide Tax Forums and the Refundable Credits Summit;
- Technical Training and Tax Preparer Toolkits; and
- Webinars and Tax Preparer Alerts.

Additionally, IRS created a "Who Do You Trust" flyer and distributed this content via its social media platforms, to its partners in the community, and on televisions at various Taxpayer Assistance Center sites.

IRS's FY 2025 budget submission also included two legislative proposals specific to paid preparers. One proposal focuses on increasing penalties against and addressing noncompliance or inappropriate behavior by paid preparers and the other proposal would establish mandatory minimum competency standards for paid preparers. TIGTA reported that these efforts alone may not be sufficient to significantly impact taxpayer and preparer behavior and reduce the refundable credit improper payment rates.

Recommendation

TIGTA recommended that IRS:

- Work with the Office of Tax Policy to request additional legislative considerations that will help IRS reduce improper payments associated with refundable tax credits.

Finding 3: IRS is Testing a New Process to Avoid Refund Delays for Certain Taxpayers, But the Impact on Improper Payments is Unknown

TIGTA reported that one of the challenges to reduce improper payments is determining who is truly eligible for a credit. Prior to Filing Season 2025, IRS rejected an electronically filed (e-filed) tax return if a dependent was already claimed by another taxpayer to help minimize improper payments and potential fraud. When this happened, the taxpayer whose return was rejected then had to file their tax return by paper. This can both be a burden to the taxpayer and IRS, since paper tax returns require more resources to process. To determine the impact of this process, IRS

[8] These requests have been made throughout the years in the Treasury Department's General Explanations of the Administration's Revenue Proposals that can be found on treasury.gov.

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analyzed taxpayers' filing behaviors when their Tax Year 2022 tax return was rejected because of a duplicate dependent. IRS found taxpayers in this situation responded in one of three ways:

- The taxpayer e-filed again, removing the duplicate dependent.
- The taxpayer filed again but by paper, claiming the duplicate dependent.
- The taxpayer did not file a subsequent tax return.

Taxpayers whose returns were rejected for claiming a duplicate dependent had their refund delayed. For Filing Season 2025, IRS will accept an e-filed tax return even if the dependent has already been claimed on another return as long as the primary taxpayer on the second return includes a valid Identity Protection Personal Identification Number (IP PIN).[9] The IP PIN gives IRS a reasonable assurance that the second filer has been authenticated because the application process requires an individual to verify its identity with IRS. According to IRS, this change will make it easier for taxpayers to claim important credits like the EITC and Child Tax Credit.

However, TIGTA reported that the impact of this new process on improper payment rates is unknown. In Tax Year 2022, there were 751,000 taxpayers whose returns were rejected because of a duplicate dependent condition. If IRS denied half of the credits originally claimed by these taxpayers, it would only lower improper payments from $21.4 billion to $20 billion. This illustrates how difficult it is for IRS to reduce improper payment rates to less than 10 percent.

<u>Recommendations</u>

TIGTA recommended that IRS:

- Conduct an analysis of the new IP PIN procedures to 1) identify the impact on taxpayer filing behavior and refundable credits claimed; 2) evaluate the number of returns selected for post-refund review; and 3) measure the dollar impact to tax administration/improper payments.
- Determine if the new IP PIN procedures should be continued, upon completing the analysis noted in Recommendation 2.

[9] A unique six-digit number that only the taxpayer and the IRS knows. The IP PIN is primarily used to protect the taxpayer from identity theft.

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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) 2024 compliance with the Payment Integrity Information Act of 2019 (PIIA). We assessed Treasury's compliance with the reporting requirements set forth in PIIA; and Executive Order 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*. Our audit scope covered the period October 1, 2023, through September 30, 2024, 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 the PIIA.

To accomplish our objective, we performed the following activities during audit fieldwork conducted from January 2025 through May 2025:

- We reviewed applicable laws, regulations, and guidance issued by OMB, and *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 2024 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 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 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 which 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

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supporting documentation. RMA issued Finding 4: 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. RMA issued Finding 2: Inefficient and Ineffective Recovery Activities for ERA and HAF Programs in Identifying Overpayments and Finding 3: Incomplete Reporting of Payment Recapture Data as a result of our testing.

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 operating 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.

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Appendix 2: TIGTA's Assessment of IRS Compliance with the Improper Payment Reporting Requirements in FY 2024 and IRS Management's Response

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Assessment of Fiscal Year 2024 Compliance With Improper Payment Reporting Requirements

May 9, 2025

Report Number: 2025-400-025

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

TIGTACommunications@tigta.treas.gov | www.tigta.gov

Appendix 2: TIGTA's Assessment of IRS Compliance with the Improper Payment Reporting Requirements in FY 2024 and IRS Management's Response

HIGHLIGHTS: Assessment of Fiscal Year 2024 Compliance With Improper Payment Reporting Requirements

Final Audit Report issued on May 9, 2025 **Report Number 2025-400-025**

Why TIGTA Did This Audit

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

The objective of this review was to determine whether the IRS complied with annual improper payment reporting requirements for Fiscal Year (FY) 2024.

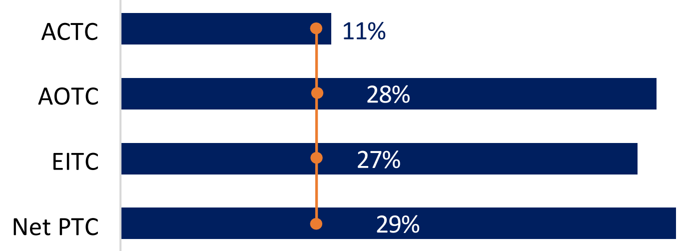
Impact on Tax Administration

The PIIA and the Office of Management and Budget (OMB) define an improper payment as any payment that should not have been made, was made in an incorrect amount, or was made to an ineligible recipient. For FY 2024, the IRS calculated improper payment estimates for four programs that meet the OMB's definition of a high-priority program susceptible to improper payments. The OMB defines high-priority programs as programs with improper payments resulting in monetary losses that exceed $100 million annually.

