Audit Report

OIG-24-029

FINANCIAL MANAGEMENT

Audit of Treasury's Compliance with the PIIA Requirements for Fiscal Year 2023

May 29, 2024

Office of Inspector General
Department of the Treasury

This Page Intentionally Left Blank

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

May 29, 2024

MEMORANDUM FOR ANNA CANFIELD ROTH
ASSISTANT SECRETARY FOR MANAGEMENT

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

SUBJECT: Audit of Treasury's Compliance with PIIA Requirements for Fiscal Year 2023

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) 2023. As part of the audit, RMA also assessed Treasury's compliance with additional improper payment reporting requirements set forth in Executive Order 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*, the Office of Management and Budget (OMB) Circular No. A-123, Appendix C, *Requirements for Payment Integrity Improvement* and OMB Circular No. A-136, *Financial Reporting Requirements*.

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

In its audit report, RMA determined that Treasury was not in compliance with PIIA for FY 2023. Treasury did not comply with 2 of 10 PIIA reporting requirements. Specifically, Treasury did not adequately conclude whether programs are likely to make Improper Payments (IPs) and Unknown Payments (UPs) above or below the statutory threshold for two pandemic relief programs—the Emergency Rental Assistance Program (ERA) and Air Carrier Payroll Support Programs (PSP); and did not comply with the requirement to report an improper payment rate of less than 10 percent for four IRS programs identified as susceptible to significant improper payments: (i) Earned Income Tax Credit; (ii) American Opportunity Tax Credit; (iii) Additional Child Tax Credit; and (iv) Net Premium Tax Credit. Treasury complied with the remaining eight PIIA requirements.

RMA also found that the Office of Capital Access (OCA) management did not provide appropriate justification memos for the ERA, Homeowners Assistance Fund (HAF), and PSP pandemic relief programs in concluding that payment recapture audits were deemed not cost-effective for FY 2023 reporting. OCA also failed to provide a timely justification for not performing a payment recapture audit for the Coronavirus Capital Projects Fund. In addition, OCA and the Community Development Financial Institutions Fund managements' responses to certain risk assessment questions in the qualitative risk assessments over the HAF program and Emergency Response Program, respectively, were inaccurate in determining the payment type's susceptibility to significant improper payments. RMA noted that although the inaccurate responses to the risk assessment questions affected the rating of a risk factor from not susceptible to susceptible, these inaccurate responses did not affect the overall risk assessment rating for the programs identified.

Our contract required that the audit be performed in accordance with generally accepted government auditing standards. In connection with the contract, we reviewed RMA's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to conclude on Treasury's overall compliance with requirements contained in PIIA for FY 2023. RMA is responsible for the attached auditors' report dated May 29, 2024, 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) 439-5835, or a member of your staff may contact Catherine Yi, Manager, Financial Statement Audits, at (202) 553-7412.

Attachment

RMA | Associates
Auditors. Consultants. Advisors.

Department of the Treasury
Audit of Treasury's Compliance with PIIA Requirements for Fiscal Year 2023

RMA Associates
Auditors. Consultants. Advisors.

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

May 29, 2024

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

Dear Mr. Bankole,

RMA Associates, LLC is pleased to present our final report on the Department of the Treasury's (Treasury) compliance with Payment Integrity Information Act of 2019 requirements for Fiscal Year 2023.

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

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

Table of Contents

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

Acronyms

ACTC	Additional Child Tax Credit
AFR	Agency Financial Report
AOTC	American Opportunity Tax Credit
CDFI	Community Development Financial Institutions
EITC	Earned Income Tax Credit
EO	Executive Order
ERA	Emergency Rental Assistance
FY	Fiscal Year
GAO	Government Accountability Office
HAF	Homeowners Assistance Fund
IP	Improper Payment
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
IRS	Internal Revenue Service
Net PTC	Net Premium Tax Credit
OCA	Office of Capital Access
OCC	Office of the Comptroller of the Currency
ODCFO	Office of the Deputy Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
ORP	Office of Recovery Programs
PIIA	Payment Integrity Information Act of 2019
PSP	Air Carrier Payroll Support Program
PTC	Premium Tax Credit
RCG	Risk and Control Group
RMA	RMA Associates, LLC
RTC	Refundable Tax Credit
TIGTA	Treasury Inspector General for Tax Administration
Treasury	U.S. Department of the Treasury
Treasury's PIIA Guidance	FY 2023 Treasury Implementation Guide for OMB Circular A-123 Appendix C: Requirements for Payment Integrity Improvement
UP	Unknown Payment

RMA | Associates
Auditors. Consultants. Advisors.

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

Audit Report

May 29, 2024

Richard K. Delmar
Acting 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) 2023 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 2024 through May 2024 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 2023. This summarization includes IRS's management response to TIGTA's audit findings. TIGTA issued its report on May 17, 2024, 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.

[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)

RMA Associates
Auditors. Consultants. Advisors.

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

As a result of our audit, we determined Treasury was not in compliance with PIIA for FY 2023. Treasury did not adequately conclude whether programs are likely to make Improper Payments (IPs) and Unknown Payments (UPs) above or below the statutory threshold for two pandemic relief programs—the Emergency Rental Assistance Program (ERA) and Air Carrier Payroll Support Programs (PSP); and IRS did not report an improper payment rate of less than 10 percent for four of its programs identified as susceptible to significant improper payments: (1) Earned Income Tax Credit; (2) Additional Child Tax Credit; (3) American Opportunity Tax Credit; and (4) Net Premium Tax Credit. Susceptibility to significant improper payments means that the result of the IP risk assessments determined these programs are likely to have annual IPs exceeding (1) both 1.5 percent of program outlays and $10 million of all program or activity payments made during FY 2023 or (2) $100 million (OMB's threshold).

We also noted the following findings:

- Insufficient justification memos in determining the cost-effectiveness of conducting payment recapture audits for the ERA, Homeowners Assistance Fund (HAF), and PSP pandemic relief programs.
- Untimely submission of a justification memo related to the cost-effectiveness of a payment recapture audit for the Coronavirus Capital Projects Fund pandemic relief program. However, RMA noted that Treasury management subsequently submitted the justification memo concluding that a recapture payment audit was not deemed cost-effective for this program.
- Inaccurate responses to certain risk assessment questions during the completion of the risk assessment for two fund groups.[6] However, RMA noted that these inaccurate responses did not affect the overall risk assessment rating for these fund groups.

Additional information on the results of our audit is included in the accompanying report.

A distribution list for this report is provided as Appendix 5.

Very respectfully,

RMA Associates

RMA Associates, LLC

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

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

Results in Brief

Treasury was not in compliance with PIIA for FY 2023 because it did not fully comply with the requirements to adequately conclude whether two programs are likely to make IP and UPs above or below the statutory threshold, and to report an improper payment rate of less than 10 percent for four programs identified as susceptible to significant improper payments. We determined that Treasury complied with eight of the ten PIIA requirements. Treasury: 1) published payment integrity information in the Agency Financial Report (AFR); 2) posted the AFR and accompanying materials to its website; 3) conducted IP risk assessments for each program with annual outlays greater than $10 million at least once in the last three years; 4) published IP and UP estimates for programs susceptible to significant IPs and UPs in the accompanying materials to the AFR; 5) published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the AFR; 6) 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; 7) demonstrated improvements to payment integrity or reached a tolerable IP and UP rate; and 8) developed a plan to meet the IP and UP reduction target. Treasury did not comply with the requirements to adequately conclude whether programs are likely to make IPs and UPs above or below the statutory threshold for the ERA and PSP programs, and to report an improper payment rate of less than 10 percent for its programs identified as susceptible to significant improper payments because IRS reported an improper payment rate of more than 10 percent for four of its programs identified as susceptible to significant improper payments, including:

- Earned Income Tax Credit (EITC) – IRS estimates 33.5 percent ($21.9 billion) of the total EITC payments of $65.4 billion in FY 2023 were improper.
- Additional Child Tax Credit (ACTC) – IRS estimates 14.5 percent ($0.5 billion) of the total ACTC payments of $3.8 billion in FY 2023 were improper.
- American Opportunity Tax Credit (AOTC) – IRS estimates 31.6 percent ($1.7 billion) of the total AOTC payments of $5.2 billion in FY 2023 were improper.
- Net Premium Tax Credit (Net PTC) – IRS estimates 26.0 percent ($1.0 billion) of the total Net PTC payments of $3.7 billion in FY 2023 were improper.

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

In addition to the compliance criteria, we reviewed Treasury's risk assessments and recapture audit programs to determine the accuracy and completeness of Treasury improper payment reporting. We identified the Office of Capital Access (OCA) management, formerly known as the Office of Recovery Programs (ORP), did not provide appropriate justification memos for the ERA, HAF, and PSP pandemic relief programs in concluding that payment recapture audits were deemed not cost-effective for these programs for FY 2023 reporting.

We also identified that OCA management failed to provide evidence of its payment recapture audit, or a justification memo that establishes the payment recapture audit was deemed not cost-

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

effective, for the Coronavirus Capital Projects Fund, which had a total non-federal disbursement of $31.3 million for FY 2023 reporting. OCA management subsequently submitted the justification memo for this fund for FY 2023 reporting, concluding that a payment recapture audit was deemed not cost-effective for this program.

Lastly, for OCA's HAF program and Community Development Financial Institutions (CDFI) Fund's Emergency Response program, we identified four instances and two instances, respectively, in which management's responses to the risk assessment questions in its qualitative risk assessment related to these programs were inaccurate in determining the payment type's susceptibility to significant improper payments. RMA noted, however, that these inaccurate responses did not affect the overall risk assessment rating for the programs identified.

As part of our reporting process, we provided a draft of this report to Treasury management for review and comment. In a written response, management concurred with our recommendations and noted that under Treasury's PSP, Treasury awarded $59 billion in financial assistance to the domestic aviation industry for the continued payment of employee wages, salaries, and benefits. The majority of PSP funds – approximately 89 percent – were awarded to large air carriers based on the reports that the carriers had filed with the U.S. Department of Transportation. In contrast, the CARES Act required Treasury to provide financial assistance to smaller air carriers and aviation contractors in an amount that the applicants certified, using sworn financial statements or other appropriate data, as the amount of wages, salaries, and benefits they paid to their employees during the time period from April 1, 2019 through September 30, 2019. OIG audits of this latter group have revealed that some smaller recipients overstated their requested awardable amounts due to the improper inclusion of certain categories of expenses. Treasury has recouped $147 million so far.

Management also noted that through Treasury's ERA programs, Congress appropriated a total of $47 billion to address financial and housing instability caused by the COVID-19 pandemic and tasked Treasury with implementing ERA rapidly and under extraordinary emergency conditions. Despite these challenges, Treasury quickly implemented the program and oversaw unprecedented rental assistance. As of June 30, 2023, ERA had already provided more than 12.3 million rental assistance payments to families in need.

