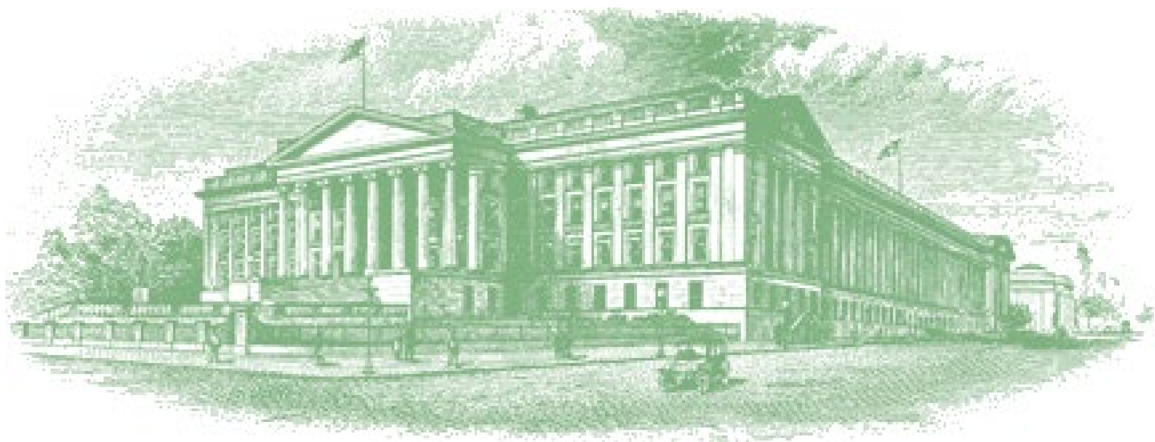
Audit Report



OIG-22-035

FINANCIAL MANAGEMENT

Audit of Treasury's Compliance With the PIIA Requirements for Fiscal Year 2021

June 27, 2022

Office of Inspector General
Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

June 27, 2022

MEMORANDUM FOR J. TREVOR NORRIS
ACTING ASSISTANT SECRETARY FOR MANAGEMENT

FROM: Ade Bankole /s/
Director, Financial Statement Audits

SUBJECT: Audit of Treasury's Compliance with PIIA Requirements for Fiscal Year 2021

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) 2021. 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 noted that Treasury was not in compliance with PIIA for FY 2021. Treasury complied with seven of the ten PIIA requirements but did not comply with the remaining three because IRS did not 1) conduct a risk assessment for the Sick and Paid Family Leave Credit and the Employee Retention Tax Credit as required; 2) adequately conclude on the susceptibility of the U.S. Coronavirus Economic Impact Payment program to improper payments; and 3) report an improper payment rate of less than 10 percent for three of its programs identified as susceptible to significant improper payments: (i) Earned Income Tax Credit; (ii) American Opportunity Tax Credit; and (iii) Additional Child Tax Credit.

RMA also identified inaccurate responses by management officials of the Bureau of the Fiscal Service (Fiscal Service), the Exchange Stabilization Fund, and the Office of the Assistant Secretary for International Affairs to some risk assessment questions for certain qualitative risk assessment fund groups. In addition, RMA noted that, Treasury's Risk and Control Group provided incomplete and inaccurate reporting of Fiscal Service's and Office of D.C. Pensions' payment recapture information as part of the annual OMB data call.

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 2021. RMA is responsible for the attached auditors' report dated June 23, 2022, 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) 927-5329, or a member of your staff may contact Catherine Yi, Manager, Financial Statement Audits, at (202) 927-5591.

Attachment

RMA | Associates
Auditors. Consultants. Advisors.

Department of the Treasury
Audit of Treasury's Compliance with PIIA Requirements for Fiscal Year 2021

RMA | Associates
Auditors. Consultants. Advisors.

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June 23, 2022

Mr. Ade Bankole
Director, Financial Statement Audits
Office of Inspector General
Department of the Treasury

Dear Mr. Bankole,

RMA Associates, LLC (RMA) is pleased to present our final report on the Department of the Treasury's compliance with Payment Integrity Information Act of 2019 (PIIA) requirements for Fiscal Year 2021.

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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Abbreviations

ACTC	Additional Child Tax Credit
AFR	Agency Financial Report
AOTC	American Opportunity Tax Credit
APTC	Advanced Premium Tax Credit
COVID-19	Coronavirus Disease 2019
DCP	Office of D.C. Pensions
EIP	Economic Impact Payment
EITC	Earned Income Tax Credit
EO	Executive Order
ESF	Exchange Stabilization Fund
Fiscal Service	Bureau of the Fiscal Service
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
IRS	Internal Revenue Service
OAS	Office of the Assistant Secretary for International Affairs
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
PTC	Premium Tax Credit
RCG	Risk and Control Group
RTC	Refundable Tax Credit
SE	Self-Employment
SSA	Social Security Administration
TIGTA	Treasury Inspector General for Tax Administration
Treasury	Department of the Treasury
Treasury's PIIA Guidance	Fiscal Year (FY) 2021 Treasury Implementation Guide for OMB Circular A-123 Appendix C: Requirements for Payment Integrity Improvement
UP	Unknown Payment

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Audit Report

June 23, 2022

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) 2021 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 2022 through June 2022 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 2021. This summarization includes IRS's management response to TIGTA's audit findings. TIGTA issued its report on May 6, 2022, 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 2021. IRS did not conduct a risk assessment for the Sick and Paid Family Leave Credit and the Employee Retention Tax Credit as required, did not accurately assess the risk for the U.S. Coronavirus Economic Impact Payment (EIP) program as not susceptible to improper payments, and did not report an improper payment rate of less than 10 percent for three of its programs identified as susceptible to significant improper payments: (1) Earned Income Tax Credit (EITC); (2) American Opportunity Tax Credit (AOTC); and (3) Additional Child Tax Credit (ACTC). Susceptibility to significant improper payments means that the result of the Improper Payment (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 2021 or (2) $100 million. We also noted two findings related to (1) insufficient review of risk assessments and (2) incomplete and inaccurate reporting of payment recapture information.

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

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Results in Brief

Treasury was not in compliance with PIIA for FY 2021. We determined that Treasury complied with seven 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) published IP and Unknown Payment (UP) estimates for programs susceptible to significant IPs and UPs in the accompanying materials to the AFR; 4) published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the AFR; 5) 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; 6) demonstrated improvements to payment integrity or reached a tolerable IP and UP rate; and 7) developed a plan to meet the IP and UP reduction target. We determined that Treasury did not comply with three of the ten requirements because the IRS did not: 1) conduct a risk assessment for the Sick and Paid Family Leave Credit and the Employee Retention Tax Credit as required; 2) adequately conclude on the susceptibility of the U.S. Coronavirus EIP program to improper payments; and 3) report an improper payment rate of less than 10 percent for its programs identified as susceptible to significant improper payments, including:

- Earned Income Tax Credit (EITC) – IRS estimates 28 percent ($19.0 billion) of the total EITC payments of $68.3 billion in FY 2021 were improper.
- Additional Child Tax Credit (ACTC) – IRS estimates 13 percent ($5.2 billion) of the total ACTC payments of $39.4 billion in FY 2021 were improper.
- American Opportunity Tax Credit (AOTC) – IRS estimates 26 percent ($1.9 billion) of the total AOTC payments of $7.1 billion in FY 2021 were improper.

We determined that Treasury was in compliance with all other PIIA and OMB improper payment reporting requirements.

In addition to the compliance criteria, we reviewed Treasury's risk assessment process and recapture audit programs to determine the accuracy and completeness of Treasury improper payment reporting. We identified inaccurate responses by management officials of the Bureau of the Fiscal Service (Fiscal Service), the Exchange Stabilization Fund (ESF), and the Office of the Assistant Secretary for International Affairs (OAS) to some risk assessment questions for certain qualitative risk assessment fund groups. However, RMA noted the inaccurate responses to the risk assessment questions did not affect Treasury's overall risk assessment rating for any of the fund groups identified.

We also identified incomplete and inaccurate reporting of the Fiscal Service and the Office of D.C. Pensions (DCP) payment recapture information by Treasury's Risk and Control Group (RCG) as part of the annual OMB data call.

As part of our reporting process, we provided a draft of this report to Treasury management for review and comment. In a written response, management noted that it has long held that refundable tax credits (RTCs) are not "payments" as intended under the improper payments legislation, as the tax system is a collection system rather than a payment system. Management also noted that it will continue to collaborate with the IRS and OMB 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.

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

We also summarized TIGTA's audit results in this report. TIGTA reported that the IRS was generally compliant with the reporting requirements contained in the PIIA for FY 2021. However, IRS is still not in compliance with the goal to reduce overall improper payment rates for the EITC, ACTC, and AOTC programs to less than 10 percent. TIGTA also disagreed with the IRS's initial improper payment rating of the risk associated with the U.S. Coronavirus EIP program as not susceptible to improper payments. IRS management subsequently reassessed the program and agreed the program is susceptible to improper payments. In addition, TIGTA found that the IRS did not complete a risk assessment for the Sick and Paid Family Leave Credit and the Employee Retention Tax Credit as required. The IRS incorrectly completed a qualitative risk assessment for U.S. Coronavirus Refundable Credits for the Recovery Rebate Credit rather than the Sick and Paid Family Leave Credit and the Employee Retention Tax Credit.

Treasury was required by OMB to begin reporting the estimated total Net Premium Tax Credit (PTC) improper payments in its FY 2020 AFR. However, Treasury notified OMB in August 2020 (for FY 2020) and April 2021 (for FY 2021) that it will delay reporting this information due to significant demands placed upon Treasury, including IRS, in connection with the Coronavirus Disease 2019 (COVID-19) crisis. Treasury states it anticipates reporting in FY 2022.

TIGTA disagreed with IRS's initial conclusion that the U.S. Coronavirus EIP program is not susceptible to significant improper payments. In May 2021, TIGTA reported that, of the more than 157 million EIPs processed, the IRS had issued more than 4.4 million EIPs totaling nearly $5.5 billion to potentially ineligible individuals as of July 16, 2020.[6] This included payments made to deceased individuals, potentially nonqualified dependents, nonresidents, individuals in U.S. Territories who already received payments from the Territories, and individuals with filing status changes. IRS management subsequently indicated that they agreed two risk factors should be changed and agreed that the EIP program should have been rated as susceptible to significant improper payments based upon the qualitative risk assessment criteria. The IRS updated and resubmitted its qualitative risk assessment to Treasury in March 2022.

