Audit Report

OIG-23-026

FINANCIAL MANAGEMENT

Audit of Treasury's Compliance with the PIIA Requirements for Fiscal Year 2022

May 18, 2023

Office of Inspector General
Department of the Treasury

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

OFFICE OF
INSPECTOR GENERAL

May 18, 2023

MEMORANDUM FOR ANNA CANFIELD ROTH
ASSISTANT SECRETARY FOR MANAGEMENT

FROM: Ade Bankole /s/
Director, Financial Statement Audits

SUBJECT: Audit of Treasury's Compliance with PIIA Requirements for Fiscal Year 2022

We hereby transmit the attached subject report. Under a contract monitored by our office, RMA Associates (RMA), a certified independent public accounting firm, audited the Department of the Treasury's (Treasury) compliance with the Payment Integrity Information Act of 2019 (PIIA) for fiscal year (FY) 2022. As part of the audit, RMA also assessed Treasury's compliance with additional improper payment reporting requirements set forth in Executive Order 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*, the Office of Management and Budget (OMB) Circular No. A-123, Appendix C, *Requirements for Payment Integrity Improvement* and OMB Circular No. A-136, *Financial Reporting Requirements*.

RMA considered the results of Treasury Inspector General for Tax Administration's audit of the Internal Revenue Service's (IRS) compliance with the improper payment reporting requirements in forming its conclusions on Treasury's compliance with PIIA, and the results were incorporated in the audit report.

In its audit report, RMA noted that Treasury was not in compliance with PIIA for FY 2022. Treasury complied with nine of the ten PIIA requirements. However, Treasury did not comply with the requirement to report an improper payment rate of less than 10 percent for its programs identified as susceptible to significant improper payments because IRS reported an improper payment rate of more than 10 percent for four of its programs identified as susceptible to significant improper payments: (i) Earned Income Tax Credit; (ii) American Opportunity Tax Credit; (iii) Additional Child Tax Credit; and (iv) Net Premium Tax Credit.

RMA also identified inaccurate responses by the management officials of the Bureau of the Fiscal Service, the Treasury Forfeiture Fund, and the Office of Special

Inspector General for the Troubled Asset Relief Program to risk assessment questions for certain qualitative risk assessment fund groups.

Our contract required that the audit be performed in accordance with generally accepted government auditing standards. In connection with the contract, we reviewed RMA's report and related documentation and inquired of its representatives. Our review, as differentiated from an audit performed in accordance with U.S. generally accepted government auditing standards, was not intended to enable us to conclude on Treasury's overall compliance with requirements contained in PIIA for FY 2022. RMA is responsible for the attached auditors' report dated May 17, 2023, and the conclusions expressed therein. However, our review disclosed no instances where RMA did not comply, in all material respects, with U.S. generally accepted government auditing standards.

If you wish to discuss this report, please contact me at (202) 927-5329, or a member of your staff may contact Catherine Yi, Manager, Financial Statement Audits, at (202) 927-5591.

Attachment

RMA | Associates
Auditors. Consultants. Advisors.

Department of the Treasury
Audit of Treasury's Compliance with
PIIA Requirements for Fiscal Year 2022

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May 17, 2023

Mr. Ade Bankole
Director, Financial Statement Audits
Office of Inspector General
Department of the Treasury

Dear Mr. Bankole,

RMA Associates, LLC is pleased to present our final report on the Department of the Treasury's (Treasury) compliance with Payment Integrity Information Act of 2019 requirements for Fiscal Year 2022.

Thank you for the opportunity to serve your organization and the assistance provided by your staff and that of Treasury. We will be happy to answer any questions you may have concerning the report.

Very respectfully,

Reza Mahbod

Reza Mahbod, CPA, CISA, CGFM, CICA, CGMA, CDFM, CFE, CDPSE
President
RMA Associates, LLC

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Abbreviations

ACTC	Additional Child Tax Credit
AFR	Agency Financial Report
AOTC	American Opportunity Tax Credit
COVID-19	Coronavirus Disease 2019
CY	Calendar Year
EITC	Earned Income Tax Credit
EO	Executive Order
Fiscal Service	Bureau of the Fiscal Service
FY	Fiscal Year
IP	Improper Payment
IPERA	Improper Payments Elimination and Recovery Act of 2010
IPERIA	Improper Payments Elimination and Recovery Improvement Act of 2012
IPIA	Improper Payments Information Act of 2002
IRS	Internal Revenue Service
Net PTC	Net Premium Tax Credit
NRP	National Research Program
ODCFO	Office of the Deputy Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PIIA	Payment Integrity Information Act of 2019
PTC	Premium Tax Credit
Qualitative Questionnaire	Qualitative Risk Assessment Questionnaire
Quantitative Summary	Quantitative Risk Assessment Summary
RCG	Risk and Control Group
RMA	RMA Associates, LLC
RRC	Recover Rebate Credit
RTC	Refundable Tax Credit
SIGTARP	Special Inspector General for the Troubled Asset Relief Program
TFF	Treasury Forfeiture Fund
TIGTA	Treasury Inspector General for Tax Administration
Treasury	U.S. Department of the Treasury
Treasury's PIIA Guidance	FY 2022 Treasury Implementation Guide for OMB Circular A-123 Appendix C: Requirements for Payment Integrity Improvement
TY	Tax Year
UP	Unknown Payment

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Audit Report

May 17, 2023

Richard K. Delmar
Acting Inspector General
Department of the Treasury
Washington, D.C.

RMA Associates, LLC (RMA) conducted a performance audit of the Department of the Treasury's (Treasury) Fiscal Year (FY) 2022 compliance with the Payment Integrity Information Act of 2019 (PIIA).

The objective of our audit was to assess and report on Treasury's overall compliance with requirements contained in PIIA,[1] enacted to establish requirements for federal agencies to cut down on improper payments made by the federal government. PIIA replaced the Fraud Reduction and Data Analytics Act of 2015,[2] Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA),[3] the Improper Payments Elimination and Recovery Act of 2010 (IPERA),[4] and Improper Payments Information Act of 2002 (IPIA).[5] As part of our audit, we also assessed Treasury's compliance with additional improper payment reporting requirements set forth in Executive Order (EO) 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*; the Office of Management and Budget (OMB) Circular No. A-123, Appendix C, *Requirements for Payment Integrity Improvement;* and OMB Circular No. A-136, *Financial Reporting Requirements*. We conducted our fieldwork from January 2023 through May 2023 in Arlington, VA. Appendix 1 contains a more detailed description of our objective, scope, and methodology.

This report also summarizes the results of the Treasury Inspector General for Tax Administration's (TIGTA) assessment of the Internal Revenue Service's (IRS) compliance with the reporting requirements contained in the PIIA for FY 2022. This summarization includes IRS's management response to TIGTA's audit findings. TIGTA issued its report on May 12, 2023, which is included in its entirety as Appendix 2 of this report.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

[1] Pub. L. No. 116-117, 134 Stat. (March 2, 2020)
[2] Pub. L. No. 114-186, 130 Stat. (June 30, 2016)
[3] Pub. L. No. 112-248, 126 Stat. (January 10, 2013)
[4] Pub. L. No. 111-204, 124 Stat. (July 22, 2010)
[5] Pub. L. No. 107-300, 116 Stat. (November 26, 2002)

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As a result of our audit, we determined Treasury was not in compliance with PIIA for FY 2022. IRS did not report an improper payment rate of less than 10 percent for four of its programs identified as susceptible to significant improper payments: (1) Earned Income Tax Credit (EITC); (2) Additional Child Tax Credit (ACTC); (3) American Opportunity Tax Credit (AOTC); and (4) Net Premium Tax Credit (Net PTC). Susceptibility to significant improper payments means that the result of the Improper Payment (IP) risk assessments determined these programs are likely to have annual IPs exceeding (1) both 1.5 percent of program outlays and $10 million of all program or activity payments made during FY 2022 or (2) $100 million. We also noted one finding related to insufficient review of risk assessments.

Additional information on the results of our audit is included in the accompanying report.

A distribution list for this report is provided as Appendix 5.

Very respectfully,

RMA Associates

RMA Associates, LLC

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Results in Brief

Treasury was not in compliance with PIIA for FY 2022. We determined that Treasury complied with nine of the ten PIIA requirements. Treasury: 1) published payment integrity information in the Agency Financial Report (AFR); 2) posted the AFR and accompanying materials to its website; 3) conducted IP risk assessments for each program with annual outlays greater than $10 million at least once in the last three years; 4) adequately concluded whether the program is likely to make IPs and Unknown Payments (UPs) above or below the statutory threshold; 5) published IP and UP estimates for programs susceptible to significant IPs and UPs in the accompanying materials to the AFR; 6) published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the AFR; 7) published an IP and UP reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the AFR; 8) demonstrated improvements to payment integrity or reached a tolerable IP and UP rate; and 9) developed a plan to meet the IP and UP reduction target. We determined that Treasury did not comply with the requirement to report an improper payment rate of less than 10 percent for its programs identified as susceptible to significant improper payments because IRS reported an improper payment rate of more than 10 percent for four of its programs identified as susceptible to significant improper payments, including:

- Earned Income Tax Credit (EITC) – IRS estimates 32 percent ($18.2 billion) of the total EITC payments of $57.5 billion in FY 2022 were improper.
- Additional Child Tax Credit (ACTC) – IRS estimates 16 percent ($5.2 billion) of the total ACTC payments of $32.8 billion in FY 2022 were improper.
- American Opportunity Tax Credit (AOTC) – IRS estimates 36 percent ($2.0 billion) of the total AOTC payments of $5.6 billion in FY 2022 were improper.
- Net Premium Tax Credit (Net PTC)[6] – IRS estimates 27 percent ($0.6 billion) of the total Net PTC payments of $2.1 billion in FY 2022 were improper.

We determined that Treasury was in compliance with all other PIIA and OMB improper payment reporting requirements.

In addition to the compliance criteria, we reviewed Treasury's risk assessment process and recapture audit programs to determine the accuracy and completeness of Treasury improper payment reporting. We identified inaccurate responses by the managements of the Bureau of the Fiscal Service (Fiscal Service), the Treasury Forfeiture Fund (TFF), and the Office of Special Inspector General for the Troubled Asset Relief Program (SIGTARP) to risk assessment questions for certain qualitative risk assessment fund groups. However, RMA noted the inaccurate responses to the risk assessment questions did not affect Treasury's overall risk assessment rating for the fund groups identified.

[6] The Net PTC is the amount of the PTC minus the amount of the Advance PTC. This is the first year the IRS has reported an improper payment rate for the Net PTC.

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As part of our reporting process, we provided a draft of this report to Treasury management for review and comment. In a written response, management noted they have long held that refundable tax credits (RTCs) are not "payments" as intended under the improper payments legislation, as the tax system is a collection system rather than a payment system. Management also noted that they will continue to collaborate with IRS and OMB to identify a more effective way to report on estimated payment errors associated with the RTC programs in the Department's AFR as part of a broader discussion on the tax gap and tax burden.

Management's response to our report is provided in Appendix 4.