Management further noted they 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. Management noted they are continuing to collaborate with IRS to identify a more effective way to report on estimated payment errors associated with the RTC programs in the Department's AFR as part of a broader discussion on the tax gap and tax burden.

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

We also summarized TIGTA's audit results in this report. TIGTA reported that IRS was largely compliant with the reporting requirements contained in the PIIA for FY 2023. However, IRS still has not satisfied the PIIA goal of reducing the overall improper payment rate for EITC, ACTC,

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

AOTC, and Net PTC to less than 10 percent. TIGTA also reported that all required quarterly scorecards were posted to PaymentAccuracy.gov for FY 2023.

Additionally, TIGTA reported that IRS has been unable to reduce improper payment rate estimates to less than 10 percent for each of its high-risk programs, most notably EITC. In Treasury's FY 2023 AFR, IRS noted that part of its actions to mitigate the risk of improper payments included outreach to taxpayers and tax preparers in lieu of conducting additional pre-refund audits. However, these initiatives may not make an immediate impact on the improper payment rates, if at all, due to the time it takes for taxpayers to file returns and for IRS to examine those returns.

TIGTA also reported that their review of the risk assessment template found that it does not allow IRS to provide an accurate assessment of improper payment risk. The questions on the risk assessment are for general applicability and not intended to cover the unique nature of the IRS refundable credits program. Because the risk assessment template does not allow for an accurate assessment of improper payment risk related to IRS's refundable credits programs, this could become problematic for those programs that are not regularly evaluated by external audit agencies and may have a higher risk than the template identifies. TIGTA reported that Treasury is aware of the unique nature of the refundable tax credits and has been understanding of the justifications IRS may have to make when completing the template.

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

Background

Improper Payments Compliance and Reporting Requirements

Under IPIA, Federal agencies were required to review and identify programs and activities susceptible to improper payments on an annual basis and report estimates of improper payments to Congress along with actions to reduce estimated improper payments that exceeded $10 million. In 2009, EO 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*, required Federal agencies to intensify their efforts to eliminate payment error, waste, fraud, and abuse in major Federal programs while continuing to ensure that these programs serve and provide access to their intended beneficiaries. It increased Federal agencies' accountability and required that Federal agencies provide their agency Inspector General with detailed information on efforts to identify and reduce the number of improper payments in Federal programs with the highest dollar value of improper payments.

Following EO 13520, on July 22, 2010, the President signed IPERA into law. IPERA amended IPIA, strengthening agencies' program reviews and reporting requirements. IPERA expanded the types of payments to be reviewed and established the requirement for agencies to conduct recovery audits if cost-effective. IPERA also required Inspectors General to report on their respective agencies' compliance with IPERA each fiscal year. IPERIA further expanded agency improper payment requirements to foster greater agency accountability.

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

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 2023 reporting, OMB determined that EITC, ACTC, AOTC, and Net PTC are high-priority programs.

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

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

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

Treasury's Improper Payment Risk Assessment

Treasury issued *Comprehensive Treasury Guidance for Payment Integrity Reporting in Accordance with OMB Circular A-123 Appendix C: Requirements for Payment Integrity Improvement* (Treasury's PIIA Guidance) to all Treasury's Bureaus and Offices (hereafter referred to as "Components"). For all Fund Groups with over $10 million in Total Non-Federal

Disbursements, a risk assessment is required once every three years. For Fund Groups that were new in the prior fiscal year, a risk assessment is required in the current fiscal year. An off-cycle risk assessment must be completed if there is a significant change in legislation and/or significant increase in funding levels.

Components have the option to conduct a qualitative or a quantitative risk assessment. Programs should choose the methodology that reasonably supports whether the program is or is not susceptible to significant IPs. The qualitative risk assessment consists of a questionnaire template (Qualitative Questionnaire) that Components must complete to assess their susceptibility to IPs. The Qualitative Questionnaire aligns risk assessment questions and risk ratings to the eleven risk factors that could be considered when conducting a qualitative IP risk assessment according to OMB M-21-19:

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

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

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

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

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 to prevent and reduce the IPs and UPs. Lastly, programs susceptible to IPs report the following payment integrity information with their annual financial statement, and on PaymentAccuracy.gov:

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

For FY 2023, Treasury identified EITC, AOTC, ACTC, and Net PTC as programs susceptible to significant improper payments.

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

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, 2023, Treasury published its Payment Integrity information with its annual financial statement, in accordance with OMB Circular A-136, to include:

- a hyperlink to the PaymentAccuracy.gov website;
- a summary of their payment integrity activities and results;
- summary discussing the nature of RTC claims; 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, AOTC, and Net PTC programs;
- High priority program results;
- IP root causes;
- Confirmed fraud;
- Payment recapture reporting information; and
- All programs assessed for risk of improper payment during the risk assessment cycle.

Audit Results

According to OMB Circular A-123, an agency is required to meet ten specific requirements to be compliant with PIIA. The ten requirements are (1) publishing payment integrity information in the AFR; (2) posting the AFR and accompanying materials to its website; (3) conducting IP risk assessments for each program with annual outlays greater than $10 million at least once in the last three years; (4) adequately concluding whether the program is likely to make IPs and UPs above or below the statutory threshold; (5) publishing IP and UP estimates for programs susceptible to significant IPs and UPs in the accompanying materials to the AFR; (6) publishing corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the AFR; (7) publishing an IP and UP reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the AFR; (8) demonstrating improvements to payment integrity or reaching a tolerable IP and UP rate; (9) developing a plan to meet the IP and UP reduction target; and (10) reporting an IP and UP estimate of less than 10 percent for each program for which an estimate was published in the accompanying materials to the AFR.

We found that Treasury was not in compliance with PIIA for FY 2023 because Treasury did not adequately conclude whether programs are likely to make IPs and UPs above or below the statutory threshold for the ERA and PSP pandemic relief programs and IRS did not report an overall improper payment rate of less than 10 percent for the EITC, ACTC, AOTC, and Net PTC programs. We discuss this further in our Finding 1 below. Treasury complied with the other PIIA requirements as outlined in Table 1. In addition, Appendix 3 provides a summary of Treasury programs' compliance with PIIA reporting criteria for programs identified as susceptible to significant improper payments for FY 2023 reporting and for programs not susceptible to improper payments that conducted an IP risk assessment in FY 2023 based on Treasury's three-year rotation schedule in accordance with OMB guidance.

Table 1. Treasury's Compliance with PIIA Requirements

PIIA Requirement	Compliance
Publish payment integrity information in the AFR	Yes
Post the AFR and accompanying materials to its website	Yes
Conduct IP risk assessments for each program with annual outlays greater than $10 million at least once in the last three years	Yes
Adequately conclude whether programs are likely to make IPs and UPs above or below statutory threshold	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
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 2023 for the programs listed in Appendix 3.

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

Additionally, OMB determined that IRS's EITC, ACTC, AOTC, and Net PTC refundable tax credits are high-priority programs for FY 2023. In compliance with EO 13520 for these high-priority programs, we noted that Treasury (1) established targets to reduce and recover improper payments; (2) provided the methodology to identify and measure improper payments; and (3) provided plans and supporting analysis to ensure 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 (with exceptions noted); and (3) conformed to OMB guidance for payment recapture audits (with exceptions noted). 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 2023

We determined that Treasury was not in compliance with PIIA for FY 2023 due to Treasury not adequately concluding whether the ERA and PSP pandemic relief programs are likely to make IPs and UPs above or below the statutory threshold. RMA identified OCA, formerly ORP, management inadequately concluded that the ERA and PSP programs are not susceptible to IPs in their risk assessments completed for FY 2023 reporting, when these programs are likely susceptible to IPs. RMA identified that certain questions on the qualitative risk assessments were answered incorrectly by OCA management. OCA management indicated a rating as not susceptible, but it should have been susceptible.

OCA's Pandemic Relief Programs. OMB M-21-19 states "2b. Adequately concluded whether the program is likely to make IPs and UPs above or below the statutory threshold: To achieve compliance the agency must ensure that the IP risk assessment methodology used adequately concludes whether the program is likely to make IPs plus UPs above or below the statutory threshold."

In addition, OMB M-21-19 defines payment as "any transfer of Federal funds to any non-Federal person or entity or a Federal employee, that is made by a Federal agency, a Federal contractor, a Federal grantee, or a Governmental or other organization administering a Federal program or activity."

OCA management did not adequately complete its program-specific risk assessments over ERA and PSP programs. Specifically, responses to several of the ERA risk assessment questions focused on payments made at the agency level and did not consider payments made at the state and/or grantee level. In addition, the ERA risk assessment did not fully consider improper payments reported by ERA grantees and the results of Single Act Audit findings.

The risk assessment for the PSP program failed to consider that the OCA re-certification effort, which was aimed at addressing systemic improper payments, was not fully effective. Specifically,

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

the re-certification effort relied on self-certification by air carriers and contractors but in March 2023 Treasury OIG informed OCA management, that based on their audits of a sample of air carriers and contractors, 60 percent of the entities re-certified incorrectly.

The inadequate conclusion of these programs' susceptibility to IPs impacts Treasury's compliance with the PIIA requirement of adequately concluding whether programs are likely to make IPs and unknown payments above or below the statutory threshold.

Recommendation

RMA recommends Treasury's RCG work with OCA management to consider all information available when answering risk assessment questions to ensure adequate completion and conclusion of susceptibility for these program-specific risk assessments.

Management's Concurrence and RMA's Response

Treasury concurs with this recommendation. RCG will revise its Departmental guidance to all Components to better ensure they adequately complete risk assessment questionnaires and consider all information available when concluding on the overall susceptibility of risk.

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

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 under Treasury's PSP – which was authorized by the CARES Act (PSP1), Consolidated Appropriations Act of 2021 (PSP2), and the American Rescue Plan Act (PSP3) – Treasury awarded $59 billion in financial assistance to the domestic aviation industry for the continued payment of employee wages, salaries, and benefits. The funding had been urgently needed because the number of airline passengers suddenly dropped by an unprecedented 60% in 2020 due to the COVID-19 pandemic. At Congress' direction, Treasury created and implemented these programs on an expedited timeframe, including the publication of application procedures within five days after the passage of the CARES Act. Approximately 700 large and small businesses in every state received PSP assistance. Recipients reported using the PSP assistance to fully or partially fund the salaries and benefits of more than 640,000 aviation employees during the pandemic, help maintain critical infrastructure capacity, and facilitate industry recovery. Additionally, recipients reported more than 360,000 aviation jobs being retained or created as a result of receiving PSP assistance. Employment levels in the aviation industry now surpass 2019 (pre-pandemic) levels.