Furthermore, TIGTA reported that the use of additional self-employment (SE) data from the Social Security Administration (SSA) could reduce improper payments. TIGTA reported that if the IRS reviewed SE transcripts more often and prioritized more frequent delivery of short-statute transcripts,[7] it could potentially work additional cases and reduce improper payments of the EITC. The SSA also continues to work with the OMB to make form revisions to provide the IRS with

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[6] TIGTA, Report No. 2021-46-034, *Implementation of Economic Impact Payments* (May 2021).
[7] Short-statute transcripts are transcripts obtained from the SSA with little time left to assess additional taxes, as the time period allowed to legally do so is close to expiring.

information associated with individuals that fraudulently report SE income to claim the EITC. TIGTA continues to find that the IRS processes for prioritizing statute expiration transcripts is insufficient. Additionally, TIGTA reported that the case selection criteria should be revised to include the ACTC when computing the potential tax change on SE transcript income reported by the SSA.

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, Executive Order (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 2021 reporting, OMB determined that EITC, AOTC, and ACTC 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

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(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.

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

Treasury's Improper Payment Risk Assessment

Treasury issued *Fiscal Year 2021 Treasury Implementation Guide for OMB Circular A-123 Appendix C: Requirements for Payment Integrity Improvement* (Treasury's PIIA Guidance) to all components. For all Fund Groups with over $10 million in Total Non-Federal Disbursements, a risk assessment is required once every three years. Treasury also provided all components two tools—the Qualitative Risk Assessment Questionnaire and Quantitative Risk Assessment Summary—to assess the level of risk for each payment type, such as Federal employee payments including payroll, aid or relief programs, entitlements or benefits, contract payments, claims and/or vouchers, loan guarantees, grants, and program recipient. 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 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 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;

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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 GAO, other audits performed by or on behalf of the Federal, State, or local government, disclosures by the executive agency, or any other means;
10) Whether the program lacks information or data systems to confirm eligibility or provide for other payment integrity needs; and
11) The risk of fraud as assessed by the agency under the Standards for Internal Control in the Federal Government published by the GAO (commonly known as the 'Green Book').

Using 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 risk assessment ratings for all payment types.

The quantitative risk assessment 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 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 (CAP) to prevent and reduce the IPs and UPs. Lastly, programs susceptible to IPs report the following payment integrity information with their annual financial statement, as well as PaymentAccuracy.gov:

- IP reduction outlook;
- Monetary loss analysis;
- IP root cause;
- Data and information themes;
- Corrective actions;
- Internal controls and accountability; and
- Non-compliance.

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For FY 2021, Treasury identified the EITC, AOTC, ACTC, and PTC as programs susceptible to significant improper payments.[8]

Payment Recapture 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 recapture 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 recapture audits and treatment of recaptured improper payments. The steps to perform a payment recapture 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, 2021, 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;
- summary discussing the nature of RTC claims;
- unique challenges in validating RTCs; and
- IRS's strategies to address the tax gap and reduce RTC errors.

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 EITC, ACTC, and AOTC programs;
- High priority program results;

[8] According to TIGTA, Report No. 2022-40-037, *Programs Susceptible to Improper Payments Are Not Adequately Assessed and Reported* (May 2022), the EIP program should have been rated as susceptible to significant improper payments in FY 2021. The updated qualitative risk assessment was resubmitted to the Treasury in March 2022.

- IP root causes;
- 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 2021 because the IRS did not conduct a risk assessment for the Sick and Paid Family Leave Credit and the Employee Retention Tax Credit as required, did not adequately conclude on the susceptibility of the U.S. Coronavirus EIP program to improper payments, and did not report an overall improper payment rate of less than 10 percent for the EITC, ACTC, and AOTC programs. We discuss this further in our Finding 1 below. Treasury did comply with the other PIIA requirements as outlined in Table 1. In addition, Appendix 3 provides a summary of Treasury programs' compliance with PIIA reporting criteria.

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	No
Adequately conclude whether programs are likely to make IPs and UPs above or below statutory threshold	No
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

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PIIA Requirement	Compliance
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 the Department of the Treasury's Compliance with PIIA requirements for FY 2021 for the programs listed in Appendix 3.

Additionally, OMB determined that the EITC, AOTC, and ACTC are high-priority programs for FY 2021. In compliance with EO 13520 for these high-priority programs, we noted that Treasury provided (1) the methodology for identifying and measuring improper payments; (2) plans and supporting analysis for meeting the reduction targets for improper payments; and (3) plans and supporting analysis for ensuring that initiatives undertaken do not unduly burden program access and participation by eligible beneficiaries.

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; and (3) conformed to OMB guidance for payment recapture audits. In addition, we determined that Treasury complied with the requirement to post required improper payment information to the PaymentAccuracy.gov website.

Finding 1: Treasury Was Not in Compliance with PIIA for FY 2021

We determined that Treasury was not in compliance with PIIA for FY 2021 due to the IRS not conducting a risk assessment for the Sick and Paid Family Leave Credit and the Employee Retention Tax Credit as required, inaccurately assessing the risk for the U.S. Coronavirus EIP program as not susceptible to improper payments, and not reporting an overall improper payment rate of less than 10 percent for the EITC, ACTC, and AOTC. Specifically, IRS reported an improper payment rate of 28 percent (or $19.0 billion), 13 percent (or $5.2 billion), and 26 percent (or $1.9 billion) for EITC, ACTC, and AOTC, 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.

TIGTA continues to report that the Net PTC improper payment amount and rate are still not included in the Treasury's AFR. The latest IRS estimates of improper payments of Net PTC (for FY 2019) shows that 27.4 percent ($540.9 million) of the total Net PTC payments were improper. Treasury notified the OMB for FYs 2020 and 2021 that it would delay reporting Net PTC information until FY 2022.

As part of our reporting process, we provided a draft of this report to Treasury management for review and comment. In a written response, management noted that it has long held that RTCs are not "payments" as intended under the improper payments legislation, as the tax system is a collection system rather than a payment system. Management noted that while 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 and design for administering RTCs prevents the 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 it can remediate internally but are, in fact, the result of factors beyond its control under current law and existing authority. Additionally, management noted that it will continue to collaborate with the IRS and OMB 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: Insufficient Review of Risk Assessments

RMA identified inaccurate responses of the Fiscal Service, ESF, and OAS managements to some risk assessment questions in certain fund group qualitative risk assessments used in determining the payment type's susceptibility to significant improper payments. Specifically:

- One instance where Fiscal Service management indicated a rating as not applicable but should have been not susceptible;
- One instance where ESF management's response was indicated as not applicable but should have been not susceptible; and
- Three instances where OAS management's response was indicated as not applicable but should have been not susceptible:

RMA noted the inaccurate responses to the risk assessment questions did not affect the overall risk assessment rating for any of the fund groups identified.

Treasury's PIIA Guidance, Section III: Deliverables, Page 29 states, "Work performed is subject to review by the Office of the Deputy Chief Financial Officer (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."

Fiscal Service, OAS, and ESF managements did not sufficiently review their program-specific risk assessments for accuracy and their internal controls over the review and approval of their respective risk assessments are not operating effectively.

The lack of sufficient reviews can lead to an inaccurate assessment of a program's susceptibility to improper payments, increasing the likelihood for management to miss taking proper actions over the program's improper payments.

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Recommendation

RMA recommends Treasury's RCG work with management at the Fiscal Service, ESF, and OAS to complete proper review of the program-specific risk assessments to better ensure management responses to risk assessment questions are accurate.

Management's Response

Treasury concurs with this recommendation. In March 2022, Treasury hosted a roundtable for all bureaus and offices in which it discussed with preparers and reviewers how to complete and review the risk assessments for accuracy and completeness. Treasury emphasized the need for risk assessment justifications to be clear and complete and that the justifications should better coincide with the risk factors and the chosen response. This will aid third-party reviewers and auditors in their review. Additionally for FY 2022 reporting, Treasury issued supplemental PIIA guidance to Treasury bureaus and offices that requires them to have completed risk assessments be reviewed by personnel knowledgeable of both the program and related payment processes, particularly when the program and payment activities are performed via separate offices. Additionally, for FY 2023 reporting, Treasury will revise the risk assessment template to provide better clarity for users on how to respond to the specific risk factors and provide training to users on the revised template.

Finding 3: Incomplete and Inaccurate Reporting of Payment Recapture Information

RMA identified that overpayment amounts submitted to RCG by the Fiscal Service and DCP did not match the overpayment amounts submitted by Treasury's RCG to the OMB as part of the annual data call. Specifically:

- Fiscal Service reported $41.72 million identified outside of payment recapture audits and $36.51 million recovered outside of payment recapture audits related to the Interest on the Public Debt (Fund 0550). However, these items were not reported on paymentaccuracy.gov.
- DCP reported $1.55 million for the improper benefit payments identified through recovery audits to RCG. However, only $1.53 million ($1.5 million related to the DC Federal Pension Fund (Fund 5511) and $30,000 related to the DC Judicial Retirement & Survivors Annuity Fund (Fund 8212)) in overpayment amount identified through recovery audits was reported on paymentaccuracy.gov. The difference of $20,000 related to the DC Federal Pension Fund (Fund 5511) was omitted in RCG's submission to paymentaccuracy.gov.

OMB Memorandum M-21-19, Section VII. Reporting Requirements, Subsection A. Reporting Requirements for All agencies, Number 2. Paymentaccuracy.gov and the OMB Annual Data Call, states, "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 agency-wide reporting requirements…"

This inaccurate and incomplete reporting occurred because Treasury's RCG did not sufficiently review the overpayment amounts submitted as part of the annual OMB data call to ensure they match the amounts submitted by the components. According to RCG, OMB made significant changes to the amount of information and the format for submitting the data in FY 2021 and did not communicate final instructions until early October, thus giving RCG little time to adjust and conform to the new reporting requirements and to incorporate new quality controls to ensure data accuracy and completeness. The lack of sufficient reviews leads to incomplete and inaccurate reporting of payment recapture information published on paymentaccuracy.gov.

Recommendation

RMA recommends Treasury's RCG perform sufficient review of the annual OMB data call to ensure the information published on paymentaccuracy.gov are complete and accurate.