We also summarized TIGTA's audit results in this report. TIGTA reported that IRS was largely compliant with the reporting requirements contained in the PIIA for FY 2022. However, IRS still has not satisfied the PIIA goal of reducing the overall improper payment rate for the EITC, ACTC, AOTC, and Net PTC to less than 10 percent. TIGTA also reported that IRS properly reported all other required information to Treasury for posting to www.paymentaccuracy.gov. Furthermore, TIGTA reported that IRS subsequently performed qualitative risk assessments on a number of COVID-19 related programs based on TIGTA's concerns with IRS's initial evaluation of risk associated with these improper payments. IRS rated the programs as susceptible to improper payments but did not estimate the amount of improper payments for these programs. According to IRS, estimating the amount and rate of improper payments, assessing the root cause, and developing corrective action plans to reduce payment errors in the future would provide minimal value and be an ineffective use of resources due to the short time frame over which the majority of disbursements will be made by these COVID-19-related programs. IRS stated that it planned to only assess risk according to the requirements outlined in Appendix C of OMB Circular A-123, rather than reporting an estimate of these programs in the AFR.

Additionally, TIGTA reported that changes in the estimation of improper payments make year to year comparisons difficult. For FY 2022, the IRS relied on a smaller National Research Program (NRP) sample size and changed the period for reporting on claims and improper payments, which resulted in less precise and lower improper payment estimates. The change in the reporting period resulted in lower estimates of the number and amount of improper payments than the original estimation method. These revisions make interpreting year-to-year changes in the IRS's reported improper payment estimates difficult.

TIGTA also reported that IRS has implemented a number of initiatives to help reduce RTC improper payment rates, yet rates remain persistently high. Furthermore, IRS management recently advised there is a growing expectation for IRS to notify individuals who are potentially eligible for, but not claiming refundable credits to encourage them to file a tax return and claim the credits. TIGTA found that this type of outreach could result in additional improper payments and increased taxpayer burden.

TIGTA's report and IRS's management response are provided in Appendix 2.

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Background

Improper Payments Compliance and Reporting Requirements

Under IPIA, Federal agencies were required to review and identify programs and activities susceptible to improper payments on an annual basis and report estimates of improper payments to Congress along with actions to reduce estimated improper payments that exceeded $10 million. In 2009, EO 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*, required Federal agencies to intensify their efforts to eliminate payment error, waste, fraud, and abuse in major Federal programs while continuing to ensure that these programs serve and provide access to their intended beneficiaries. It increased Federal agencies' accountability and required that Federal agencies provide their agency Inspector General with detailed information on efforts to identify and reduce the number of improper payments in Federal programs with the highest dollar value of improper payments.

Following EO 13520, on July 22, 2010, the President signed IPERA into law. IPERA amended IPIA, strengthening agencies' program reviews and reporting requirements. IPERA expanded the types of payments to be reviewed and established the requirement for agencies to conduct recovery audits if cost-effective. IPERA also required Inspectors General to report on their respective agencies' compliance with IPERA each fiscal year. IPERIA further expanded agency improper payment requirements to foster greater agency accountability.

In accordance with IPERIA and EO 13520, Offices of Inspector General (OIG) are required to review and report on their respective agencies' OMB-designated high priority programs, if any. According to OMB, high-priority programs are all programs with IPs resulting in monetary loss that exceed $100 million annually. Specifically, OIGs are to review management's assessment of the level of risk, the quality of the improper payment estimates and methodology, and the oversight and financial controls in place to identify and prevent improper payments. Recommendations, if any, are to be provided for modifying agency plans related to its high priority programs to include improvements for determining and estimating improper payments.

For the FY 2022 reporting, OMB determined that EITC, ACTC, AOTC, and Net PTC are high-priority programs.

In Memorandum 15-02 dated October 20, 2014, OMB issued revisions to OMB Circular No. A-123, Appendix C, to provide agencies guidance on implementing all improper payment compliance and reporting requirements. In June 2018, OMB further revised the OMB guidance (OMB M-18-20) in an effort to transform the improper payment compliance framework to create a more unified, comprehensive, and less burdensome set of requirements. According to OMB M-18-20, all agencies should institute a systematic method of reviewing all programs once every three years to determine the programs' improper payment risk.

On March 2, 2020, PIIA repealed IPERIA, IPERA, and IPIA, but set forth similar improper payment reporting requirements. Under PIIA, agencies must conduct a program-specific risk assessment for each program or activity identified by the agency, provide the methodology for identifying and measuring improper payments, and report on actions the agency intends to take to

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prevent future improper payments. PIIA requires the OMB Director to identify a list of high priority Federal programs for greater levels of oversight and review, in which the highest dollar value or highest rate of improper payments occur or for which there is a higher risk of improper payments. Agencies with high priority programs are required to submit an annual report to the Inspector General and OMB on actions (1) taken or planned to recover improper payments and (2) intended to prevent future improper payments. The annual report is also required to be available to the public through a website.

OMB once again updated Circular A-123 Appendix C with guidance directly related to the Inspectors General review and issued OMB M-21-19 on March 5, 2021. This guidance is effective starting in FY 2021. Each program with annual outlays over $10 million must conduct an IP risk assessment at least once every three years to determine whether the program is likely to have IPs and UPs above the statutory threshold.

Treasury's Improper Payment Risk Assessment

Treasury issued *Fiscal Year 2022 Treasury Implementation Guide for OMB Circular A-123 Appendix C: Requirements for Payment Integrity Improvement* (Treasury's PIIA Guidance) to all components. For all Fund Groups with over $10 million in Total Non-Federal Disbursements, a risk assessment is required once every three years. Treasury also provided all components two tools—the Qualitative Risk Assessment Questionnaire (Qualitative Questionnaire) and Quantitative Risk Assessment Summary (Quantitative Summary)—to assess the level of risk for each payment type, such as Federal employee payments including payroll, aid, relief, or recovery programs, entitlements or benefits, contract payments and/or invoices, claims and/or vouchers, loan guarantees, grants, program recipient, purchase card, and travel card. Components have the option to conduct a qualitative or a quantitative risk assessment. Programs should choose the methodology that reasonably supports whether the program is or is not susceptible to significant IPs. The Qualitative Questionnaire aligns risk assessment questions and risk ratings to the eleven risk factors that could be considered when conducting a qualitative IP risk assessment according to M-21-19:

1) Whether the program reviewed is new to the agency;
2) The complexity of the program reviewed;
3) The volume of payments made through the program reviewed;
4) Whether payments or payment eligibility decisions are made outside of the agency, such as by a state or local government;
5) Recent major changes in program funding, authorities, practices, or procedures;
6) The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate;
7) Significant deficiencies in the audit report or other relevant management findings of the agency that might hinder accurate payment certification;
8) Similarities (a combination of outlays, mission, payment process, etc.) to other programs that have reported IP and UP estimates or been deemed susceptible to significant IPs;
9) The accuracy and reliability of IP and UP estimates previously reported for the program, or other indicator of potential susceptibility to IPs and UPs identified by the OIG of the

executive agency, the GAO, other audits performed by or on behalf of the federal, state, or local government, disclosures by the executive agency, or any other means;
10) Whether the program lacks information or data systems to confirm eligibility or provide for other payment integrity needs; and
11) The risk of fraud as assessed by the agency under the Standards for Internal Control in the Federal Government published by the GAO (commonly known as the 'Green Book').

Using component responses, the Qualitative Questionnaire automatically calculates the risk assessment rating (Susceptible or Not Susceptible) for each payment type and the overall risk assessment rating for the Fund Group based on the risk assessment ratings for all payment types.

The Quantitative Summary consists of a review of a sample of disbursements to calculate the IP and UP amount and rate. The IP and UP amount and rate are compared to OMB's threshold to determine susceptibility to significant IPs. Fund Groups that are not required to complete a risk assessment for a given year are required to complete a certification to attest that there has not been a significant change in legislation or funding since the last risk assessment has been completed.

After each component completes and reviews its risk assessment, the results are provided to Treasury's Risk and Control Group (RCG). Fund Groups identified as susceptible to significant IPs through the risk assessments and all OMB-designated high priority programs will develop a sampling methodology and perform testing and calculate the annual estimated amount of IPs and UPs and the respective rates the following fiscal year. They will also identify the reasons they are at risk of IPs and UPs and create a Corrective Action Plan to prevent and reduce the IPs and UPs. Lastly, programs susceptible to IPs report the following payment integrity information with their annual financial statement, as well as PaymentAccuracy.gov:

- IP reduction outlook;
- Monetary loss analysis;
- IP root cause;
- Data and information themes;
- Corrective actions;
- Internal controls and accountability; and
- Non-compliance.

For FY 2022, Treasury identified EITC, AOTC, ACTC, and Net PTC as programs susceptible to significant improper payments.

Payment Recapture Audits

PIIA requires agencies to conduct recovery audits (also referred to as payment recapture audits) to prevent, detect, and recover overpayments, if conducting such audits would be cost-effective, for each program and activity that expends $1 million or more annually. A payment recapture audit is a review and analysis of an agency's or program's accounting and financial records, and other pertinent information supporting its payments that is specifically designed to identify overpayments.

Treasury's PIIA Guidance requires each component to complete, certify, and submit a worksheet providing a consistent reporting format that includes information on the results of the component's payment recapture audits and treatment of recaptured improper payments. The steps to perform a payment recapture audit include:

1. Develop and perform a cost benefit analysis;
2. Establish targets for the payment recapture audit program;
3. Perform the payment recapture audit;
4. Dispose of recaptured funds; and
5. Report the results.

The worksheets are submitted to the RCG for review and the data is consolidated and reported on the PaymentAccuracy.gov website.

Treasury's Improper Payment Reporting

On November 15, 2022, Treasury published its Payment Integrity information with its annual financial statement, in accordance with OMB Circular A-136, to include:

- a hyperlink to the PaymentAccuracy.gov website;
- summary discussing the nature of RTC claims;
- unique challenges in validating RTCs; and
- IRS's strategies to address the tax gap and reduce RTC errors.

The following Payment Integrity information is also published on PaymentAccuracy.gov through OMB's annual data request:

- IP and UP amounts and rates for the EITC, ACTC, AOTC, and Net PTC programs;
- High priority program results;
- IP root causes;
- Payment recapture reporting information; and
- All programs assessed for risk of improper payment during the risk assessment cycle.

Audit Results

According to OMB Circular A-123, an agency is required to meet ten specific requirements to be compliant with PIIA. The ten requirements are (1) publishing payment integrity information in the AFR; (2) posting the AFR and accompanying materials to its website; (3) conducting IP risk assessments for each program with annual outlays greater than $10 million at least once in the last three years; (4) adequately concluding whether the program is likely to make IPs and UPs above or below the statutory threshold; (5) publishing IP and UP estimates for programs susceptible to significant IPs and UPs in the accompanying materials to the AFR; (6) publishing corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the AFR; (7) publishing an IP and UP reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the AFR; (8) demonstrating improvements to payment integrity or reaching a tolerable IP and UP rate; (9) developing a plan to meet the IP and UP reduction target; and (10) reporting an IP and UP estimate of less than 10 percent for each program for which an estimate was published in the accompanying materials to the AFR.

We found that Treasury was not in compliance with PIIA for FY 2022 because IRS did not report an overall improper payment rate of less than 10 percent for the EITC, ACTC, AOTC, and Net PTC programs. We discuss this further in our Finding 1 below. Treasury did comply with the other PIIA requirements as outlined in Table 1. In addition, Appendix 3 provides a summary of Treasury programs' compliance with PIIA reporting criteria.

