Treasury Inspector General for Tax Administration
Office of Audit

ASSESSMENT OF INTERNAL REVENUE SERVICE COMPLIANCE WITH THE IMPROPER PAYMENT REPORTING REQUIREMENTS IN FISCAL YEAR 2014

Issued on April 27, 2015

Highlights

Highlights of Report Number: 2015-40-044 to the Internal Revenue Service Chief Financial Officer.

IMPACT ON TAXPAYERS

The Improper Payments Elimination and Recovery Act (IPERA) of 2010 and subsequent legislation 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 (Treasury) Agency Financial Report. The IRS estimates that 27 percent or $17.7 billion in EITC payments were issued improperly in Fiscal Year 2014.

WHY TIGTA DID THE AUDIT

This audit was initiated because TIGTA is required to assess the IRS's compliance with the reporting requirements contained in the IPERA; Executive Order 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*; and the Improper Payment Elimination and Recovery Improvement Act of 2012. The objective of this review was to determine whether the IRS complied with the annual improper payment reporting requirements for Fiscal Year 2014.

WHAT TIGTA FOUND

The IRS provided all required improper payment information to Treasury for inclusion in the *Department of the Treasury Agency Financial Report Fiscal Year 2014* with the exception of reporting an overall EITC improper payment rate below 10 percent. The IRS is unlikely to achieve an improper payment rate below 10 percent without expanded authorities to address identified erroneous claims.

In addition, although the IRS completed risk assessments of the 23 program fund groups identified by Treasury, the risk assessment process still does not provide a valid assessment of improper payments in IRS programs. For example, each year since Fiscal Year 2011, the IRS has continually rated the risk of improper payments associated with the Additional Child Tax Credit (ACTC) as low.

However, our review of the IRS's own enforcement data indicates that the ACTC improper payment rate is similar to that of the EITC. TIGTA estimates that the ACTC improper payment rate for Fiscal Year 2013 is between 25.2 percent and 30.5 percent, with potential ACTC improper payments totaling between $5.9 billion and $7.1 billion.

On March 20, 2014, the Office of Management and Budget issued supplemental improper payment guidance to Treasury clarifying the requirement for annual risk assessments of all refundable tax credits. The Office of Management and Budget guidance clarified that all refundable credits, *i.e.*, the ACTC, are subject to IPERA requirements as they represent an additional outlay of funds by the Government.

TIGTA reported its concern regarding the IRS's incorrect assessment of the risk associated with the ACTC subsequent to the IRS's Fiscal Year 2014 risk assessments. TIGTA will continue to evaluate the reasonableness of the IRS's assessment of the risk of improper refundable tax credit payments when TIGTA reviews the IRS's compliance with the improper payment requirements in Fiscal Year 2015.

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/2015reports/201540044fr.pdf.