Management's Response

Treasury concurs with this recommendation. OMB implemented a new and complex system and related processes in FY 2021 for agencies to enter PIIA data that is uploaded onto paymentaccuracy.gov. OMB also requested a significantly greater volume of data be provided in FY 2021 than previously requested. In prior years, Treasury entered summary level data onto an Excel spreadsheet and submitted it to OMB. More importantly, OMB did not communicate their final new guidelines until October 4, 2021, well into the AFR year-end reporting crunch period. As the data call was due October 28, 2021, Treasury's RCG had little time to understand and implement the new requirements in a manner that allowed them to execute adequate quality controls for ensuring accuracy and completeness. To overcome this difficulty, Treasury revised its FY 2022 PIIA guidance to require that Treasury components submit to RCG their payment integrity data in the new level of detail required by OMB which will better facilitate data entry and more time to implement and execute additional quality review controls to better ensure accuracy and completeness. Treasury will also encourage OMB to finalize and release its payment integrity data call guidelines earlier in the year to allow agencies adequate time to plan for significant changes in reporting.

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

Treasury Inspector General for Tax Administration Audit Results

The following are excerpts from TIGTA's FY 2021 PIIA audit report. TIGTA made three recommendations in their report.

Finding 1: Assessment of FY 2021 Compliance With Improper Payment Reporting Requirements

TIGTA's review found that the IRS was generally compliant with the reporting requirements contained in the PIIA for FY 2021. However, IRS is still not in compliance with the goal to reduce the overall improper payment rate for the EITC, AOTC, and ACTC programs to less than 10 percent. As TIGTA has previously reported, the OMB advised the IRS that, as an alternative to reducing the improper payment rate to less than 10 percent, a reduction target may remain constant given the complexities of the programs, as long as the complexities are clearly explained in a footnote in the AFR, which the IRS did. TIGTA also reported that the IRS did not report the dollar amount and percentage rate of improper payments for the Net PTC for FY 2021; the IRS plans to report this for FY 2022 and cites significant demands placed upon Treasury and the IRS in connection with the COVID-19 crisis as the reason for the delay in reporting.

Finally, TIGTA disagreed with the IRS's initial improper payment rating of the risk associated with the U.S. Coronavirus EIP program as not susceptible to improper payments. IRS management subsequently reassessed the program and agreed the program is susceptible to improper payments. TIGTA also found that the IRS did not complete a risk assessment for the Sick and Paid Family Leave Credit or the Employee Retention Tax Credit as required. The required risk assessment was completed in FY 2022 after TIGTA's fieldwork was completed. As such, TIGTA was unable to determine the sufficiency of the IRS's assessment of improper payment risk for FY 2021.

Finding 2: The Net Premium Tax Credit Improper Payment Amount and Rate Are Still Not Included in the Treasury Department's Agency Financial Report

TIGTA reported that the latest IRS estimates of improper payments of Net PTC (for FY 2019) shows that 27.4 percent (or $540.9 million) of the total Net PTC payments were improper and Net PTC improper payments were required to be reported beginning in FY 2020. However, Treasury notified OMB on August 2020 (for FY 2020) and April 2021 (for FY 2021) that it will delay reporting Net PTC information due to significant demands placed upon Treasury and the IRS in connection with the COVID-19 crisis.

TIGTA's analysis of Tax Year 2020 tax returns processed as of August 5, 2021, found 3.8 million returns that obtained nearly $29 billion in PTCs that were either received in advance or claimed at the time of filing. A total of $2.2 billion in Advance Premium Tax Credits (APTC) claimed by these filers was in excess of the amount of the PTCs to which they were entitled. However, Section 9662 of the American Rescue Plan Act of 2021 temporarily suspended the requirement to reconcile advance payments of the PTC on Tax Year 2020 returns.

Finding 3: The Economic Impact Payment Program Was Incorrectly Rated As Not Susceptible to Significant Improper Payments

TIGTA disagrees with IRS's initial conclusion that the EIP program is not susceptible to significant improper payments based on TIGTA's own assessment using the same factors and criteria the IRS used.

OMB guidance encourages agencies to review the results of audits by the Inspector General and take into account whether they impact the risk of improper payments in the program evaluated. In May 2021, TIGTA reported that, of the more than 157 million EIPs processed, the IRS had issued

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more than 4.4 million EIPs totaling nearly $5.5 billion to potentially ineligible individuals as of July 16, 2020.[9] This included payments made to deceased individuals, potentially nonqualified dependents, nonresidents, individuals in U.S. Territories who already received payments from the Territories, and individuals with filing status changes.

TIGTA reported that IRS management subsequently indicated that they agreed two risk factors should be changed and agreed that the EIP program should be rated as susceptible to significant improper payments based upon the qualitative risk assessment criteria. The IRS updated and resubmitted its qualitative risk assessment to Treasury in March 2022.

Additionally, IRS management also stated that temporary programs, such as the EIP, that provide emergency stimulus relief are not ongoing programs; therefore, by the time improper payment estimates, root cause analysis, and correction action plans could be developed for such programs, the programs will have expired.

Finding 4: The Use of Additional Self-Employment Data From the Social Security Administration Could Reduce Improper Payments

TIGTA reported in March 2016 that SSA information provided to the IRS relating to misreported SE income was not being effectively used by the IRS to recover fraudulent or erroneously claimed refundable credits.[10] IRS management states that the SSA does not provide signed statements to the IRS for individuals who admitted to fraudulently reporting SE income for purposes of claiming the EITC as the SSA believes sharing this information violates the Privacy Act.[11] This information would assist the IRS in developing fraudulent intent and applying a 10-year ban on the individual claiming the EITC, thus reducing improper payments of the EITC. According to the IRS, it has been working with the SSA since April 2019 to obtain this information in a manner that the SSA believes would be consistent with its interpretation of the relevant laws.

TIGTA reported that if the IRS reviewed SE transcripts more often and prioritized more frequent delivery of short-statute transcripts, it could potentially work additional cases and reduce improper payments of the EITC. Currently, the IRS receives SE transcripts weekly from the SSA; however, the transcripts are only reviewed monthly or sometimes quarterly. In addition, transcript cases to be worked by tax examiners are only sent two or three times per year because that is what is established in the Campus Exam Workplan[12] for these cases. Management states that the number of deliveries in a year does not impact its ability to deliver all the cases that meet its criteria. As such, it should not be a problem for management to deliver cases more frequently so that it does not continue to filter out and not work short-statute transcript cases. TIGTA also reported

[9] TIGTA, Report No. 2021-46-034, *Implementation of Economic Impact Payments* (May 2021).
[10] TIGTA, Report No. 2016-40-027, *Social Security Administration Information on Misreported Self-Employment Income is Not Effectively Used to Recover Fraudulent or Erroneously Claimed Refundable Credits* (March 2016).
[11] Privacy Act of 1974, 5 U.S.C. § 552a (2018).
[12] The Campus Exam Workplan is the yearly plan developed by the IRS Examination function responsible for conducting examinations at IRS campuses (as opposed to field examinations). The plan indicates the volume of certain project codes and tax returns that they expect to work based upon the resources available and providing balanced coverage to ensure fair and equitable treatment of taxpayers.

management has not provided them with information substantiating why it could not deliver cases more frequently, as it does for other Campus Examination programs.

TIGTA previously recommended that the IRS prioritize the transcripts with impending statute expirations. However, IRS management disagreed with TIGTA's recommendation and stated that its processes for sorting and prioritizing were sufficient. IRS management stated that it does have procedures in place to consider the same issue on the current audit year when the referral year would be excluded due to a short statute. TIGTA continues to find that the IRS processes for prioritizing statute expiration transcripts are insufficient. IRS management states that numerous steps must take place before an audit can be opened. However, TIGTA disagreed that the time required to complete these tasks is insufficient.

TIGTA reported that the IRS is not accurately computing the potential net tax change for case selection and potentially excluding transcripts that may yield a higher net tax change if ACTC amounts were also considered. As part of its SE transcript case review process, the IRS evaluates how the SE income reported on the SE transcript would change the amount of any EITC and computes a net tax change. Because the ACTC is also subject to adjusted gross income limits, an adjustment to SE income could reduce the amount of ACTC a taxpayer is entitled to receive. In FY 2021, the IRS excluded 270 SE income transcripts because the potential net tax change was less than the IRS's established dollar criteria for selecting and working the case. However, TIGTA's review found that 97 (36 percent) of the 270 transcripts that the IRS excluded received the ACTC. The net tax change for these cases could have been increased to meet the IRS's dollar criteria by including potential changes to the amount of ACTC.

Recommendations

In its report, TIGTA recommended that IRS:

1. Review transcripts more frequently in an effort to prioritize sending transcripts with short statutes to tax examiners more frequently so that additional transcript cases can be worked.
2. Revise processes for filtering short-statute transcripts to not only look at the tax year, but also the number of days remaining before statute expiration so that additional transcript cases can be worked.
3. Revise case selection criteria to include the ACTC when computing the potential tax change on SE transcript income reported by the SSA.

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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) 2021 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 time period October 1, 2020, through September 30, 2021 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 2022 through June 2022:

- We reviewed applicable laws, regulations, and guidance issued by the Office of Management and Budget (OMB), and *Fiscal Year 2021 Treasury Implementation Guide for OMB Circular A-123 Appendix C: Requirements for Payment Integrity Improvement* (Treasury's PIIA Guidance).
- We reviewed the FY 2021 Annual Financial Report (AFR) and any accompanying information to assess whether Treasury:
    - published payment integrity information in an AFR;
    - posted AFR and accompanying materials on its website;
    - conducted IP risk assessments for each program with annual outlays greater than $10,000,000 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, if required and applicable;
    - demonstrated improvements to payment integrity or reached a tolerable IP and UP rate, if applicable;
    - developed a plan to meet the IP and UP reduction target, if required and applicable; 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 one in the three-year rotation. To determine the completeness and accuracy of the information reported and compliance with the applicable guidance, we reviewed the program risk assessments and supporting documentation. As noted in Finding 2 above, RMA identified that management officials' responses to the Bureau of the Fiscal Service (Fiscal Service), the Exchange

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Stabilization Fund (ESF), and the Office of the Assistant Secretary for International Affairs (OAS) risk assessment questions in several fund groups qualitative risk assessments were inaccurate due to insufficient reviews of the risk assessments for accuracy. Specifically:

- One instance where Fiscal Service management indicated a rating as not applicable but it should have been not susceptible;
- One instance where ESF management's response was indicated as not applicable but it should have been not susceptible; and
- Three instances where OAS management's response was indicated as not applicable but it should have been not susceptible.

However, RMA also noted the inaccurate responses to the risk assessment questions did not affect the overall risk assessment rating for any of the fund groups identified.