Table 1. Treasury's Compliance with PIIA Requirements

PIIA Requirement	Compliance
Publish payment integrity information in the AFR	Yes
Post the AFR and accompanying materials to its website	Yes
Conduct IP risk assessments for each program with annual outlays greater than $10 million at least once in the last three years	Yes
Adequately conclude whether programs are likely to make IPs and UPs above or below statutory threshold	Yes
Publish IP and UP estimates for programs susceptible to significant IPs and UPs in the accompanying materials to the AFR	Yes
Publish corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the AFR	Yes
Publish an IP and UP reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the AFR	Yes
Demonstrate improvements to payment integrity or reach a tolerable IP and UP rate	Yes
Develop a plan to meet IP and UP reduction target	Yes
Report an IP and UP estimate of less than 10 percent for each program for which an estimate was published in the accompanying materials to the AFR	No

Source: RMA's and TIGTA's review of the Department of the Treasury's Compliance with PIIA requirements for FY 2022 for the programs listed in Appendix 3.

Additionally, OMB determined that the EITC, ACTC, AOTC, and Net PTC are high-priority programs for FY 2022. In compliance with EO 13520 for these high-priority programs, we noted that Treasury provided (1) the methodology for identifying and measuring improper payments; (2) plans and supporting analysis for meeting the reduction targets for improper payments; and (3) plans and supporting analysis for ensuring that initiatives undertaken do not unduly burden program access and participation by eligible beneficiaries.

We also reviewed Treasury's risk assessment process and recapture audit programs to determine the accuracy and completeness of Treasury improper payments reporting. We noted that Treasury (1) included the required improper payment disclosures in the AFR; (2) performed risk assessments using required criteria defined by OMB Circular A-123; and (3) conformed to OMB guidance for payment recapture audits. In addition, we determined that Treasury complied with the requirement to post required improper payment information to the PaymentAccuracy.gov website.

Finding 1: Treasury Was Not in Compliance with PIIA for FY 2022

We determined that Treasury was not in compliance with PIIA for FY 2022 due to IRS not reporting an overall improper payment rate of less than 10 percent for the EITC, ACTC, AOTC, and Net PTC. Specifically, according to TIGTA's report, IRS reported an improper payment rate of 32 percent (or $18.2 billion), 16 percent (or $5.2 billion), 36 percent (or $2.0 billion), and 27 percent (or $0.6 billion) for EITC, ACTC, AOTC, and Net PTC respectively. PIIA requires an IP and UP estimate of less than 10 percent for each program for which an estimate was published in the accompanying materials to the annual financial statement. As TIGTA has reported previously, OMB advised IRS that, as an alternative to reducing the improper payment rate to less than 10 percent, a reduction target may remain constant given the complexities of the program, as long as the complexities are explained in the AFR, which the IRS did.[7]

TIGTA did not make any recommendations related to this finding.

As part of our reporting process, we provided a draft of this report to Treasury management for review and comment. In a written response, management noted that they have long held that RTCs are not "payments" as intended under the improper payments legislation, as the tax system is a collection system rather than a payment system. Management noted that while a payment system is generally designed to implement internal controls that provide for appropriate verification and validation prior to payments being made, the statutory structure and design for administering RTCs prevent the IRS from verifying or validating such amounts prior to making the refund payment. Management also noted that RTC overclaims are not the result of internal control weaknesses that they can remediate internally, but are, in fact, the result of factors beyond their control under the current law and existing authority. Additionally, management noted that they will continue to collaborate with IRS and OMB to identify a more effective way to report on estimated payment errors associated with the RTC programs in the Department's AFR as part of a broader discussion on the tax gap and tax burden.

Finding 2: Insufficient Review of Risk Assessments

RMA identified inaccurate responses and justifications that did not properly support the responses to some risk assessment questions in determining the payment type's susceptibility to significant

[7] TIGTA, Report No. 2021-40-036, Improper Payment Rates for Refundable Tax Credits Remain High (May 2021).

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improper payments by the managements of the Fiscal Service, the TFF, and the SIGTARP. Specifically:

- Ten instances where Fiscal Service management indicated a rating as not susceptible but should have been not applicable;
- Two instances where TFF management indicated a rating as not susceptible but should have been not applicable;
- One instance where Fiscal Service management provided an inaccurate justification and indicated a rating as not susceptible but should have been not applicable;
- One instance where SIGTARP management indicated a rating as not susceptible but should have been susceptible;
- Two instances where Fiscal Service management provided an inaccurate justification; and
- Five instances where Fiscal Service management provided a justification that did not properly support the response to the risk assessment question.

RMA noted the inaccurate responses to the risk assessment questions did not affect the overall risk assessment rating for any of the fund groups identified.

Treasury's PIIA Guidance, Section III: Deliverables, Page 30 states, "Work performed is subject to review by the Office of the Deputy Chief Financial Officer (ODCFO) and the Department's auditors. Components must maintain their documentation at a level that can withstand management and auditor scrutiny. As such, Components should ensure all deliverables are reviewed for accuracy and completeness prior to submission to ODCFO."

Fiscal Service, TFF, and SIGTARP managements did not sufficiently review their program-specific risk assessments for accuracy. The Treasury's RCG requested revisions from Fiscal Service regarding the inaccurate responses and justifications. However, a final version of the risk assessment with the requested revisions was not received.

The lack of sufficient reviews can lead to an inaccurate assessment of a program's susceptibility to improper payments, increasing the likelihood for management to miss taking proper actions over the program's improper payments.

Recommendation

RMA recommends Treasury's RCG work with management at the Fiscal Service, TFF, and SIGTARP to complete sufficient review of the program-specific risk assessments to better ensure management responses and justifications to risk assessment questions are accurate and justifications properly support the responses to the questions.

Management's Response

Treasury concurs with this recommendation. For FY 2023, Treasury made improvements to the risk assessment template and related answer key. Specifically, Treasury revised the answer key to clearly identify which party (i.e., program office or disbursing office) should respond to each risk assessment question. This will provide better clarity for components on how to respond to the

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specific risk factors and ensure that personnel knowledgeable of the programs and payment processes complete and/or review risk assessments. Treasury has also revised the risk assessment template to minimize the confusion between the 'not susceptible' and the 'not applicable' ratings. In addition, during its annual payment integrity roundtable for all Treasury bureaus and offices, Treasury management will emphasize the importance of ensuring the appropriate personnel complete and/or review the risk assessments and that the justifications clearly and accurately support the related answers. Finally, Treasury plans to assess the entire risk assessment process, placing emphasis on review of the assessments, to determine if additional process improvements can be made.

Management's response to our report is provided in Appendix 4.

Treasury Inspector General for Tax Administration Audit Results

The following are excerpts from TIGTA's FY 2022 PIIA audit report. TIGTA did not make any recommendations in their report.

Finding 1: Assessment of FY 2022 Compliance With Improper Payment Reporting Requirements

TIGTA's review found that IRS was largely compliant with the reporting requirements contained in the PIIA for FY 2022. However, IRS still has not satisfied the PIIA goal of reducing the overall improper payment rate for the EITC, the ACTC, the AOTC, and the Net PTC to less than 10 percent. TIGTA also reported that IRS properly reported all other required information to Treasury for posting to www.paymentaccuracy.gov. However, OMB erroneously transcribed the FYs 2019 and 2020 margins of error for the EITC, the ACTC, and the AOTC. IRS officials requested correction of the errors and as of March 2023, the information on www.paymentaccuracy.gov was corrected.

In addition, TIGTA reported that OMB did not request quarterly scorecards for the Net PTC program because this is the first year that an improper payment rate and amount for the Net PTC were included in Treasury's AFR. Treasury officials expect quarterly scorecards to be requested and reported for the Net PTC for FY 2023.

Furthermore, IRS has a number of COVID-19 related programs created by the American Rescue Plan Act of 2021; Coronavirus Aid, Relief, and Economic Security Act; and the Consolidated Appropriations Act, 2021.[8] These include the advance Recover Rebate Credit (RRC) payments issued during Calendar Years (CY) 2020 and 2021 and the RRC claimed on Tax Years (TY) 2020 and 2021 tax returns. Based on TIGTA's concerns with IRS's initial evaluation of risk associated with these improper payments, IRS subsequently performed qualitative risk assessments and rated the programs as susceptible to improper payments. However, TIGTA found that IRS did not estimate the amount of improper payments for these programs because doing so would provide

[8] Pub. L. No. 117-2, 135 Stat. 4 (codified in scattered sections of 7, 12, 15, 19, 20, 26, 29, 42, and 45 U.S.C.); Pub. L. No. 116-136, 134 Stat. 281 (codified as amended in scattered sections of 2, 5, 12, 15, 20, 21, 29, 42, and 45 U.S.C.); and Pub. L. No 116-260, respectively.

minimal value and be an ineffective use of resources. Treasury notified OMB of this decision on August 4, 2022 and OMB acknowledged IRS's treatment of these payments but did not state whether this action was appropriate. TIGTA found IRS's justification for not expending the resources to complete a qualitative assessment reasonable; however, TIGTA stated IRS could have summarized information from external reviews and analysis to provide perspective on the potential volume and cause of improper payments in these programs.

Finding 2: Changes in the Estimation of Improper Payments Make Year-to-Year Comparisons Difficult

TIGTA reported that IRS uses its NRP to measure reporting compliance for different types of taxes and various sets of taxpayers, including calculating an estimated improper payment rate for programs rated as "High-Priority" or susceptible to significant improper payments. For FY 2022, TIGTA found that IRS relied on a smaller NRP sample size and changed the period for reporting on claims and improper payments, which resulted in less precise and lower improper payment estimates. These revisions make interpreting year-to-year changes in the IRS's reported improper payment estimates difficult.

IRS designed the TY 2018 NRP sample to include an original sample of 11,041 tax returns, which was a 20 percent decrease compared to prior years. However, IRS reduced the overall sample to 4,000 returns due to limited resources. TIGTA's analysis showed that the smaller sample of 4,000 returns resulted in the estimated EITC improper payment rate falling into a wider confidence interval (with less accuracy).

Furthermore, IRS applied the less precise estimated improper payment rate to tax returns on a tax year basis rather than a fiscal year basis as it has done in the past. TIGTA evaluated the potential impact of the change and calculated the total EITC claims and improper payment estimates using TY 2020 tax returns filed in CY 2021 and CY 2022 and all tax returns filed in FY 2022. TIGTA found that the estimate of EITC improper payments using FY 2022 resulted in claims of $65.4 billion and improper payments of $20.7 billion, while IRS' EITC estimate as reported in the FY 2022 AFR using claims from TY 2020 resulted in claims of $57.5 billion and improper payments of $18.2 billion. TIGTA stated that while their estimate does not necessarily reflect the amount of EITC improper payments IRS would have reported had it continued to estimate using a fiscal year reporting period, it does provide some perspective of the potential impact the change in reporting period had on estimated improper payments.

Finding 3: Despite the IRS's Efforts, Improper Payment Rate Estimates Have Risen Since FY 2020

TIGTA reported that IRS has implemented a number of initiatives to help reduce RTC improper payment rates, yet rates remain persistently high. Refundable credit improper payments are not primarily the result of internal control weaknesses that IRS can address. In addition to the lack of reliable, relevant, and timely third-party data for use in verifying refundable credit claims, the

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Treasury AFR reports that eligibility rules differ for each credit and are often complex because they address complicated family relationships and residency arrangements to determine eligibility.