What TIGTA Found

For FY 2024, the IRS partially complied with the reporting requirements contained in the PIIA. As in prior years, the IRS calculated improper payment rates for the following four high-risk programs: Additional Child Tax Credit (ACTC), American Opportunity Tax Credit (AOTC), Earned Income Tax Credit (EITC), and Net Premium Tax Credit (PTC). However, the IRS still has not satisfied the goal to reduce improper payment rates to less than 10 percent.

Additionally, the IRS is not reporting improper payment rates for pandemic-related programs because they believe it would be an inefficient use of resources given the short-term nature of pandemic programs. However, the IRS continues to assess risk for pandemic-related programs, such as the Employee Retention Credit.



The IRS did not reduce the improper payment rate to less than 10 percent.

The FY 2024 Department of the Treasury Agency Financial Report attributes the causes of refundable tax credit errors to factors such as the complexity of the statutory eligibility rules, inability to verify taxpayer-provided information prior to issuing refunds, lack of correctable error authority, and a requirement to issue refunds within 45 days. For example, when there are taxpayers who claim the same dependent, the IRS cannot determine which taxpayer is eligible at the time a tax return is filed, and the IRS must process both claims and complete post-filing activities such as issuing notices or conducting audits to determine eligibility. For the 2025 Filing Season, the IRS implemented a change that will accept electronically filed individual tax returns when a dependent has already been claimed on another return to reduce the burden on taxpayers and issue their refunds timely. IRS management noted minimal impact of the duplicate dependent condition on total improper payments.

What TIGTA Recommended

We made three recommendations in this report, including that the IRS request additional legislative considerations to help reduce improper payments and analyze the impact of the new processing procedures for returns claiming duplicate dependents.

The IRS agreed with all three recommendations.

Appendix 2: TIGTA's Assessment of IRS Compliance with the Improper Payment Reporting Requirements in FY 2024 and IRS Management's Response

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

May 9, 2025

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Diana M. Tengesdal
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Assessment of Fiscal Year 2024 Compliance With Improper Payment Reporting Requirements (Audit No.: 2025400001)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) complied with the annual improper payment reporting requirements for Fiscal Year 2024. This review is part of our Fiscal Year 2025 Annual Audit Plan and addresses the major management and performance challenge of *Tax Fraud and Improper Payments*.

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

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Appendices

Assessment of Fiscal Year 2024 Compliance With Improper Payment Reporting Requirements

Background

The Payment Integrity Information Act (PIIA) and the Office of Management and Budget (OMB) define an improper payment as any payment that should not have been made, was made in an incorrect amount, or was made to an ineligible recipient.[1] Agency Inspectors General are responsible for evaluating agency information related to improper payments.

In March 2020, the PIIA repealed several improper payment laws but set forth similar improper payment reporting requirements, and the following remain in effect:[2]

Executive Order 13520, *Reducing Improper Payments*, issued in November 2009, requires federal agencies to provide agency Inspectors General with detailed information on efforts to identify and reduce the number of improper payments in federal programs with the highest dollar value of improper payments.

The *Consolidated Appropriations Act of 2021*, enacted in December 2020.[3] This Act directed the Internal Revenue Service (IRS) to make the elimination of improper payments an utmost priority. In addition, the Act directed the IRS to implement, within 270 calendar days of enactment of the Act, all open and unimplemented recommendations from TIGTA and the Government Accountability Office that address improper payments, or report on impediments to implementation of each open recommendation. We previously assessed the IRS's compliance with this requirement and found the IRS reported all unimplemented recommendations as required.[4]

OMB Circular A-123 Appendix C, *Requirements for Payment Integrity Improvement*, issued in March 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 Agency Financial Report (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.

Process to identify IRS programs for improper payment risk assessment

Agencies must conduct an improper payment risk assessment at least once every 3 years for each program with annual outlays over $10 million. The Department of the Treasury (hereafter

[1] Payment Integrity Information Act of 2019, 31 U.S.C. §§ 3351-3358 (2020). See Appendix VI for a glossary of terms.
[2] See Appendix III for a list of improper payment laws repealed by the PIIA.
[3] Pub. L. No. 116-260, 134 Stat. 1182.
[4] TIGTA, Report No. 2021-40-036, *Improper Payment Rates for Refundable Tax Credits Remain High* (May 2021) and TIGTA, Report No. 2022-40-037, *Programs Susceptible to Improper Payments Are Not Adequately Assessed and Reported* (May 2022).

referred to as the Treasury Department) identifies the programs that the IRS must assess for the risk of improper payments each fiscal year. 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 to the program since the last risk assessment was completed. For Fiscal Year (FY) 2024, the Treasury Department selected 6 program fund groups that required certification and 12 IRS programs that required a risk assessment.[5]

The IRS can use one of two types of risk assessments:

Qualitative Risk Assessment – used to assess the risk that a program's internal controls could make the program susceptible to improper payments. The OMB requires agencies to conduct qualitative assessments after the first 12 months of the program and at least once every 3 fiscal years thereafter. Once the IRS determines that a program is susceptible to improper payments, it must produce a statistically valid estimate of the improper payments the following fiscal year.

Quantitative Risk Assessment – used to review a sample of disbursements to formulate the overall estimated improper payment rate. In cases in which a quantitative risk assessment is conducted, it could take one of several forms, such as a statistical assessment similar to what is required for the regular improper payment estimate or a nonstatistical assessment in which its ratio of improper payments and unknown payments is projected to the annual outlays.

In addition, the IRS must provide the following information as part of an improper payment estimate for any program identified as susceptible to significant improper payments as a result of a risk assessment in the Treasury Department's next fiscal year AFR:

- The rate and 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.

Results of Review

The OMB defines high-priority programs as programs with improper payments resulting in monetary losses that exceed $100 million annually. For FY 2024, the IRS estimated an overall improper payment rate of 21.9 percent and estimated improper payments totaling

[5] See Appendix II for the list of the 12 IRS programs identified by the Treasury Department for improper payment risk assessments in FY 2024.

approximately $21.4 billion for the following credits: Additional Child Tax Credit (ACTC); American Opportunity Tax Credit (AOTC), Earned Income Tax Credit (EITC) and Net Premium Tax Credit (PTC). See Figure 1 for details.