Management noted that the majority of PSP funds – approximately 89 percent – were awarded to large air carriers based on the reports that the carriers had filed with the U.S. Department of Transportation under 14 C.F.R. part 241. In contrast, the CARES Act required Treasury to provide financial assistance to smaller air carriers and aviation contractors in an amount that the applicants certified, using sworn financial statements or other appropriate data, as the amount of wages, salaries, and benefits that they paid to their employees during the time period from April 1, 2019, through September 30, 2019. OIG audits of this latter group have revealed that some smaller recipients overstated their requested awardable amounts due to the improper inclusion of certain categories of expenses. Treasury has recouped $147 million so far. All three PSP programs have now concluded. Treasury will make no further payments to air carriers or aviation contractors.

Management further noted that COVID-19 pushed families across the country to fall behind on their rent—many of whom already struggled with the cost of housing. At the end of 2020, nearly a fifth of renting households reported being behind on rent. One in six reported that eviction within two months was very likely. Through Treasury's ERA programs – which were authorized by the Consolidated Appropriations Act of 2021 (ERA1) and American Rescue Plan Act (ERA2), respectively – Congress appropriated a total of $47 billion to address financial and housing instability caused by the COVID-19 pandemic. The ERA programs provided critical funding for state, local, territorial, and Tribal governments to prevent eviction and provide assistance to households for rent, utilities, and other eligible expenses. Moreover, Congress tasked Treasury with implementing ERA rapidly and under extraordinary emergency conditions. Despite these challenges, Treasury quickly implemented the program and oversaw unprecedented rental assistance. As of June 30, 2023, ERA had already provided more than 12.3 million rental assistance payments to families in need. The period of performance for ERA1 ended in December 2022 so there are no more payments in ERA1. As of June 30, 2023, grantees in ERA2 (which do not include Tribal governments), have reported to have expended 80% of the ERA2 allocations and have until September 30, 2025 (about 15 months) to expend the remaining funds.

Refundable Tax Credit Programs. We also determined that Treasury was not in compliance with PIIA for FY 2023 due to IRS not reporting an overall improper payment rate of less than 10 percent for EITC, ACTC, AOTC, and Net PTC. Specifically, according to TIGTA's report, IRS reported an improper payment rate of 33.5 percent (or $21.9 billion), 14.5 percent (or $0.5 billion), 31.6 percent (or $1.7 billion), and 26.0 percent (or $1.0 billion) for EITC, ACTC, AOTC, and Net PTC respectively. PIIA requires an IP and UP estimate of less than 10 percent for each program for which an estimate was published in the accompanying materials to the annual financial statement. As TIGTA has reported previously, OMB advised 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 explained in the Treasury AFR, which the IRS did.[7]

TIGTA did not make any recommendations related to this finding.

In a written response, management noted that they have 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. 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 prevent the IRS from verifying or validating such amounts prior to making the refund payment. Consequently, RTC overclaims are not the result of internal control weaknesses that they can remediate internally, but are, in fact, the result of factors beyond their control under the current law and existing authority. Even if they could

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

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 GAO 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. Additionally, management noted that they are continuing to collaborate with the IRS to identify a more effective way to report on estimated payment errors associated with the RTC programs in the Department's AFR as part of a broader discussion on the tax gap and tax burden.

Finding 2: Insufficient Justification Memos for ERA, HAF, and PSP Programs for FY 2023 Reporting

RMA identified OCA management did not provide appropriate justification memos for the ERA, HAF, and PSP programs in concluding that payment recapture audits were deemed not cost-effective for these programs for FY 2023 reporting.

OCA management last provided a justification memo for ERA, HAF, and PSP programs in September 2022:

- Stating no known improper payments to date have been made to primary recipients through the ERA I, ERA II, and HAF programs; and
- Describing PSP's implementation of a compliance process that required recipients to recertify that their awards were correctly determined before receiving additional payments under the PSP program.

OMB M-21-19 requires "All programs that expend $1,000,000 or more annually should be considered for recovery audits, however, agencies are only required to conduct recovery audits if conducting the audits would be cost-effective. If an agency determines that it would be unable to conduct a cost-effective recovery audit for certain programs, the analysis will need to be repeated only if circumstances change within the program that might make a recovery audit cost-effective."

OCA management did not update its analysis for FY 2023 reporting for these three programs that considers 1) known and likely improper payments made to recipients at the state and/or grantee level for ERA and HAF; and 2) information received in March 2023 that PSP's self-certification process was not effective.

Insufficient justification memos increase the risk of not conducting recovery audits and activities in a manner that will ensure the greatest financial benefit for the agency.

<u>Recommendation</u>

RMA recommends Treasury's RCG require OCA management to conduct and provide an updated analysis and justification memo that takes into consideration known and likely improper payments made to recipients at all levels as reflected in audits and other information, that might impact its conclusion on whether payment recapture audits are cost-effective for its pandemic relief programs.

Management's Concurrence and RMA's Response

Treasury concurs with this recommendation. RCG will revise its Departmental guidance to better ensure OCA and other Components update their analyses and justification memos as needed to take into consideration updated information related to known and likely improper payments related to recipients at all levels for purposes of concluding on the cost-effectiveness of performing payment recapture audits for their programs.

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

Finding 3: Untimely Submission of Justification Memo for OCA

RMA identified OCA management failed to provide evidence of its payment recapture audit, or a justification memo if the payment recapture audit was deemed not cost-effective, for the Coronavirus Capital Projects Fund, a pandemic relief program, which had a total non-federal disbursement of $31.3 million for FY 2023 reporting.

At the time the finding was identified, OCA management had not yet determined whether it would be cost effective to conduct a payment recapture audit. However, OCA management has traditionally submitted justification memos for its short-term programs. OCA management has subsequently submitted the justification memo for this fund for FY 2023 reporting to Treasury's RCG on April 4, 2024, which was past the Treasury due date of August 7, 2023.

OMB M-21-19 states that, "All programs that expend $1,000,000 or more annually should be considered for recovery audits, however, agencies are only required to conduct recovery audits if conducting the audits would be cost-effective."

Treasury's PIIA Guidance, Phase 5: Other Activities, Payment Recapture Audit, Page 19, "If it is determined that a payment recapture audit is not cost-beneficial, Components must provide ODCFO with a justification memo documenting why the Component believes it will not be cost-effective to perform a payment recapture audit."

FY 2023 Annual Treasury Guidance for Payment Integrity Reporting in Accordance with OMB Circular A-123 Appendix C: Requirements for Payment Integrity Improvement, Section III: Deliverables, Page 8, "Due Date: August 7, 2023, Milestone: If a Component determines that it would not be cost-effective to perform a payment recapture audit, submit a justification for each Fund Group to the ODCFO. (The justification is not needed if it was sent in a previous year)."

Treasury's RCG did not update their tracking sheet appropriately for FY 2023 since the Coronavirus Capital Projects Fund expended under $1,000,000 and did not need to submit a justification in FY 2022. In addition, OCA management did not adequately review the tracking sheet to ensure all programs that expended over $1,000,000 were appropriately identified.

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

Failure to conduct a payment recapture audit or provide a justification memo if an audit was deemed not cost-effective per Treasury guidance, increases the risk of not identifying and recovering overpayments in accordance with OMB requirements, and can lead to inaccurate payment recapture reporting on PaymentAccuracy.gov.

Recommendation

RMA recommends Treasury's RCG emphasize the requirement that Components review for completeness and accuracy the tracking sheet used to determine the fund groups that have expended over $1,000,000 and would therefore need to provide evidence of either a payment recapture audit or a justification memo by Treasury's due dates. Further, RCG should complete a thorough review of the tracking sheets submitted by Components for completeness and accuracy.

Management's Concurrence and RMA's Response

Treasury concurs with this recommendation. RCG has revised the tracking sheet to automatically highlight fund groups that were previously under $1 million, that are now over the $1 million threshold, and must conduct payment recapture auditing or submit a cost-effective justification memo. During the annual roundtable meeting with Components, RCG reemphasized the requirement that Components must review the tracking sheet for completeness and accuracy. Additionally, a second-party review will be conducted of the internal tracking sheet used to determine all fund groups that have expended over the $1 million threshold.

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

Finding 4: Inaccurate Completion of HAF and CDFI Fund Risk Assessments

RMA identified OCA and CDFI Fund management's responses to certain risk assessment questions in its qualitative risk assessment over the HAF program and Emergency Response Program that were inaccurate in determining the payment type's susceptibility to significant improper payments. Specifically, RMA identified four instances and two instances where OCA and CDFI Fund management, respectively, indicated a rating as not susceptible but should have been susceptible.

RMA noted that although the inaccurate responses to the risk assessment questions affected the rating of a risk factor from not susceptible to susceptible, these inaccurate responses did not affect the overall risk assessment rating for the programs identified.

FY 2023 Annual Treasury Guidance for Payment Integrity Reporting in Accordance with OMB Circular A-123 Appendix C: Requirements for Payment Integrity Improvement, Section III: Deliverables, Page 9, states "Work performed is subject to review by the ODCFO and the Department's auditors. Components must maintain their documentation at a level that can withstand management and auditor scrutiny. As such, Components should ensure all deliverables are reviewed for accuracy and completeness prior to submission to ODCFO."

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

OCA and CDFI Fund management did not adequately complete its program-specific risk assessments over the HAF program and Emergency Response Program. In addition, OCA, CDFI Fund management, and Treasury's RCG did not identify these inaccurate responses during their review of the risk assessment.

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

Recommendation

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

Management's Concurrence and RMA's Response

Treasury concurs with this recommendation. Though this is a repeat condition from prior years, Treasury notes that this finding occurring across a number of its programs declined significantly from 21 instances reported in the prior year's audit down to six instances in this year's audit. RCG made improvements to the FY 2024 risk assessment template provided to Components to streamline and improve the clarity of several questions that certain Components previously responded to improperly. Additionally, in the FY 2024 guidance, RCG accelerated the timing of receipt of the risk assessments to provide RCG more time to review and provide feedback to Components, thus facilitating a more efficient review and clearance process for them. Finally, RCG hosted a roundtable for all Treasury components to discuss the improvements and continue to emphasize the importance of ensuring the accuracy and quality control reviews of the risk assessments.

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

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

Treasury Inspector General for Tax Administration Audit Results

The following are excerpts from TIGTA's FY 2023 PIIA audit report. TIGTA did not make any recommendations in their report.

Finding 1: Assessment of FY 2023 Compliance With Improper Payment Reporting Requirements

TIGTA's review found that IRS was largely compliant with the reporting requirements contained in the PIIA for FY 2023. IRS still has not satisfied the PIIA goal of reducing the overall improper payment rate for ACTC, AOTC, EITC, and Net PTC to less than 10 percent. TIGTA also reported that all required quarterly scorecards were posted to PaymentAccuracy.gov for FY 2023.

Finding 2: Despite IRS Efforts, Improper Payment Rate Estimates Continue to Be High

TIGTA reported that IRS has been unable to reduce improper payment rate estimates to less than 10 percent for each of its high-risk programs, most notably EITC. According to the Treasury AFR, EITC estimated error rates have ranged from 22.8 percent to 33.5 percent from FY 2006 through FY 2023. This is despite IRS's efforts to reduce these rates.