- 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 (RCG); 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 two components selected. Our selection method is based on the two highest dollar overpayment amounts identified in FY 2021. We determined if the component accurately reported the payment recapture audit results on PaymentAccuracy.gov. As noted in Finding 3 above, RMA identified the overpayment amounts submitted to RCG by Fiscal Service and the Office of D.C. Pensions (DCP) did not match the overpayment amounts submitted by Treasury's RCG to the OMB as part of the annual data call. Specifically:
    - Fiscal Service reported $41.72 million identified outside of payment recapture audits and $36.51 million recovered outside of payment recapture audits related to the Interest on the Public Debt (Fund 0550). However, these items were not reported on paymentaccuracy.gov.
    - DCP reported $1.55 million for the improper benefit payments identified through recovery audits to RCG. However, only $1.53 million ($1.5 million related to the DC Federal Pension Fund (Fund 5511) and $30,000 related to the DC Judicial Retirement & Survivors Annuity Fund (Fund 8212)) in overpayment amount identified through recovery audits was reported on paymentaccuracy.gov. The difference of $20,000 related to the DC Federal Pension Fund (Fund 5511) was omitted in RCG's submission to paymentaccuracy.gov.

Management is responsible for the design, implementation, and operating effectiveness of the agency's internal controls over payment integrity. We assessed Treasury's internal controls and compliance with policies and procedures necessary to satisfy the audit objectives. In particular, 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. RMA noted Finding 2 related to the insufficient review of risk assessments is also due to internal controls over the review and approval of the risk assessments not operating effectively.

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) providing Treasury's personnel knowledgeable about the data with an internal control questionnaire to evaluate their data reliability process. 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 2021 and IRS Management's Response

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Programs Susceptible to Improper Payments Are Not Adequately Assessed and Reported

May 6, 2022

Report Number: 2022-40-037

Appendix 2: TIGTA's Assessment of IRS Compliance with the Improper Payment Reporting Requirements in FY 2021 and IRS Management's Response

HIGHLIGHTS: Programs Susceptible to Improper Payments Are Not Adequately Assessed and Reported

Final Audit Report issued on May 6, 2022 **Report Number 2022-40-037**

Why TIGTA Did This Audit

This audit was initiated because TIGTA is required to annually assess and report on the IRS's compliance with the reporting requirements contained in the Payment Integrity Information Act of 2019. The objective of this review was to determine whether the IRS complied with the annual improper payment reporting requirements for Fiscal Year (FY) 2021.

Impact on Tax Administration

The Office of Management and Budget (OMB) defines 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. The IRS currently has identified 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

The IRS was generally compliant with the reporting requirements contained in the Payment Integrity Information Act of 2019 for FY 2021. However, TIGTA identified concerns with two IRS programs. TIGTA found that the IRS inaccurately assessed the risk for the U.S. Coronavirus Economic Impact Payment program as not susceptible to improper payments despite reports issued by TIGTA suggesting otherwise. IRS management reassessed and agreed that the program is susceptible to improper payments. In addition, the IRS did not complete a risk assessment for the Sick and Paid Family Leave Credit and the Employee Retention Tax Credit as required. The IRS did not complete the accurate assessment until after our fieldwork had completed. As such, TIGTA was unable to review the IRS's assessment of improper payment risk for FY 2021.

The IRS did not calculate and report the dollar amount and percentage rate of improper payments for the Net Premium Tax Credit for FY 2021. The IRS plans to report this for FY 2022 and cites significant demands placed upon the Department of the Treasury and the IRS in connection with the Coronavirus Disease 2019 crisis as the reason for the delay in reporting.

The IRS started receiving transcripts from the Social Security Administration in a digital manner in July 2019. However, IRS management states that the Social Security Administration does not provide signed statements to the IRS for individuals who admitted to fraudulently reporting self-employment income for purposes of claiming the Earned Income Tax Credit. This information would assist the IRS in developing fraudulent intent and applying a 10-year ban on the individual claiming the credit in the future. Finally, TIGTA found that processes are needed to prioritize transcripts with impending statutes and that the Additional Child Tax Credit should be considered when determining whether potential tax changes meet the IRS's dollar criteria for selecting self-employment transcript cases.

What TIGTA Recommended

TIGTA made three recommendations in this report to improve the use of self-employment transcript information obtained from the Social Security Administration. This included reviewing transcripts more frequently and prioritizing those with short statutes, revising processes for filtering short-statute transcripts to not just look at the tax year but also consider the number of days remaining before statute expiration, and considering the Additional Child Tax Credit when computing the potential tax change and using this amount when selecting workable cases.

The IRS agreed with one of the three recommendations. IRS management revised the case selection criteria and updated the tax calculation to include the disallowance of the Additional Child Tax Credit when computing the potential tax change, when applicable.

TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

May 6, 2022

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Programs Susceptible to Improper Payments Are Not Adequately Assessed and Reported (Audit # 202240001)

This report presents the results of our review to determine whether the Internal Revenue Service complied with annual improper payment reporting requirements for Fiscal Year 2021. This review is part of our Fiscal Year 2022 Annual Audit Plan and addresses the major management and performance challenge of *Reducing Fraudulent Claims and Improper Payments*.

Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the Internal Revenue Service managers affected by the report recommendations. If you have any questions, please contact me or Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services).

Table of Contents

Background

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

On March 2, 2020, the Payment Integrity Information Act of 2019 (PIIA)[2] repealed several improper payment laws but set forth similar improper payment reporting requirements.[3] For example, agencies must conduct a program-specific risk assessment for each program or activity identified by the agency as exceeding $10 million in annual outlays at least once every three years, provide the methodology for identifying and measuring improper payments, and report on actions the agency intends to take to prevent future improper payments. In addition, the following remains in effect:

- Executive Order 13520, *Reducing Improper Payments*, signed by the President on November 20, 2009, increased Federal agencies' accountability for reducing improper payments while continuing to ensure that Federal programs serve and provide access to intended beneficiaries. It 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.
- OMB revised Circular A-123 Appendix C, *Requirements for Payment Integrity Improvement,* issued June 2018. Appendix C provides agencies and Inspectors General with guidance on improper payment determinations and reporting. According to the OMB, the goal of the revised Appendix C is to transform the improper payment compliance framework to create a more unified, comprehensive, and less burdensome set of requirements. 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. The OMB revised the Circular again effective Fiscal Year (FY) 2021.
- On December 20, 2019, Congress enacted the *Consolidated Appropriations Act of 2020*.[4] This Act directed the Internal Revenue Service (IRS) to make the elimination of improper payments an utmost priority and to implement, within 270 days, all open and unimplemented recommendations from the Treasury Inspector General for Tax

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[1] See Appendix V for a glossary of terms.

[2] Pub. L. No. 116-117, 134 Stat. 113.

[3] *Improper Payments Information Act of 2002; Improper Payments Elimination and Recovery Act of 2010,* Pub. L. No. 111-204, 124 Stat. 2224; *Improper Payments Elimination and Recovery Improvement Act of 2012,* Pub. L. No. 112-248, 126 Stat. 2390; *Fraud Reduction and Data Analytics Act of 2015,* Pub. L. No. 114-186, 130 Stat. 546.

[4] Pub. L. No. 116-93, 133 Stat. 2317.

Administration (TIGTA) and the Government Accountability Office that address improper payments or report on impediments to implementation of each open recommendation.

Process to identify IRS programs for improper payment risk assessment

Each program with annual outlays over $10 million must conduct an improper payment risk assessment at least once every three years. The Department of the Treasury (Treasury Department) identifies the programs that the IRS must assess for the risk of improper payments each fiscal year. For FY 2021, the Treasury Department selected eight program fund groups that required certification by the programs that there were no material changes to the program since the last risk assessment was completed and selected 14 IRS programs that required a risk assessment.[5]

The IRS uses two types of risk assessments:

- Qualitative Risk Assessment – used to assess a program's internal controls that could lead to susceptible improper payments. The OMB requires agencies to conduct risk assessments after the first 12 months of the program and at least once every three 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. Quantitative assessments are required annually for programs that are identified as susceptible to improper payments.

For any program identified as susceptible to significant improper payments, the IRS must also provide the following information for the Treasury Department's annual AFR in the following fiscal year:

- 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.

The Treasury Department and the IRS continue to request relief from reporting erroneous refundable tax credit claims under the PIIA

As we reported in May 2021,[6] the Treasury Department and the IRS informed the OMB in October 2020 that the tax system is primarily a collection system and not a payment program.[7] The Treasury Department and the IRS acknowledged that refundable tax credits currently fall

[5] Appendix II provides the list of the 14 IRS programs identified for improper payment risk assessments for FY 2021 and the type of risk assessment completed for each program.
[6] TIGTA, Report No. 2021-40-036, *Improper Payment Rates for Refundable Tax Credits Remain High* (May 2021).
[7] IRS, *Business Case to Eliminate Redundant Reporting of Refundable Tax Credits* (Oct. 30, 2020).

under the scope of the PIIA but do not believe that the refundable tax credits meet the definition of payments in the traditional sense. Therefore, the Treasury Department believes the credits should be reported only under the Tax Gap framework that comprehensively assesses the tax collection system and no longer be reported under improper payment requirements.

As we previously reported, in December 2020, officials at the Treasury Department and the IRS met with OMB officials to further discuss the request. On January 2021, the OMB requested additional information, and responses were provided on February 2021. The OMB immediately advised that it would provide a response on next steps once the full OMB leadership team was in place. However, as of February 23, 2022, the IRS stated that it had not received a response from the OMB.

Results of Review

For FY 2021, the IRS calculated and reported the following dollar amount and percentage rate of improper payments for three of its high-priority programs susceptible to improper payments:

- Earned Income Tax Credit (EITC) – The IRS estimates 28 percent ($19.0 billion) of the total EITC payments of $68.3 billion were improper.
- Additional Child Tax Credit (ACTC) – The IRS estimates 13 percent ($5.2 billion) of the total ACTC payments of $39.4 billion were improper.
- American Opportunity Tax Credit (AOTC) – The IRS estimates 26 percent ($1.9 billion) of the total AOTC payments of $7.1 billion were improper.

Assessment of Fiscal Year 2021 Compliance With Improper Payment Reporting Requirements

Our review found that the IRS was generally compliant with the reporting requirements contained in the PIIA for FY 2021. Figure 1 provides a summary of our evaluation of the IRS's compliance with the various improper payment reporting requirements for FY 2021.