Additionally, IRS management recently advised there is a growing expectation for IRS to notify individuals who are potentially eligible for, but not claiming refundable credits to encourage them to file a tax return and claim the credits. However, the same limitations that prevent IRS from verifying refundable credit claims, may also limit its ability to proactively identify eligible individuals who are not claiming these credits. This type of outreach could result in additional improper payments and increased taxpayer burden.

TIGTA did not make any recommendations in their report.

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Appendix 1: Objective, Scope, and Methodology

The overall objective of our audit was to determine the Department of the Treasury's (Treasury) Fiscal Year (FY) 2022 compliance with the Payment Integrity Information Act of 2019 (PIIA). We assessed Treasury's compliance with the reporting requirements set forth in PIIA; and Executive Order 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*. Our audit scope covered the time period October 1, 2021, through September 30, 2022 and did not include the review of programs and activities administered by the Internal Revenue Service (IRS). The Treasury Inspector General for Tax Administration (TIGTA) is responsible for the audit of IRS's compliance with reporting requirements contained in the PIIA.

To accomplish our objective, we performed the following activities during audit fieldwork conducted from January 2023 through May 2023:

- We reviewed applicable laws, regulations, and guidance issued by the Office of Management and Budget (OMB), and *Fiscal Year 2022 Treasury Implementation Guide for OMB Circular A-123 Appendix C: Requirements for Payment Integrity Improvement* (Treasury's PIIA Guidance).
- We reviewed the FY 2022 Agency Financial Report (AFR) and any accompanying information to assess whether Treasury:
    - published payment integrity information in an AFR;
    - posted AFR and accompanying materials on its website;
    - conducted IP risk assessments for each program with annual outlays greater than \$10 million at least once in the last three years;
    - adequately concluded whether the program is likely to make IPs and UPs above or below the statutory threshold;
    - published IP and UP estimates for programs susceptible to significant IPs and UPs in the accompanying materials to the annual financial statement;
    - published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement;
    - published an IP and UP reduction target, if required and applicable;
    - demonstrated improvements to payment integrity or reached a tolerable IP and UP rate, if applicable;
    - developed a plan to meet the IP and UP reduction target, if required and applicable; and
    - reported an IP and UP estimate of less than 10 percent for each program for which an estimate was published in the accompanying materials to the annual financial statement.
- To assess Treasury's program-specific risk assessment process, we selected the population of all non-IRS programs which completed a risk assessment for year two in the three-year rotation. To determine the completeness and accuracy of the information reported and compliance with the applicable guidance, we reviewed the program risk assessments and supporting documentation. RMA issued Finding 2: Insufficient Review of Risk Assessments as a result of our testing.

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- To assess Treasury's payment recapture audit program, we tested all non-IRS reporting entities' recapture audit programs. To determine the completeness and accuracy of the information reported and compliance with the applicable guidance, we reviewed the components' submissions of the payment recapture audit results and determined if the component (1) employed an internal control program to prevent, detect and recover overpayments; (2) considered all programs that expend $1 million or more annually; (3) prepared and submitted justifications for those programs that did not complete a payment recapture audit; (4) completed and submitted Payment Recapture Audit Results worksheets to Treasury's Risk and Control Group (RCG); and (5) disposed of recovered funds in accordance with OMB guidance. In addition, we reviewed the supporting documentation related to the payment recapture audit results for all non-IRS components that completed a payment recapture audit. We determined if the component accurately reported the payment recapture audit results on PaymentAccuracy.gov.

Management is responsible for the design, implementation, and operating effectiveness of the agency's internal controls over payment integrity. We assessed Treasury's internal controls and compliance with policies and procedures necessary to satisfy the audit objectives. In particular, we determined that the principles of designing and implementing control activities within the control activities component of internal controls, as well as the principle of performing monitoring activities within the monitoring component of internal controls, were significant to Treasury's improper payment reporting. RMA noted Finding 2: Insufficient Review of Risk Assessments is also due to internal controls over the review and approval of the risk assessments not operating effectively.

We assessed whether internal controls are properly designed, implemented, and operating effectively by reviewing and inspecting relevant documents and data and re-performing procedures. However, because our review was limited to these internal control components and underlying principles, it may not have disclosed all internal control deficiencies that may have existed at the time of this audit.

We also assessed the reliability of the improper payment data by (1) reconciling the data to supporting documentation, (2) reviewing existing information about the data and the system that produced them, and (3) conducting an interview with Treasury's personnel knowledgeable about the data. We determined that the data were sufficiently reliable for the purposes of this report.

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Appendix 2: TIGTA's Assessment of IRS Compliance with the Improper Payment Reporting Requirements in FY 2022 and IRS Management's Response

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Fiscal Year 2022 Improper Payment Reporting Requirements Were Largely Met; However, Improper Payment Estimates Are Less Precise

May 12, 2023

Report Number: 2023-40-032

TIGTACommunications@tigta.treas.gov | www.tigta.gov

Appendix 2: TIGTA's Assessment of IRS Compliance with the Improper Payment Reporting Requirements in FY 2022 and IRS Management's Response

HIGHLIGHTS: Fiscal Year 2022 Improper Payment Reporting Requirements Were Largely Met; However, Improper Payment Estimates Are Less Precise

Final Audit Report issued on May 12, 2023 **Report Number 2023-40-032**

Why TIGTA Did This Audit

This audit was initiated because TIGTA is required to annually assess and report on the IRS's compliance with the reporting requirements contained in the Payment Integrity Information Act of 2019. The objective of this review was to determine whether the IRS complied with the annual improper payment reporting requirements for Fiscal Year (FY) 2022.

Impact on Tax Administration

The Office of Management and Budget (OMB) defines an improper payment as any payment that should not have been made, was made in an incorrect amount, or was made to an ineligible recipient. The IRS currently has identified four programs that meet the OMB's definition of a high-priority program susceptible to improper payments. The OMB defines high-priority programs as programs with improper payments resulting in monetary losses that exceed $100 million annually. The IRS estimated the following improper payment rates:

- American Opportunity Tax Credit (AOTC): 36 percent.
- Earned Income Tax Credit (EITC): 32 percent.
- Net Premium Tax Credit: 27 percent.
- Additional Child Tax Credit (ACTC): 16 percent.

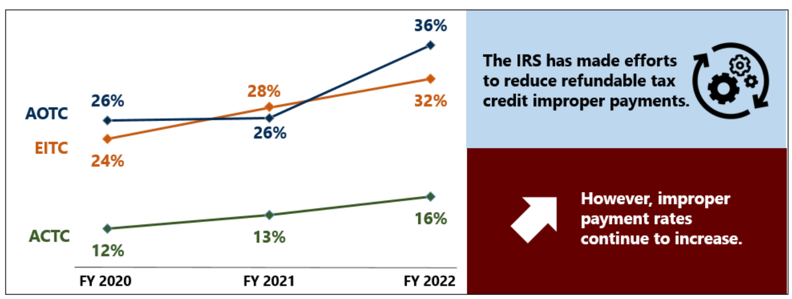
This is the first year the IRS has estimated an improper payment rate for the Net Premium Tax Credit.

What TIGTA Found

For FY 2022, the IRS was largely compliant with the reporting requirements contained in the Payment Integrity Information Act of 2019. However, the IRS still has not satisfied the Payment Integrity Act goal to reduce improper payment rates to less than 10 percent.

The IRS uses its National Research Program to measure reporting compliance for different types of taxes, including calculating estimated improper payment rates. For FY 2022, the IRS reduced the National Research Program sample size due to limited resources. The smaller sample size resulted in a wider confidence interval and a less precise estimated improper payment rate. Furthermore, to estimate the amount of improper payments, the IRS applied the estimated improper payment rate to returns on a tax year basis rather than a fiscal year basis as it has done in the past, which is more consistent with the filing and processing of tax returns.

Estimates of improper payment rates have risen since Fiscal Year 2020. However, refundable credit improper payments are not primarily the result of internal control weaknesses that the IRS can address. Eligibility rules differ for each credit and are often complex because they address complicated family relationships and residency arrangements to determine eligibility.



IRS management also advised TIGTA recently that there is a growing expectation for the IRS to notify individuals who are potentially eligible for but are not claiming refundable credits to encourage them to file a tax return and claim the credits. The same limitations that prevent the IRS from verifying refundable credit claims may also limit its ability to proactively identify eligible individuals who are not claiming these credits. This type of outreach could result in additional improper payments and increased taxpayer burden.

What TIGTA Recommended

TIGTA did not make any recommendations in this report.

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

May 12, 2023

MEMORANDUM FOR: COMMISSIONER, INTERNAL REVENUE

Heather Hill

FROM: Heather M. Hill
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Fiscal Year 2022 Improper Payment Reporting Requirements Were Largely Met; However, Improper Payment Estimates Are Less Precise (Audit # 202340001)

This report presents the results of our review of the Internal Revenue Service's compliance with annual improper payment reporting requirements for Fiscal Year 2022. This review is part of our Fiscal Year 2023 Annual Audit Plan and addresses the major management and performance challenge of *Reducing Tax Fraud and Improper Payments*.

Management's complete response to the draft report is included as Appendix V. If you have any questions, please contact me or Diana Tengesdal, Acting Assistant Inspector General for Audit (Returns Processing and Account Services).

Fiscal Year 2022 Improper Payment Reporting Requirements Were Largely Met; However, Improper Payment Estimates Are Less Precise

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Background

The Office of Management and Budget (OMB) defines an improper payment as any payment that should not have been made, was made in an incorrect amount, or was made to an ineligible recipient.[1] Agency Inspectors General are responsible for evaluating agency information related to improper payments.

On March 2, 2020, the Payment Integrity Information Act of 2019 (PIIA) repealed several improper payment laws but set forth similar improper payment reporting requirements.[2] For example, agencies must conduct a program-specific risk assessment for each program or activity identified by the agency as exceeding $10 million in annual outlays at least once every three years, provide the methodology for identifying and measuring improper payments, and report on actions the agency intends to take to prevent future improper payments. In addition, the following remain in effect:

- Executive Order 13520, *Reducing Improper Payments*, signed by the President on November 20, 2009, increased Federal agencies' accountability for reducing improper payments while continuing to ensure that Federal programs serve and provide access to intended beneficiaries. It requires Federal agencies to provide agency Inspectors General with detailed information on efforts to identify and reduce the number of improper payments in Federal programs with the highest dollar value of improper payments.
- The *Consolidated Appropriations Act of 2021*, enacted on December 27, 2020.[3] This Act directed the Internal Revenue Service (IRS) to make the elimination of improper payments an utmost priority. In addition, the Act directed the IRS to implement, within 270 calendar days of enactment of the Act, all open and unimplemented recommendations from the Treasury Inspector General for Tax Administration (TIGTA) and the Government Accountability Office that address improper payments, or report on impediments to implementation of each open recommendation. We previously assessed the IRS's compliance with this requirement and found the IRS reported all unimplemented recommendations as required.[4]
- OMB revised Circular A-123 Appendix C, *Requirements for Payment Integrity Improvement*, issued March 5, 2021. Appendix C provides agencies and Inspectors General with guidance on improper payment determinations and reporting. According to the OMB, the goal of the revised Appendix C is to transform the payment integrity compliance framework and create a more comprehensive and meaningful set of

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[1] See Appendix VI for a glossary of terms.

