Treasury Inspector General for Tax Administration
Office of Audit

THE INTERNAL REVENUE SERVICE IS NOT IN COMPLIANCE WITH EXECUTIVE ORDER 13520 TO REDUCE IMPROPER PAYMENTS

Issued on August 28, 2013

Highlights

Highlights of Report Number: 2013-40-084 to the Internal Revenue Service Deputy Commissioner for Operations Support.

IMPACT ON TAXPAYERS

The IRS has made little improvement in reducing improper Earned Income Tax Credit (EITC) payments since being required to report estimates of these payments to Congress. The IRS's Fiscal Year 2012 improper payment report to TIGTA indicates that EITC payments totaled nearly $62 billion. The IRS estimated that 21 to 25 percent of the EITC payments made in Fiscal Year 2012 were paid in error.

WHY TIGTA DID THE AUDIT

This audit was initiated because Executive Order 13520, *Reducing Improper Payments and Eliminating Waste in Federal Programs*, requires TIGTA to assess the IRS's compliance with the Order on an annual basis. The objective of this review was to assess the IRS's efforts to implement Executive Order 13520.

WHAT TIGTA FOUND

Executive Order 13520, signed by the President on November 20, 2009, increased Federal agencies' accountability for reducing improper payments while continuing to ensure that their programs serve and provide access to their intended beneficiaries. The IRS has taken steps to ensure access and participation by eligible individuals. The IRS estimates that the participation rate for individuals who are eligible to receive the EITC is between 78 and 80 percent.

However, the IRS is still not in compliance with the requirements of Executive Order 13520. The IRS has not established annual improper payment reduction targets as required. The IRS cited the complexity of the EITC program as well as the need to balance the reduction in improper payments while still encouraging individuals to use the credit as the two main reasons why reduction targets have not been established. IRS management stated that they recently met with the Office of Management and Budget and agreed to work together to develop supplemental measures and indicators in lieu of reduction targets. However, the IRS did not indicate when these measures would be in place.

The IRS is also not in compliance with the quarterly reporting requirement for high-dollar improper EITC payments (payments totaling more than $5,000). To determine whether the IRS reported the applicable improper payments in Tax Year 2009, TIGTA reviewed a statistically valid sample of the 60,793 Tax Year 2009 EITC claims for more than $5,000 for which the IRS examined the return and adjusted the EITC. Based on our review, TIGTA estimates that more than 10,400 of the EITC claims totaling more than $52.8 million met the criteria for the quarterly reporting to TIGTA as required by the Executive Order.

Finally, although privacy laws limit the IRS's ability to fully comply with the high-dollar EITC quarterly reporting requirement to the Council of the Inspectors General on Integrity and Efficiency, there are actions that the IRS can take to comply with the intent of the Executive Order. For example, the IRS could provide the Council with an aggregated number of EITC high-dollar payments along with the other required information.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS develop processes to identify high-dollar improper EITC payments and report the information to TIGTA and the Council as required by Executive Order 13520.

IRS management agreed with our recommendation and plans to take appropriate corrective actions.

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/201340084fr.pdf.