Figure 1: Compliance With Improper Payment Requirements for FY 2021

Improper Payment Requirement	Source of Requirement	IRS Compliance
Published payment integrity information with the annual financial statement.	PIIA	✓
Posted the annual financial statement and accompanying materials to agency website.	PIIA/Executive Order	✓

Appendix 2: TIGTA's Assessment of IRS Compliance with the Improper Payment Reporting Requirements in FY 2021 and IRS Management's Response

Programs Susceptible to Improper Payments Are Not Adequately Assessed and Reported

Improper Payment Requirement	Source of Requirement	IRS Compliance
Conducted Improper Payment (IP) risk assessments for each program with annual outlays greater than $10 million at least once in the last three years.[8]	PIIA	✗
Adequately concluded whether programs are likely to make IPs and Unknown Payments (UP)[9] above or below statutory threshold.[10]	PIIA	✗
Published IP and UP estimates for programs susceptible to IPs and UPs in accompanying materials to the annual financial statement.[11]	PIIA	✓
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.	PIIA	✓
Published an IP and UP reduction target for each program for which an estimate above statutory threshold was published in the accompanying materials to the annual financial statement.	PIIA	✓
Demonstrated improvements to payment integrity or reached a tolerable IP and UP rate.	PIIA	✓
Developed a plan to meet the IP and UP reduction target.	PIIA/Executive Order	✓
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.	PIIA	✗
Established targets for reducing and recovering improper payments.	Executive Order	✓
Provided the methodology for identifying and measuring improper payments.	Executive Order	✓

[8] The IRS incorrectly completed a qualitative risk assessment for U.S. Coronavirus Refundable Credits for the Recovery Rebate Credit rather than the Sick and Paid Family Leave Credit and the Employee Retention Tax Credit.
[9] Unknown payments are payments made by a program for which 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 underreport the payment type results.
[10] We disagreed with the IRS's assessment that the U.S. Coronavirus Economic Impact Payment program is not susceptible to improper payments. However, IRS management subsequently reassessed the program and agreed the program is susceptible to improper payments.
[11] Per OMB guidance, Net Premium Tax Credit (PTC) improper payments were required to be reported beginning in FY 2020. However, the Treasury Department notified the OMB on August 2020 (for FY 2020) and April 2021 (for FY 2021) that it would delay reporting Net PTC information due to significant demands placed upon the Treasury Department and the IRS in connection with the Coronavirus Disease 2019 (COVID-19) crisis. Although the IRS did not report the Net PTC improper payment rate for FY 2021, the OMB guidance issued in June 2021 allows them to prioritize COVID-19 work over financial reporting requirements.

Improper Payment Requirement	Source of Requirement	IRS Compliance
Provided plans and supporting analysis for ensuring that the initiatives undertaken do not unduly burden program access and participation by eligible beneficiaries.	Executive Order	✓
Reported all unimplemented recommendations to Congress related to improper payments.[12]	Consolidated Appropriations Act	✓

Source: TIGTA's review of the IRS's compliance with improper payment requirements for FY 2021 for the programs listed in Appendix II.

However, the IRS is still not be in compliance with the goal to reduce the overall improper payment rate for the EITC, ACTC, and AOTC to less than 10 percent. As we have previously reported, the OMB advised the IRS that, as an alternative to reducing the improper payment rate to less than 10 percent, a reduction target may remain constant given the complexities of the programs as long as the complexities are clearly explained in a footnote in the AFR, which the IRS did.[13] In addition, the IRS did not report the dollar amount and percentage rate of improper payments for the Net Premium Tax Credit (PTC) for FY 2021. The IRS plans to report this for FY 2022 and cites significant demands placed upon the Treasury Department and the IRS in connection with the Coronavirus Disease 2019 (COVID-19) crisis as the reason for the delay in reporting.

Finally, we disagreed with the IRS's initial improper payment rating of the risk associated with the U.S. Coronavirus Economic Impact Payment (EIP) program as not susceptible to improper payments. IRS management subsequently reassessed the program and agreed the program is susceptible to improper payments. In addition, the IRS did not complete a risk assessment for the Sick and Paid Family Leave Credit or the Employee Retention Tax Credit as required. IRS management noted that they misinterpreted which U.S. Coronavirus Refundable Credit fund account was required by the Treasury Department to have a risk assessment performed for FY 2021. The required risk assessment was completed in FY 2022 after our fieldwork was completed. As such, we were unable to determine the sufficiency of the IRS's assessment of improper payment risk for FY 2021.

The Net Premium Tax Credit Improper Payment Amount and Rate Are Still Not Included in the Treasury Department's Agency Financial Report

Per OMB guidance, Net PTC improper payments were required to be reported beginning in FY 2020. However, the Treasury Department notified the OMB on August 2020 (for FY 2020) and April 2021 (for FY 2021) that it would delay reporting Net PTC information due to significant

[12] Our review was limited to unimplemented recommendations from reports specific to improper payment reporting and not on all TIGTA reviews with recommendations that may reduce improper payments of refundable credits.

[13] The AFR describes five barriers to reducing refundable tax credit improper payments. The five barriers are 1) complexity and lack of data to verify statutory eligibility requirements; 2) lack of correctable error authority; 3) high turnover of eligible taxpayers; 4) unscrupulous and incompetent tax return preparers; and 5) fraud.

demands placed upon the Treasury Department and the IRS in connection with the COVID-19 crisis. The IRS states it anticipates reporting in FY 2022. Although the amount and rate were not reported, the IRS's methodology to calculate the Net PTC was completed in May 2020. In addition, the latest IRS estimates of improper payments of Net PTC (for FY 2019) show that 27.4 percent ($540.9 million) of the total Net PTC payments were improper. As such, the improper payment estimate calculated by the IRS associated with Net PTC payments meets the PIIA guidelines for rating as a high-priority program.[14]

Our analysis of Tax Year 2020 tax returns processed as of August 5, 2021, found 3.8 million returns that obtained nearly $29 billion in PTCs that were either received in advance or claimed at the time of filing. A total of $2.2 billion in Advance Premium Tax Credits (APTC) claimed by these filers was in excess of the amount of the PTCs to which they were entitled. However, Section 9662 of the American Rescue Plan Act of 2021 temporarily suspended the requirement to reconcile advance payments of the PTC on Tax Year 2020 returns. Figure 2 compares PTC statistics for Tax Years 2018 through 2020.

Figure 2: PTC Statistics for Tax Years 2018 Through 2020

	Tax Year 2018 Tax Returns Processed as of May 2, 2019	Tax Year 2019 Tax Returns Processed as of July 30, 2020[15]	Tax Year 2020 Tax Returns Processed as of August 5, 2021[16]
Total Tax Returns With PTC or APTC	**4.8 million**	**4.6 million**	**3.8 million**
Sum of APTC and PTC Claimed at Filing in Excess of the APTC	$37.7 billion	$35.9 billion	$29.0 billion
Total APTC Amount	$36.4 billion	$34.6 billion	$27.3 billion
Total PTC Claimed in Excess of the APTC	$1.3 billion	$1.3 billion	$1.6 billion
Tax Returns With Excess APTC Payments – *(taxpayer receives more APTC payments than the PTC amount to which they are entitled)*			
Total Tax Returns	2.6 million	2.4 million	1.4 million
Total PTC Amount	$13.5 billion	$12.8 billion	$7.2 billion
Total APTC Amount	$18.0 billion	$17.1 billion	$9.4 billion
Total APTC Reported in Excess of the PTC	$4.5 billion	$4.3 billion	$2.2 billion

Source: TIGTA's analysis of Individual Master File. Totals may not add due to rounding.

[14] The OMB defines a high-priority program as programs with improper payments resulting in monetary losses that exceed $100 million annually.
[15] Tax Year 2019 returns selected through July 30, 2020, due to the IRS extending the filing season to July 15, 2020.
[16] Tax Year 2020 returns selected through August 5, 2021, due to the IRS extending the filing season to May 17, 2021.

The Economic Impact Payment Program Was Incorrectly Rated As Not Susceptible to Significant Improper Payments

The IRS completed a qualitative risk assessment for the EIP program in July 2021 and rated the program as not susceptible to significant improper payments. We disagree with the IRS's conclusion based on our own assessment using the same factors and criteria the IRS used. Specifically, the OMB defines high-priority programs as programs with improper payments resulting in monetary losses that exceed $100 million annually.

OMB guidance encourages agencies to review the results of audits by the Inspectors General and take into account whether they impact the risk of improper payments in the program evaluated. In May 2021, we reported that, of the more than 157 million EIPs processed, the IRS had issued more than 4.4 million EIPs totaling nearly $5.5 billion to potentially ineligible individuals as of July 16, 2020.[17] This included payments made to deceased individuals, potentially nonqualified dependents, nonresidents, individuals in U.S. Territories who already received payments from the Territories, and individuals with filing status changes. In fact, the IRS updated its Frequently Asked Questions directing taxpayers to return the erroneous payments it had issued for deceased taxpayers.

Inaccurate risk ratings allow the IRS to avoid the reporting of required information to the Treasury Department for inclusion in the annual AFR. Such information would include the rate and amount of improper payments, the causes of improper payments, the IRS's plans to address them, reduction targets, and limitations to the IRS's ability to reduce improper payments (including legislative limitations).

IRS management subsequently indicated that they agreed two risk factors should be changed and agreed that the EIP program should be rated as susceptible to significant improper payments based upon the qualitative risk assessment criteria. The IRS updated and resubmitted its qualitative risk assessment to the Treasury Department in March 2022.

IRS management also stated that temporary programs, such as the EIP, that provide emergency stimulus relief are not ongoing programs. Management stated that, by the time improper payment estimates, root cause analysis, and correction action plans could be developed for such programs, the programs will have expired. For example, the IRS's methodology for quantifying improper payments uses three years of National Research Program data. Management states that these data for the EIP would not be available until FY 2024.

The Use of Additional Self-Employment Data From the Social Security Administration Could Reduce Improper Payments

In March 2016, we reported that Social Security Administration (SSA) information provided to the IRS relating to misreported self-employment (SE) income was not being effectively used by

[17] TIGTA, Report No. 2021-46-034, *Implementation of Economic Impact Payments* (May 2021).

the IRS to recover fraudulent or erroneously claimed refundable credits.[18] In response to a prior TIGTA recommendation, steps were taken to begin receiving the SE income transcripts[19] from the SSA in a digital manner in July 2019. However, IRS management states that the SSA does not provide signed statements to the IRS for individuals who admitted to fraudulently reporting SE income for purposes of claiming the EITC as the SSA believes sharing this information violates the Privacy Act.[20] This information would assist the IRS in developing fraudulent intent and applying a 10-year ban on the individual claiming the EITC, thus reducing improper payments of the EITC. According to the IRS, it has been working with the SSA since April 2019 to obtain this information in a manner that the SSA believes would be consistent with its interpretation of the relevant laws. Figure 3 provides an overview of our recommendations from March 2016 and the status of these recommendations.

