Treasury Inspector General for Tax Administration
Office of Audit

THE INTERNAL REVENUE SERVICE FISCAL YEAR 2013 IMPROPER PAYMENT REPORTING CONTINUES TO NOT COMPLY WITH THE IMPROPER PAYMENTS ELIMINATION AND RECOVERY ACT

Issued on March 31, 2014

Highlights

Highlights of Report Number: 2014-40-027 to the Internal Revenue Service Chief Financial Officer.

IMPACT ON TAXPAYERS

The Improper Payments Elimination and Recovery Act (IPERA) of 2010 strengthened agency reporting requirements and redefined "significant improper payments" in Federal programs. The Office of Management and Budget has declared the Earned Income Tax Credit (EITC) Program a high-risk program that is subject to reporting in the *Department of the Treasury Agency Financial Report.* The IRS estimates that 22 to 26 percent of EITC payments were issued improperly in Fiscal Year 2013. The dollar value of these improper payments was estimated to be between $13.3 billion and $15.6 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 included an assessment of EITC information the IRS provided for inclusion in the *Department of the Treasury Agency Financial Report Fiscal Year 2013* and a review of the IRS's progress on previous recommendations.

WHAT TIGTA FOUND

The IRS continues to not provide all required IPERA information to the Department of the Treasury for inclusion in the *Department of the Treasury Agency Financial Report Fiscal Year 2013*. For the third consecutive year, the IRS did not publish annual reduction targets or report an improper payment rate of less than 10 percent for the EITC.

IRS management has indicated that the IRS and the Department of the Treasury are in continued discussions with the Office of Management and Budget to obtain its approval to develop supplemental measures that are appropriate to gauge the impact of EITC compliance and outreach efforts in lieu of developing error reduction targets.

Finally, although risk assessments were performed for each of the programs that the Department of the Treasury required the IRS to assess, the risk assessment process still may not provide a valid assessment of improper payments in tax administration. As such, the EITC remains the only revenue program fund to be considered at high risk for improper payments.

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/2014reports/201440027fr.pdf.

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