TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Assessment of Fiscal Year 2023 Compliance With Improper Payment Reporting Requirements

May 17, 2024

Report Number: 2024-400-026

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

HIGHLIGHTS: Assessment of Fiscal Year 2023 Compliance With Improper Payment Reporting Requirements

Final Audit Report issued on May 17, 2024 **Report Number 2024-400-026**

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) 2023.

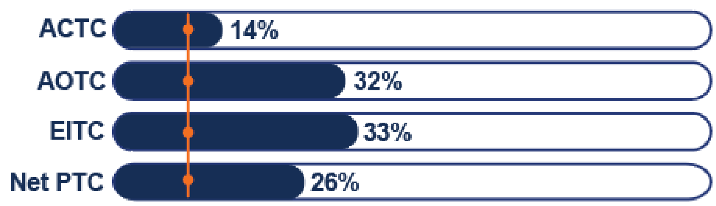
Impact on Tax Administration

The Payment Integrity Information Act of 2019 and the Office of Management and Budget (OMB) define 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.

What TIGTA Found

For FY 2023, 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 estimated the improper payment rates for the following programs: Additional Child Tax Credit (ACTC), American Opportunity Tax Credit (AOTC), Earned Income Tax Credit (EITC) and Net Premium Tax Credit (PTC).



The IRS did not reduce the improper payment rate to less than 10 percent.

In the FY 2023 Agency Financial Report, the IRS noted that part of its actions to mitigate the risk of improper payments included outreach to taxpayers and tax preparers in lieu of conducting additional pre-refund audits. The IRS has implemented several different outreach initiatives intended to raise public awareness and encourage eligible taxpayers to claim refundable tax credits. Specifically, the IRS will reduce the number of pre-refund audits focused on refundable tax credits while also expanding outreach to help taxpayers claim the credits correctly at the time of filing. According to the IRS, focusing on helping taxpayers submit accurate filings will increase payment accuracy while reducing administrative burdens for both the IRS and the tax filer. In addition, the IRS also intends to increase enforcement activities that focus on unscrupulous preparers who contribute to the noncompliance in this area. However, these initiatives may not make an immediate impact on the improper payment rates.

Finally, this review also found that the Department of the Treasury risk assessment template does not allow the IRS to provide an accurate assessment of improper payment risk. While the results of the qualitative risk assessments for the Advance Child Tax Credit and Child and Dependent Care Tax Credit indicated that these credits were not susceptible to improper payment risk, the IRS deemed them "susceptible." The IRS deemed these programs susceptible because of the similarity of these programs with other programs that have high error rates and deficiencies identified by external audit agencies, such as TIGTA.

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. 20024

May 17, 2024

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Matthew A. Weir
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Assessment of Fiscal Year 2023 Compliance With Improper Payment Reporting Requirements (Audit No.: 2024400001)

This report presents the results of our review to determine whether the Internal Revenue Service complied with the annual improper payment reporting requirements for Fiscal Year 2023. This review is part of our Fiscal Year 2024 Annual Audit Plan and addresses the major management and performance challenge of *Tax Fraud and Improper Payments*.

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

Table of Contents

Background

The Payment Integrity Information Act of 2019 (PIIA) and the Office of Management and Budget (OMB) define 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 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*, issued on November 20, 2009, 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 Circular A-123 Appendix C, *Requirements for Payment Integrity Improvement*, issued on March 5, 2021. Appendix C provides agencies and Inspectors General with guidance on improper payment determinations and reporting. 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.

---

[1] Pub. L. No. 116-117, 134 Stat. 113. Additionally, see Appendix V for a glossary of terms.

[2] 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).

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 (hereafter referred to as 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) 2023, the Treasury Department selected 15 program fund groups that required certification and six 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 Treasury AFR:

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

In their *Business Case to Eliminate Redundant Reporting of Refundable Tax Credits*, dated October 30, 2020, the Treasury Department and the IRS informed the OMB that the tax system is primarily a collection system and not a payment program. Further, the business case states that while the refundable portions of refundable tax credits are considered outlays and currently fall under the scope of payments under the PIIA, the Treasury Department and the IRS do not

[5] Appendix II provides the list of the six IRS programs identified by the Treasury Department for improper payment risk assessments in FY 2023.

believe that refundable tax credits should be considered improper payments under the PIIA because they do not believe that the refundable tax credits meet the definition of payments in the traditional sense. Instead, the Treasury Department believes the credits should be reported only under the Tax Gap framework that comprehensively assesses the tax collection system. The IRS noted in its business case that refundable tax credit overclaims are largely due to their statutory design and the complexities taxpayers face when self-certifying eligibility and not due to internal control weaknesses, financial management deficiencies, or reporting failures. In addition, the IRS noted that Tax Gap estimates and other comprehensive compliance analyses are more effective in helping the IRS identify noncompliance and allocate limited resources effectively. In May 2023, we reported that the OMB continues to review the IRS's business case, provided to the OMB in October 2020.[6] As of March 26, 2024, IRS officials confirmed that there have been no changes in the status of refundable credits reporting. The IRS continues to support the business case and is working to find a better approach to reporting on these programs.