Figure 3: Prior Audit Recommendations and Current Status

Recommendation	Response	Current Status
Ensure that all transcripts received from the SSA identifying individuals that overreport SE income and receive the EITC are reviewed as part of the IRS strategy to recover and reduce improper EITC payments.	Agreed	Implemented – The IRS considers all SE transcripts a referral, when there is sufficient time before the statute of limitations expires.[21]
Establish processes to ensure that all SE transcript cases for which the SSA indicates the individual attested to falsely reporting SE income for the purpose of claiming the EITC are screened for the EITC bans. These processes should include obtaining Form SSA-795, *Statement of Claimant or Other Person*, to assist with the application of the bans.	Agreed	Condition still present – The IRS has tried working with the SSA to get Forms SSA-795, but the SSA says it does not have the authority.
Work with the SSA to establish a method to transfer SE transcript information to the IRS in an electronic format.	Agreed	Implemented – The IRS began receiving weekly, electronic transfers in June 2019.
Once SE transcripts are received by the IRS electronically, establish processes to systemically monitor transcripts to ensure that those with impending statute expirations are worked first.	Disagreed	Condition still present – The IRS receives data weekly but only typically delivers cases to be worked twice per year.

[18] TIGTA, Report No. 2016-40-027, *Social Security Administration Information on Misreported Self-Employment Income Is Not Effectively Used to Recover Fraudulent or Erroneously Claimed Refundable Credits* (Mar. 2016).
[19] Transcripts notify the IRS of the tax year for which the individual stated the SE income was not earned and the amount of income that was deleted from his or her SSA earnings record.
[20] Privacy Act of 1974, 5 U.S.C. § 552a (2018).
[21] A statute of limitations is a time period established by law to review, analyze, and resolve taxpayer and IRS tax-related issues.

Recommendation	Response	Current Status
Develop measures to effectively evaluate the performance of the SSA SE Income Transcript program, including developing a method to determine the program's return on investment or equivalent measure. These measures should be used to ensure that sufficient resources are allocated to the SSA SE Income Transcript program to maximize the program's outcome.	Agreed	Implemented – The IRS provided TIGTA with FY 2021 performance metrics such as the no-change rate and return on investment.

Source: TIGTA's review of recommendations in TIGTA, Report No. 2016-40-027, Social Security Administration Information on Misreported Self-Employment Income Is Not Effectively Used to Recover Fraudulent or Erroneously Claimed Refundable Credits (Mar. 2016).

More timely review of transcripts could increase the value to identify potential improper payments

The IRS receives SE transcripts weekly from the SSA; however, the transcripts are only reviewed monthly or sometimes quarterly. In addition, transcript cases to be worked by tax examiners are only sent two or three times per year. If the IRS reviewed the transcripts more often and prioritized more frequent delivery of short-statute transcripts, it could potentially work additional cases and reduce improper payments of the EITC.[22]

According to IRS management, cases are only sent two or three times per year because that is what is established in the Campus Exam Workplan for these cases. The workplan is established before the IRS knows how many transcripts it will receive from the SSA and how many will be workable. Management states that the number of deliveries in a year does not impact its ability to deliver all the cases that meet its criteria. As such, it should not be a problem for management to deliver cases more frequently so that it does not continue to filter out and not work short-statute transcript cases. In addition, management has not provided us with information substantiating why it could not deliver cases more frequently, as it does for other Campus Examination programs.

Recommendation 1: The Commissioner, Small Business/Self-Employed Division, should review transcripts more frequently in an effort to prioritize sending transcripts with short statutes to tax examiners more frequently so that additional transcript cases can be worked.

> **Management's Response:** The IRS disagreed with this recommendation. IRS management stated that this audit report includes an assumption that, the day it receives data from the SSA, the IRS can determine if the case is workable and start the audit process immediately. However, as shared during the audit, there are numerous steps to be completed before an SSA referral can be audited. The IRS is currently working all short-statute cases that meet the filter criteria. As noted in TIGTA's review, the cases identified would likely not have been selected for other reasons. IRS

[22] The IRS has other exclusion criteria that it considers after looking at the statute expiration date. As such, cases may subsequently be excluded for other reasons and not worked.

management also stated that their existing process is effective, and changing it, as recommended, would not increase the volume of additional transcripts to be worked. Management believes expending additional resources to review the data more frequently and make additional deliveries would not be an effective use of resources.

Office of Audit Comment: In their response, management does not address our concern that transcripts should be sent for work by tax examiners more frequently than the two or three times a year they are presently sent to tax examiners. In addition, management mischaracterizes information presented in our review. Specifically, in their response, management noted that our review found that cases identified by reviewing transcripts more frequently likely would not have been selected for other reasons. In our report, we acknowledge that there are other exclusion criteria that *may* impact case selection. However, reviewing transcripts more frequently could reduce the number of transcripts categorized as short-statute cases and as such could reduce the number of transcripts that do not meet filter criteria from being removed from workable inventory.

The SSA continues to work with the OMB to make form revisions to provide the IRS with information associated with individuals that fraudulently report self-employment income to claim the EITC

As of January 2022, the IRS states that it has not applied any 10-year bans to taxpayer accounts based upon SE transcripts. According to the IRS, the signed statements of fraud, which are needed to apply the 10-year ban, are still not provided by the SSA. On March 2016, we recommended that the IRS obtain copies of Form SSA-795 or other available SSA information to assist the IRS with applying the EITC ban when individuals attest to falsely reporting SE income for purposes of claiming the EITC.[23] As we reported, when an individual notifies the SSA that they intentionally claimed SE income that was not earned for the purpose of claiming the EITC, the SSA requires the individual to sign a Form SSA-795 affidavit. The signed statements help reduce the burden on determining if fraud occurred, which allows the IRS to apply the 10-year ban on claiming the EITC. IRS management agreed to work with the SSA to obtain this information.

We subsequently reported in February 2020 that the SSA determined that it could not provide Form SSA-795 to the IRS under the Privacy Act Statement in § 205a of the Social Security Act (42 U.S.C. § 405a).[24] However, SSA management agreed to continue to work with the IRS to modify Form SSA-7008, *Request for Correction of Earnings Record*, to include the information the IRS needs to determine whether a 10-year ban should be applied.

During this review, IRS management stated that they continue to coordinate with the SSA on

[23] TIGTA, Report No. 2016-40-027, *Social Security Administration Information on Misreported Self-Employment Income Is Not Effectively Used to Recover Fraudulent or Erroneously Claimed Refundable Credits* (Mar. 2016).
[24] 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* (Feb. 2020).

obtaining Forms SSA-7008. IRS management noted that the delay results from the SSA working through revisions to Form SSA-7008 with the OMB. As of February 2022, the SSA provided information to the SSA Office of Inspector General which states that the SSA submitted a form renewal request to the OMB in January 2020 for Form SSA-7008 and has not yet heard back from the OMB. The SSA does not plan to request a revision to the form, to meet the IRS's need, until the OMB approves the renewal request. As such, there is no planned date for the SSA to provide this critical information to the IRS. According to the SSA Office of Inspector General, it is reviewing the SSA's responses about its lack of authority for providing the Form SSA-795 to the IRS for legal sufficiency. Because this is outside of the IRS's control and we have shared our concerns with the SSA Office of Inspector General, we are making no recommendations at this time.

Prioritization of SE transcripts with impending statute expirations is needed

During FY 2021, the IRS received 8,948 SE transcripts[25] from the SSA, and the statute had already expired by the time the IRS received the transcript for 5,620 (63 percent) of those transcripts. For another 1,173 (13 percent) of the transcripts,[26] the statute had not yet expired, but IRS management decided that there was not enough time left to work the case before the statute expired. We disagree. In fact, our review found that all of these transcripts had more than six months remaining on the statute from the day the transcript was received by the IRS from the SSA. In addition, 830 (71 percent) transcripts had more than nine months remaining, and 557 (47 percent) had more than one year remaining on the statute. The largest number of days remaining on any Tax Year 2018 statute was 529 days.[27]

We previously recommended that the IRS prioritize the transcripts with impending statute expirations. However, IRS management disagreed with our recommendation and stated that the IRS's processes for sorting and prioritizing were sufficient. IRS management stated that the IRS does have procedures in place to consider the same issue on the current audit year when the referral year would be excluded due to a short statute (*i.e.,* if Tax Year 2018 is excluded due to a short statute, Tax Year 2019 will be considered for the same issue).

We continue to find that the IRS processes for prioritizing statute expiration transcripts are insufficient. IRS management states that numerous steps must take place before an audit can be opened, such as converting the transcripts into easily filterable data and collecting additional tax information for filtering purposes. However, we disagree that the time required to complete these tasks is insufficient given the number of days remaining on the statute for the cases we reviewed (*i.e.,* as much as 529 days). Figure 4 shows a summary of SE transcripts that the IRS identified as workable or unworkable for FY 2021.

[25] The IRS received 9,027 records. However, we consider a transcript a unique taxpayer and tax year. Some taxpayers can have multiple SE changes for the same tax year and we counted this as one transcript.

[26] The IRS subsequently informed us that it was still reviewing 84 Tax Year 2018 cases as of October 2020.

[27] While there may be time left on the statute, this does not mean the case will always be worked due to other IRS filters that are subsequently applied.

Figure 4: FY 2021 SE Transcripts

Description	Count	Percentage
Total SE transcripts received from the SSA	8,948[28]	100%
Less: Transcripts with expired statutes (TY 2017 and prior)	5,620	63%
Less: Transcripts with short statutes (TY 2018)	1,173	13%
Less: Transcripts with suspended earnings (TYs 2019 and 2020)[29]	429	5%
Less: Transcripts with net tax change below IRS's dollar criteria	270	3%
Less: Transcripts identified as unworkable for other reasons[30]	1,076	12%
Total Workable SE Transcripts Identified by the IRS	**380**	**4%**

Source: IRS Campus Case Selection function information for SE transcripts received from the SSA for FY 2021.

Recommendation 2: The Commissioner, Small Business/Self-Employed Division, should revise processes for filtering short-statute transcripts to not only look at the tax year but also the number of days remaining before statute expiration so that additional transcript cases can be worked.

Management's Response: The IRS disagreed with this recommendation. IRS management stated that calculating the number of days remaining before statute expiration would yield the same number of cases worked because of Fiscal Year 2021 referrals. Management also stated they are currently working all short-statute cases that meet the filter criteria. They believe that their existing filtering process is effective and that changing it, as recommended, would not increase the volume of additional transcripts to be worked.