Figure 1: FY 2024 Improper Payments and Rates[6]

IRS Program	Total Claims (in billions)	Improper Payment Rate	Improper Payments (in billions)
ACTC	$32.1	10.7%	$3.4
AOTC	$5.2	27.7%	$1.4
EITC	$58.4	27.3%	$15.9
Net PTC	$2.3	28.5%	$0.7
Totals	**$98.0**	**21.9%**	**$21.4**

Source: FY 2024 Treasury Department AFR.

Assessment of Fiscal Year 2024 Compliance With Improper Payment Reporting Requirements

We determined that the IRS partially complied with reporting requirements contained in the PIIA for FY 2024. The IRS complied with improper payment reporting compliance on the four main high-risk programs: ACTC, AOTC, EITC, and the Net PTC. However, the IRS has still not satisfied the PIIA goal of reducing the overall improper payment rate to less than 10 percent.

In May 2021, we reported that the OMB provided the IRS an alternative to reducing the improper payment rate to less than 10 percent. This included noting that if a reduction target remained constant due to the complexities of the programs, this situation should be explained in the Treasury Department AFR, which the IRS did.[7] Figure 2 provides a summary of our evaluation of the IRS's compliance with the various improper payment reporting requirements for FY 2024.[8]

Figure 2: Compliance With Improper Payment Requirements for FY 2024

Improper Payment Requirement	IRS Compliance
Published payment integrity information with the annual financial statement.	✓
Posted the annual financial statement and accompanying materials to agency website.	✓

[6] For presentation purposes, the improper payment rates, total claims, and estimated improper payments as presented may be impacted by rounding. Further detail is available within the datasets found on www.paymentaccuracy.gov.
[7] TIGTA, Report No. 2021-40-036, *Improper Payment Rates for Refundable Tax Credits Remain High* (May 2021).
[8] The Executive Order 13520 requirements are incorporated into Appendix C of OMB Circular A-123 which align with the PIIA.

Assessment of Fiscal Year 2024 Compliance With Improper Payment Reporting Requirements

Improper Payment Requirement	IRS Compliance
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.[9]	✓
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.	✓
Demonstrated improvements to payment integrity or to reach a tolerable improper payment and unknown payment rate.	✓
Developed a plan to meet the improper payment and unknown payment reduction target.	✓
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 2024.

IRS improper payment rate reporting does not extend to pandemic-related credits

In June 2020, the OMB issued guidance directing all agencies to apply payment integrity requirements to any new program created or significant new funding provided by pandemic legislation. Subsequently, in August 2022, the Treasury Department informed the OMB that due to the short-term nature of pandemic-related programs, estimating 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. The memorandum noted that it will continue to assess risk for programs deemed susceptible to significant improper payments. However, the Treasury Department indicated that it will not plan to report an improper payment estimate of such programs either in its AFR or on paymentaccuracy.gov.

[9] 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.

Assessment of Fiscal Year 2024 Compliance With Improper Payment Reporting Requirements

For FY 2024, the IRS completed the required risk assessments for the Economic Impact Payments and Recovery Rebate Credits and the Employee Retention Credit (ERC)/Paid Sick and Family Leave Credit after determining that these programs are susceptible to significant improper payments. As indicated in the Treasury Department memorandum, the IRS did not calculate or report improper payment rates for the ERC/Paid Sick and Family Leave Credit as high-risk and susceptible to improper payments.

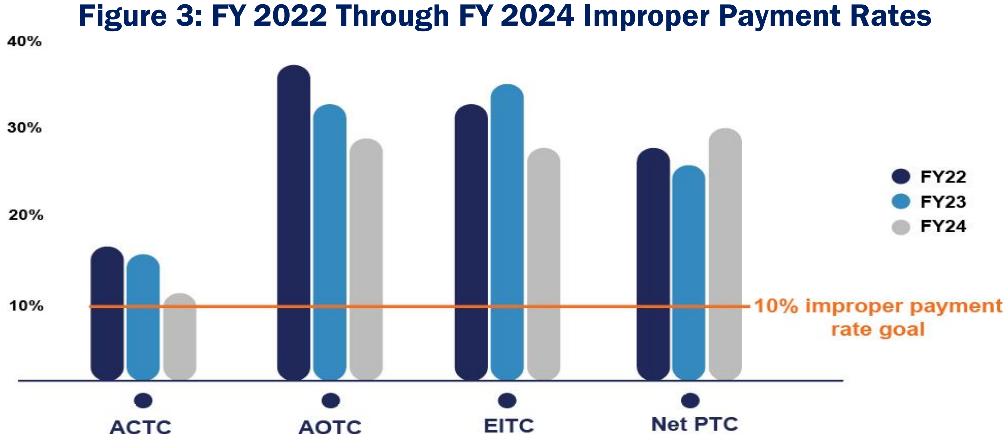
The FY 2024 Treasury Department AFR noted that the ERC was the most significant component of the pandemic refundable credit fund expenditures. However, the IRS recognizes the risk for fraud for these claims and has reported that the ERC increasingly became the target of aggressive marketing by unscrupulous promoters who caused some businesses to claim the credit when they were not eligible. The IRS took steps to address this by placing a moratorium on processing ERC claims, implementing a voluntary disclosure program, allowing taxpayers to withdraw their claims, *etc*. In September 2024, we reported that these initiatives prevented the issuance of $1.6 billion in ERCs and allowed the IRS to recapture $573 million in ERCs.[10] As of January 2025, the IRS still has over 1 million unprocessed ERC claims in inventory.

The Strategies for Reducing Improper Payments May Not Significantly Reduce Error Rates

The IRS has not reduced the improper payment rate estimates to less than 10 percent for any of its reported high-risk programs. According to the FY 2024 Treasury Department AFR, to meet this metric the IRS would need to reduce erroneous payments for its refundable tax credit programs by $11.7 billion. Figure 3 provides a comparison of the improper payment rates for FYs 2022 through 2024.

The IRS would need to reduce erroneous payments by $11.7 billion to meet PIIA requirements.