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 2023, as shown in Figure 1, the IRS reported the estimated dollar amount and percentage rate of improper payments associated with four of its high-priority programs susceptible to improper payments: Additional Child Tax Credit (ACTC); American Opportunity Tax Credit (AOTC), Earned Income Tax Credit (EITC) and Net Premium Tax Credit (PTC).

Figure 1: FY 2023 Total Claims, Improper Payments, and Improper Payment Rates[7]

Program	Claims (in billions)	Improper Payments (in billions)	Improper Payment Rate
ACTC	$3.8	$0.5	14.5%
AOTC	$5.2	$1.7	31.6%
Net PTC	$3.7	$1.0	26.0%
EITC	$65.4	$21.9	33.5%

Source: FY 2023 Treasury AFR.

[6] TIGTA, Report No. 2023-40-032, *Fiscal Year 2022 Improper Payment Reporting Requirements Were Largely Met; However, Improper Payment Estimates Are Less Precise* (May 2023).

[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.

Assessment of Fiscal Year 2023 Compliance With Improper Payment Reporting Requirements

The IRS was largely compliant with the reporting requirements contained in the PIIA for FY 2023. Although the IRS complied with 12 of 13 requirements, it still has not satisfied the PIIA goal of reducing the overall improper payment rate for the ACTC, AOTC, EITC, and the Net PTC to less than 10 percent. As we have reported previously, the OMB advised the 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 programs, as long as the complexities are explained in the Treasury AFR, which the IRS did.[8]

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 2023

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	✓
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 payments 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 accompanying materials to the annual financial statement.	PIIA	✓
Demonstrated improvements to payment integrity or to reach a tolerable improper payment and unknown payment rate.	PIIA	✓

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

[9] Unknown payments are payments made by a program where 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.

Improper Payment Requirement	Source of Requirement	IRS Compliance
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 2023 for the IRS's four high-risk programs.

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. We previously reported that the Treasury Department expected to report on the Net PTC in its quarterly scorecards for FY 2023.[10] We found that all required quarterly scorecards were posted to www.paymentaccuracy.gov for FY 2023.[11]

Despite Internal Revenue Service Efforts, Improper Payment Rate Estimates Continue to Be High

The IRS has been unable to reduce improper payment rate estimates to less than 10 percent for each of its high-risk programs, most notably the EITC. According to the Treasury AFR, the EITC estimated error rates have ranged from 22.8 percent to 33.5 percent from FY 2006 through FY 2023. This is despite the IRS's efforts to reduce these rates. Figure 3 provides a comparison of the improper payment rates from FY 2021 through FY 2023.[12]