Office of Audit Comment: Using the tax year alone and not calculating the number of days remaining before statute expiration will continue to result in transcripts being incorrectly removed from workable inventory.

The ACTC should be considered when determining whether potential tax changes meet the IRS's dollar criteria for selecting SE transcript cases

As part of its SE transcript case review process, the IRS evaluates how the SE income reported on the SE transcript would change the amount of any EITC and computes a net tax change, *i.e.,* how much the total amount of taxes owed would change. However, the IRS does not include all refundable credits in its computation of net tax change. Specifically, the IRS does not include

[28] Transcript counts are defined as unique taxpayers and tax years reported by the SSA. Several SE income changes for multiple tax years may be reported for the same taxpayer as well as multiple SE changes for the same tax year.

[29] Income transferred by the SSA from an individual's earnings record to the SSA's Earnings Suspense File with the expectation that it can eventually be matched to the person that actually earned the income.

[30] Transcripts already selected for examination, those with an amended return filed, and numerous other reasons.

the potential changes to the ACTC when computing the net tax change for case selection.

Similar to the EITC, the ACTC also requires earned income. The ACTC is also subject to adjusted gross income limits, and the credit is phased out for higher adjusted gross income amounts. An adjustment to SE income could reduce the amount of ACTC a taxpayer is entitled to receive. Therefore, the IRS is not accurately computing the potential net tax change for case selection and potentially excluding transcripts that may yield a higher net tax change if ACTC amounts were also considered. As shown in Figure 4 above, the IRS excluded 270 SE income transcripts in FY 2021 because the potential net tax change was less than the IRS's established dollar criteria for selecting and working the case. Our review found that 97 (36 percent) of the 270 transcripts that the IRS excluded received the ACTC. The net tax change for the 97 cases could have been increased to meet the IRS's dollar criteria by including potential changes to the amount of the ACTC.

Recommendation 3: The Commissioner, Small Business/Self-Employed Division, should revise case selection criteria to include the ACTC when computing the potential tax change on SE transcript income reported by the SSA.

> **Management's Response:** The IRS agreed with this recommendation and has revised the case selection criteria and updated the tax calculation to include the disallowance of the ACTC when computing the potential tax change, when applicable.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective of this audit was to determine whether the IRS complied with the annual improper payment reporting requirements for FY 2021. To accomplish our objective, we:

- Determined the reporting requirements listed in the PIIA and Executive Order 13520 and evaluated whether the IRS complied with the reporting requirements for FY 2021
- Evaluated the adequacy of the IRS's FY 2021 risk assessments for the IRS revenue program funds identified by the Treasury Department, including completion of required risk assessment questionnaires for new and existing programs.
- Reviewed the IRS's methodology to calculate EITC, ACTC, AOTC, and Net PTC improper payment rates for FY 2021.
- Reviewed the IRS's coordination with the Department of Health and Human Services and Centers for Medicare and Medicaid Services for reporting the Net PTC improper payment rates.
- Followed up on prior audit recommendations regarding the IRS's use of SE income transcripts received from the SSA.

Performance of This Review

This review was performed with information obtained from the Chief Financial Officer and Small Business/Self-Employed Division offices located in Washington, D.C., and Atlanta, Georgia, respectively, during the period October 2021 through March 2022. 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.

Major contributors to the report were Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services); Linna K. Hung, Director; Jeffrey D. Cullum, Audit Manager; Laura R. Christoffersen, Lead Auditor; and Nathan J. Cabello, Auditor.

Validity and Reliability of Data From Computer-Based Systems

During this review, we relied on data received from the IRS's Individual Master File[1] databases for Processing Year 2021 that were available on TIGTA's Data Center Warehouse.[2] We also obtained extracts of FY 2021 transcript data the IRS receives from the SSA. We evaluated the data by performing electronic testing of required data elements and reviewing existing

[1] The IRS database that maintains transactions or records of individual tax accounts.
[2] A TIGTA repository of IRS data.

information about the data and the systems that produced them. We determined that the data were sufficiently reliable for purposes of this report.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the controls in place to ensure that the IRS met the annual improper payment reporting requirements established in the PIIA and Executive Order 13520. We tested these controls by reviewing and analyzing relevant documents and holding discussions with IRS management and the Treasury Department's Risk and Control Group.

Appendix II

Programs Identified for Improper Payment Risk Assessments for Fiscal Year 2021

The following IRS programs were identified by the Treasury Department for improper payment risk assessments for FY 2021.

IRS Program	Type of Assessment	Total Non-Federal Disbursements
Headquarters Disbursement Earned Income Credit	Quantitative	$57.6 billion
Additional Child Tax Credit	Quantitative	$27.8 billion
American Opportunity Credit	Quantitative	$2.8 billion
Premium Tax Credit[1]	Quantitative	$60.0 billion
Refund – Corporations	Qualitative	$16.1 billion
Informant Reimbursement	Qualitative	$62.8 million
Taxpayer Services	Qualitative	$2.0 billion
Tax Law Enforcement	Qualitative	$3.6 billion
Operations Support	Qualitative	$3.0 billion
Business Systems Modernization	Qualitative	$271.3 million
US Coronavirus Payments	Qualitative	$274.7 billion
US Coronavirus Refundable Credits	Qualitative	$713.8 million
Private Collection Agent Program	Qualitative	$60.2 million
Special Compliance Personnel Program Account	Qualitative	$18.3 million

Source: IRS Office of the Chief Financial Office.

[1] A risk assessment was required; however, the IRS requested an exemption for reporting an estimate for the PTC for FY 2021, as implementing COVID-19 programs was determined to be a priority.

Appendix III

Prior Improper Payment Reports by the Treasury Inspector General for Tax Administration

Issuance Date	Report Number	Report Title
May 2021	2021-40-036	Improper Payment Rates for Refundable Tax Credits Remain High
April 2020	2020-40-025	Improper Payment Reporting Has Improved; However, There Have Been No Significant Reductions to the Billions of Dollars of Improper Payments
May2019	2019-40-039	Some Refundable Credits Are Still Not Classified and Reported Correctly As a High Risk for Improper Payment by the Internal Revenue Service
April 2018	2018-40-032	The Internal Revenue Service Is Not in Compliance With Improper Payment Requirements
April 2017	2017-40-030	Revised Refundable Credit Risk Assessments Still Do Not Provide an Accurate Measure of the Risk of Improper Payments
April 2016	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 2015	2015-40-044	Assessment of Internal Revenue Service Compliance With the Improper Payment Reporting Requirements in Fiscal Year 2014
March 2014	2014-40-027	The Internal Revenue Service Fiscal Year 2013 Improper Payment Reporting Continues to Not Comply With the Improper Payments Elimination and Recovery Act
February 2013	2013-40-024	The Internal Revenue Service Was Not in Compliance With All Requirements of the Improper Payments Elimination and Recovery Act for Fiscal Year 2012

Source: www.treasury.gov/tigta/oa_auditreport.

Appendix IV

Management's Response to the Draft Report

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, DC 20224

CHIEF FINANCIAL OFFICER

April 21, 2022

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Bryan L. Musselman
Deputy Chief Financial Officer

Digitally signed by 0B7CB
Date: 2022.04.21
08:59:34 -04'00'

SUBJECT: Response to Draft Audit Report – Programs Susceptible to Improper Payments Are Not Adequately Assessed and Reported (Audit #202240001)

Thank you for the opportunity to review and comment on your draft audit report entitled *Programs Susceptible to Improper Payments Are Not Adequately Assessed and Reported*. The programs examined in this report are refundable tax credits (RTC) designed to achieve specific economic and social objectives, such as coronavirus pandemic relief, reducing poverty and increasing the affordability of higher education. Even before RTCs were key to the Federal government's response to the national emergency caused by the global worldwide pandemic, programs with RTC presented challenges of administering complex social benefit programs through the tax administration system. These, and other social programs, have been expanded and will continue to require education, oversight, and compliance activities going forward to ensure taxpayers receive the correct benefits.

The IRS believes the tax system is primarily a collection system and not a payment program and RTCs do not meet the definition of payments in the traditional sense. Treating RTCs as payments ignores the interrelated nature of other components of the tax system and provides no additional information that would help the IRS address erroneous RTC claims. Continuing to report RTCs as payments could lead to inefficient and skewed application of limited enforcement resources when the IRS' tax gap program better equips the IRS to analyze and address noncompliance throughout the federal tax system.

As mentioned in the report, starting July of 2019, the Self Employment income transcripts are now received by the IRS digitally. This improvement allows for standardized classification and case selection and is a vast improvement over

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the paper process. That said, reviewing these referrals more frequently and/or prioritizing by days remaining on the statute will not provide additional workable inventory. As noted in your review, the cases identified would likely have not been selected for other reasons. Reviewing the data more frequently would be an inefficient use of resources given there would not be a significant increase in workable cases.

The IRS agrees with one of three recommendations, and our response to each is attached. We appreciate your office's evaluation of these programs and the IRS' continuing efforts to reduce and eliminate erroneous claims within the structure of the tax administration system. Additional technical comments have been forwarded separately. If you have any questions, please contact me at 202-317-6453, or a member of your staff may contact Charles Messing, Associate Chief Financial Officer for Internal Controls, at 202-803-9762.

Attachment

Attachment

Programs Susceptible to Improper Payments Are Not Adequately Assessed and Reported (TIGTA Audit #202240001)

Corrective Actions for Draft Audit Report

RECOMMENDATION 1
The Commissioner, Small Business/Self Employed Division, should review transcripts more frequently to prioritize sending transcripts with short statutes to tax examiners more frequently so that additional transcript cases can be worked.

CORRECTIVE ACTION:
Disagree. The audit report includes an assumption that the day we receive the data from Social Security Administration (SSA) we can determine if the case is workable and start the audit process immediately. However, as shared during the audit, there are numerous steps to be completed before an SSA referral can be audited. We are currently working all short statute cases that meet the filter criteria. As noted in TIGTA's review, the cases identified would likely not have been selected for other reasons. Our existing process is effective and changing it, as recommended, would not increase the volume of additional transcripts to be worked. Expending additional resources to review the data more frequently and make additional deliveries would not be an effective use of resources.

IMPLEMENTATION DATE
N/A

RESPONSIBLE OFFICIAL
N/A

CORRECTIVE ACTION MONITORING PLAN
N/A

RECOMMENDATION 2
The Commissioner, Small Business/Self Employed Division, should revise processes for filtering short-statute transcripts to not only look at the tax year, but also the number of days remaining before statute expiration so that additional transcript cases can be worked.

