
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Office of Inspections and Evaluations



RECOVERY ACT

*Review of the Internal Revenue Service's
American Recovery and Reinvestment Act
Fund Expenditures During the Period
April 1, 2010, Through September 30, 2010*

February 7, 2013

Reference Number: 2013-IE-R003

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 7, 2013

MEMORANDUM FOR DEPUTY COMMISSIONER FOR OPERATIONS SUPPORT

FROM: R. David Holmgren *R. David Holmgren*
Deputy Inspector General for Inspections and Evaluations

SUBJECT: Final Inspection Report – Review of the Internal Revenue Service’s American Recovery and Reinvestment Act Fund Expenditures During the Period April 1, 2010, Through September 30, 2010 (IE-12-001-A)

This report presents the results of our inspection to evaluate the Internal Revenue Service’s (IRS) compliance with the Office of Management and Budget’s (OMB) implementing guidance for the American Recovery and Reinvestment Act of 2009 (Recovery Act).¹ This is the third in a series of inspections regarding compliance with OMB Recovery Act guidance.

The overall objective of this inspection was to verify the accuracy and timeliness of the payment of the IRS’s Recovery Act procurement invoices and the timeliness and transparency of reporting these expenditures for the period April 1, 2010, through September 30, 2010.

The Recovery Act provides separate funding to the Treasury Inspector General for Tax Administration through September 30, 2013, to be used in the oversight activities of the IRS’s programs. This inspection was conducted using Recovery Act funds.

Synopsis

Our review of the IRS Recovery Act-related expenditures from April 1, 2010, through September 30, 2010, showed that the IRS was substantially in compliance with the OMB’s Recovery Act implementation guidance. The IRS purchased Recovery Act-related goods and services totaling more than \$27 million during the period and obtained 92.2 percent of the more than \$225,000 in funds available for discounts on Recovery Act-related procurements. For these

¹ Pub. L. No. 111-5, 123 Stat. 115 (2009).



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expenditures, the IRS executed adequate internal controls to ensure accurate and timely reporting.

However, we observed that 11 weeks of the Financial and Activity Reports for the IRS Recovery Act expenditures, totaling approximately \$7.4 million, were not posted on <http://www.recovery.gov> (Recovery.gov). As a result, one of the major goals of the Recovery Act, to establish unprecedented transparency, was not fully achieved because the public was not able to timely see the complete IRS Recovery Act expenditure data on the website. These omissions were corrected on September 6, 2012, after our discussion with the IRS about its controls and processes for Recovery Act expenditures. Also, the IRS made two delayed invoice payments, resulting in additional payments of more than \$18,000.

Response

IRS management agreed with the observations in our report. Management's complete response is included in Appendix IV.

If you have questions, please contact me at (202) 927-7048 or Kevin P. Riley, Director, Office of Inspections and Evaluations, at (972) 249-8355.



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Abbreviations

FAR	Financial and Activity Report
IRS	Internal Revenue Service
OMB	Office of Management and Budget
RATB	Recovery Accountability and Transparency Board
SOAF	Status of Available Funds



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Background

The American Recovery and Reinvestment Act of 2009 (Recovery Act),¹ enacted on February 17, 2009, allocated \$787 billion over 10 years designed to stimulate the national economy. The Recovery Act contained both spending and tax provisions.

The Internal Revenue Service (IRS) is responsible for administering the tax law changes contained in the Recovery Act. In April 2009, the IRS received \$202 million of its appropriation of Recovery Act funds.² These funds are required to implement the necessary tax-related changes resulting from provisions of the Recovery Act. The changes included reprogramming the IRS computer systems, updating related tax forms and publications, and providing customer service to assist taxpayers in obtaining their Recovery Act benefits. As of September 30, 2010, the IRS had obligated more than \$189 million, with disbursements exceeding \$165 million.

One of the stated goals of the Recovery Act is to “foster unprecedented levels of accountability and transparency in government spending.” The Recovery Accountability and Transparency Board (RATB)³ provides transparency to the public concerning Recovery Act funds by publishing the IRS’s (as well as other Federal agencies’) use of recovery funds on Recovery.gov.

The Office of Management and Budget (OMB)⁴ issued several supplemental guidance documents⁵ that outlined steps for implementing the Recovery Act and clarified the requirements for processing procurements. Federal agencies are required to:

¹ Pub. L. No. 111-5, 123 Stat. 115 (2009).

² This appropriation included \$80 million for Fiscal Years 2009 through 2010 to implement the Health Coverage Tax Credit program. The IRS also received \$123 million for supporting tax provision changes cited in the Recovery Act. The Department of the Treasury retained \$1 million for administrative oversight, resulting in the IRS receiving \$202 million.