TIGTA reported that in the FY 2023 AFR, IRS noted that part of its actions to mitigate the risk of improper payments included outreach to taxpayers and tax preparers in lieu of conducting additional pre-refund audits. IRS has implemented several different outreach initiatives intended to raise public awareness and encourage eligible taxpayers to claim refundable credits. Specifically, the IRS will reduce the number of pre-refund audits focused on refundable credits while also expanding outreach to help taxpayers claim the credits correctly at the time of filing. According to IRS, focusing on helping taxpayers submit accurate filings will increase payment accuracy while reducing administrative burdens for both IRS and the tax filer. In addition, IRS also intends to increase enforcement activities that focus on unscrupulous preparers who contribute to the noncompliance in this area. However, these initiatives may not make an immediate impact on the improper payment rates, if at all, due to the time it takes for taxpayers to file returns and for IRS to examine those returns.

IRS implements strategies that educate taxpayers and preparers by proactively sharing information about the eligibility requirements for refundable credits and identifying the most common errors. Some of IRS's outreach and education strategies include nationwide tax forums and refundable credits summit, technical training and tax preparer toolkits, webinars and tax preparer alerts, and EITC Central and EITC Awareness Day.

IRS has indicated that refundable credit noncompliance among tax return preparers has been a growing concern for several years. The IRS has shifted its focus from examining potentially noncompliant taxpayers to addressing noncompliant return preparers who file tax returns claiming the ACTC, AOTC, and EITC.[8] Some of these efforts include focused treatment for return preparers, "knock and talk" visits, and "ghost preparers."

Lastly, IRS is issuing notices and letters to taxpayers to both encourage potentially eligible taxpayers to take a credit and inform taxpayers who were not selected for audit of their potential risk of noncompliance. Examples of IRS issuing letters and notices to taxpayers are Letter 6589, *EITC Compliance Refresh-Letter 1 (Soft)*, Letter 6591, *Advance Child Tax Credit Outreach Letter for TY 21 filers yet to file (English & Spanish)*, Letter 6571, *ARPA Section 9663 Notice*, and Notices.

[8] TIGTA currently has a separate audit, *Changes to the Earned Income Taxpayer Credit Audit Examination Strategy* (Audit No. 2024308026), to review the Wage and Investment Division's portion of the IRS's examination plan and the changes to the EITC case selection processes to ensure a fair and equitable examination selection process and to assess compliance with the Secretary of the Treasury's directive to the IRS.

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

Finding 3: The Treasury Department Risk Assessments Still Do Not Accurately Reflect the Level of Risk for the IRS Refundable Credit Programs

TIGTA's review of the risk assessment template found that it does not allow IRS to provide an accurate assessment of improper payment risk. TIGTA reported the questions on the risk assessment are for general applicability and not intended to cover the unique nature of IRS refundable credits program.

Although the results of the completed qualitative risk assessments for the Advance Child Tax Credit and Child and Dependent Care Tax Credit indicated that these credits were not susceptible to improper payment risk, the IRS revised the risk assessment and deemed them "susceptible." The IRS deemed these programs susceptible because of the similarity of these programs with other programs that have high error rates and deficiencies identified by external audit agencies, such as TIGTA.

TIGTA previously reported similar concerns with the accuracy of the assessment of improper payment risk.[9] Because the risk assessment template does not allow for an accurate assessment of improper payment risk, this could become problematic for those programs that are not regularly evaluated by external audit agencies and may have a higher risk than the template identifies.

TIGTA met with IRS and discussed the effectiveness of a risk assessment that must be changed to accommodate IRS programs. Representatives from the IRS Office of the Chief Financial Officer noted that they did not participate in updating the new risk assessment templates and that it would be difficult to modify the template to reflect the unique nature of the refundable tax credits and still have a generally applicable template. Treasury is aware of this unique nature and has been understanding of the justifications the IRS may have to make when completing the template.

TIGTA did not make any recommendations in their report.

[9] TIGTA, Report No. 2017-40-030, *Revised Refundable Credit Risk Assessments Still Do Not Provide an Accurate Measure of the Risk of Improper Payments* (Apr. 2017) and TIGTA, Report No. 2016-40-036, *Without Expanded Error Correction Authority, Billions of Dollars in Identified Potentially Erroneous Earned Income Credit Claims Will Continue to Go Unaddressed Each Year* (Apr. 2016).

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) 2023 compliance with the Payment Integrity Information Act of 2019 (PIIA). We assessed Treasury's compliance with the reporting requirements set forth in PIIA; and Executive Order 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*. Our audit scope covered the period October 1, 2022, through September 30, 2023 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 2024 through May 2024:

- We reviewed applicable laws, regulations, and guidance issued by the Office of Management and Budget (OMB), and *Comprehensive Treasury Guidance for Payment Integrity Reporting in Accordance with OMB Circular A-123 Appendix C: Requirements for Payment Integrity Improvement*.
- We reviewed the FY 2023 Agency 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 improper payment (IP) risk assessments for each program with annual outlays greater than $10 million at least once in the last three years;
    - adequately concluded whether the program is likely to make IPs and unknown payments (UPs) above or below the statutory threshold;
    - published IP and UP estimates for programs susceptible to significant IPs and UPs in the accompanying materials to the annual financial statement;
    - published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement;
    - published an IP and UP reduction target, 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 three in the three-year rotation. To determine the completeness and accuracy of the information reported and compliance with the applicable guidance, we reviewed the program risk assessments and supporting documentation. RMA issued Finding 1: Treasury Was Not in Compliance with PIIA for FY 2023 and Finding 4: Inaccurate Completion of Homeowners Assistance Fund

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

(HAF) and Community Development Financial Institutions Fund Risk Assessments as a result of our testing.

- 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 all non-IRS components that completed a payment recapture audit. We determined if the component accurately reported the payment recapture audit results on PaymentAccuracy.gov. RMA identified inaccurate sum formulas that resulted in an immaterial error in calculating the consolidated overpayment amounts identified and recovered outside of payment recapture audits and worked with Treasury RCG to streamline and simplify the consolidated payment recapture reporting spreadsheet and ensure calculations are accurate by ensuring a second-party review of the formulas in the spreadsheet is performed. RMA also issued Finding 2: Insufficient Justification Memos for Emergency Rental Assistance, HAF, and Air Carrier Payroll Support Programs for FY 2023 Reporting and Finding 3: Untimely Submission of Justification Memo for Office of Capital Access as a result of our testing.

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

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

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

RMA | Associates
Auditors. Consultants. Advisors.

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

Appendix 2: TIGTA's Assessment of IRS Compliance with the Improper Payment Reporting Requirements in FY 2023 and IRS Management's Response

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Assessment of Fiscal Year 2023 Compliance With Improper Payment Reporting Requirements

May 17, 2024

Report Number: 2024-400-026

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

Appendix 2: TIGTA's Assessment of IRS Compliance with the Improper Payment Reporting Requirements in FY 2023 and IRS Management's Response

HIGHLIGHTS: Assessment of Fiscal Year 2023 Compliance With Improper Payment Reporting Requirements

Final Audit Report issued on May 17, 2024 **Report Number 2024-400-026**

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) 2023.

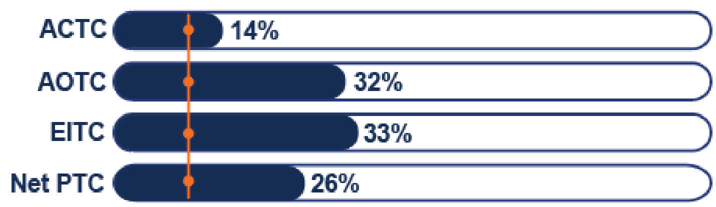
Impact on Tax Administration

The Payment Integrity Information Act of 2019 and the Office of Management and Budget (OMB) define an improper payment as any payment that should not have been made, was made in an incorrect amount, or was made to an ineligible recipient. 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

For FY 2023, the IRS was largely compliant with the reporting requirements contained in the Payment Integrity Information Act of 2019. However, the IRS still has not satisfied the Payment Integrity Act goal to reduce improper payment rates to less than 10 percent.

The IRS estimated the improper payment rates for the following programs: Additional Child Tax Credit (ACTC), American Opportunity Tax Credit (AOTC), Earned Income Tax Credit (EITC) and Net Premium Tax Credit (PTC).



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

In the FY 2023 Agency Financial Report, the IRS noted that part of its actions to mitigate the risk of improper payments included outreach to taxpayers and tax preparers in lieu of conducting additional pre-refund audits. The IRS has implemented several different outreach initiatives intended to raise public awareness and encourage eligible taxpayers to claim refundable tax credits. Specifically, the IRS will reduce the number of pre-refund audits focused on refundable tax credits while also expanding outreach to help taxpayers claim the credits correctly at the time of filing. According to the IRS, focusing on helping taxpayers submit accurate filings will increase payment accuracy while reducing administrative burdens for both the IRS and the tax filer. In addition, the IRS also intends to increase enforcement activities that focus on unscrupulous preparers who contribute to the noncompliance in this area. However, these initiatives may not make an immediate impact on the improper payment rates.

Finally, this review also found that the Department of the Treasury risk assessment template does not allow the IRS to provide an accurate assessment of improper payment risk. While the results of the qualitative risk assessments for the Advance Child Tax Credit and Child and Dependent Care Tax Credit indicated that these credits were not susceptible to improper payment risk, the IRS deemed them "susceptible." The IRS deemed these programs susceptible because of the similarity of these programs with other programs that have high error rates and deficiencies identified by external audit agencies, such as TIGTA.

What TIGTA Recommended

TIGTA did not make any recommendations in this report.

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20024

May 17, 2024

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Matthew A. Weir
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Assessment of Fiscal Year 2023 Compliance With Improper Payment Reporting Requirements (Audit No.: 2024400001)

This report presents the results of our review to determine whether the Internal Revenue Service complied with the annual improper payment reporting requirements for Fiscal Year 2023. This review is part of our Fiscal Year 2024 Annual Audit Plan and addresses the major management and performance challenge of *Tax Fraud and Improper Payments*.

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

Assessment of Fiscal Year 2023 Compliance
With Improper Payment Reporting Requirements

Table of Contents

Assessment of Fiscal Year 2023 Compliance
With Improper Payment Reporting Requirements

Background

The Payment Integrity Information Act of 2019 (PIIA) and the Office of Management and Budget (OMB) define an improper payment as any payment that should not have been made, was made in an incorrect amount, or was made to an ineligible recipient.[1] Agency Inspectors General are responsible for evaluating agency information related to improper payments.

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

Executive Order 13520, *Reducing Improper Payments*, issued on November 20, 2009, requires Federal agencies to provide agency Inspectors General with detailed information on efforts to identify and reduce the number of improper payments in Federal programs with the highest dollar value of improper payments.

