Treasury Inspector General for Tax Administration
Office of Audit

THE INTERNAL REVENUE SERVICE IS NOT IN COMPLIANCE WITH ALL IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT REQUIREMENTS

Issued on March 2, 2012

Highlights

Highlights of Report Number: 2012-40-028 to the Internal Revenue Service Chief Financial Officer.

IMPACT ON TAXPAYERS

The Improper Payments Elimination and Recovery Act of 2010 increased agency accountability for reducing improper payments in Federal programs. The only program the IRS has identified for improper payment reporting is the Earned Income Tax Credit (EITC) Program. The IRS estimates that 21 to 26 percent of EITC payments were issued improperly in Fiscal Year 2011. This equates to $13.7 to $16.7 billion in EITC improper payments.

WHY TIGTA DID THE AUDIT

This audit was initiated because the Improper Payments Elimination and Recovery Act of 2010 requires the TIGTA to assess the IRS's compliance with improper payment requirements. The objective of this review was to assess the IRS's compliance with the Improper Payments Elimination and Recovery Act of 2010.

The scope of this review was limited to an assessment of EITC information the IRS provided for inclusion in the *Department of the Treasury Agency Financial Report Fiscal Year 2011.*

WHAT TIGTA FOUND

The methodology the IRS uses to estimate the EITC improper payment rate results in a reasonable estimate of EITC overclaims. However, the IRS did not comply with all of the improper payment requirements included in the Improper Payments Elimination and Recovery Act.

The Department of the Treasury identifies the programs for which the IRS must assess the risk of improper payments. The IRS compiles the required information and forwards it to the Department of the Treasury for inclusion in the Department's agency financial report.

Our analysis of the information the IRS provided to the Department of the Treasury showed that the IRS is not in compliance with all Improper Payments Elimination and Recovery Act requirements. The IRS has not established annual EITC improper payment reduction targets and has not computed a gross estimate of EITC improper payments as the estimate does not include underpayments. An underpayment results when an EITC payment is made in an amount less than what an individual is entitled to receive.

The IRS has plans in place to establish EITC reduction targets and is exploring the feasibility of computing an improper payment estimate for EITC underpayments.

WHAT TIGTA RECOMMENDED

TIGTA made no recommendations in this report.

READ THE FULL REPORT

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

http://www.treas.gov/tigta/auditreports/2012reports/201240028fr.pdf.