[2] Pub. L. No. 116-117, 134 Stat. 113. See Appendix III for a list of repealed improper payment laws.

[3] Pub. L. No. 116-260, 134 Stat. 1182.

[4] TIGTA, Report No. 2021-40-036, *Improper Payment Rates for Refundable Tax Credits Remain High* (May 2021) and TIGTA, Report No. 2022-40-037, *Programs Susceptible to Improper Payments Are Not Adequately Assessed and Reported* (May 2022).

requirements to allow agencies to spend less time complying with low-value activities and more time researching the underlying causes of improper payments, balancing payment integrity risks and controls, and building the capacity to help prevent future improper payments. Every year, each agency Inspector General must review its agency's improper payment reporting in the Agency Financial Report (AFR) and any accompanying material, such as that provided on www.paymentaccuracy.gov, to determine if the agency complies with improper payment legislation and OMB guidance.

Process to identify IRS programs for improper payment risk assessment

Agencies must conduct an improper payment risk assessment at least once every three years for each program with annual outlays over $10 million. The Department of the Treasury (Treasury Department) identifies the programs that the IRS must assess for the risk of improper payments each fiscal year. The IRS must complete a Treasury Certification for each program that was not identified as needing a risk assessment this year stating there were no material changes to the program since the last risk assessment was completed. For Fiscal Year (FY) 2022, the Treasury Department selected eight program fund groups that required certification and 11 IRS programs that required a risk assessment.[5]

The IRS can use one of two types of risk assessments:

- Qualitative Risk Assessment – used to assess the risk that a program's internal controls could lead to susceptible improper payments. The OMB requires agencies to conduct qualitative assessments after the first 12 months of the program and at least once every three fiscal years thereafter. Once the IRS determines that a program is susceptible to improper payments, it must produce a statistically valid estimate of the improper payments the following fiscal year.
- Quantitative Risk Assessment – used to review a sample of disbursements to formulate the overall estimated improper payment rate. In cases in which a quantitative risk assessment is conducted, it could take one of several forms, such as a statistical assessment similar to what is required for the regular improper payment estimate or a nonstatistical assessment in which its ratio of improper payments and unknown payments is projected to the annual outlays.

In addition, the IRS must provide the following information, as part of an improper payment estimate for any program identified as susceptible to significant improper payments as a result of a risk assessment for inclusion in the Treasury Department's next fiscal year AFR:

- The rate and amount of improper payments.
- The root causes of the improper payments.

[5] Appendix II provides the list of the 11 IRS programs identified for improper payment risk assessments for FY 2022 and the type of risk assessment or estimate completed for each program.

- The actions taken to address the root causes.
- The annual improper payment reduction targets.
- A discussion of any limitations to the IRS's ability to reduce improper payments.

The Treasury Department and the IRS continue to request relief from improper payment reporting requirements for refundable tax credit claims

As we reported in May 2022, the Treasury Department and the IRS informed the OMB in October 2020 that the tax system is primarily a collection system and not a payment program.[6] The Treasury Department and the IRS acknowledged that refundable tax credits currently fall under the scope of the PIIA but do not believe that the refundable tax credits meet the definition of payments in the traditional sense. Therefore, the Treasury Department believes the credits should be reported only under the Tax Gap framework that comprehensively assesses the tax collection system and no longer be reported under improper payment requirements.

In December 2020, officials at the Treasury Department and the IRS met with OMB officials to discuss the request. The OMB requested additional information from the IRS, which was provided to the OMB in February 2021. OMB officials advised that they would provide a response on next steps once the full OMB leadership team was in place.

IRS management stated that IRS and Treasury officials met with the OMB on March 1, 2022, to discuss their proposal for using only Tax Gap reporting to eliminate duplicative reporting on refundable tax credits under the PIIA, including *Appendix C* and www.paymentaccuracy.gov. Their proposal would:

- Eliminate a significant portion of Part 3, Section D of the Treasury Department's AFR on Payment Integrity, including the discussion of refundable tax credits and the reporting of improper payment rates for these credits.
- Eliminate reporting information on refundable tax credits on www.paymentaccuracy.gov, including improper payment rates, reduction targets, corrective action plans, *etc*.
- Continue reporting on refundable tax credits as part of the "Tax Gap framework," including the following specific information:
    - Total credits.
    - Amounts and rate of over and under claimed.
    - Root cause analysis, *i.e.*, sources of error, which enables corrective actions and mitigation strategies.
    - Compliance analysis.

[6] TIGTA, Report No. 2022-40-037, *Programs Susceptible to Improper Payments Are Not Adequately Assessed and Reported* (May 2022).

On March 27, 2023, IRS officials confirmed that the OMB continues to review the business case.

Results of Review

The OMB defines high-priority programs as programs with improper payments resulting in monetary losses that exceed $100 million annually. For FY 2022, as shown in Figure 1, the IRS calculated and reported the dollar amount and percentage rate of improper payments associated with four of its high-priority programs susceptible to improper payments.

Figure 1: IRS Estimated FY 2022 Improper Payments and Rates[7]

Program	Estimated Improper Payment Rate	Total Payments	Estimated Improper Payments
Earned Income Tax Credit (EITC)	32%	$57.5 billion	$18.2 billion
Additional Child Tax Credit (ACTC)	16%	$32.8 billion	$5.2 billion
American Opportunity Tax Credit (AOTC)	36%	$5.6 billion	$2.0 billion
Net Premium Tax Credit (Net PTC)[8]	27%	$2.1 billion	$0.6 billion

Source: FY 2022 Treasury Department's AFR.

Assessment of Fiscal Year 2022 Compliance With Improper Payment Reporting Requirements

The IRS was largely compliant with the reporting requirements contained in the PIIA for FY 2022. Figure 2 provides a summary of our evaluation of the IRS's compliance with the various improper payment reporting requirements.

Figure 2: Compliance With Improper Payment Requirements for FY 2022

Improper Payment Requirement	Source of Requirement	IRS Compliance
Published Payment Integrity information with the annual financial statement.	PIIA	✓
Posted the annual financial statement and accompanying materials to agency website.	PIIA/ Executive Order	✓
Conducted improper payment risk assessments for each program with annual outlays greater than $10 million at least once in the last three years.	PIIA	✓

[7] For presentation purposes, the improper payment rates, total payments, and estimated improper payments as presented may be impacted by rounding. Further detail is available within the datasets found on www.paymentaccuracy.gov.

[8] The Net PTC is the amount of the PTC minus the amount of the Advance PTC. This is the first year the IRS has reported an improper payment rate for the Net PTC.

Appendix 2: TIGTA's Assessment of IRS Compliance with the Improper Payment Reporting Requirements in FY 2022 and IRS Management's Response

Fiscal Year 2022 Improper Payment Reporting Requirements Were Largely Met; However, Improper Payment Estimates Are Less Precise

Improper Payment Requirement	Source of Requirement	IRS Compliance
Adequately concluded whether programs are likely to make Improper Payments and Unknown Payments above or below statutory threshold.[9]	PIIA	✓
Published improper payment and unknown payment estimates for programs susceptible to improper payments and unknown in accompanying materials to the annual financial statement.	PIIA	✓
Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.	PIIA	✓
Published an improper payment and unknown payment reduction target for each program for which an estimate above the statutory threshold was published in the accompany materials to the annual financial statement.	PIIA	✓
Demonstrated improvements to payment integrity or to reach a tolerable improper payment and unknown payment rate.	PIIA	✓
Developed a plan to meet the improper payment and unknown payment reduction target.	PIIA/ Executive Order	✓
Reported an improper payment and unknown payment estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the annual financial statement.	PIIA	✗
Established targets to reduce and recover improper payments.	Executive Order	✓
Provided the methodology to identify and measure improper payments.	Executive Order	✓
Provided plans and supporting analysis to ensure that the initiatives undertaken do not unduly burden program access and participation by eligible beneficiaries.	Executive Order	✓

Source: TIGTA's review of the IRS's compliance with improper payment requirements for FY 2022 for the programs listed in Appendix II.

While largely compliant, the IRS still has not satisfied the PIIA goal of reducing the overall improper payment rate for the EITC, the ACTC, the AOTC, and the Net PTC to less than 10 percent. As we have reported previously, the OMB advised the IRS that as an alternative to

[9] Unknown payments are payments made by a program in which it is still unknown whether the payment is proper or improper. Payments are reported as unknown so that a program does not unintentionally over or under report the payment type results.

reducing the improper payment rate to less than 10 percent, a reduction target may remain constant given the complexities of the programs, as long as the complexities are explained in the AFR, which the IRS did.[10]

In addition, the IRS properly reported all other required information to the Treasury Department for posting to www.paymentaccuracy.gov. However, the OMB erroneously transcribed the FYs 2019 and 2020 margins of error for the EITC, the ACTC, and the AOTC when posting the information to www.paymentaccuracy.gov. IRS officials notified the Treasury Department and the OMB and requested correction of the errors. As of March 2023, the information on www.paymentaccuracy.gov was corrected.

The OMB also posts quarterly scorecards associated with high-priority programs to www.paymentaccuracy.gov. It determines the scorecards to be posted based on the prior year's AFR. Because this is the first year that an improper payment rate and amount for the Net PTC were included in the Treasury Department's AFR, the OMB did not request quarterly scorecards for the Net PTC program. Treasury Department officials expect quarterly scorecards to be requested and reported for the Net PTC for FY 2023.

The IRS is not reporting improper payments for all Coronavirus Disease 2019 (COVID-19)-related programs

The IRS has a number of COVID-19 related programs created by the American Rescue Plan Act of 2021; Coronavirus Aid, Relief, and Economic Security Act; and the Consolidated Appropriations Act, 2021.[11] These include the advance Recovery Rebate Credit (RRC) payments (also referred to as Economic Impact Payments) issued during Calendar Years (CY) 2020 and 2021 and the RRC claimed on Tax Years (TY) 2020 and 2021 tax returns.

Based on TIGTA's concerns with the IRS's initial evaluation of risk associated with these improper payments, the IRS subsequently performed qualitative risk assessments. As a result, the IRS rated the programs as susceptible to improper payments. However, it did not estimate the amount of improper payments for these programs.

According to the IRS, due to the short time frame over which the majority of disbursements will be made by these COVID-19-related programs, estimating the amount and rate of improper payments, assessing the root cause, and developing corrective action plans to reduce payment errors in the future would provide minimal value and be an ineffective use of resources. The IRS stated that it planned to only assess risk according to the requirements outlined in Appendix C of OMB Circular A – 123, rather than reporting an estimate of these programs in the AFR.