³ The RATB was created by the Recovery Act with two goals: to provide transparency of Recovery Act funds and to prevent and detect fraud, waste, and mismanagement. Twelve Inspectors General from various Federal agencies serve with the chairman. The RATB issues quarterly and annual reports to the President and Congress and, if necessary, “flash reports” on matters that require immediate attention.

⁴ The OMB has primary responsibility for developing Government-wide rules and procedures to ensure that funds are awarded and distributed in a prompt and fair manner, that use of funds is transparent to the public, and that steps are taken to mitigate fraud, waste, and abuse.

⁵ M-09-10, *Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (Feb. 18, 2009); M-09-15, *Updated Implementing Guidance for the American Recovery Reinvestment Act of 2009* (Apr. 3, 2009); and M-10-34, *Updated Guidance on the American Recovery and Reinvestment Act* (Sept. 24, 2010).



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- Report to the RATB, on a weekly basis, all cumulative Recovery Act obligations and gross outlays (expenditures)⁶ in a standard reporting format;
- Report their cumulative activity through Friday and submit their weekly reports the following Tuesday; and
- Use separate Treasury Appropriation Fund Symbols⁷ to track and report Recovery Act obligations and disbursements.

The IRS's Office of the Chief Financial Officer prepares the Total Obligations and Gross Outlays sections of the OMB Financial and Activity Report (FAR) and submits it to the IRS's Recovery Act staff every week. The IRS Recovery Act staff members validate the information and post it to the OMB's MAX web page⁸ for the Department of the Treasury's consolidation and approval prior to the final posting on Recovery.gov.

In performing this review during the period July through October 2012, we obtained relevant data and information from personnel at the IRS Headquarters in Washington, D.C., and the Beckley Financial Center in Beckley, West Virginia. The review included Recovery Act invoices submitted to the IRS for payment during the period April 1, 2010, through September 30, 2010.

This inspection was performed in accordance with the Council of the Inspectors General for Integrity and Efficiency Quality Standards for Inspections. Detailed information on the objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁶ Total Obligations equal the sum of financial commitments and expenditures. Total Outlays consist of expenditures only.

⁷ Treasury Appropriation Fund Symbol is an identification code assigned by the Department of the Treasury, in collaboration with the OMB and the owner agency, to an individual appropriation, receipt, or other fund account. It is used to describe a particular type of Treasury Fund Symbol that has budget authority. All financial transactions of the Federal Government are classified by a Treasury Fund Symbol for reporting to the Department of the Treasury and the OMB.

⁸ The OMB's MAX web page, <https://max.omb.gov/maxportal/home.do>, is an Internet site for Federal agencies to send apportionment requests to the OMB.



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Results of Inspection

Recovery Act Expenditures Were Reported Accurately and Timely; However, Recovery.gov Was Not Updated to Ensure Transparency

During the period April 1, 2010, through September 30, 2010, the IRS continued procurement actions implementing the Recovery Act program objectives. For this period, the IRS purchased Recovery Act-related goods and services totaling more than \$27 million and obtained 92.2 percent of the more than \$225,000 in funds available for discounts. The IRS spent just under \$22.6 million on the Health Insurance Tax Credit Administration and more than \$4.7 million in Recovery Act administrative costs. These purchases consisted of system changes for reprogramming the IRS's computer systems and updating related tax forms and publications. Additionally, the IRS spent funds on customer service enhancements to assist taxpayers in obtaining Recovery Act benefits. For these expenditures, the IRS executed adequate internal controls to ensure timely reporting, but it delayed payment for two invoices, resulting in avoidable payments of more than \$18,000.⁹

The RATB includes timely received reports from the agencies in its weekly posting to Recovery.gov. This process ensures that the IRS's use of Recovery Act funds is transparent to the public as required by the Recovery Act. Our review showed that 11 of the 26 weeks of the IRS's FAR data, totaling approximately \$7.4 million, were missing from the Recovery.gov website. The IRS and the Department of the Treasury timely forwarded the FAR information for posting to the website. However, we were unable to determine why the information was not posted to the website timely. These omissions resulted in a lack of transparency for the IRS's Recovery Act expenditures. Transparency involves timely and accurate posting of FAR data on the website in compliance with OMB guidance.

After the Treasury Inspector General for Tax Administration informed the IRS of the missing data, the reports were updated on Recovery.gov on September 6, 2012. Subsequently, we were able to reconcile all 26 weeks of the Expenditures and Disbursements on the Status of Available Funds (SOAF) Report to the Obligations and Outlays reported on the FAR¹⁰ for both direct expenses and interagency transfer costs.

⁹ On one invoice payment, the IRS did not take \$17,583 of the total discount offered by the contractor due to delay in payment. On another invoice, an overpayment of \$1,159 was incurred due to late payment.

¹⁰ The FARs and the SOAF Reports for the period in review did not reflect the sum of \$32,934 paid to one of the vendors on September 29, 2010, but the amount was included in the reports for the week ending October 22, 2010.