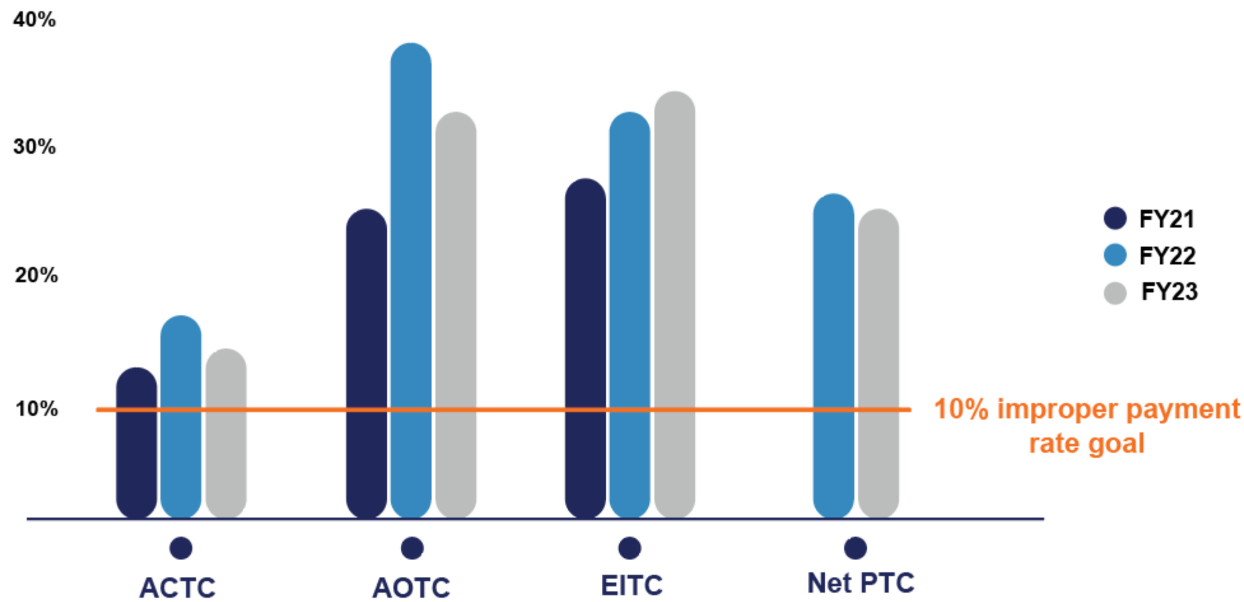
---

[10] TIGTA, Report No. 2023-40-032, *Fiscal Year 2022 Improper Payment Reporting Requirements Were Largely Met; However, Improper Payment Estimates Are Less Precise* (May 2023).

[11] For FY 2023, the OMB waived the 1st quarter scorecards reporting for all agencies.

[12] Beginning in FY 2022, the IRS changed its estimation of improper payments. Specifically, the IRS relied on a smaller National Research Program sample size and changed the period for reporting on claims and improper payments. In May 2023, we reported that this change to the sampling plan makes interpreting year-to-year changes in the IRS's reported improper payment estimates difficult.

Figure 3: FY 2021 Through FY 2023 Improper Payment Rates[13]



Source: Information obtained from www.paymentaccuracy.gov.

The IRS's outreach initiatives may not have an immediate impact on reducing improper payments

In the FY 2023 AFR, the IRS noted that part of its actions to mitigate the risk of improper payments included outreach to taxpayers and tax preparers in lieu of conducting additional pre-refund audits. The IRS has implemented several different outreach initiatives intended to raise public awareness and encourage eligible taxpayers to claim refundable credits. Specifically, the IRS will reduce the number of pre-refund audits focused on refundable credits while also expanding outreach to help taxpayers claim the credits correctly at the time of filing. According to the IRS, focusing on helping taxpayers submit accurate filings will increase payment accuracy while reducing administrative burdens for both the IRS and the tax filer. In addition, the IRS also intends to increase enforcement activities that focus on unscrupulous preparers who contribute to the noncompliance in this area. However, these initiatives may not make an immediate impact on the improper payment rates, if at all, due to the time it takes for taxpayers to file returns and for the IRS to examine those returns. The following are details of the IRS's refundable credits strategies targeting both taxpayers and tax practitioners to help increase payment accuracy.

Outreach and Education

The IRS implements strategies that educate taxpayers and preparers by proactively sharing information about the eligibility requirements for refundable credits and identifying the most common errors. Some of their outreach and education strategies include the following:

---

[13] The IRS did not start calculating the improper payment estimates for Net PTC until FY 2022.

- **Nationwide Tax Forums and Refundable Credits Summit**. These annual events are instrumental in helping the IRS achieve its strategic goals of improving taxpayer service and reducing improper payments. The Nationwide Tax Forums provide tax professionals with the latest information they need to prepare accurate tax returns and reduce improper payments. The IRS noted that historically 10,000 to 15,000 external participants attend the Nationwide Tax Forums and 40 to 45 external participants from approximately 29 organizations and agencies attend the annual Refundable Credit Summit.

- **Technical Training and Tax Preparer Toolkits**. The IRS provides training modules and free resources on IRS.gov to assist tax return preparers with due diligence requirements and information on refundable credits.

- **Webinars and Tax Preparer Alerts**. The IRS hosts virtual discussions and issues alerts on refundable credits and eligibility requirements.

- **EITC Central and EITC Awareness Day**. The IRS maintains a website (https://www.eitc.irs.gov/) dedicated to providing resources to taxpayers and tax return preparers on eligibility for the EITC. The IRS also participates in social media awareness campaigns and provides images, sample messages, and targeted audience suggestions for its partners to post on social media to help spread awareness. Additionally, in January 2024, the IRS and partners highlighted the importance of the EITC during its "EITC Awareness Day."