The Treasury Department notified the OMB of this decision on August 4, 2022. The OMB acknowledged the IRS's treatment of these payments, but it did not state whether this action

[10] TIGTA, Report No. 2021-40-036, *Improper Payment Rates for Refundable Tax Credits Remain High* (May 2021).
[11] Pub. L. No. 117-2, 135 Stat. 4 (codified in scattered sections of 7, 12, 15, 19, 20, 26, 29, 42, and 45 U.S.C.); Pub. L. No. 116-136, 134 Stat. 281 (codified as amended in scattered sections of 2, 5, 12, 15, 20, 21, 29, 42, and 45 U.S.C.); and Pub. L. No 116-260, 134 Stat. 1182, respectively.

was appropriate. The IRS's justification for not expending the resources to complete a qualitative assessment is reasonable. However, the IRS could have summarized information from external reviews and analysis, such as those completed by TIGTA, to provide perspective on the potential volume and cause of improper payments in these programs. For example, our reviews of the issuance of advance RRC payments and RRCs found that the IRS issued $8 billion in advance RRC payments and RRCs to potentially ineligible individuals since the enactment of the Coronavirus Aid, Relief, and Economic Security Act. Figure 3 shows the number of payments the IRS issued to potentially ineligible individuals.

Figure 3: Payments Issued to Potentially Ineligible Individuals

TIGTA Report	Payments	Dollars
TIGTA, Report No. 2021-46-034, *Implementation of Economic Impact Payments* (May 2021)	4.5 million	$5.5 billion
TIGTA, Report No. 2022-47-030, American Rescue Plan Act: *Implementation of Advance Recovery Rebate Credit Payments* (Mar 2022)	1.2 million	$1.9 billion
TIGTA, Report No. 2022-46-032, *Processing of Recovery Rebate Credit Claims During the 2021 Filing Season* (May 2022)	355,015	$603 million
Total[12]	6.0 million	$8.0 billion

Source: TIGTA analysis of payments issued as of July 16, 2020, May 27, 2021, and September 16, 2021.

Changes in the Estimation of Improper Payments Make Year-to-Year Comparisons Difficult

The IRS uses its National Research Program (NRP) to measure reporting compliance for different types of taxes and various sets of taxpayers, including calculating an estimated improper payment rate for programs rated as "High-Priority" or susceptible to significant improper payments.

For FY 2022, the IRS relied on a smaller NRP sample size and changed the period for reporting on claims and improper payments. These changes resulted in less precise and lower improper payment estimates. The change in the reporting period resulted in lower estimates of the number and amount of improper payments than the original estimation method. These revisions make interpreting year-to-year changes in the IRS's reported improper payment estimates difficult.

The IRS relied on a smaller NRP sample size to estimate improper payment rates

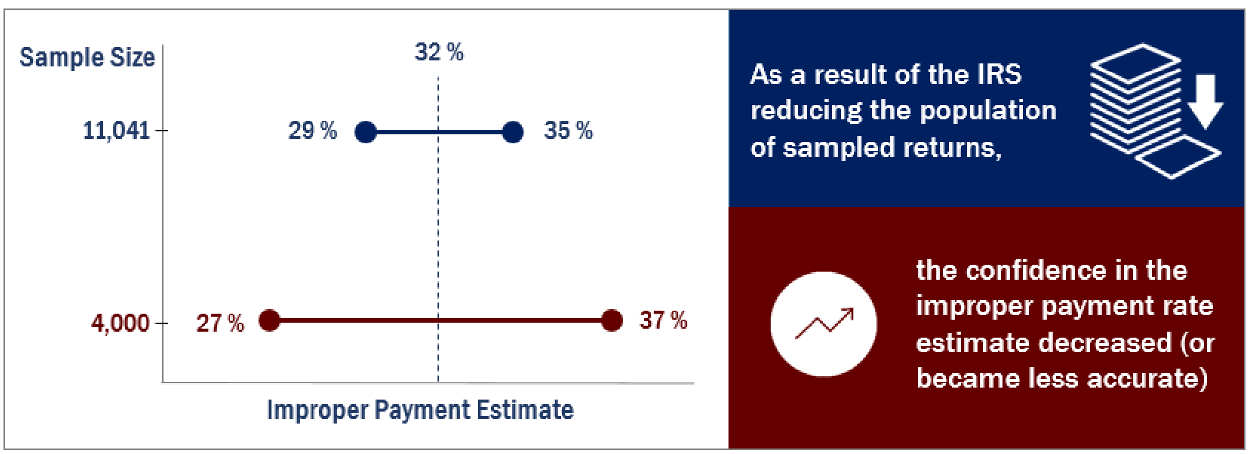
NRP results are a statistically valid representation of the reporting compliance characteristics based on a representative sample of audited taxpayers. FY 2022 improper payment estimates

[12] Totals may not reconcile due to rounding.

are based on the TY 2018 NRP sample of returns filed predominately in CY 2019 because it takes approximately three years to complete all of the audits associated with those tax returns.

The IRS designed the TY 2018 NRP sample to include an original sample of 11,041 tax returns, which was a 20 percent decrease compared to prior years. However, the IRS reduced the overall sample to 4,000 returns due to limited resources.[13] Figure 4 shows how the change in NRP sample sizes affected the IRS's estimated EITC improper payment rate. The width of a confidence interval reflects the probability that the improper payment rate will fall between a set of values. As shown in Figure 4, the smaller sample of 4,000 returns resulted in the estimated EITC improper payment rate falling into a wider confidence interval (with less accuracy). As such, there is a larger range of values within which the improper payment rate falls, creating more uncertainty in the estimate.

Figure 4: Example of the Impact on the Margins of Error on the Estimated EITC Improper Payment Rate



Source: TIGTA analysis of the IRS's sampling and estimation methodology.

The IRS changed the way it calculated total claims and estimated the amount of improper payments

The IRS applied the estimated improper payment rate discussed previously to tax returns on a tax year basis rather than a fiscal year basis as it has done in the past. Specifically, the IRS applied the improper payment rate to TY 2020 returns filed in CY 2021 and CY 2022 instead of all tax returns filed between October 1, 2021, and September 30, 2022 (FY 2022).[14] To evaluate the potential impact of the change from a fiscal year to a tax year, we calculated the total EITC claims and improper payment estimates using TY 2020 tax returns filed in CY 2021 and CY 2022 and all tax returns filed in FY 2022. Figure 5 shows an example of the potential impact of this

[13] The IRS reduced the original NRP sample size in TYs 2016, 2017, and 2018 due to resource constraints.
[14] The improper payment rate was applied to TY 2020 tax returns, predominately filed in CY 2021, as that is the most recent full year of returns available from the IRS's Individual Returns Transaction File when the improper payment estimates were calculated in CY 2022.

change on the estimated amount of EITC improper payments for FY 2022. However, this evaluation applies specifically to FY 2022 reporting, changes in various factors (such as changes in tax code or changes in taxpayer behavior) contribute to differences in volumes of claims each year.

Figure 5: Estimate of the Impact in Calculating Improper Payments for the EITC on a Tax/Calendar Year Basis Rather Than a Fiscal Year Basis

Program	Claims (in billions)	Improper Payments (in billions)	Improper Payment Rate
TIGTA Estimate of EITC Improper Payments Using FY 2022	$65.4	$20.7	32%
IRS EITC Estimate as Reported in the FY 2022 AFR Using Claims From TY 2020	$57.5	$18.2	32%
Difference	$7.9	$2.5	

Source: TIGTA analysis of data from the IRS's Individual Returns Transaction File for FY 2022 and the FY 2022 Treasury AFR.

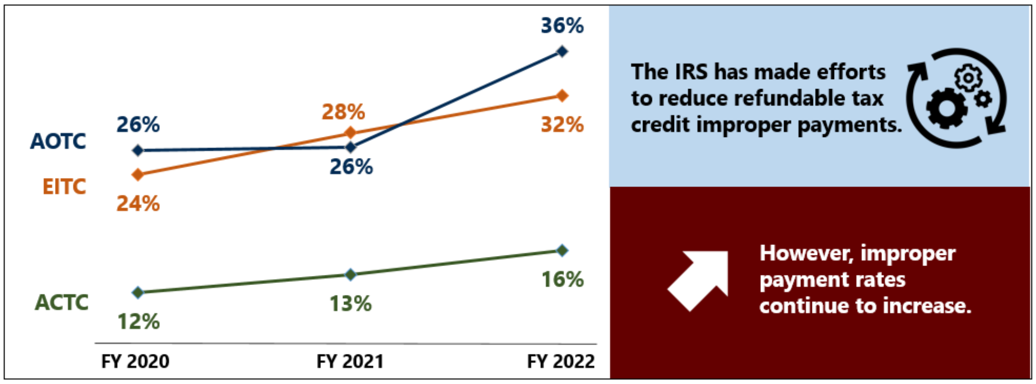
According to IRS officials, they changed the period of returns for estimation purposes to align Net PTC reporting by tax year with the same calendar year of Advance PTC improper payments being reported by the Department of Health and Human Services. IRS officials felt that also changing the estimate for the EITC, the AOTC, and the ACTC had the added benefit of moving the estimate of improper payments to a tax year basis, which is more consistent with the filing and processing of tax returns.

While our estimate does not necessarily reflect the amount of EITC improper payments the IRS would have reported had it continued to estimate using a fiscal year reporting period, it does provide some perspective of the potential impact the change in reporting period had on estimated improper payments.

Despite Internal Revenue Service Efforts, Improper Payment Rate Estimates Have Risen Since Fiscal Year 2020

The IRS has implemented a number of initiatives to help reduce refundable tax credit improper payment rates, yet rates remain persistently high. For example, the EITC improper payment rate increased from 24 percent in FY 2020 to 32 percent in FY 2022. Figure 6 shows the improper payment rates for the EITC, the ACTC, and the AOTC for the last three fiscal years.

Figure 6: FY 2020 Through FY 2022 Improper Payment Rates



Source: FY 2020 through FY 2022 AFRs.

Figure 7 lists the IRS initiatives implemented to reduce improper payments.

Figure 7: IRS Initiatives to Reduce Improper Payments

Initiative	Description
Nationwide Tax Forum	The annual tax forum offers three full days of seminars with the latest news from IRS leadership and experts. More than 8,300 tax return preparers attended the seminar entitled *Looking to Tax Year 2022: American Rescue Plan Tax Changes to the Earned Income Tax Credit and Other Child-Related Credits* at the 2022 virtual Nationwide Tax Forums.
Interactive Tax Return Preparer Due Diligence Training Module	The training module on IRS.gov covers the technical aspects of the tax return preparer due diligence requirements. In FY 2022, more than 10,400 preparers received a certificate of completion.
Tax Preparer Toolkit	The Tax Preparer Toolkit on IRS.gov has resources to assist tax return preparers with the EITC, the ACTC, the AOTC as well as other credits and tax benefits.
Software Developers Working Group	The IRS meets with members of tax preparation companies and software industry representatives to identify software enhancements that can help reduce errors made by taxpayers and paid preparers and to assist paid preparers in meeting their due diligence requirements.
Tax Return Preparer Due Diligence Webinars	The IRS hosts discussions and provides instructions and demonstrations over the Internet. In FY 2022, nearly 900 preparers attended the virtual webinar on due diligence requirements entitled *Keys to Mastering Due Diligence Requirements and What to Expect During a Due Diligence Audit.*

Initiative	Description
Tax Preparer Alerts	Alerts on IRS.gov provide return preparers with updated news and information on key refundable credit and return filing topics.
Refundable Credits Summit	In FY 2022, the IRS held its annual summit to provide a forum for interested internal and external stakeholders to discuss opportunities to reduce improper payments, ease taxpayer burden, and mitigate compliance risks. The IRS held an additional summit to discuss administering the Advanced Child Tax Credit provisions in the American Rescue Plan.

