



Treasury Inspector General for Tax Administration Office of Audit

INTERNAL ACCOUNTING ERRORS REDUCED THE FEDERAL FUNDING AVAILABLE FOR UNEMPLOYMENT BENEFITS BY \$63 MILLION DURING FISCAL YEARS 2005 THROUGH 2009

Issued on March 26, 2010

Highlights

Highlights of Report Number: 2010-10-039 to the Internal Revenue Service Chief Financial Officer.

IMPACT ON TAXPAYERS

Our review identified that while additional procedures and controls have been implemented, there are still insufficient controls to ensure that expenses associated with the administration of the Unemployment Trust Fund (the trust fund) are accurately calculated. For example, the Internal Revenue Service (IRS) overestimated its trust fund-related expenses by \$63 million during Fiscal Years 2005 through 2009. As a result, these funds were not available during this period to fund the Federal Government's share of unemployment benefit payments to eligible taxpayers.

WHY TIGTA DID THE AUDIT

This audit was initiated to followup on a Fiscal Year 2003 TIGTA report which found that trust fund administrative expenses submitted by the IRS Chief Financial Officer could not be supported or replicated and that required reports were not always timely submitted or properly prepared.

WHAT TIGTA FOUND

Since our last audit, the IRS has taken several actions to improve the reporting of expenses associated with the administration of the trust fund. Specifically, the IRS developed detailed procedures in Calendar Year 2004 to support the process used to calculate the expenses submitted for reimbursement. These procedures detail the process that the IRS business units should follow when calculating the costs associated with administering the trust fund. In addition, the IRS business units are now required to maintain an audit file to support the costs submitted to the Bureau of the Public Debt for reimbursement.

However, the IRS needs to update its current procedures to ensure more accurate costs are calculated and requested for reimbursement. Specifically, incorrect program codes used by the IRS to track the volume and costs of forms submitted by taxpayers were used to

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calculate Employer's Annual Federal Unemployment Tax Return (Form 940) processing costs, and salary cost estimates for personnel assigned to Form 940-related work were not always properly calculated. These errors in the calculation of IRS administrative expenses resulted in both yearly overcharges and undercharges for the period Fiscal Year 2005 through the second quarter of Fiscal Year 2009, representing a net overstatement of administrative expenses of \$63,368,413.

Further, the IRS should closely monitor the development of future financial accounting system requirements to ensure the capability to track and record trust fund expenses is considered. By taking these actions, TIGTA believes the IRS will be able to more readily and precisely calculate all costs associated with administering the trust fund.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS Chief Financial Officer update the procedures used by the IRS business units to calculate their trust fund administrative expenses; instruct that the audit file and supporting documentation be maintained in a central location for a minimum time period; implement a policy to routinely review documentation supporting the summary cost reports submitted by the IRS business units; and determine, on an annual basis, if new versions of the Form 940 are developed and incorporated into its procedures. Finally, TIGTA recommended that the Chief Financial Officer also ensure the development of a cost accounting capability is considered during the development of future financial accounting system requirements that supports the ability to readily track, record, and report trust fund expenses.

In their response to the report, IRS officials agreed with all of the recommendations in our report and planned to update procedures used by the business units to calculate their trust fund administrative expenses; require that the business units maintain the audit file for a minimum of 3 years; institute quarterly reviews of business unit trust fund expense submissions; determine the completeness of the list of all versions of Form 940 and ensure those versions are included in the calculation of the trust fund administrative expenses; and determine the feasibility of identifying workload management data and integrating it with the IRS financial accounting system to support the tracking, recording, and reporting of trust fund expenses in future financial accounting system requirements.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2010reports/201010039fr.pdf>.

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