CORRECTIVE ACTION
Disagree. Calculating the number of days remaining before statute expiration, as TIGTA demonstrated, would yield the same number of cases worked because of fiscal year 2021 referrals. We are currently working all short statute cases that meet the filter criteria. Our existing process is effective and changing it, as recommended, would not increase the volume of additional transcripts to be worked.

IMPLEMENTATION DATE
N/A

RESPONSIBLE OFFICIAL
N/A

CORRECTIVE ACTION MONITORING PLAN
N/A

2

RECOMMENDATION 3
The Commissioner, Small Business/Self Employed Division, should revise case selection criteria to include the ACTC (Additional Child Tax Credit) when computing the potential tax change on SE (Self Employment) transcript income reported by the Social Security Administration (SSA).

CORRECTIVE ACTION
We have revised the case selection criteria and updated the tax calculation to include the disallowance of ACTC when computing the potential tax change, when applicable.

IMPLEMENTATION DATE
Implemented

RESPONSIBLE OFFICIAL
Director Exam Case Selection, SB/SE

CORRECTIVE ACTION MONITORING PLAN
IRS will monitor this corrective action as part of our internal management system of controls.

Appendix V

Glossary of Terms

Term	Definition
Additional Child Tax Credit (ACTC)	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.
Advanced Premium Tax Credit (APTC)	A tax credit that is paid in advance to a taxpayer's insurance company to help cover the cost of premiums.
Agency Financial Report (AFR)	Presents the Treasury Department's financial and performance information for the fiscal year, with comparative prior year data where appropriate.
American Opportunity Tax Credit (AOTC)	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.
Data Center Warehouse	A TIGTA repository of IRS data.
Earned Income Tax Credit (EITC)	A tax credit used to offset the impact of Social Security taxes on low-income families and to encourage them to seek employment.
Excess Advanced Premium Tax Credit	When the APTC is more than the allowed PTC (APTC minus PTC = Excess APTC). This is treated as a tax liability.
Filing Season	The period from January through mid-April when most individual income tax returns are filed.
Fiscal Year (FY)	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.
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.
Individual Master File	The IRS database that maintains transactions or records of individual tax accounts.
Net Premium Tax Credit	When the PTC exceeds the APTC (PTC minus APTC = Net PTC). Net PTC reduces a taxpayer's tax liability and, if it is more than the tax liability, results in a refundable tax credit.

Term	Definition
Outlay	A payment to liquidate an obligation generally equal to cash disbursements (the measure of Government spending).
Overpayment	A payment in excess of what is due. When an overpayment occurs, the improper amount is the difference between the amount due and the amount that was actually paid. Overpayments are monetary loss IPs.
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.
Premium Tax Credit (PTC)	Refundable tax credit that helps eligible individuals and families cover the premiums for their health insurance purchased through the Health Insurance Marketplace.
Processing Year	The calendar year in which the tax return or document is processed by the IRS.
Program	Activities or sets of activities recognized as programs by the public, 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 IPs and UPs. For example, a qualitative IP risk assessment methodology prioritizes the identified IP and UP risks using a predefined rating scale. Risks will be scored based on their probability or likelihood of occurring and the impact on IPs and UPs in the program should they occur.
Quantitative Risk Assessment	A review of a sample of disbursements to formulate the overall estimated improper payment rate for the program.
Significant Improper Payment	Annual IPs and UPs (*i.e.*, the sum of monetary loss IPs, non–monetary loss IPs, and UPs) in the program exceeding (1) both 1.5 percent of program outlays and $10,000,000 of all program or activity payments made during the fiscal year reported or (2) $100,000,000 (regardless of the IP percentage of total program outlays).
Tax Gap	The Tax Gap is the estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time.
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.
Underpayment	A payment that is less than what is due. When an underpayment occurs, the improper amount is the difference between the amount due and the amount that was actually paid. An underpayment is a non–monetary loss IP.

Appendix VI

Abbreviations

ACTC	Additional Child Tax Credit
AFR	Agency Financial Report
AOTC	American Opportunity Tax Credit
APTC	Advanced Premium Tax Credit
COVID-19	Coronavirus Disease 2019
EIP	Economic Impact Payment
EITC	Earned Income Tax Credit
FY	Fiscal Year
IP	Improper Payment
IRS	Internal Revenue Service
OMB	Office of Management and Budget
PIIA	Payment Integrity Information Act
PTC	Premium Tax Credit
SE	Self-Employment
SSA	Social Security Administration
TIGTA	Treasury Inspector General for Tax Administration
UP	Unknown Payment

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(800) 366-4484

By Web:

www.treasury.gov/tigta/

Or Write:

Treasury Inspector General for Tax Administration

P.O. Box 589

Ben Franklin Station

Washington, D.C. 20044-0589

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Appendix 3: Treasury Programs' Compliance with PIIA Criteria

The table below summarizes Treasury programs' compliance with the PIIA reporting requirements by program.

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 the Public Debt	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 - Fed. Pay-Emerg. Pl & Sec	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service - Refund Money Erroneously Rec'd	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service - Amer. Indian & Alaskan Native	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service - Guam World War II Claims Fund	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 - US Coronavirus Payments	Yes	Yes	Yes	No	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service - Refund - Corporations	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service - US Coronavirus Refundable Credits	Yes	Yes	No	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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Internal Revenue Service - HQ Disbursement EIC (EITC)	Yes	Yes	N/A	N/A	Yes	Yes	Yes*	Yes*	Yes*	No
Internal Revenue Service - Pay.-Child Credit Exceeds Liab (ACTC)	Yes	Yes	N/A	N/A	Yes	Yes	Yes*	Yes*	Yes*	No
Internal Revenue Service - Pymt. Where American Opport. Credit, Recovery Act (AOTC)	Yes	Yes	N/A	N/A	Yes	Yes	Yes*	Yes*	Yes*	No
Internal Revenue Service - Refundable Premium Assistance Tax Credit (PTC)	Yes	Yes	N/A	N/A	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 - 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 Systems Modernization	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service - Private Collection Agent Program	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A

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Internal Revenue Service - Special Compliance Personnel Program Account	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices - Coronavirus Relief Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices - Air Carrier Worker Support	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Exchange Stabilization Fund - Exchange Stabilization Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Exchange Stabilization Fund - Economic Stabilization Direct Loan Financing	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Office of the Assistant Secretary for International Affairs - Contribution to the Intl Bank for Reconst & Dev	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Office of the Assistant Secretary for International Affairs - Multilater Assist-Nth Amer Db	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Office of the Assistant Secretary for International Affairs - Global Food Security Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Office of Financial Stability - Salaries and Expenses, OFS	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A

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Office of Financial Stability - Home Affordable Modification Program	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
The Mint - United States Mint Public Enterprise Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Alcohol Tobacco and Trade Bureau - Salaries and Expenses, TTB	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 the programs for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.
* The IRS is required to submit quarterly scorecards to show the progress made in lieu of reduction targets. In addition, if the reduction target is a constant, a footnote should clearly explain the complexities surrounding the program.

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Appendix 4: Treasury Management's Response

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

June 21, 2022

MEMORANDUM FOR DIRECTOR ADE BANKOLE
FINANCIAL STATEMENT AND PROCUREMENT AUDITS,
OFFICE OF INSPECTOR GENERAL

FROM: Trevor Norris
Acting Assistant Secretary for Management

SUBJECT: Audit of Treasury's Compliance with the Payment Integrity Reporting Requirements for Fiscal Year (FY) 2021

We have reviewed the draft audit report on Treasury's improper payment reporting for FY 2021 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 the PIIA for FY 2021 because the IRS, as reported by the Treasury Inspector General for Tax Administration (TIGTA): 1) did not conduct a risk assessment for the Sick and Paid Family Leave Credit and the Employee Retention Tax Credit as required, 2) did not adequately conclude on the susceptibility of the U.S. Coronavirus Economic Impact Payments to improper payments, and, 3) did not report an overall improper payment rate of less than 10 percent for the Earned Income Tax Credit, the American Child Tax Credit, and the American Opportunity 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 intended under 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 and design for administering RTCs prevents 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 and OMB 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.

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Attached is our response to your recommendations. If you have any questions, please let me know, or you may contact Carole Banks, Deputy Chief Financial Officer, at (202) 622-0818.

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 Risk and Control Group (RCG) work with Fiscal Service, ESF, and OAS management to complete proper review of the program-specific risk assessments indicating management responses to risk assessment questions are accurate.

Management's Response:

Treasury concurs with RMA's recommendation. In March 2022, RCG hosted a roundtable for all bureaus and offices in which we discussed with preparers and reviewers how to complete and review the risk assessments for accuracy and completeness. We emphasized the need for risk assessment justifications to be clear and complete and that the justifications should better coincide with the risk factors and the chosen response. This will aid third-party reviewers and auditors in their review. Additionally for FY 2022 reporting, we issued supplemental PIIA guidance to Treasury bureaus and offices that requires them to have completed risk assessments be reviewed by personnel knowledgeable of both the program and related payment processes, particularly when the program and payment activities are performed via separate offices. Additionally, for FY 2023 reporting, we will revise the risk assessment template to provide better clarity for users on how to respond to the specific risk factors, provide training to users on the revised template.

Implementation Date: May 31, 2023

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

RMA Recommendation #2:

RMA recommends Treasury's RCG perform sufficient review of the annual OMB data call to ensure the information published on Paymentaccuracy.gov are complete and accurate.

Management's Response:

Treasury concurs with RMA's recommendation. OMB implemented a new and complex system and related process in FY 2021 for agencies to enter PIIA data that is uploaded onto Paymentaccuracy.gov. OMB also requested a significantly greater volume of data be provided in FY 2021 than previously requested. In prior years, we entered summary level data onto an Excel spreadsheet and submitted it to OMB. More importantly, OMB did not communicate their final new guidelines until October 4, 2021, well into the AFR year-end reporting crunch period. As the data call was due October 28, 2021, Treasury's RCG had little time to understand and implement the new requirements in a manner that allowed them to execute adequate quality controls for ensuring accuracy and completeness.

To overcome this difficulty, we revised our FY 2022 PIIA guidance to require that Treasury components submit to RCG their payment integrity data in the new level of detail required by OMB which will better facilitate data entry and more time to implement and execute additional quality review controls to better ensure accuracy and completeness. We will also encourage OMB to finalize and release its payment integrity data call guidelines earlier in the year to allow agencies adequate time to plan for significant changes in reporting.

Implementation Date: November 1, 2022

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

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Appendix 5: Report Distribution

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