Refundable Credits Return Preparer Strategy

The IRS has indicated that refundable credit noncompliance among tax return preparers has been a growing concern for several years. The IRS has shifted its focus from examining potentially noncompliant taxpayers to addressing noncompliant return preparers who file tax returns claiming the ACTC, AOTC, and EITC.[14] Some of these efforts include:

- **Focused treatment for return preparers**. The IRS plans to focus their efforts on up to 23,865 potentially noncompliant tax return preparers during FY 2024, which represents an increase of almost 20 percent from the FY 2023 plan. The IRS intends to conduct focused correspondence examinations, outbound calls, and post-refund client audits of preparers with patterns of noncompliance. Tax return preparers are assigned treatments based on the level of risk, which is derived from a combination of return volume, egregiousness, treatment history, and degree of improvement. In addition, the IRS can issue letters to alert return preparers who prepared highly questionable refundable credits or to alert them that some of their clients who claimed the EITC will be audited.

- "**Knock and Talk**" **visits**. "Knock and Talk" visits are optional educational visits, conducted in-person by revenue agents or special agents with the IRS's Criminal

[14] TIGTA currently has a separate audit, *Changes to the Earned Income Taxpayer Credit Audit Examination Strategy* (Audit No. 2024308026), to review the Wage and Investment Division's portion of the IRS's examination plan and the changes to the EITC case selection processes to ensure a fair and equitable examination selection process and to assess compliance with the Secretary of Treasury's directive to the IRS.

Investigation division. These visits are intended to educate tax return preparers on their due diligence requirements and any changes to tax law. The IRS plans 426 "Knock and Talk" visits for FY 2024.

- "**Ghost preparers**." The IRS is using data analytics to identify "ghost preparers" and reach out to taxpayers to help it identify who these preparers are that did not sign the return. In February 2024, the IRS issued approximately 1,000 letters to taxpayers trying to obtain information on these "ghost preparers."

Notices and Letters to Taxpayers

The IRS is issuing notices and letters to taxpayers to both encourage potentially eligible taxpayers to take a credit and inform taxpayers who were not selected for audit of their potential risk of noncompliance. Examples of the IRS issuing letters and notices to taxpayers are as follows:

- **Letter 6589,** ***EITC Compliance Refresh-Letter 1 (Soft)*,** was issued to approximately 55,000 taxpayers in January 2024. This letter informs taxpayers, not selected for audit, that they may not be entitled to some or all of the EITC claimed on their tax return. The letter instructs taxpayers to review their return to confirm eligibility and if the credit was claimed in error, file an amended return to remove or recalculate the credit.
- **Letter 6591,** *Advance Child Tax Credit Outreach Letter for TY 21 filers yet to file (English & Spanish)*, was sent to 1,824,071 taxpayers who had not yet filed a Tax Year 2021 return as of November 1, 2023, but to whom IRS records indicate Advance Child Tax Credit payments were issued, to inform them of the need to file a Tax Year 2021 return to claim any remaining amount of child tax credit to which they may be entitled. This letter was issued in response to a prior TIGTA review that identified 4.1 million taxpayers who did not file a Tax Year 2021 return but may have been eligible to claim the credit.[15]
- **Letter 6571,** *ARPA Section 9663 Notice*, was issued to 10,069 taxpayers advising them that they may be eligible to receive a refund of additional PTC or excess Advance PTC that they repaid for Tax Year 2021. This letter was issued in response to a TIGTA recommendation to send letters to 10,069 taxpayers.[16]
- **Notices**. Based on information available at filing, taxpayers who appear to qualify for the EITC or ACTC, but do not claim the credits will receive one of the following notices: CP 08, *You May Qualify for Child Tax Credit (CTC)*; CP 09, *Earned Income Credit - You May Be Entitled to EIC* (issued to taxpayers with at least one qualifying child); or CP 27, *EIC Potential for T/P Without Qualifying Children*. The IRS indicated that the historical response rate to these notices is around 20 percent.

---

[15] TIGTA, Report No. 2023-47-035, *American Rescue Plan Act: Review of the Reconciliation of the Child Tax Credit* (June 2023).

[16] TIGTA, Report No. 2023-47-036, *American Rescue Plan Act: Continued Review of Premium Tax Credit Provisions* (June 2023).