The *Consolidated Appropriations Act of 2021*, enacted on December 27, 2020.[3] This Act directed the Internal Revenue Service (IRS) to make the elimination of improper payments an utmost priority. In addition, the Act directed the IRS to implement, within 270 calendar days of enactment of the Act, all open and unimplemented recommendations from the Treasury Inspector General for Tax Administration (TIGTA) and the Government Accountability Office that address improper payments, or report on impediments to implementation of each open recommendation. We previously assessed the IRS's compliance with this requirement and found the IRS reported all unimplemented recommendations as required.[4]

OMB Circular A-123 Appendix C, *Requirements for Payment Integrity Improvement*, issued on March 5, 2021. Appendix C provides agencies and Inspectors General with guidance on improper payment determinations and reporting. Every year, each agency Inspector General must review its agency's improper payment reporting in the 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.

[1] Pub. L. No. 116-117, 134 Stat. 113. Additionally, see Appendix V for a glossary of terms.
[2] See Appendix III for a list of repealed improper payment laws.
[3] Pub. L. No. 116-260, 134 Stat. 1182.
[4] TIGTA, Report No. 2021-40-036, *Improper Payment Rates for Refundable Tax Credits Remain High* (May 2021) and TIGTA, Report No. 2022-40-037, *Programs Susceptible to Improper Payments Are Not Adequately Assessed and Reported* (May 2022).

**Assessment of Fiscal Year 2023 Compliance
With Improper Payment Reporting Requirements**

Process to identify IRS programs for improper payment risk assessment

Agencies must conduct an improper payment risk assessment at least once every three years for each program with annual outlays over $10 million. The Department of the Treasury (hereafter referred to as Treasury Department) identifies the programs that the IRS must assess for the risk of improper payments each fiscal year. The IRS must complete a Treasury Certification for each program that was not identified as needing a risk assessment this year stating there were no material changes to the program since the last risk assessment was completed. For Fiscal Year (FY) 2023, the Treasury Department selected 15 program fund groups that required certification and six IRS programs that required a risk assessment.[5]

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

Qualitative Risk Assessment – used to assess the risk that a program's internal controls could lead to susceptible improper payments. The OMB requires agencies to conduct qualitative 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. In cases in which a quantitative risk assessment is conducted, it could take one of several forms, such as a statistical assessment similar to what is required for the regular improper payment estimate or a nonstatistical assessment in which its ratio of improper payments and unknown payments is projected to the annual outlays.

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

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

The Treasury Department and the IRS continue to request relief from improper payment reporting requirements for refundable tax credit claims

In their *Business Case to Eliminate Redundant Reporting of Refundable Tax Credits*, dated October 30, 2020, the Treasury Department and the IRS informed the OMB that the tax system is primarily a collection system and not a payment program. Further, the business case states that while the refundable portions of refundable tax credits are considered outlays and currently fall

[5] Appendix II provides the list of the six IRS programs identified by the Treasury Department for improper payment risk assessments in FY 2023.

under the scope of payments under the PIIA, the Treasury Department and the IRS do not believe that refundable tax credits should be considered improper payments under the PIIA because they do not believe that the refundable tax credits meet the definition of payments in the traditional sense. Instead, the Treasury Department believes the credits should be reported only under the Tax Gap framework that comprehensively assesses the tax collection system. The IRS noted in its business case that refundable tax credit overclaims are largely due to their statutory design and the complexities taxpayers face when self-certifying eligibility and not due to internal control weaknesses, financial management deficiencies, or reporting failures. In addition, the IRS noted that Tax Gap estimates and other comprehensive compliance analyses are more effective in helping the IRS identify noncompliance and allocate limited resources effectively. In May 2023, we reported that the OMB continues to review the IRS's business case, provided to the OMB in October 2020.[6] As of March 26, 2024, IRS officials confirmed that there have been no changes in the status of refundable credits reporting. The IRS continues to support the business case and is working to find a better approach to reporting on these programs.

Results of Review

The OMB defines high-priority programs as programs with improper payments resulting in monetary losses that exceed $100 million annually. For FY 2023, as shown in Figure 1, the IRS reported the estimated dollar amount and percentage rate of improper payments associated with four of its high-priority programs susceptible to improper payments: Additional Child Tax Credit (ACTC); American Opportunity Tax Credit (AOTC), Earned Income Tax Credit (EITC) and Net Premium Tax Credit (PTC).

Figure 1: FY 2023 Total Claims, Improper Payments, and Improper Payment Rates[7]

Program	Claims (in billions)	Improper Payments (in billions)	Improper Payment Rate
ACTC	$3.8	$0.5	14.5%
AOTC	$5.2	$1.7	31.6%
Net PTC	$3.7	$1.0	26.0%
EITC	$65.4	$21.9	33.5%

Source: FY 2023 Treasury AFR.

[6] TIGTA, Report No. 2023-40-032, *Fiscal Year 2022 Improper Payment Reporting Requirements Were Largely Met; However, Improper Payment Estimates Are Less Precise* (May 2023).

[7] For presentation purposes, the improper payment rates, total payments, and estimated improper payments as presented may be impacted by rounding. Further detail is available within the datasets found on www.paymentaccuracy.gov.

Assessment of Fiscal Year 2023 Compliance With Improper Payment Reporting Requirements

The IRS was largely compliant with the reporting requirements contained in the PIIA for FY 2023. Although the IRS complied with 12 of 13 requirements, it still has not satisfied the PIIA goal of reducing the overall improper payment rate for the ACTC, AOTC, EITC, and the Net PTC to less than 10 percent. As we have reported previously, 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 explained in the Treasury AFR, which the IRS did.[8]

Figure 2 provides a summary of our evaluation of the IRS's compliance with the various improper payment reporting requirements.

Figure 2: Compliance With Improper Payment Requirements for FY 2023

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	✓
Conducted improper payment risk assessments for each program with annual outlays greater than $10 million at least once in the last three years.	PIIA	✓
Adequately concluded whether programs are likely to make improper payments and unknown payments above or below statutory threshold.[9]	PIIA	✓
Published improper payment and unknown payment estimates for programs susceptible to improper payments and unknown payments in accompanying materials to the annual financial statement.	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 improper payment and unknown payment reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	PIIA	✓

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

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

Assessment of Fiscal Year 2023 Compliance With Improper Payment Reporting Requirements

Improper Payment Requirement	Source of Requirement	IRS Compliance
Demonstrated improvements to payment integrity or to reach a tolerable improper payment and unknown payment rate.	PIIA	✓
Developed a plan to meet the improper payment and unknown payment reduction target.	PIIA/ Executive Order	✓
Reported an improper payment and unknown payment estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the annual financial statement.	PIIA	✗
Established targets to reduce and recover improper payments.	Executive Order	✓
Provided the methodology to identify and measure improper payments.	Executive Order	✓
Provided plans and supporting analysis to ensure that the initiatives undertaken do not unduly burden program access and participation by eligible beneficiaries.	Executive Order	✓

Source: TIGTA's review of the IRS's compliance with improper payment requirements for FY 2023 for the IRS's four high-risk programs.

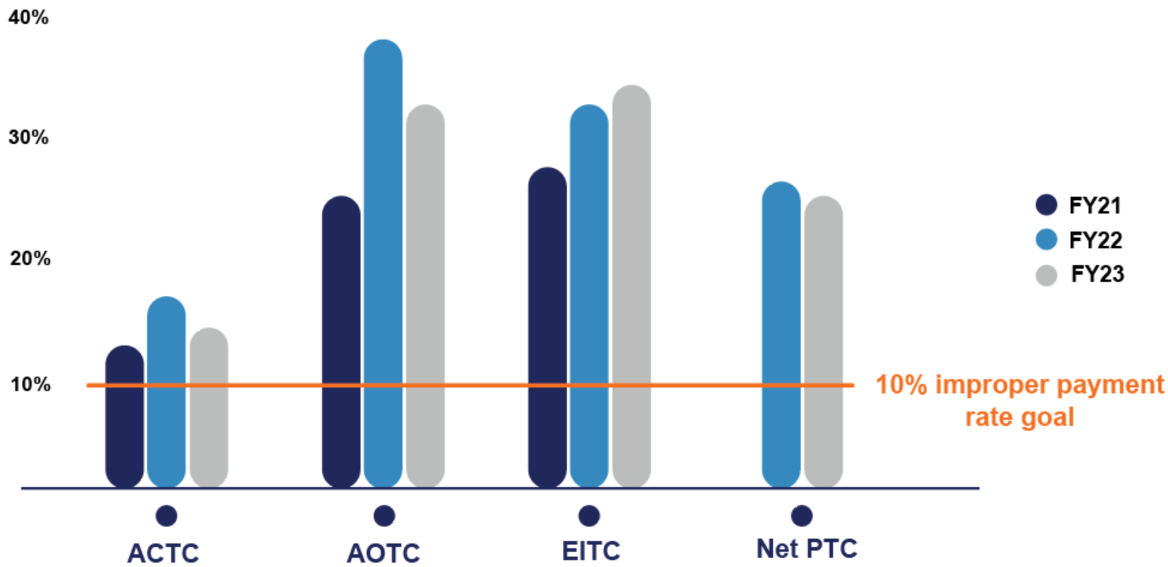
The OMB also posts quarterly scorecards associated with high-priority programs to www.paymentaccuracy.gov. It determines the scorecards to be posted based on the prior year's AFR. We previously reported that the Treasury Department expected to report on the Net PTC in its quarterly scorecards for FY 2023.[10] We found that all required quarterly scorecards were posted to www.paymentaccuracy.gov for FY 2023.[11]

Despite Internal Revenue Service Efforts, Improper Payment Rate Estimates Continue to Be High

The IRS has been unable to reduce improper payment rate estimates to less than 10 percent for each of its high-risk programs, most notably the EITC. According to the Treasury AFR, the EITC estimated error rates have ranged from 22.8 percent to 33.5 percent from FY 2006 through FY 2023. This is despite the IRS's efforts to reduce these rates. Figure 3 provides a comparison of the improper payment rates from FY 2021 through FY 2023.[12]

[10] TIGTA, Report No. 2023-40-032, *Fiscal Year 2022 Improper Payment Reporting Requirements Were Largely Met; However, Improper Payment Estimates Are Less Precise* (May 2023).
[11] For FY 2023, the OMB waived the 1st quarter scorecards reporting for all agencies.
[12] Beginning in FY 2022, the IRS changed its estimation of improper payments. Specifically, the IRS relied on a smaller National Research Program sample size and changed the period for reporting on claims and improper payments. In May 2023, we reported that this change to the sampling plan makes interpreting year-to-year changes in the IRS's reported improper payment estimates difficult.

Figure 3: FY 2021 Through FY 2023 Improper Payment Rates[13]



Source: Information obtained from www.paymentaccuracy.gov.