Figure 3: FY 2022 Through FY 2024 Improper Payment Rates



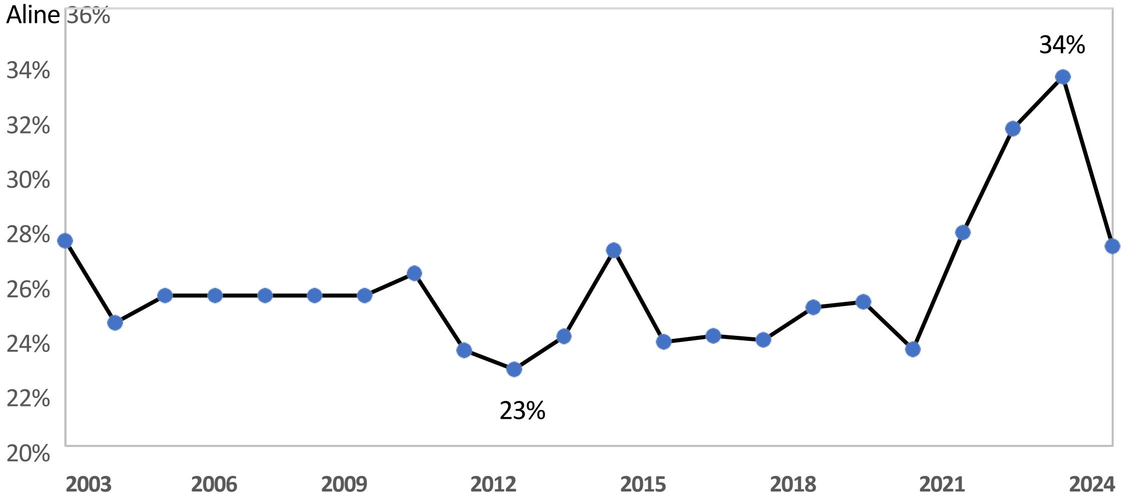
Source: FYs 2022 through 2024 Treasury Department AFRs.

[10] TIGTA, Report No. 2024-400-068, *Management Took Actions to Address Erroneous Employee Retention Credit Claims; However, Some Questionable Claims Still Need to Be Addressed* (September 2024).

Assessment of Fiscal Year 2024 Compliance With Improper Payment Reporting Requirements

The IRS has reported a reduction in some improper payment rates in recent years. However, the EITC improper payment rate has been consistently above 22 percent despite the IRS's efforts over the years to reduce these rates. Figure 4 shows that the EITC estimated error rates have ranged from 23 percent to 34 percent from FYs 2003 to 2024.

Figure 4: EITC Improper Payment Rates From FYs 2003 Through 2024



Source: Improper payment rates were pulled from various Treasury Department and TIGTA reports.

Factors beyond the IRS's control contribute to improper payments

The FY 2024 Treasury Department AFR attributes the causes of refundable tax credit errors to factors such as the complexity of the statutory eligibility rules, inability to verify taxpayer-provided information prior to issuing refunds, lack of correctable error authority, and a requirement to issue refunds within 45 days of the filing deadline to prevent paying interest. The FY 2024 Treasury Department AFR also notes that refundable credit improper payments are not primarily the result of internal control weaknesses that the IRS can address. Eligibility rules differ for each credit and are often complex because they address complicated family relationships and residency arrangements to determine eligibility. The IRS noted that a meaningful reduction in the estimated error rate is unlikely without independent data sources that the IRS can use to verify taxpayer-provided information. For example, EITC overclaims are from the IRS's inability to verify qualifying child eligibility requirements and taxpayers misreporting certain types of income which the IRS has difficulty verifying at the time of filing.

In addition, the IRS needs the resources, both time and people, to address improper payments. According to the FY 2024 Treasury Department AFR, reducing the improper payment rates for refundable credits would require increasing audits. However, the IRS recently reduced the number of refundable tax credit audits because these taxpayers are primarily low-income individuals and historically, they were disproportionately audited. Further, if the IRS reallocated enforcement resources from other examination programs to comply with the PIIA, it would lose substantial revenue.

The IRS stated that an over-reliance on pre-refund audits to resolve basic errors results in delayed refunds to taxpayers and additional interest payments made by the federal government. To address this, the IRS previously requested but has not been provided with additional correctable or math error authority, which allows the IRS to correct certain mathematical or clerical errors on returns at filing.[11] We agree that if the IRS had this additional authority, it could help address improper payments. As such, we continue to recommend that the IRS work with the Treasury Department's Office of Tax Policy to request additional correctable error authority.[12]

The IRS continues its focus on outreach and education to reduce improper payment error rates

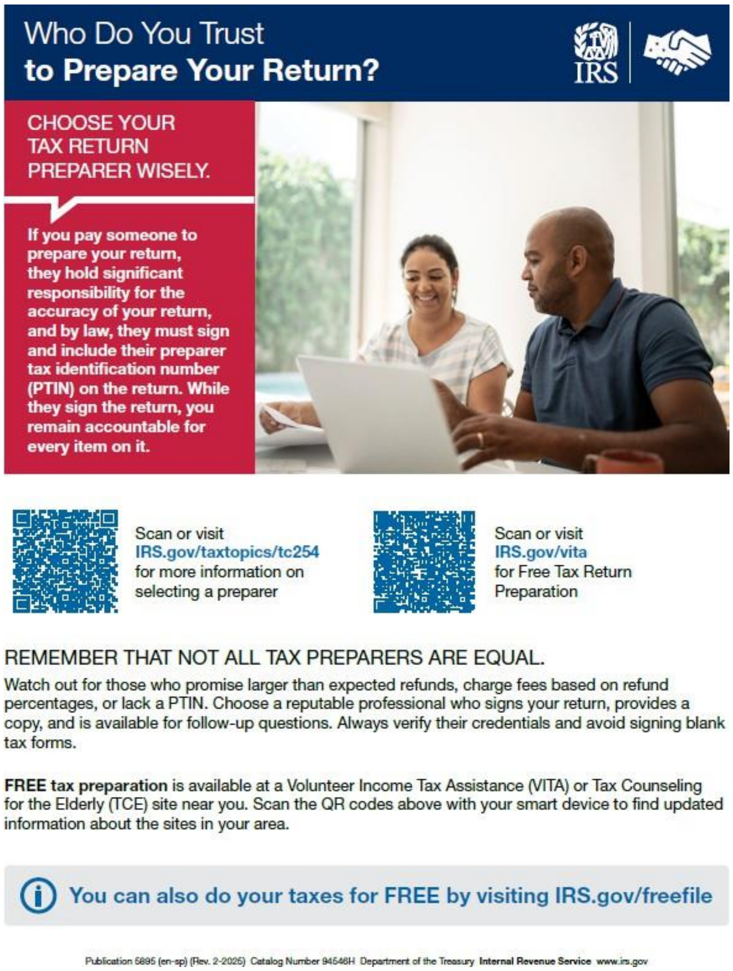
In May 2024, we reported on the various strategies that the IRS has in place to educate both taxpayers and tax preparers about the eligibility requirements for refundable credits and identifying the most common errors.[13] The FY 2024 Treasury Department AFR notes that preparer outreach and education continue as part of the IRS's overall strategy to raise public awareness and encourage eligible taxpayers to claim refundable credits. This includes things like:

- Nationwide Tax Forums and the Refundable Credits Summit.
- Technical Training and Tax Preparer Toolkits.
- Webinars and Tax Preparer Alerts.