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***Financial Reports Substantially Complied With the Office of
Management and Budget's Implementing Guidance and Recovery Act
Requirements***

The IRS complied with OMB guidance and Recovery Act requirements by:

- Submitting weekly reports of its cumulative Recovery Act obligations and gross outlays in the prescribed format;
- Using separate Treasury Appropriation Fund Symbols for its two Recovery Act funds; and
- Ensuring Recovery Act expenditures were timely forwarded to the Department of the Treasury for timely posting to Recovery.gov.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this inspection was to verify the accuracy of the IRS's accounting and timeliness of reporting of American Recovery and Reinvestment Act of 2009 (Recovery Act)¹ procurement expenditures. We reviewed all 29 invoices paid for the period April 1, 2010, through September 30, 2010, electronic files of which were provided to us by representatives from the IRS Beckley Finance Center in Beckley, West Virginia. The IRS purchased goods and services totaling more than \$27 million during this period.

To accomplish this objective, we:

- I. Documented procedures used to identify, record, and report Recovery Act expenditures, including internal controls.
 - A. Interviewed an analyst in the Budget Execution Office in the IRS's Headquarters to identify the reporting process.
 - B. Reviewed the FARs for the period under inspection, which are posted on <http://www.recovery.gov> (Recovery.gov).
- II. Determined whether Recovery Act procurement expenditures that the IRS reported were accurate and substantiated by complete and reliable supporting documentation.
 - A. Identified all Recovery Act expenditures for the period April 1, 2010, through September 30, 2010.
 - B. Traced Recovery Act procurement expenditures to available supporting documentation, *i.e.*, invoices, receiving reports, and check payment records.
 - C. Verified the mathematical accuracy of expenditures and supporting documentation.
 - D. Compared Recovery Act expenditures from the Weekly Financial Report on Recovery.gov to the amounts the IRS recorded in the Integrated Finance System.²

² Financial system used by the IRS to ensure proper accounting and timely reporting of the appropriated funds received by the IRS.



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- E. Determined if the IRS used separate Treasury Appropriation Fund Symbols³ for its two Recovery Act funds.
 - 1. Treasury Appropriation Fund Symbol 20-0129 2009/2011 for Administrative Expense – Recovery Act.
 - 2. Treasury Appropriation Fund Symbol 20-0934 2009/2011 for Health Insurance Tax Credit Administration – Recovery Act.
 - F. Reconciled disbursements from the Integrated Financial System to the Total Gross Outlays on the FAR.
 - G. Obtained SOAF Reports from the IRS.
 - H. Reconciled the IRS Recovery Act weekly reports provided during the period in review.
- III. Determined whether the IRS has established effective controls to identify, record, and report Recovery Act expenditures in accordance with OMB guidance.
- A. Obtained and reviewed all guidance issued by the OMB pertaining to procurement of goods and services using Recovery Act funds.
 - B. Evaluated the procedures for recording Recovery Act obligations, outlays, disbursements, and payments made against these funds and reconciled the sum of the obligations, expenditures, and disbursements amounts from the SOAF Reports to the Total Obligations and Gross Outlays columns of the FAR.

³ Treasury Appropriation Fund Symbol is an identification code assigned by the Department of the Treasury, in collaboration with the OMB and the owner agency, to an individual appropriation, receipt, or other fund account. It is used to describe a particular type of Treasury Fund Symbol that has budget authority. All financial transactions of the Federal Government are classified by a Treasury Fund Symbol for reporting to the Department of the Treasury and the OMB.



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Appendix II

Major Contributors to This Report

Kevin P. Riley, Director
Stanley Rinehart, Supervisory Evaluator
Mark Anderson, Program Analyst
Joe Wolemonwu, Program Analyst



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Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Assistant Deputy Commissioner for Operations Support OS
Chief, Agency-Wide Shared Services OS:A
Director, Procurement OS:A:P
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Chief, Agency-Wide Shared Services OS:A



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Appendix IV

Management's Response to the Draft Report



DEPUTY COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

January 8, 2013

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR INSPECTIONS
AND EVALUATIONS

FROM: Beth Tucker *Beth Tucker*
Deputy Commissioner for Operations Support

SUBJECT: Draft Inspection Report – Review of the Internal Revenue
Service's American Recovery and Reinvestment Act Fund
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September 30, 2010 (IE-12-001-A)

Thank you for the opportunity to comment on the subject draft report. We appreciate your report recognizing that the IRS executed adequate internal controls to ensure timeliness and accuracy in reporting Recovery Act procurements during the period April 1, 2010, through September 30, 2010. We will continue to timely forward our reports to Recovery.gov to maintain the transparency of the IRS's Recovery Act expenditures.

We appreciate the continued support and guidance TIGTA has provided. If you have any questions, please contact me, or a member of your staff may contact Pamela J. LaRue, Chief Financial Officer, at (202) 622-6400.