The IRS's outreach initiatives may not have an immediate impact on reducing improper payments

In the FY 2023 AFR, the IRS noted that part of its actions to mitigate the risk of improper payments included outreach to taxpayers and tax preparers in lieu of conducting additional pre-refund audits. The IRS has implemented several different outreach initiatives intended to raise public awareness and encourage eligible taxpayers to claim refundable credits. Specifically, the IRS will reduce the number of pre-refund audits focused on refundable credits while also expanding outreach to help taxpayers claim the credits correctly at the time of filing. According to the IRS, focusing on helping taxpayers submit accurate filings will increase payment accuracy while reducing administrative burdens for both the IRS and the tax filer. In addition, the IRS also intends to increase enforcement activities that focus on unscrupulous preparers who contribute to the noncompliance in this area. However, these initiatives may not make an immediate impact on the improper payment rates, if at all, due to the time it takes for taxpayers to file returns and for the IRS to examine those returns. The following are details of the IRS's refundable credits strategies targeting both taxpayers and tax practitioners to help increase payment accuracy.

Outreach and Education

The IRS implements strategies that educate taxpayers and preparers by proactively sharing information about the eligibility requirements for refundable credits and identifying the most common errors. Some of their outreach and education strategies include the following:

[13] The IRS did not start calculating the improper payment estimates for Net PTC until FY 2022.

- **Nationwide Tax Forums and Refundable Credits Summit**. These annual events are instrumental in helping the IRS achieve its strategic goals of improving taxpayer service and reducing improper payments. The Nationwide Tax Forums provide tax professionals with the latest information they need to prepare accurate tax returns and reduce improper payments. The IRS noted that historically 10,000 to 15,000 external participants attend the Nationwide Tax Forums and 40 to 45 external participants from approximately 29 organizations and agencies attend the annual Refundable Credit Summit.
- **Technical Training and Tax Preparer Toolkits**. The IRS provides training modules and free resources on IRS.gov to assist tax return preparers with due diligence requirements and information on refundable credits.
- **Webinars and Tax Preparer Alerts**. The IRS hosts virtual discussions and issues alerts on refundable credits and eligibility requirements.
- **EITC Central and EITC Awareness Day**. The IRS maintains a website (https://www.eitc.irs.gov/) dedicated to providing resources to taxpayers and tax return preparers on eligibility for the EITC. The IRS also participates in social media awareness campaigns and provides images, sample messages, and targeted audience suggestions for its partners to post on social media to help spread awareness. Additionally, in January 2024, the IRS and partners highlighted the importance of the EITC during its "EITC Awareness Day."

Refundable Credits Return Preparer Strategy

The IRS has indicated that refundable credit noncompliance among tax return preparers has been a growing concern for several years. The IRS has shifted its focus from examining potentially noncompliant taxpayers to addressing noncompliant return preparers who file tax returns claiming the ACTC, AOTC, and EITC.[14] Some of these efforts include:

- **Focused treatment for return preparers**. The IRS plans to focus their efforts on up to 23,865 potentially noncompliant tax return preparers during FY 2024, which represents an increase of almost 20 percent from the FY 2023 plan. The IRS intends to conduct focused correspondence examinations, outbound calls, and post-refund client audits of preparers with patterns of noncompliance. Tax return preparers are assigned treatments based on the level of risk, which is derived from a combination of return volume, egregiousness, treatment history, and degree of improvement. In addition, the IRS can issue letters to alert return preparers who prepared highly questionable refundable credits or to alert them that some of their clients who claimed the EITC will be audited.

[14] TIGTA currently has a separate audit, *Changes to the Earned Income Taxpayer Credit Audit Examination Strategy* (Audit No. 2024308026), to review the Wage and Investment Division's portion of the IRS's examination plan and the changes to the EITC case selection processes to ensure a fair and equitable examination selection process and to assess compliance with the Secretary of Treasury's directive to the IRS.

- "**Knock and Talk**" **visits**. "Knock and Talk" visits are optional educational visits, conducted in-person by revenue agents or special agents with the IRS's Criminal Investigation division. These visits are intended to educate tax return preparers on their due diligence requirements and any changes to tax law. The IRS plans 426 "Knock and Talk" visits for FY 2024.
- "**Ghost preparers**." The IRS is using data analytics to identify "ghost preparers" and reach out to taxpayers to help it identify who these preparers are that did not sign the return. In February 2024, the IRS issued approximately 1,000 letters to taxpayers trying to obtain information on these "ghost preparers."

Notices and Letters to Taxpayers

The IRS is issuing notices and letters to taxpayers to both encourage potentially eligible taxpayers to take a credit and inform taxpayers who were not selected for audit of their potential risk of noncompliance. Examples of the IRS issuing letters and notices to taxpayers are as follows:

- **Letter 6589, *EITC Compliance Refresh-Letter 1 (Soft)*,** was issued to approximately 55,000 taxpayers in January 2024. This letter informs taxpayers, not selected for audit, that they may not be entitled to some or all of the EITC claimed on their tax return. The letter instructs taxpayers to review their return to confirm eligibility and if the credit was claimed in error, file an amended return to remove or recalculate the credit.
- **Letter 6591, *Advance Child Tax Credit Outreach Letter for TY 21 filers yet to file (English & Spanish)***, was sent to 1,824,071 taxpayers who had not yet filed a Tax Year 2021 return as of November 1, 2023, but to whom IRS records indicate Advance Child Tax Credit payments were issued, to inform them of the need to file a Tax Year 2021 return to claim any remaining amount of child tax credit to which they may be entitled. This letter was issued in response to a prior TIGTA review that identified 4.1 million taxpayers who did not file a Tax Year 2021 return but may have been eligible to claim the credit.[15]
- **Letter 6571, *ARPA Section 9663 Notice***, was issued to 10,069 taxpayers advising them that they may be eligible to receive a refund of additional PTC or excess Advance PTC that they repaid for Tax Year 2021. This letter was issued in response to a TIGTA recommendation to send letters to 10,069 taxpayers.[16]
- **Notices**. Based on information available at filing, taxpayers who appear to qualify for the EITC or ACTC, but do not claim the credits will receive one of the following notices: CP 08, *You May Qualify for Child Tax Credit (CTC)*; CP 09, *Earned Income Credit - You*

[15] TIGTA, Report No. 2023-47-035, *American Rescue Plan Act: Review of the Reconciliation of the Child Tax Credit* (June 2023).
[16] TIGTA, Report No. 2023-47-036, *American Rescue Plan Act: Continued Review of Premium Tax Credit Provisions* (June 2023).

May Be Entitled to EIC (issued to taxpayers with at least one qualifying child); or CP 27, *EIC Potential for T/P Without Qualifying Children*. The IRS indicated that the historical response rate to these notices is around 20 percent.

The Treasury Department Risk Assessments Still Do Not Accurately Reflect the Level of Risk for the IRS Refundable Credit Programs

Our review of the risk assessment template found that it does not allow the IRS to provide an accurate assessment of improper payment risk. The risk assessments are created and distributed by the Treasury Department and were updated in FY 2023 based on trends the Treasury Department noticed throughout all the bureaus. Thus, the questions on the risk assessment are for general applicability and not intended to cover the unique nature of the IRS refundable credits program.

Although the results of the completed qualitative risk assessments for the Advance Child Tax Credit and Child and Dependent Care Tax Credit indicated that these credits were not susceptible to improper payment risk, the IRS revised the risk assessment and deemed them "susceptible." The IRS deemed these programs susceptible because of the similarity of these programs with other programs that have high error rates and deficiencies identified by external audit agencies, such as TIGTA. Figure 4 outlines some of the reasons the IRS used to support its decision to change the overall risk rating from "not-susceptible" to "susceptible" in FY 2023.

Figure 4: Results From the FY 2023 Qualitative Risk Assessment

Overall Risk for Payment Type:	Not-susceptible
The IRS has completed this form accurately and fairly. However, because of the similarity of this program with other programs that have high error rates, and because refundable tax credits do not have the traditional characteristics of a payment program (i.e., the program relies on taxpayer certification), the IRS deems this program *Susceptible* in contrast to the result of this questionnaire.	

Source: Excerpt from the FY 2023 Qualitative Risk Assessment.

We previously reported similar concerns with the accuracy of the assessment of improper payment risk.[17] For example, the annual risk assessments underestimated the risk of improper payments for both ACTC and AOTC despite the IRS's own compliance data showing differently. Because the risk assessment template does not allow for an accurate assessment of improper payment risk, this could become problematic for those programs that are not regularly evaluated by external audit agencies and may have a higher risk than the template identifies.

We met with the IRS and discussed the effectiveness of a risk assessment that must be changed to accommodate IRS programs. Representatives from the IRS Office of the Chief Financial Officer noted that they did not participate in updating the new risk assessment templates and

[17] TIGTA, Report No. 2017-40-030, *Revised Refundable Credit Risk Assessments Still Do Not Provide an Accurate Measure of the Risk of Improper Payments* (Apr. 2017) and TIGTA, Report No. 2016-40-036, *Without Expanded Error Correction Authority, Billions of Dollars in Identified Potentially Erroneous Earned Income Credit Claims Will Continue to Go Unaddressed Each Year* (Apr. 2016).

that it would be difficult to modify the template to reflect the unique nature of the refundable tax credits and still have a generally applicable template. The Treasury Department is aware of this unique nature and has been understanding of the justifications the IRS may have to make when completing the template.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to determine whether the IRS complied with the annual improper payment reporting requirements for FY 2023. To accomplish this objective, we:

- Obtained and reviewed the information that the IRS provided to the Treasury Department for inclusion in the AFR to determine if the information provided satisfied the requirements.
- Evaluated the adequacy of the IRS's FY 2023 risk assessments for the IRS revenue program funds identified by the Treasury Department.
- Reviewed the IRS's methodology to calculate the EITC, ACTC, AOTC, and Net PTC improper payment rates for FY 2023.
- Followed up on select prior audit findings or recommendations to determine their status.

Performance of This Review

This review was performed with information obtained from the Office of the Chief Financial Officer and the Office of Return Integrity located at the IRS Headquarters in Washington, D.C., during the period November 2023 through March 2024. 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 Diana M. Tengesdal, Assistant Inspector General for Audit (Returns Processing and Account Services); Linna K. Hung, Director; Nina A. Hill, Audit Manager; Erica Law, Lead Auditor; Carina Schusterman, Auditor; and Laura Christoffersen, Applied Research and Technology Division.

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.

Appendix II

Programs Identified for Improper Payment Risk Assessments

The following IRS programs were identified by the Treasury Department for improper payment risk assessments for FY 2023.