Source: FY 2022 AFR.

Refundable credit improper payments are not primarily the result of internal control weaknesses that the IRS can address. In addition to the lack of reliable, relevant, and timely third-party data for use in verifying refundable credit claims, the Treasury AFR reports that eligibility rules differ for each credit and are often complex because they address complicated family relationships and residency arrangements to determine eligibility. As we reported in September 2021, the requirements to claim certain refundable credits have increased in complexity over time. For example, when the EITC was created in 1975, the amount an individual was entitled to receive was based solely on the individual's earnings. Today, the EITC has four earnings limitations dependent on the taxpayer's filing status and the number of qualifying children. Since the credit's enactment, it has been modified to increase amounts and to differentiate between family size and structure.[15]

Outreach efforts to expand participation in refundable tax credit programs can increase improper payments

IRS management recently advised there is a growing expectation for the IRS to notify individuals who are potentially eligible for but not claiming refundable credits to encourage them to file a tax return and claim the credits. However, the same limitations that prevent the IRS from verifying refundable credit claims may also limit its ability to proactively identify eligible individuals who are not claiming these credits. This type of outreach could result in additional improper payments and increased taxpayer burden. The following hypothetical example illustrates how this might occur:

> *An individual has two children and earned income. The individual has a tax return filing requirement but does not file. The IRS sends the individual a letter informing them of their potential eligibility to claim the EITC and encouraging them to file and claim the credit on their tax return, which the individual does.*

[15] TIGTA, Report No. 2021-40-070, *Addressing Complex and Inconsistent Earned Income Tax Credit and Additional Child Tax Credit Rules May Reduce Unintentional Errors and Increase Participation* (Sept. 2021).

> *The IRS processes the individual's return and issues the claimed refund. The IRS subsequently selects the individual's return for review. The IRS learns that the two children live with the individual's parents (the children's grandparents). As such, the individual is not eligible to claim the children for the EITC. The IRS denies the individual's claim and must now attempt to recover the improperly paid refund.*

Encouraging individuals to claim a refundable credit only to later deny the claim once filed may create confusion and be detrimental to the IRS's efforts to help taxpayers understand their tax responsibilities and meet their tax obligations. It could also negatively impact the public's perception of the IRS's ability to accurately administer the tax law with integrity and fairness.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective of this audit was to determine whether the IRS complied with the annual improper payment reporting requirements for FY 2022. To accomplish our objective, we:

Determined whether the IRS complied with the improper payment reporting requirements for FY 2022.

Evaluated the adequacy of the IRS's FY 2022 risk assessments for IRS revenue program funds identified by the Treasury Department.

Reviewed the IRS's methodology to calculate EITC, ACTC, AOTC, and PTC improper payment rates for FY 2022.[1]

Followed up on select prior audit findings to ensure that the IRS has taken the agreed-upon action to resolve the issues.

Performance of This Review

This review was performed with information obtained from the Office of the Chief Financial Officer and the Office of Research, Applied Analytics, and Statistics located at the IRS Headquarters in Washington, D.C., during the period December 2022 through April 2023. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Diana M. Tengesdal, Acting Assistant Inspector General for Audit (Returns Processing and Account Services); Deann L. Baiza, Director; Curtis J. Kirschner, Audit Manager; Linda M. Valentine, Lead Auditor; Jason J. Robertazzi, Auditor; Michael F. Shugrue, Auditor, and Johnathan D. Elder, Supervisory Information Technology Specialist (Data Analytics) – Applied Research and Technology Data.

Validity and Reliability of Data From Computer-Based Systems

During this review, we relied on data received from the IRS's Returns Transaction File databases for Processing Years 2021 and 2022 that were available on TIGTA's Data Center Warehouse. We determined the data were sufficiently reliable for purposes of this report.

Internal Controls Methodology

1 TIGTA's contracted statistician assisted with reviewing the IRS's FY 2022 sample design and estimation plan.

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the controls in place to ensure that the IRS met the annual improper payment reporting requirements established in the PIIA and Executive Order 13520. We tested these controls by reviewing and analyzing relevant documents and holding discussions with IRS management and the Treasury Department's Risk and Control Group.

Appendix II

Programs Identified for Improper Payment Risk Assessments

The following IRS programs were identified by the Treasury Department for improper payment risk assessments for FY 2022.

IRS Program	Type of Assessment	Total Non-Federal Disbursements
Earned Income Credit	IP Estimate	$60.8 billion
Additional Child Tax Credit	IP Estimate	$79 billion
American Opportunity Tax Credit	IP Estimate	$4 billion
Premium Tax Credit	IP Estimate	$68.3 billion
Refund Collection, Interest	Qualitative	$3 billion
Health Coverage Tax Credit	Qualitative	$22.9 million
Build America Bond Payments	Qualitative	$3 billion
Qualified Zone Academy Bonds	Qualitative	$54 million
Qualified School Construction Bonds	Qualitative	$796.9 million
New Clean Renewable Energy Bonds	Qualitative	$56.9 million
Qualified Energy Conservation Bonds	Qualitative	$43.2 million

Source: IRS Office of the Chief Financial Officer. IP = Improper Payment

Appendix III

Improper Payment Laws Repealed by the Payment Integrity Information Act of 2019

- Improper Payments Information Act of 2002, Pub. L No. 107-300, 116 Stat. 2350.
- Improper Payments Elimination and Recovery Act of 2010, Pub. L. No. 111-204, 124 Stat. 2224.
- Improper Payments Elimination and Recovery Improvement Act of 2012, Pub. L. No. 112-248, 126 Stat. 2390.
- Fraud Reduction and Data Analytics Act of 2015, Pub. L. No. 114-186, 130 Stat. 546.

Appendix IV

Prior Improper Payment Reports by the Treasury Inspector General for Tax Administration

Issuance Date	Report Number	Report Title
May 2022	2022-40-037	Programs Susceptible to Improper Payments Are Not Adequately Assessed and Reported
May 2021	2021-40-036	Improper Payment Rates for Refundable Tax Credits Remain High
April 2020	2020-40-025	Improper Payment Reporting Has Improved; However, There Have Been No Significant Reductions to the Billions of Dollars of Improper Payments
May 2019	2019-40-039	Some Refundable Credits Are Still Not Classified and Reported Correctly as a High Risk for Improper Payment by the Internal Revenue Service
April 2018	2018-40-032	The Internal Revenue Service Is Not in Compliance With Improper Payment Requirements
April 2017	2017-40-030	Revised Refundable Credit Risk Assessments Still Do Not Provide an Accurate Measure of the Risk of Improper Payments
April 2016	2016-40-036	Without Expanded Error Correction Authority, Billions of Dollars in Identified Potentially Erroneous Earned Income Credit Claims Will Continue to Go Unaddressed Each Year
April 2015	2015-40-044	Assessment of Internal Revenue Service Compliance With the Improper Payment Reporting Requirements in Fiscal Year 2014
March 2014	2014-40-027	The Internal Revenue Service Fiscal Year 2013 Improper Payment Reporting Continues to Not Comply With the Improper Payments Elimination and Recovery Act
February 2013	2013-40-024	The Internal Revenue Service Was Not in Compliance With All Requirements of the Improper Payments Elimination and Recovery Act for Fiscal Year 2012

Source: www.tigta.gov/reports/list.

Appendix V

Management's Response to the Draft Report

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

CHIEF FINANCIAL OFFICER

May 4, 2023

MEMORANDUM FOR HEATHER M. HILL
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Teresa R. Hunter
Chief Financial Officer

Teresa R. Hunter
Digitally signed by Teresa R. Hunter
Date: 2023.05.04 10:43:45 -04'00'

SUBJECT: Response to Draft Audit Report – Improper Payment Reporting Requirements Were Largely Met; However, Improper Payment Estimates Are Less Precise (Audit #202340001)

Thank you for the opportunity to review and comment on your draft audit report entitled *Improper Payment Reporting Requirements Were Largely Met; However, Improper Payment Estimates Are Less Precise*. The programs examined in this report are refundable tax credits (RTC) designed to achieve specific economic and social objectives, such as coronavirus pandemic relief, reducing poverty and increasing the affordability of higher education. Even before RTCs were key to the Federal government's response to the national emergency caused by the global worldwide pandemic, programs with RTC presented challenges of administering complex social benefit programs through the tax administration system. These, and other social programs, have been expanded and will continue to require education, oversight, and compliance activities going forward to ensure taxpayers receive the correct benefits.

The IRS agrees with your assessment that refundable credit improper payments are not primarily the result of internal control weaknesses that the IRS can address. The complex eligibility requirements and IRS reliance on taxpayer self-certification of RTC claims do not fit well with the improper payment framework. We continue to believe that RTC overclaims are more effectively managed and reported holistically within the tax gap, where they can be prioritized relative to all other types of enterprise tax noncompliance mitigation strategies.

We appreciate your office's conscientious evaluation of these programs and the IRS's continuing efforts to reduce and eliminate erroneous claims within the structure of the tax administration system. Additional technical comments have been forwarded separately. If you have any questions, please contact me at 202-317-4147, or a member of your staff may contact Charles A. Messing, Associate Chief Financial Officer for Internal Controls, at 202-803-9762.

Appendix VI

Glossary of Terms

Term	Definition
Additional Child Tax Credit	A credit for individuals who receive less than the full amount of the nonrefundable Child Tax Credit. The ACTC may result in a refund even if no tax is owed.
Advance Premium Tax Credit	A tax credit that is paid in advance to a taxpayer's insurance company to help cover the cost of premiums.
Agency Financial Report	Presents the Treasury Department's financial and performance information for the fiscal year, with comparative prior year data where appropriate.
American Opportunity Tax Credit	A credit for qualified education expenses paid for an eligible student for the first four years of higher education. A partially refundable Federal tax credit used to help parents and college students offset the costs of college.
Data Center Warehouse	A TIGTA repository of IRS data.
Earned Income Tax Credit	A refundable tax credit for low-income to moderate-income workers.
Fiscal Year	Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.
High-Priority Program	Program identified as susceptible to significant improper payments.
Improper Payment	Any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements (including both overpayments and underpayments).
Improper Payment Rate	Amount in improper payments divided by the amount in program outlays.
Net Premium Tax Credit	When the PTC exceeds the Advance PTC (PTC minus Advance PTC = Net PTC). The Net PTC reduces a taxpayer's tax liability and, if it is more than the tax liability, results in a refundable tax credit.
Outlay	A payment to liquidate an obligation generally equal to cash disbursements (the measure of Government spending).
Overpayment	A payment in excess of what is due. When an overpayment occurs, the improper amount is the difference between the amount due and the amount that was actually paid. Overpayments are monetary loss IPs.