The Treasury Department Risk Assessments Still Do Not Accurately Reflect the Level of Risk for the IRS Refundable Credit Programs

Our review of the risk assessment template found that it does not allow the IRS to provide an accurate assessment of improper payment risk. The risk assessments are created and distributed by the Treasury Department and were updated in FY 2023 based on trends the Treasury Department noticed throughout all the bureaus. Thus, the questions on the risk assessment are for general applicability and not intended to cover the unique nature of the IRS refundable credits program.

Although the results of the completed qualitative risk assessments for the Advance Child Tax Credit and Child and Dependent Care Tax Credit indicated that these credits were not susceptible to improper payment risk, the IRS revised the risk assessment and deemed them "susceptible." The IRS deemed these programs susceptible because of the similarity of these programs with other programs that have high error rates and deficiencies identified by external audit agencies, such as TIGTA. Figure 4 outlines some of the reasons the IRS used to support its decision to change the overall risk rating from "not-susceptible" to "susceptible" in FY 2023.

Figure 4: Results From the FY 2023 Qualitative Risk Assessment

Overall Risk for Payment Type:	Not-susceptible
The IRS has completed this form accurately and fairly. However, because of the similarity of this program with other programs that have high error rates, and because refundable tax credits do not have the traditional characteristics of a payment program (i.e., the program relies on taxpayer certification), the IRS deems this program *Susceptible* in contrast to the result of this questionnaire.	

Source: Excerpt from the FY 2023 Qualitative Risk Assessment.

We previously reported similar concerns with the accuracy of the assessment of improper payment risk.[17] For example, the annual risk assessments underestimated the risk of improper payments for both ACTC and AOTC despite the IRS's own compliance data showing differently. Because the risk assessment template does not allow for an accurate assessment of improper payment risk, this could become problematic for those programs that are not regularly evaluated by external audit agencies and may have a higher risk than the template identifies.

We met with the IRS and discussed the effectiveness of a risk assessment that must be changed to accommodate IRS programs. Representatives from the IRS Office of the Chief Financial Officer noted that they did not participate in updating the new risk assessment templates and that it would be difficult to modify the template to reflect the unique nature of the refundable tax credits and still have a generally applicable template. The Treasury Department is aware of this unique nature and has been understanding of the justifications the IRS may have to make when completing the template.

---

[17] TIGTA, Report No. 2017-40-030, *Revised Refundable Credit Risk Assessments Still Do Not Provide an Accurate Measure of the Risk of Improper Payments* (Apr. 2017) and TIGTA, Report No. 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* (Apr. 2016).

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to determine whether the IRS complied with the annual improper payment reporting requirements for FY 2023. To accomplish this objective, we:

- Obtained and reviewed the information that the IRS provided to the Treasury Department for inclusion in the AFR to determine if the information provided satisfied the requirements.
- Evaluated the adequacy of the IRS's FY 2023 risk assessments for the IRS revenue program funds identified by the Treasury Department.
- Reviewed the IRS's methodology to calculate the EITC, ACTC, AOTC, and Net PTC improper payment rates for FY 2023.
- Followed up on select prior audit findings or recommendations to determine their status.

Performance of This Review

This review was performed with information obtained from the Office of the Chief Financial Officer and the Office of Return Integrity located at the IRS Headquarters in Washington, D.C., during the period November 2023 through March 2024. 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, Assistant Inspector General for Audit (Returns Processing and Account Services); Linna K. Hung, Director; Nina A. Hill, Audit Manager; Erica Law, Lead Auditor; Carina Schusterman, Auditor; and Laura Christoffersen, Applied Research and Technology Division.

Internal Controls Methodology

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.

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 2023.

IRS Program	Type of Assessment	Total Non-Federal Disbursements
Earned Income Tax Credit	IP Estimate	$64.3 billion
Additional Child Tax Credit	IP Estimate	$131.4 billion**
American Opportunity Tax Credit	IP Estimate	$3.8 billion
Premium Tax Credit	IP Estimate	$85.1 billion
Child and Dependent Care Tax Credit	Qualitative	$7.4 billion
Advance Child Tax Credit	Qualitative	**

*** Additional Child Tax Credit and Advance Child Tax Credit are reported under the same fund symbol and are part of the same disbursement.*