IRS Program	Type of Assessment	Total Non-Federal Disbursements
Earned Income Tax Credit	IP Estimate	$64.3 billion
Additional Child Tax Credit	IP Estimate	$131.4 billion**
American Opportunity Tax Credit	IP Estimate	$3.8 billion
Premium Tax Credit	IP Estimate	$85.1 billion
Child and Dependent Care Tax Credit	Qualitative	$7.4 billion
Advance Child Tax Credit	Qualitative	**

*** Additional Child Tax Credit and Advance Child Tax Credit are reported under the same fund symbol and are part of the same disbursement.*

Source: IRS Office of the Chief Financial Officer. IP = Improper Payment

Appendix III

Improper Payment Laws Repealed by the Payment Integrity Information Act of 2019

Improper Payment Law	Description
Improper Payments Information Act of 2002[1]	Enacted on November 26, 2002, the law requires Federal agencies, including the IRS, to estimate the dollar amount of improper payments and report to Congress annually on the causes of and the steps taken to reduce improper payments.
Improper Payments Elimination and Recovery Act of 2010[2]	Enacted July 22, 2010, the Act redefined what "significant improper payments" are; strengthened agency reporting requirements and defined significant as exceeding either 1.5 percent of program outlays and $10 million of all program activities or $100 million.
Improper Payments Elimination and Recovery Improvement Act of 2012[3]	Enacted on January 10, 2013, the Act codifies many parts of Executive Order 13520 and requires the OMB Director to identify a list of high-priority Federal programs and agencies to develop additional or supplemental measures for tracking progress in reducing improper payments in these programs.
Fraud Reduction and Data Analytics Act of 2015[4]	Enacted on June 30, 2016, the Act requires the OMB to establish guidelines to identify and assess fraud risks and design and implement control activities in order to prevent, detect, and respond to fraud, including improper payments.

Source: TIGTA review of legislation related to improper payments.

[1] Pub. L. No. 107-300, 116 Stat. 2350.
[2] Pub. L. No. 111-204, 124 Stat. 2224.
[3] Pub. L. No. 112-248, 126 Stat. 2390.
[4] Pub. L. No. 114-186, 130 Stat. 546.

Appendix IV

Management's Response to the Draft Report

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

CHIEF FINANCIAL OFFICER

April 30, 2024

MEMORANDUM FOR MATTHEW A. WEIR
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Teresa R. Hunter
Chief Financial Officer

Teresa R. Hunter

Digitally signed by Teresa R. Hunter
Date: 2024.05.02 13:24:14 -04'00'

SUBJECT: Response to Draft Audit Report – Assessment of Fiscal Year 2023 Compliance with Improper Payment Reporting Requirements (Audit #2024400001)

Thank you for the opportunity to review and comment on your draft audit report entitled *Assessment of Fiscal Year 2023 Compliance with Improper Payment Reporting Requirements*. The refundable tax credit (RTC) programs examined in this report are designed to achieve specific economic and social objectives, such as reducing poverty and increasing the affordability of higher education. These, and other social programs, have been expanded and will continue to require education, oversight and compliance activities going forward to ensure taxpayers receive their entitled benefits.

The IRS agrees with your assessment that refundable credit improper payments are not the result of internal control weaknesses. The RTCs do not fit within the improper payment framework, due to their complex eligibility requirements and IRS reliance on taxpayer self-certification of RTC claims. RTC overclaims are more effectively managed and reported holistically within the tax gap, where they can be prioritized relative to all other types of enterprise tax noncompliance mitigation strategies.

To improve fairness in tax administration, starting in FY 2024, the IRS will be reducing the number of correspondence audits focused on the Earned Income Tax Credit, American Opportunity Tax Credit, Health Insurance Premium Tax Credit and Additional Child Tax Credit. The IRS will be focusing more attention on reaching underserved communities to provide education and real-time assistance in claiming available credits and incentives. This is critically important given the complex eligibility rules for these credits. Additionally, we have developed approaches to alert taxpayers promptly to potential issues, such as those related to RTCs, to encourage self-correction upfront and reduce the potential for an audit. These broad efforts present an overhaul in our compliance efforts in a manner that advances our commitment to fair, equitable and effective tax administration.

We appreciate your office's conscientious evaluation of these programs and the IRS's continuing efforts to reduce and eliminate erroneous claims within the structure of the tax administration system. If you have any questions, please contact me at 202-317-4147, or a member of your staff may contact Charles A. Messing, Associate Chief Financial Officer for Internal Controls, at 202-803-9762.

Appendix V

Glossary of Terms

Term	Definition
Additional Child Tax Credit	A credit for individuals who receive less than the full amount of the nonrefundable Child Tax Credit. The ACTC may result in a refund even if no tax is owed.
Advance Premium Tax Credit	A tax credit that is paid in advance to a taxpayer's insurance company to help cover the cost of premiums.
Agency Financial Report	Presents the Treasury Department's financial and performance information for the fiscal year, with comparative prior year data where appropriate.
American Opportunity Tax Credit	A credit for qualified education expenses paid for an eligible student for the first four years of higher education. A partially refundable Federal tax credit used to help parents and college students offset the costs of college.
Earned Income Tax Credit	A refundable tax credit for low-income to moderate-income workers.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
High-Priority Program	Program identified as susceptible to significant improper payments.
Improper Payment	Any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements (including both overpayments and underpayments).
Improper Payment Rate	Amount in improper payments divided by the amount in program outlays.
Net Premium Tax Credit	When the PTC exceeds the Advance PTC (PTC minus Advance PTC = Net PTC). The Net PTC reduces a taxpayer's tax liability and, if it is more than the tax liability, results in a refundable tax credit.
Outlay	A payment to liquidate an obligation generally equal to cash disbursements (the measure of Government spending).
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 improper payments.
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.

Assessment of Fiscal Year 2023 Compliance With Improper Payment Reporting Requirements

Term	Definition
Premium Tax Credit	Refundable tax credit that helps eligible individuals and families cover the premiums for their health insurance purchased through the Health Insurance Marketplace.
Program	Activities or sets of activities recognized as programs by the public, the OMB, or Congress as well as those that entail program management or policy direction.
Qualitative Risk Assessment	A technique used to quantify risk associated with improper payments and unknown payments. For example, a qualitative improper payment risk assessment methodology prioritizes the identified improper payment and unknown payment risks using a predefined rating scale. Risks will be scored based on their probability or likelihood of occurring and the impact on improper payments and unknown payments in the program should they occur.
Quantitative Risk Assessment	A risk assessment technique that focuses on measurable data such as improper or unknown payment amount. For example, a quantitative improper payment risk assessment will provide numerical improper payment amounts and assess the probability of their occurrence. The assessment may be similar to the regular improper payment estimate.
Significant Improper Payment	Annual improper payments and unknown payments, *i.e.*, the sum of monetary loss improper payments, non-monetary loss improper payments, and unknown payments, in the program exceeding 1) both 1.5 percent of program outlays and $10 million of all program or activity payments made during the fiscal year reported or 2) $100 million (regardless of the improper payment percentage of total program outlays).
Tax Gap	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 improper payment.

Appendix VI

Abbreviations

ACTC	Additional Child Tax Credit
AFR	Agency Financial Report
AOTC	American Opportunity Tax Credit
EITC	Earned Income Tax Credit
FY	Fiscal Year
IRS	Internal Revenue Service
OMB	Office of Management and Budget
PIIA	Payment Integrity Information Act of 2019
PTC	Premium Tax Credit
TIGTA	Treasury Inspector General for Tax Administration

To report fraud, waste, or abuse,
contact our hotline on the web at www.tigta.gov or via e-mail at oi.govreports@tigta.treas.gov.

To make suggestions to improve IRS policies, processes, or systems affecting taxpayers, contact us at www.tigta.gov/form/suggestions.

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

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

Appendix 3: Treasury Programs' Compliance with PIIA Criteria

Table 1 below summarizes Treasury programs' compliance with the PIIA reporting requirements by program for programs that are identified as susceptible to significant improper payments for FY 2023 reporting.

***Table 1**: Treasury Programs' Compliance with PIIA Criteria for Programs Identified as Susceptible to Significant Improper Payments*

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

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

Program Name	Published payment integrity information with the annual financial statement (1)	Posted the annual financial statement and accompanying materials on the agency website (1)	Conducted IP risk assessments for each program with annual outlays greater than $10 million at least once in the last three years	Adequately concluded whether the program is likely to make IPs and UPs above or below the statutory threshold	Published IP and UP estimates for programs susceptible to significant IPs in the accompanying materials to the annual financial statement (2)	Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Published IP and UP reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Has demonstrated improvements to payment integrity or reached a tolerable IP and UP rate (2)	Has developed a plan to meet the IP and UP reduction target (2)	Reported an IP and UP estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the annual financial statement (2)
Departmental Offices – PSP Program (3)	Yes	Yes	Yes	No	N/A	N/A	N/A	N/A	N/A	N/A

(1) For the "Published payment integrity information with the annual financial statement" and "Posted the annual financial statement and accompanying materials on the agency website" criterion, which are applicable at an agency level, if the agency is compliant, then the programs are all compliant.
(2) The requirements apply only to programs for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement. For short-term programs such as the COVID-19 programs, Treasury will not plan to report an improper payment estimate either in its AFR or on PaymentAccuracy.gov, per the memorandum, Limitations in Quantifying the Amount and Rate of Improper Payments for Short-Term Programs, submitted to OMB on August 1, 2022.
(3) Risk assessments were performed for FY 2023, and programs were deemed susceptible to significant improper payments.

Table 2 below summarizes Treasury programs' compliance with the PIIA reporting requirements by program for programs not susceptible to improper payments that conducted an improper payment risk assessment in FY 2023 based on Treasury's three-year rotation schedule in accordance with OMB guidance.

***Table 2**: Treasury Programs' Compliance with PIIA Criteria for Programs Not Susceptible to Improper Payments that Conducted an Improper Payment Risk Assessment*

Program Name	Published payment integrity information with the annual financial statement (1)	Posted the annual financial statement and accompanying materials on the agency website (1)	Conducted IP risk assessments for each program with annual outlays greater than $10 million at least once in the last three years	Adequately concluded whether the program is likely to make IPs and UPs above or below the statutory threshold	Published IP and UP estimates for programs susceptible to significant IPs in the accompanying materials to the annual financial statement (2)	Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Published IP and UP reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Has demonstrated improvements to payment integrity or reached a tolerable IP and UP rate (2)	Has developed a plan to meet the IP and UP reduction target (2)	Reported an IP and UP estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the annual financial statement (2)
Fiscal Service – Reimbursements to Federal Reserve Banks	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Federal Reserve Bank Reimbursement Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Treasury Franchise Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – Funds Appropriated to Global Environment Facility	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – Funds Contribution to the Asian Development Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – Contributions International Development Association	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

Program Name	Published payment integrity information with the annual financial statement (1)	Posted the annual financial statement and accompanying materials on the agency website (1)	Conducted IP risk assessments for each program with annual outlays greater than $10 million at least once in the last three years	Adequately concluded whether the program is likely to make IPs and UPs above or below the statutory threshold	Published IP and UP estimates for programs susceptible to significant IPs in the accompanying materials to the annual financial statement (2)	Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Published IP and UP reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Has demonstrated improvements to payment integrity or reached a tolerable IP and UP rate (2)	Has developed a plan to meet the IP and UP reduction target (2)	Reported an IP and UP estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the annual financial statement (2)
Departmental Offices – Contribution to African Development Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – Contribution to Europe Bank for Reconstruction	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – International Fund for Agriculture Development	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – Global Food Security Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Restitution of Forgone Interest	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service – Child and Dependent Care Tax Credit	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service – Advance Child Tax Credit	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – D.C. Water & Sewage	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Travel Promotion Fund, Corp for Travel Promotion	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Community Development Financial Institutions – CDFI Bond Guarantee Program Financing Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A

Program Name	Published payment integrity information with the annual financial statement (1)	Posted the annual financial statement and accompanying materials on the agency website (1)	Conducted IP risk assessments for each program with annual outlays greater than $10 million at least once in the last three years	Adequately concluded whether the program is likely to make IPs and UPs above or below the statutory threshold	Published IP and UP estimates for programs susceptible to significant IPs in the accompanying materials to the annual financial statement (2)	Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Published IP and UP reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Has demonstrated improvements to payment integrity or reached a tolerable IP and UP rate (2)	Has developed a plan to meet the IP and UP reduction target (2)	Reported an IP and UP estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the annual financial statement (2)
Community Development Financial Institutions – Capital Magnet Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Community Development Financial Institutions – CDFI Emergency Response Program	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – Contributions to the IMF Facilities & Trust Funds	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – State Small Business Credit Initiative (SSBCI)	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – Homeowners Assistance Fund (HAF)	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – Emergency Capital Investment Fund (ECIP)	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – Coronavirus Capital Projects Fund (CPF)	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – Local Assistance and Tribal Consistency Fund (LATCF)	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – IA Technical Assistance Program	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A

RMA Associates
Auditors. Consultants. Advisors.