Additionally, the IRS created a "Who Do You Trust" flyer and distributed this content via its social media platforms, to its partners in the community, and on televisions at various Taxpayer Assistance Center sites. Figure 5 provides an example of the flyer.

[11] These requests have been made throughout the years in the Treasury Department's General Explanations of the Administration's Revenue Proposals that can be found on treasury.gov.
[12] See Appendix IV for prior TIGTA reports addressing refundable tax credits and math error authority.
[13] TIGTA, Report No. 2024-400-026, *Assessment of Fiscal Year 2023 Compliance With Improper Payment Reporting Requirements* (May 2024).

Figure 5: IRS Who Do You Trust Flyer



Source: IRS Publication 5895.

The IRS's FY 2025 budget submission also included two legislative proposals specific to paid preparers. One proposal focuses on increasing penalties against and addressing noncompliance or inappropriate behavior by paid preparers and the other proposal would establish mandatory minimum competency standards for paid preparers. While the IRS may be adjusting its strategic priorities to focus on tax preparer education and outreach, these efforts alone may not be sufficient to significantly impact taxpayer and preparer behavior and reduce the refundable credit improper payment rates.

Recommendation 1: The Commissioner, Taxpayer Services, should work with the Office of Tax Policy to request additional legislative considerations that will help the IRS reduce improper payments associated with refundable tax credits.

> **Management's Response:** The IRS agreed with the recommendation and will work to request additional legislative considerations that will help the IRS reduce improper payments associated with refundable tax credits.

The IRS is Testing a New Process to Avoid Refund Delays for Certain Taxpayers, But the Impact on Improper Payments is Unknown

As previously mentioned, one of the challenges to reduce improper payments is determining who is truly eligible for a credit. For example, multiple taxpayers may try to claim the same dependent(s) for the EITC and Child Tax Credit. One example would be a divorced couple that each file a tax return and claim the same dependent(s). Another example could be a fraudster who uses a stolen identity to claim another person's dependent to get a credit.

In the divorced couple example, the IRS ultimately must determine which parent is eligible to claim the dependent. This determination cannot be done when returns are filed. [redacted] However, because only one parent is eligible to claim the dependent, the other payment is an improper payment.

After both tax returns are processed, the IRS places codes on both taxpayer accounts where a duplicate dependent is present. This information is used to help determine if the returns will be selected for an audit or if the IRS will send a soft notice providing information on accurately claiming dependents. IRS management indicated that it is still necessary to conduct an audit when a duplicate dependent is claimed because it cannot be presumed that all refundable credits claimed by the taxpayer are improper and attributable to the duplicate dependent.

The IRS is piloting a new process for taxpayers who claim dependents who have already been claimed on another taxpayer's return

Prior to Filing Season 2025, the IRS rejected an electronically filed (e-filed) tax return if a dependent was already claimed by another taxpayer to help minimize improper payments and potential fraud. When this happened, the taxpayer whose return was rejected then had to file their tax return by paper. This can be a burden to both the taxpayer and the IRS, since paper tax returns require more resources to process. To determine the impact of this process, the IRS analyzed taxpayers' filing behaviors when their Tax Year 2022 tax return was rejected because of a duplicate dependent. The IRS found taxpayers in this situation responded in one of three ways:

- The taxpayer e-filed again, removing the duplicate dependent.
- The taxpayer filed again but by paper, claiming the duplicate dependent.
- The taxpayer did not file a subsequent tax return.

Taxpayers whose returns were rejected for claiming a duplicate dependent had their refund delayed. For Filing Season 2025, the IRS will accept an e-filed tax return even if the dependent has already been claimed on another return as long as the primary taxpayer on the second return includes a valid Identity Protection Personal Identification Number (IP PIN).[14] The IP PIN gives the IRS a reasonable assurance that the second filer has been authenticated because the

[14] A unique six-digit number that only the taxpayer and the IRS knows. The IP PIN is primarily used to protect the taxpayer from identity theft.

application process requires an individual to verify their identity with the IRS. According to the IRS, this change will make it easier for taxpayers to claim important credits like the EITC and Child Tax Credit.

However, the impact of this new process on improper payment rates is unknown. In Tax Year 2022, there were 751,000 taxpayers whose returns were rejected because of a duplicate dependent condition. If the IRS denied half of the credits originally claimed by these taxpayers, it would only lower improper payments from $21.4 billion to $20 billion. As previously mentioned, the IRS would need to reduce erroneous payments by $11.7 billion to comply with the PIIA requirements. This illustrates how difficult it is for the IRS to reduce improper payment rates to less than 10 percent.

The Commissioner, Taxpayer Services, should:

Recommendation 2: Conduct an analysis of the new IP PIN procedures to 1) identify the impact on taxpayer filing behavior and refundable credits claimed; 2) evaluate the number of returns selected for post-refund review; and 3) measure the dollar impact to tax administration/improper payments.

> **Management's Response:** The IRS agreed with the recommendation and will conduct an analysis of the cases selected for post-refund review and determine the impact the new IP PIN procedures had on taxpayer filing behavior, issuance of improper payments, and the dollar impact to tax administration.

Recommendation 3: Upon completing the analysis noted in Recommendation 2, determine if the new IP PIN procedures should be continued.