Term	Definition
Payment	Any disbursement or transfer of Federal funds to any non-Federal person, non-Federal entity, or Federal employee that is made by a Federal agency, contractor, grantee, or a governmental or other organization administering a Federal program or activity.
Premium Tax Credit	Refundable tax credit that helps eligible individuals and families cover the premiums for their health insurance purchased through the Health Insurance Marketplace.
Processing Year	The calendar year in which the tax return or document is processed by the IRS.
Program	Activities or sets of activities recognized as programs by the public, the OMB, or Congress as well as those that entail program management or policy direction.
Qualitative Risk Assessment	A technique used to quantify risk associated with IPs and Unknown Payments. For example, a qualitative IP risk assessment methodology prioritizes the identified IP and Unknown Payment risks using a predefined rating scale. Risks will be scored based on their probability or likelihood of occurring and the impact on IPs and Unknown Payments in the program should they occur.
Quantitative Risk Assessment	A risk assessment technique that focuses on measurable data such as improper or unknown payment amount. For example, a quantitative IP risk assessment will provide numerical IP amounts and assess the probability of their occurrence. The assessment may be similar to the regular IP estimate.
Returns Transaction File	An IRS database containing transcribed tax returns for individuals that includes most forms and schedules.
Significant Improper Payment	Annual IPs and Unknown Payments, *i.e.*, the sum of monetary loss IPs, non-monetary loss IPs, and Unknown Payments, in the program exceeding 1) both 1.5 percent of program outlays and $10,000,000 of all program or activity payments made during the fiscal year reported or 2) $100,000,000 (regardless of the IP percentage of total program outlays).
Tax Gap	The estimated difference between the amount of tax that taxpayers should pay and the amount that is paid voluntarily and on time.
Tax Year	A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.

Term	Definition
Underpayment	A payment that is less than what is due. When an underpayment occurs, the improper amount is the difference between the amount due and the amount that was actually paid. An underpayment is a non-monetary loss IP.

Appendix VII

Abbreviations

ACTC	Additional Child Tax Credit
AFR	Agency Financial Report
AOTC	American Opportunity Tax Credit
COVID-19	Coronavirus Disease 2019
CY	Calendar Year
EITC	Earned Income Tax Credit
FY	Fiscal Year
IP	Improper Payment
IRS	Internal Revenue Service
NRP	National Research Program
OMB	Office of Management and Budget
PIIA	Payment Integrity Information Act of 2019
PTC	Premium Tax Credit
RRC	Recovery Rebate Credit
TIGTA	Treasury Inspector General for Tax Administration
TY	Tax Year

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Appendix 3: Treasury Programs' Compliance with PIIA Criteria

The table below summarizes Treasury programs' compliance with the PIIA reporting requirements by program.

Program Name	Published payment integrity information with the annual financial statement (1)	Posted the annual financial statement and accompanying materials on the agency website (1)	Conducted IP risk assessments for each program with annual outlays greater than $10 million at least once in the last three years	Adequately concluded whether the program is likely to make IPs and UPs above or below the statutory threshold	Published IP and UP estimates for programs susceptible to significant IPs in the accompanying materials to the annual financial statement (2)	Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Published IP and UP reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Has demonstrated improvements to payment integrity or reached a tolerable IP and UP rate (2)	Has developed a plan to meet the IP and UP reduction target (2)	Reported an IP and UP estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the annual financial statement (2)
Fiscal Service - Salaries and Expenses	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service - Financial Agent Services	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service - Debt Collection Special Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Corporation for Public Broadcasting	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Paymt to Legal Services Corp	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Fed. Pay. Resident Tuition Sup	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Judgments, US Courts	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Claims for Contract Disputes	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Fed. Pay-Emerg. Pl & Sec	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Fiscal Service – Paymt to Resolution Fd Corp	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A

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Program Name	Published payment integrity information with the annual financial statement (1)	Posted the annual financial statement and accompanying materials on the agency website (1)	Conducted IP risk assessments for each program with annual outlays greater than $10 million at least once in the last three years	Adequately concluded whether the program is likely to make IPs and UPs above or below the statutory threshold	Published IP and UP estimates for programs susceptible to significant IPs in the accompanying materials to the annual financial statement (2)	Published corrective action plans for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Published IP and UP reduction target for each program for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement (2)	Has demonstrated improvements to payment integrity or reached a tolerable IP and UP rate (2)	Has developed a plan to meet the IP and UP reduction target (2)	Reported an IP and UP estimate of less than 10% for each program for which an estimate was published in the accompanying materials to the annual financial statement (2)
Fiscal Service – Check Forgery Insurance Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service - HQ Disbursement EIC (EITC)	Yes	Yes	N/A	N/A	Yes	Yes	Yes	Yes	Yes	No
Internal Revenue Service - Pay.-Child Credit Exceeds Liab (ACTC)	Yes	Yes	N/A	N/A	Yes	Yes	Yes	Yes	Yes	No
Internal Revenue Service - Pymt. Where American Opport. Credit, Recovery Act (AOTC)	Yes	Yes	N/A	N/A	Yes	Yes	Yes	Yes	Yes	No
Internal Revenue Service - Refundable Premium Assistance Tax Credit (PTC)	Yes	Yes	N/A	N/A	Yes	Yes	N/A	N/A	N/A	No
Internal Revenue Service – Refund Collection, Interest	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service – Payment-Health Care Credit Exceeds	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service – Build America Bond Payments, Recovery Act	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service - Payment to Issuer of Qualified Zone Academy Bonds	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service - Payment to Issuer of Qualified School Construction Bonds	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A

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Internal Revenue Service - Payment to Issuer of New Clean Renewable Energy Bonds	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Internal Revenue Service - Payment to Issuer of Qualified Energy Conservation Bond	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices - CDFI Equity Investment Dividen	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices - Minority Lending Program	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices - Salaries and Expenses	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices – Terrorism and Financial Intelligence	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices - Cybersecurity Enhancement Account	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices - Coronavirus Relief Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices - Homeowners Assistance Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices - Emergency Rental Assistance	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A

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Departmental Offices - Transportation Services Economic Relief	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Departmental Offices - Pandemic Relief for Aviation Workers	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Exchange Stabilization Fund - Economic Stabilization Program	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Financial Research Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Office of the Assistant Secretary for International Affairs - Contribution to African Develop Bank	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Office of D.C. Pensions - District of Columbia Federal Pension Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Office of D.C. Pensions - DC Judicial Retirement and Survivor’s Annuity Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Special Inspector General for the Troubled Asset Relief Program	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Treasury Forfeiture Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A
Bureau of Engraving and Printing Fund	Yes	Yes	Yes	Yes	N/A	N/A	N/A	N/A	N/A	N/A

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(1) For the "Published payment integrity information with the annual financial statement" and "Posted the annual financial statement and accompanying materials on the agency website" criterion, which are applicable at an agency level, if the agency is compliant, then the programs are all compliant.
(2) The requirements apply only to the programs for which an estimate above the statutory threshold was published in the accompanying materials to the annual financial statement.

Appendix 4: Treasury Management's Response

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

MEMORANDUM FOR DIRECTOR ADE BANKOLE
FINANCIAL STATEMENT AND PROCUREMENT AUDITS,
OFFICE OF INSPECTOR GENERAL

FROM: Anna Canfield Roth
Assistant Secretary for Management

SUBJECT: Audit of Treasury's Compliance with the Payment Integrity Reporting Requirements for Fiscal Year (FY) 2022

We have reviewed the draft audit report on Treasury's improper payment reporting for FY 2022 and appreciate the opportunity to respond. We recognize the importance of achieving full compliance with the Payment Integrity Information Act of 2019 (PIIA), which includes complying with the Office of Management and Budget (OMB) Memorandum M-19-21 Appendix C to Circular A-123, *Requirements for Payment Integrity Improvement*; Executive Order 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*; and OMB Circular A-136, *Financial Reporting Requirements*.

Your audit concluded that Treasury was not in compliance with the PIIA for FY 2022 because the IRS, as reported by the Treasury Inspector General for Tax Administration (TIGTA), did not report an overall improper payment rate of less than 10 percent for the Internal Revenue Service's (IRS) Earned Income Tax Credit, the Additional Child Tax Credit, the American Opportunity Tax Credit, and the Net Premium Tax Credit. We appreciate your acknowledgement that Treasury complied with all other PIIA requirements.

We have long held that refundable tax credits (RTCs) are not "payments" as intended under the improper payments legislation, as the tax system is a collection system rather than a payment system. Whereas a payment system is generally designed to implement internal controls that provide for appropriate verification and validation prior to payments being made, the statutory structure and design for administering RTCs prevent the IRS from verifying or validating such amounts prior to making the refund payment. Consequently, RTC overclaims are not the result of internal control weaknesses that we can remediate internally but are, in fact, the result of factors beyond our control under current law and existing authority. Even if we could obtain legislative changes and invest in additional resources and verification solutions that would ultimately reduce overclaims, the benefits derived would be marginal relative to the cost of doing so. Audits by the Government Accountability Office and TIGTA have also concluded that RTC overclaims are largely due to the statutory design and complexity of the RTCs, not internal control weaknesses, financial management deficiencies, or reporting failures.

We are continuing to collaborate with the IRS and OMB to identify a more effective way to report on estimated payment errors associated with the RTC programs in the Department's Agency Financial Report as part of a broader discussion on the tax gap and tax burden.

Attached is our response to your recommendation which relates to improving the quality completion of risk assessments by non-IRS Treasury Components. If you have any questions, please let me know, or you may contact Carole Banks, Deputy Chief Financial Officer, at (202) 286-2202.

Attachment

Attachment 1: Management's Response to PIIA Audit Recommendation

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Attachment 1

Management's Response to PIIA Audit Recommendation

RMA Recommendation #1

RMA recommends Treasury's Risk and Control Group (RCG) work with the Bureau of the Fiscal Service, the Treasury Forfeiture Fund, and the Office of the Special Inspector General for the Trouble Asset Relief Program managements to complete sufficient review of the program-specific risk assessments indicating management responses and justifications to risk assessment questions are accurate and justifications properly support the responses to the questions.

Management's Response

Treasury concurs with RMA's recommendation. For FY 2023, RCG made improvements to the risk assessment template and related answer key. Specifically, we revised the answer key to clearly identify which party (i.e., program office or disbursing office) should respond to each risk assessment question. This will provide better clarity for components on how to respond to the specific risk factors and ensure that personnel knowledgeable of the programs and payment processes complete and/or review risk assessments. We have also revised the risk assessment template to minimize the confusion between the 'not susceptible' and the 'not applicable' ratings. In addition, during its annual payment integrity roundtable for all Treasury bureaus and offices, we will emphasize the importance of ensuring the appropriate personnel complete and/or review the risk assessments and that the justifications clearly and accurately support the related answers. Finally, we plan to assess the entire risk assessment process, placing emphasis on review of the assessments, to determine if additional process improvements can be made.

Implementation Date: August 1, 2023

Responsible Official(s): Assistant Secretary for Management and Deputy Chief Financial Officer

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Appendix 5: Report Distribution

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- Secretary of the Treasury
- Deputy Secretary
- Assistant Secretary for Management
- Deputy Chief Financial Officer
- Director, Risk and Control Group

Office of Management and Budget
- Controller, Office of Federal Financial Management
- OIG Budget Examiner

U.S. Senate
- Chairman and Ranking Member
  Committee on Homeland Security and Governmental Affairs

- Chairman and Ranking Member
  Committee on Finance

- Chairman and Ranking Member
  Committee on Appropriations

U.S. House of Representatives
- Chairman and Ranking Member
  Committee on Oversight and Accountability

- Chairman and Ranking Member
  Committee on Ways and Means

- Chairman and Ranking Member
  Committee on Appropriations

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- Comptroller General of the United States

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