Treasury Inspector General
for Tax Administration
Office of Audit

THE INTERNAL REVENUE SERVICE WAS NOT IN COMPLIANCE WITH ALL REQUIREMENTS OF THE IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT FOR FISCAL YEAR 2012

Issued on February 25, 2013

Highlights

Highlights of Report Number: 2013-40-024 to the Internal Revenue Service Chief Financial Officer.

IMPACT ON TAXPAYERS

The Improper Payments Elimination and Recovery Act (IPERA) 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 25 percent of EITC payments were issued improperly in Fiscal Year 2012. The dollar value of these improper payments was estimated to be between $11.6 billion and $13.6 billion.

WHY TIGTA DID THE AUDIT

This audit was initiated because the IPERA requires 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 IPERA. 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 2012*.

WHAT TIGTA FOUND

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.

TIGTA's analysis of the information the IRS provided to the Department of the Treasury showed that the IRS is not in compliance with all IPERA requirements. Specifically, the IRS has not established annual EITC improper payment reduction targets and has not reported an improper payment rate of less than 10 percent. This is the second consecutive year that the IRS is not in compliance with the IPERA.

Although the IRS has implemented a number of programs over the years to address EITC improper payments, the IRS faces significant challenges to becoming compliant with the IPERA. Specifically, the process the Department of the Treasury uses to assess the risk of improper payments within its bureaus does not effectively assess the risk of improper payments in tax administration. In addition, the ever-changing population of EITC claimants makes it difficult for the IRS to gain lasting improvements in EITC compliance through outreach, education, and enforcement.

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/2013reports/201340024fr.pdf.