> **Management's Response:** The IRS agreed with the recommendation and will make a determination about continuing the new IP PIN procedures after the analysis from Recommendation 2 is complete.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to determine whether the IRS complied with the annual improper payment reporting requirements for FY 2024. To accomplish this objective, we:

- Obtained and reviewed the information that the IRS provided to the Treasury Department for inclusion in the AFR to determine if the information provided satisfied the requirements.
- Evaluated the adequacy of the IRS's FY 2024 risk assessments for the IRS revenue program funds identified by the Treasury Department.
- Reviewed the IRS's methodology to calculate the ACTC, AOTC, EITC, and Net PTC improper payment rates for FY 2024.
- Evaluated the impact of accepting e-filed tax returns with duplicate dependents on improper payments.

Performance of This Review

This review was performed with information obtained from Office of the Chief Financial Officer located at the IRS Headquarters in Washington, D.C., and the Return Integrity and Compliance Services function located in Atlanta, Georgia, during the period November 2024 through March 2025. We conducted this performance audit in accordance with generally accepted government auditing standards. 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Data Validation Methodology

We presented data as reported in Treasury Department AFRs and internal metrics from the IRS Office of Taxpayer Services. This information was reported without additional analysis. We believe it is reliable for the 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 in place to ensure that the IRS met the annual improper payment reporting requirements established in the PIIA. We tested these controls by reviewing and analyzing relevant documents and holding discussions with IRS management.

Appendix II

Programs Identified for Improper Payment Risk Assessments

The following IRS programs were identified by the Treasury Department for improper payment risk assessments for FY 2024.

IRS Program	Treasury Fund Symbol	Risk Assessment Determination
Refund Collection, Interest	20X0904	Non-susceptible
Qualified Zone Academy Bonds	20X0945	Non-susceptible
Taxpayer Services	20X0912	Non-susceptible
Tax Law Enforcement	20X0913	Non-susceptible
Operations Support	20X0919	Non-susceptible
Business Systems Modernization	20X0921	Non-susceptible
Private Collection Agent Program	20X5510	Non-susceptible
Alternative Minimum Tax – Corporate	20X0931	Non-susceptible
Special Compliance Personnel Program Account	20X5622	Non-susceptible
Informant Reimbursement	20X5433	Non-susceptible
U.S. Coronavirus Payments - Economic Impact Payments and Recovery Rebate Credits	20X0905	Susceptible
U.S. Coronavirus Refundable Credits - Sick and Family Leave Credit and Employee Retention Credit	20X0936	Susceptible

Source: IRS Office of the Chief Financial Officer.

Appendix III

Improper Payment Laws Repealed by the Payment Integrity Information Act

Improper Payment Law	Description
Improper Payments Information Act [1]	Enacted on November 26, 2002, the law requires federal agencies, including the IRS, to estimate the dollar amount of improper payments and report to Congress annually on the causes of and the steps taken to reduce improper payments.
Improper Payments Elimination and Recovery Ac [2]	Enacted July 22, 2010, the Act redefined what "significant improper payments" are; strengthened agency reporting requirements and defined significant improper payments as exceeding either 1.5 percent of program outlays and $10 million of all program activities or $100 million.
Improper Payments Elimination and Recovery Improvement Act [3]	Enacted on January 10, 2013, the Act codifies many parts of Executive Order 13520 and requires the OMB Director to identify a list of high-priority federal programs and agencies to develop additional or supplemental measures for tracking progress in reducing improper payments in these programs.
Fraud Reduction and Data Analytics Act [4]	Enacted on June 30, 2016, the Act requires the OMB to establish guidelines to identify and assess fraud risks and design and implement control activities to prevent, detect, and respond to fraud, including improper payments.

Source: Analysis of legislation related to improper payments.

Appendix IV

Prior Treasury Inspector General for Tax Administration Reports Addressing Refundable Credits and Math Error Authority

- TIGTA, Report No. 2014-40-093, *Existing Compliance Processes Will Not Reduce the Billions of Dollars in Improper Earned Income Tax Credit and Additional Child Tax Credit Payments*, (September 2014).
- TIGTA, Report No. 2016-40-036, *Without Expanded Error Correction Authority, Billions of Dollars in Identified Potentially Erroneous Earned Income Credit Claims Will Continue to Go Unaddressed Each Year*, (April 2016).
- TIGTA, Report No. 2017-40-042, *Processes Do Not Maximize the Use of Third-Party Income Documents to Identify Potentially Improper Refundable Credit Claims*, (July 2017).
- TIGTA, Report No. 2020-40-008, *Authorities Provided by the Internal Revenue Code Are Not Effectively Used to Address Erroneous Refundable Credit and Withholding Credit Claims*, (February 2020).
- 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).

Appendix V

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

CHIEF FINANCIAL OFFICER

April 24, 2025

MEMORANDUM FOR DIANA M. TENGESDAL
ASSISTANT INSPECTOR GENERAL FOR AUDIT

FROM: Teresa R. Hunter
Chief Financial Officer

Teresa R. Hunter

Digitally signed by Teresa R. Hunter
Date: 2025.04.24 15:35:49 -04'00'

SUBJECT: Response to Draft Audit Report – Assessment of Fiscal Year 2024 Compliance with Improper Payment Reporting Requirements (Audit #2025400001)

Thank you for the opportunity to review and comment on your draft audit report entitled *Assessment of Fiscal Year 2024 Compliance With Improper Payment Reporting Requirements*. The refundable tax credit (RTC) programs examined in this report are designed to provide critical financial support to eligible taxpayers. The IRS is 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 improper payment reporting requirements.

Further, starting in Filing Season 2025, the IRS has implemented changes to the Identity Protection PIN (IP PIN) process that allow e-filed returns to be accepted even if a dependent already has been claimed on a previously filed return, provided the primary taxpayer includes a valid IP PIN. This change is designed to help taxpayers claim important credits, like the Earned Income Tax Credit (EITC). While the change has minimal impact on improper payments, the IRS is monitoring these developments and will take any corrective actions necessary to ensure payment integrity.

RTCs are not a result of internal control weaknesses within the IRS's processes. Due to the complexity of eligibility requirements and the IRS's reliance on taxpayer self-certification of accurate RTC claims, RTC improper payments do not fit within the traditional improper payment framework. RTC improper payments are actually overclaims of RTCs which are more effectively managed and reported within the broader context of the tax gap, where they can be prioritized alongside other types of tax noncompliance.

The IRS agrees with the three recommendations, and our response to each is attached.