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 Payment Law	Description
Improper Payments Information Act of 2002[1]	Enacted on November 26, 2002, the law requires Federal agencies, including the IRS, to estimate the dollar amount of improper payments and report to Congress annually on the causes of and the steps taken to reduce improper payments.
Improper Payments Elimination and Recovery Act of 2010[2]	Enacted July 22, 2010, the Act redefined what "significant improper payments" are; strengthened agency reporting requirements and defined significant as exceeding either 1.5 percent of program outlays and $10 million of all program activities or $100 million.
Improper Payments Elimination and Recovery Improvement Act of 2012[3]	Enacted on January 10, 2013, the Act codifies many parts of Executive Order 13520 and requires the OMB Director to identify a list of high-priority Federal programs and agencies to develop additional or supplemental measures for tracking progress in reducing improper payments in these programs.
Fraud Reduction and Data Analytics Act of 2015[4]	Enacted on June 30, 2016, the Act requires the OMB to establish guidelines to identify and assess fraud risks and design and implement control activities in order to prevent, detect, and respond to fraud, including improper payments.

Source: TIGTA review of legislation related to improper payments.

[1] Pub. L. No. 107-300, 116 Stat. 2350.

[2] Pub. L. No. 111-204, 124 Stat. 2224.

[3] Pub. L. No. 112-248, 126 Stat. 2390.

[4] Pub. L. No. 114-186, 130 Stat. 546.

Appendix IV

Management's Response to the Draft Report

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

CHIEF FINANCIAL OFFICER

April 30, 2024

MEMORANDUM FOR MATTHEW A. WEIR
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Teresa R. Hunter
Chief Financial Officer

Teresa R. Hunter
Digitally signed by Teresa R. Hunter
Date: 2024.05.02 13:24:14 -04'00'

SUBJECT: Response to Draft Audit Report – Assessment of Fiscal Year 2023 Compliance with Improper Payment Reporting Requirements (Audit #2024400001)

Thank you for the opportunity to review and comment on your draft audit report entitled *Assessment of Fiscal Year 2023 Compliance with Improper Payment Reporting Requirements*. The refundable tax credit (RTC) programs examined in this report are designed to achieve specific economic and social objectives, such as reducing poverty and increasing the affordability of higher education. These, and other social programs, have been expanded and will continue to require education, oversight and compliance activities going forward to ensure taxpayers receive their entitled benefits.

The IRS agrees with your assessment that refundable credit improper payments are not the result of internal control weaknesses. The RTCs do not fit within the improper payment framework, due to their complex eligibility requirements and IRS reliance on taxpayer self-certification of RTC claims. 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.

To improve fairness in tax administration, starting in FY 2024, the IRS will be reducing the number of correspondence audits focused on the Earned Income Tax Credit, American Opportunity Tax Credit, Health Insurance Premium Tax Credit and Additional Child Tax Credit. The IRS will be focusing more attention on reaching underserved communities to provide education and real-time assistance in claiming available credits and incentives. This is critically important given the complex eligibility rules for these credits. Additionally, we have developed approaches to alert taxpayers promptly to potential issues, such as those related to RTCs, to encourage self-correction upfront and reduce the potential for an audit. These broad efforts present an overhaul in our compliance efforts in a manner that advances our commitment to fair, equitable and effective tax administration.

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. 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 V

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.
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 improper payments.
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.

Term	Definition
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 improper payments and unknown payments. For example, a qualitative improper payment risk assessment methodology prioritizes the identified improper payment 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 improper payments 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 improper payment risk assessment will provide numerical improper payment amounts and assess the probability of their occurrence. The assessment may be similar to the regular improper payment estimate.
Significant Improper Payment	Annual improper payments and unknown payments, *i.e.*, the sum of monetary loss improper payments, non-monetary loss improper payments, and unknown payments, in the program exceeding 1) both 1.5 percent of program outlays and $10 million of all program or activity payments made during the fiscal year reported or 2) $100 million (regardless of the improper payment 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.
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 improper payment.

Appendix VI

Abbreviations

ACTC	Additional Child Tax Credit
AFR	Agency Financial Report
AOTC	American Opportunity Tax Credit
EITC	Earned Income Tax Credit
FY	Fiscal Year
IRS	Internal Revenue Service
OMB	Office of Management and Budget
PIIA	Payment Integrity Information Act of 2019
PTC	Premium Tax Credit
TIGTA	Treasury Inspector General for Tax Administration

**To report fraud, waste, or abuse,
contact our hotline on the web at www.tigta.gov or via e-mail at
oi.govreports@tigta.treas.gov.**

To make suggestions to improve IRS policies, processes, or systems affecting taxpayers, contact us at www.tigta.gov/form/suggestions.

Information you provide is confidential, and you may remain anonymous.