Treasury Inspector General
for Tax Administration
Office of Audit

IMPROPER PAYMENT ELIMINATION AND RECOVERY ACT RISK ASSESSMENTS OF REVENUE PROGRAMS ARE UNRELIABLE

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Highlights

Highlights of Report Number: 2013-40-015 to the Internal Revenue Service Chief Financial Officer.

IMPACT ON TAXPAYERS

Improper payments cost taxpayers billions of dollars annually across Federal programs. The IRS estimates it paid $15.2 billion in improper Earned Income Tax Credit payments in Fiscal Year 2011. An improper payment is 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. Ineffective risk assessment processes can affect Government-wide actions to protect taxpayer dollars from waste, fraud, and abuse.

WHY TIGTA DID THE AUDIT

The Improper Payments Elimination and Recovery Act (IPERA) of 2010 increased agency accountability for reducing improper payments in Federal programs. This audit was initiated because the IPERA requires TIGTA to assess the IRS's compliance with improper payment requirements. The objective of this review was to evaluate the adequacy of the IRS's Fiscal Year 2011 assessment of the risk of improper payments in those programs identified by the Department of the Treasury. The Department of the Treasury identified 12 IRS administrative program funds and 16 revenue program funds for the Fiscal Year 2011 IPERA risk assessment process.

WHAT TIGTA FOUND

The IRS used the Department of the Treasury's Improper Payment Risk Assessment Questionnaire (the Questionnaire) and guidance to complete the Fiscal Year 2011 risk assessment for each designated administrative and revenue program fund. TIGTA determined that the risk assessment process adequately reflects the risk of improper payments in the IRS's administrative program funds.

However, the process does not provide a reliable assessment of the risk of improper payments in the IRS's revenue program funds. The IRS's review process for revenue program fund risk assessments is informal and did not always adhere to required guidelines for performing the assessment. The design of the Questionnaire does not provide an adequate assessment of the risk associated with tax refunds. For example, not all of the questions apply to tax refund payments. Depending on the response to these questions, the program's risk score can be affected. In addition, questions pertaining to other areas of potential risk within tax administration are not included in the Questionnaire.

Moreover, other issues, such as insufficient verification of identity or income, can pose a significant risk for improper payments. Prior TIGTA reports indicate that this risk could be significant. As a result of identity theft, the IRS may have paid $5.2 billion in potentially fraudulent tax refunds. TIGTA also previously found the verification process for Individual Taxpayer Identification Number applications was substantially deficient. More than 481,500 tax returns associated with these applications had claims for the Additional Child Tax Credit totaling more than $916 million.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS work with the Department of the Treasury to better identify the IRS programs to be included in the risk assessments for improper payments and refine the Questionnaire to ensure that all questions are applicable to tax administration and more accurately reflect the risks associated with tax refund payments, develop a formal process for assigning responsibility for the completion of the risk assessments, and develop a process to ensure that the Department of the Treasury guidance is being followed.

The IRS agreed with our recommendations and plans to take the corrective actions suggested.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

http://www.treas.gov/tigta/auditreports/2013reports/201340015fr.pdf.