2

We appreciate your office's conscientious evaluation of these programs and the IRS's continuing efforts to reduce and eliminate erroneous claims within the structure of the tax administration system. If you have any questions, please contact me at 202-317-4147, or a member of your staff may contact Allen Lawrence, Director Outreach and Reporting, at 202-270-2868.

Attachment

Assessment of Fiscal Year 2024 Compliance With Improper Payment Reporting Requirements

Attachment

RECOMMENDATION 1
The Commissioner, Taxpayer Services, should work with the Office of Tax Policy to request additional legislative considerations that will help the IRS reduce improper payments associated with refundable tax credits.

CORRECTIVE ACTION
We agree. We will work to request additional legislative considerations that will help the IRS reduce improper payments associated with refundable tax credits.

IMPLEMENTATION DATE
September 30, 2025

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 Commissioner, Taxpayer Services, should conduct an analysis of the new IP PIN procedures to (1) identify the impact on taxpayer filing behavior and refundable credits claimed; (2) evaluate the number of returns selected for post-refund review; and (3) measure the dollar impact to tax administration/improper payments.

CORRECTIVE ACTION
We agree. We will conduct an analysis of the cases selected for post-refund review and determine the impact the new IP PIN procedures had on taxpayer filing behavior, issuance of improper payments and the dollar impact to tax administration.

IMPLEMENTATION DATE
December 31, 2025

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 Commissioner, Taxpayer Services, should, upon completing the analysis noted in Recommendation 2, determine if the new IP PIN procedures should be continued.

Assessment of Fiscal Year 2024 Compliance With Improper Payment Reporting Requirements

2

CORRECTIVE ACTION
We agree. We will make a determination about continuing the new IP PIN Procedures after the analysis from Recommendation 2 is complete.

IMPLEMENTATION DATE
December 31, 2025

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.

Appendix VI

Glossary of Terms

Term	Definition
Additional Child Tax Credit	A credit for individuals who receive less than the full amount of the nonrefundable Child Tax Credit. The ACTC may result in a refund even if no tax is owed.
Agency Financial Report	Presents the Treasury Department's financial and performance information for the fiscal year, with comparative prior year data where appropriate.
American Opportunity Tax Credit	A credit for qualified education expenses paid for an eligible student for the first four years of higher education. A partially refundable federal tax credit used to help parents and college students offset the costs of college.
Earned Income Tax Credit	A refundable tax credit for low-income to moderate-income workers.
Employee Retention Credit	A refundable tax credit for certain eligible businesses and tax-exempt organizations that had employees and were affected during the pandemic.
Filing Season	The period from January 1 through mid-April when most individual income tax returns are filed.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The federal government's fiscal year begins on October 1 and ends on September 30.
Government Accountability Office	An independent, nonpartisan agency that works for Congress. It reports to Congress on how well government programs and policies are meeting their objectives. It advises Congress and the heads of executive agencies about ways to make the government more efficient, effective, ethical, equitable, and responsive.
High-Priority Program	Program identified as susceptible to significant improper payments.
Improper Payment	Any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements (including both overpayments and underpayments).
Improper Payment Rate	Amount in improper payments divided by the amount in program outlays.
Net Premium Tax Credit	When the PTC exceeds the Advance PTC (PTC minus Advance PTC equals Net PTC). The Net PTC reduces a taxpayer's tax liability and, if it is more than the tax liability, results in a refundable tax credit.
Outlay	A payment to liquidate an obligation generally equal to cash disbursements (the measure of government spending).
Payment	Any disbursement or transfer of federal funds to any non-federal person, non-federal entity, or federal employee that is made by a federal agency, contractor, grantee, or a governmental or other organization administering a federal program or activity.

Appendix 2: TIGTA's Assessment of IRS Compliance with the Improper Payment Reporting Requirements in FY 2024 and IRS Management's Response

Assessment of Fiscal Year 2024 Compliance With Improper Payment Reporting Requirements

Term	Definition
Payment	Any disbursement or transfer of federal funds to any non-federal person, non-federal entity, or federal employee that is made by a federal agency, contractor, grantee, or a governmental or other organization administering a federal program or activity.
Program	Activities or sets of activities recognized as programs by the public, the OMB, or Congress as well as those that entail program management or policy direction.
Qualitative Risk Assessment	A technique used to quantify risk associated with improper payments and unknown payments. For example, a qualitative improper payment risk assessment methodology prioritizes the identified improper payment and unknown payment risks using a predefined rating scale. Risks will be scored based on their probability or likelihood of occurring and the impact on improper payments and unknown payments in the program should they occur.
Quantitative Risk Assessment	A risk assessment technique that focuses on measurable data such as improper or unknown payment amount. For example, a quantitative improper payment risk assessment will provide numerical improper payment amounts and assess the probability of their occurrence. The assessment may be similar to the regular improper payment estimate.
Refundable Tax Credit	Refundable tax credits can be used to reduce a taxpayer's tax liability to zero. Any excess of the credit beyond the tax liability can be refunded to the taxpayer. A taxpayer can receive a refund even if he or she did not owe taxes or earn income.
Risk Assessment	The process of identifying risks to organizational operations (including mission, functions, image, reputation), organizational assets, individuals, other organizations, and the nation, resulting from the operation of an information system. Incorporates threat and vulnerability analyses and considers mitigations provided by security controls planned or in place.
Significant Improper Payment	Annual improper payments and unknown payments, *i.e.*, the sum of monetary loss improper payments, non-monetary loss improper payments, and unknown payments, in the program exceeding 1) both 1.5 percent of program outlays and $10 million of all program or activity payments made during the fiscal year reported or 2) $100 million (regardless of the improper payment percentage of total program outlays).
Tax Year	A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.
Voluntary Disclosure Program	IRS program that allows businesses that claimed the ERC in error to return the money. The first Voluntary Disclosure Program ran from December 2023 to March 2024 and set a voluntarily repayment of only 80 percent of the amount claimed for the ERC. The second Voluntary Disclosure Program, which started in August 2024 and expired in December 2024, set a pay back of 85 percent of the amount claimed.