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

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)
Treasury Inspector General for Tax Administration – Treasury IG for Tax Administration	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Financial Crimes Enforcement Network – Salaries and Expenses, FinCEN	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Office of the Comptroller of the Currency	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Alcohol, Tobacco, Tax and Trade Bureau – Internal Revenue, Collections for Puerto Rico	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – Salaries and Expenses, OIG	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A

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

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

Appendix 4: Treasury Management's Response

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

FROM: Anna Canfield Roth
Assistant Secretary for Management

Anna Canfield Roth
Digitally signed by Anna Canfield Roth
Date: 2024.05.29 09:18:35 -04'00'

SUBJECT: Audit of Treasury's Compliance with the Payment Integrity Reporting Requirements for Fiscal Year (FY) 2023

We have reviewed the draft audit report on Treasury's improper payment reporting for FY 2023 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 in compliance with all PIIA requirements for FY 2023, with two exceptions: (1) Treasury did not adequately conclude whether it is likely to make improper payments and unknown payments above or below the statutory threshold for two pandemic relief programs—the Pandemic Relief for Aviation Workers program (also known as the Payroll Support Program or PSP) and the Emergency Rental Assistance Program (ERA); and (2) the Internal Revenue Service (IRS), as reported by the Treasury Inspector General for Tax Administration (TIGTA), did not report an overall improper payment rate of less than 10 percent for four refundable tax credit programs—the Earned Income Tax Credit, the Additional Child Tax Credit, the American Opportunity Tax Credit, and the Net Premium Tax Credit.

Pandemic Relief Programs. Under Treasury's Payroll Support Program (PSP) – which was authorized by the CARES Act (PSP1), Consolidated Appropriations Act of 2021 (PSP2), and the American Rescue Plan Act (PSP3) – Treasury awarded $59 billion in financial assistance to the domestic aviation industry for the continued payment of employee wages, salaries, and benefits. The funding had been urgently needed because the number of airline passengers suddenly dropped by an unprecedented 60% in 2020 due to the COVID-19 pandemic. At Congress' direction, Treasury created and implemented these programs on an expedited timeframe, including the publication of application procedures within five days after the passage of the CARES Act. Approximately 700 large and small businesses in every state received PSP assistance. Recipients reported using the PSP assistance to fully or partially fund the salaries and benefits of more than 640,000 aviation employees during the pandemic, help maintain critical infrastructure capacity, and facilitate industry recovery. Additionally, recipients reported more than 360,000 aviation jobs being retained or created as a result of receiving PSP assistance. Employment levels in the aviation industry now surpass 2019 (pre-pandemic) levels.

The majority of PSP funds – approximately 89 percent – were awarded to large air carriers based on the reports that the carriers had filed with the U.S. Department of Transportation under 14 C.F.R. part 241. In contrast, the CARES Act required Treasury to provide financial assistance to

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

smaller air carriers and aviation contractors in an amount that the applicants certified, using sworn financial statements or other appropriate data, as the amount of wages, salaries, and benefits that they paid to their employees during the time period from April 1, 2019, through September 30, 2019. OIG audits of this latter group have revealed that some smaller recipients overstated their requested awardable amounts due to the improper inclusion of certain categories of expenses. Treasury has recouped $147 million so far. All three PSP programs have now concluded. Treasury will make no further payments to air carriers or aviation contractors.

COVID-19 pushed families across the country to fall behind on their rent—many of whom already struggled with the cost of housing. At the end of 2020, nearly a fifth of renting households reported being behind on rent. One in six reported that eviction within two months was very likely. Through Treasury's Emergency Rental Assistance programs (ERA) – which were authorized by the Consolidated Appropriations Act of 2021 (ERA1) and American Rescue Plan Act (ERA2), respectively – Congress appropriated a total of $47 billion to address financial and housing instability caused by the COVID-19 pandemic. The ERA programs provided critical funding for state, local, territorial, and Tribal governments to prevent eviction and provide assistance to households for rent, utilities, and other eligible expenses. Moreover, Congress tasked Treasury with implementing ERA rapidly and under extraordinary emergency conditions. Despite these challenges, Treasury quickly implemented the program and oversaw unprecedented rental assistance. As of June 30, 2023, ERA had already provided more than 12.3 million rental assistance payments to families in need. The period of performance for ERA1 ended in December 2022 so there are no more payments in ERA1. As of June 30, 2023, grantees in ERA2 (which do not include Tribal governments), have reported to have expended 80% of the ERA2 allocations and have until September 30, 2025 (about 15 months) to expend the remaining funds.

Refundable Tax Credit Programs. 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 prevent the IRS from verifying or validating such amounts prior to making the refund payment. Consequently, RTC overclaims are not the result of internal control weaknesses that we can remediate internally but are, in fact, the result of factors beyond our control under current law and existing authority. Even if we could obtain legislative changes and invest in additional resources and verification solutions that would ultimately reduce overclaims, the benefits derived would be marginal relative to the cost of doing so. Audits by the Government Accountability Office and TIGTA have also concluded that RTC overclaims are largely due to the statutory design and complexity of the RTCs, not internal control weaknesses, financial management deficiencies, or reporting failures.

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

Attached is our response to your recommendations which relate to improving the review of payment integrity deliverable submissions by non-IRS Treasury Components. If you have any

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

questions, please let me know, or you may contact Carole Banks, Deputy Chief Financial Officer, at (202) 286-2202.

Attachment

Attachment 1: Management's Response to PIIA Audit Recommendations

4121 Wilson Blvd, Suite 1100
Arlington, VA 22203
Phone: (571) 429-6600
www.rmafed.com

Attachment 1

Management's Response to PIIA Audit Recommendations

RMA Recommendation #1

RMA recommends Treasury's RCG work with OCA management to consider all information available when answering risk assessment questions to ensure adequate completion and conclusion of susceptibility for these program-specific risk assessments.

Management's Response

Treasury concurs with RCA's recommendation. RCG will revise its Departmental guidance to all Components to better ensure they adequately complete risk assessment questionnaires and consider all information available when concluding on the overall susceptibility of risk.

Implementation Date: May 1, 2025

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

RMA Recommendation #2

RMA recommends Treasury's RCG require OCA management to conduct and provide an updated analysis and justification memo that takes into consideration known and likely improper payments made to recipients at all levels as reflected in audits and other information, that might impact its conclusion on whether payment recapture audits are cost-effective for its pandemic relief programs.

Management's Response

Treasury concurs with this recommendation. RCG will revise its Departmental guidance to better ensure OCA and other Components update their analyses and justification memos as needed to take into consideration updated information related to known and likely improper payments related to recipients at all levels for purposes of concluding on the cost-effectiveness of performing payment recapture audits for their programs.

Implementation Date: May 1, 2025

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

RMA Recommendation #3

RMA recommends Treasury's RCG emphasize the requirement that Components review for completeness and accuracy the tracking sheet used to determine the fund groups that have expended over $1,000,000 and would therefore need to provide evidence of either a payment recapture audit or a justification memo by Treasury's due dates. Further, RCG should complete a thorough review of the tracking sheets submitted by Components for completeness and accuracy.

Management's Response

Treasury concurs with RMA's recommendation. RCG has revised the tracking sheet to automatically highlight fund groups that were previously under $1 million, that are now over the $1 million threshold, and must conduct payment recapture auditing or submit a cost-effective justification memo. During the annual roundtable meeting with Components, RCG reemphasized the requirement that Components must review the tracking sheet for completeness and accuracy. Additionally, a second-party review will be conducted of the internal tracking sheet used to determine all fund groups that have expended over the $1 million threshold.

Implementation Date: August 1, 2024

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

RMA Recommendation #4

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

Management's Response

Treasury concurs with RMA's recommendation. Though this is a repeat condition from prior years, Treasury notes that this finding occurring across a number of its programs declined significantly from 21 instances reported in the prior year's audit down to six instances in this year's audit. RCG made improvements to the FY 2024 risk assessment template provided by Components to streamline and improve the clarity of several questions certain Components previously responded to improperly. Additionally, in our FY 2024 guidance, we accelerated the timing of receipt of the risk assessments to provide RCG more time to review and provide feedback to Components, thus facilitating a more efficient review and clearance process for them. Finally, RCG hosted a roundtable for all Treasury components to discuss the improvements and continue to emphasize the importance of ensuring the accuracy and quality control reviews of the risk assessments.

Implementation Date: August 1, 2024

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

Appendix 5: Report Distribution

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

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

U.S. Senate
- Chairman and Ranking Member
  Committee on Homeland Security and Governmental Affairs

- Chairman and Ranking Member
  Committee on Finance

- Chairman and Ranking Member
  Committee on Appropriations

U.S. House of Representatives
- Chairman and Ranking Member
  Committee on Oversight and Accountability

- Chairman and Ranking Member
  Committee on Ways and Means

- Chairman and Ranking Member
  Committee on Appropriations

U.S. Government Accountability Office
- Comptroller General of the United States

U.S. Congress
- Joint Committee on Taxation

This Page Intentionally Left Blank

REPORT WASTE, FRAUD, AND ABUSE

Submit a complaint regarding Treasury OIG Treasury Programs and Operations using our online form: https://oig.treasury.gov/report-fraud-waste-and-abuse

TREASURY OIG WEBSITE

Access Treasury OIG reports and other information online: https://oig.treasury.gov/