Appendix VII

Abbreviations

ACTC	Additional Child Tax Credit
AFR	Agency Financial Report
AOTC	American Opportunity Tax Credit
E-filed	Electronically Filed
EITC	Earned Income Tax Credit
ERC	Employee Retention Credit
FY	Fiscal Year
IP PIN	Identity Protection Personal Identification Number
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 www.tigta.gov/form/suggestions.

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

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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 2024 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 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	Yes	Yes	No
Internal Revenue Service – Payment-Where American Opportunity Credit, Recovery Act (AOTC)	Yes	Yes	N/A	N/A	Yes	Yes	Yes	Yes	Yes	No
Internal Revenue Service – HQ Disbursement EIC (EITC)	Yes	Yes	N/A	N/A	Yes	Yes	Yes	Yes	Yes	No
Internal Revenue Service – Refundable Premium Assistance Tax Credit (Net PTC)	Yes	Yes	N/A	N/A	Yes	Yes	Yes	Yes	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

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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 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 – 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
Internal Revenue Service – US Child and Dependent Care Tax Credit (4)	Yes	Yes	N/A	N/A	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
Departmental Offices – Pandemic Relief for Aviation Workers (4)	Yes	Yes	N/A	N/A	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” criterion, 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 improper payment 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 improper payments.
(4) Programs identified as susceptible to significant improper payments and reported on the PaymentAccuracy.gov website for FY 2024. These are short-term COVID-19 programs for which Treasury will not plan to report an improper payment estimate, per the memorandum, *Limitations in Quantifying the Amount and Rate of Improper Payments for Short-Term Programs*, submitted to OMB on August 1, 2022.

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 2024 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 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)
Departmental Offices – Contribution to International Bank for Reconstruction and Development	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – Economic Support Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – Clean Technology Fund Loans Financing Account	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Interest on the Public Debt (Indefinite)	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Restitution of Foregone Interest	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Judgments, Court of Claims	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Refund Money Erroneously Recovered	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 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 – Interest on Uninvested Funds	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – American Indian and Alaskan Native	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Gulf Coast Restoration Trust Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service – Refund Collection – Interest	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service – Alternative Minimum Tax – Corporate	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service – Payment to Issuer of Qualified Zone Academy Bonds	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service – Informant Reimbursement	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service – Taxpayer Services	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service – Tax Law Enforcement	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service – Operations Support	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service – Business System Modernization	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 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 – Private Collection Agent Program	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service – Special Compliance Personnel Program Account	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Community Development Financial Institutions – Bond Guarantee Program Financing Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Community Development Financial Institutions – Fund Program, Emergency Support	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
Office of Capital Access – Homeowners Assistance Fund (HAF)	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Office of Capital Access – Coronavirus Capital Projects Fund (CPF)	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Office of Capital Access – Local Assistance and Tribal Consistency Fund (LATCF)	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Office of Financial Stability – Salaries and Expenses	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A

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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 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 Financial Stability – Home Affordable Modification Program	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Treasury Forfeiture Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
United States Mint	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Alcohol, Tobacco, Tax and Trade Bureau – Salaries and Expenses	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" criterion, 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 improper payment 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.

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Appendix 4: Treasury Management's Response

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

FROM: John W. York, PhD
Assistant Secretary for Management

SUBJECT: Audit of Treasury's Compliance with the Payment Integrity Reporting Requirements for Fiscal Year (FY) 2024

We have reviewed the draft audit report on Treasury's improper payment reporting for FY 2024 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 2024 because the Internal Revenue Service (IRS) did not report an overall improper payment rate of less than 10 percent for four refundable tax credit programs—the Earned Income Tax Credit, the Additional Child Tax Credit, the American Opportunity Tax Credit, and the Net Premium Tax Credit. We appreciate your acknowledgement that Treasury complied with all other PIIA requirements.

We have long held that refundable tax credits (RTCs) are not "payments" as defined by the improper payments legislation, as the tax system is a collection system rather than a payment system. Whereas a payment system is generally designed to implement internal controls that provide for appropriate verification and validation prior to payments being made, the statutory structure for administering RTCs prevent the IRS from verifying or validating such amounts prior to making the refund payment. 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 other findings and recommendations made in your report related to payment integrity deliverables of non-IRS Treasury Components. If you have any questions, please let me know, or you may contact Carole Banks, Deputy Chief Financial Officer, at (202) 286-2202.

Attachment

Attachment 1: Management's Response to PIIA Audit Recommendations

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Attachment 1

Management's Response to PIIA Audit Recommendations

RMA Recommendation #1

RMA recommends Treasury's RCG work with OCA management to:

- Determine the necessary measures to eliminate the delays in reviewing and reporting overpayments through recapture activities for the ERA and HAF programs; and
- Update its analysis and justifications for concluding whether additional payment recovery audits are cost-effective for the ERA and HAF programs.

Management's Response

Treasury concurs with RMA's recommendation. Treasury's RCG will work with OCA to determine additional measures that could eliminate the delays in reviewing and reporting potential overpayments through recapture activities for the ERA and HAF programs.

Additionally, based on available data and resources, OCA will reevaluate their analysis for concluding whether additional payment recovery audits are cost-effective and determine whether further justifications are warranted.

Implementation Date: September 30, 2025

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

RMA Recommendation #2

RMA recommends Treasury's RCG work with OCA management to adequately review its payment recapture data to ensure the information published on PaymentAccuracy.gov is complete and accurate.

Management's Response

Treasury concurs with RMA's recommendation. RCG will meet with OCA to review their process for ensuring that all overpayments identified and/or recovered through Management Decision Letters are included on the Overpayments Recaptured Outside of Recovery Audits deliverable and reported to PaymentAccuracy.gov.

Implementation Date: October 30, 2025

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

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RMA Recommendation #3

RMA recommends Treasury's RCG work with all components and provide training to accurately complete and review the program-specific risk assessments.

Management's Response

Treasury concurs with RMA's recommendation. RCG streamlined our risk assessment process to include revising the FY 2025 risk assessment template to provide clarity to the risk factors and improve efficiencies with completing the assessment. RCG also conducted risk assessment training to communicate the process improvements and introduce the revised risk assessment template.

Implementation Date: September 30, 2025

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

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Appendix 5: Report Distribution

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- Assistant Secretary for Management
- Deputy Chief Financial Officer
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  Committee on Homeland Security and Governmental Affairs
- Chairman and Ranking Member
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