
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Office of Inspections and Evaluations



RECOVERY ACT

*The IRS Accurately and Timely Accounted
for American Recovery and Reinvestment
Act Fund Expenditures During the Period
February 17, 2009, through
September 30, 2009*

December 3, 2010

Reference Number: 2011-IE-R001

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



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

December 3, 2010

MEMORANDUM FOR DEPUTY COMMISSIONER FOR OPERATIONS SUPPORT

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

SUBJECT: Final Inspection Report – The IRS Accurately and
Timely Accounted for American Recovery and
Reinvestment Act Fund Expenditures During the Period
February 17, 2009, through September 30, 2009
(IE-10-011-A)

The Treasury Inspector General for Tax Administration (TIGTA) conducted an inspection of the Internal Revenue Service's (IRS) compliance with the Office of Management and Budget's (OMB)¹ Implementing Guidance² for the American Recovery and Reinvestment Act (Recovery Act) of 2009.³ This is the second in a series of inspections regarding compliance with OMB Recovery Act Guidance.

This report presents the results of our inspection to verify the accuracy of the IRS's accounting and timeliness of reporting Recovery Act procurement expenditures.

The Recovery Act provides separate funding to the TIGTA through September 30, 2013, to be used in the oversight activities of IRS programs. This inspection was conducted using Recovery Act funds.

¹ The OMB has the primary responsibility for developing Government-wide rules and procedures to ensure funds are awarded and distributed in a prompt and fair manner; uses of funds are transparent to the public; and steps are taken to mitigate fraud, waste and abuse.

² M-09-10, Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009, February 18, 2009, and M-09-15, Updated Implementing Guidance for the American Recovery Reinvestment Act of 2009, April 3, 2009.

³ Pub. L. No. 111-5, February 17, 2009.



*The IRS Accurately and Timely Accounted for
American Recovery and Reinvestment Act Fund
Expenditures During the Period February 17, 2009,
through September 30, 2009*



Synopsis

The IRS accurately and timely reported Recovery Act procurements and was in substantial compliance with the OMB's Implementing Guidance during the period February 17, 2009, through September 30, 2009. They purchased goods and services totaling almost \$14 million⁴ during the inspection period. Further, the IRS appropriately obtained nearly 82 percent of the total available discounts for Recovery Act related procurements. For the Recovery Act expenditures, the IRS is executing adequate internal controls to ensure timely and accurate reporting. However, their controls and processes are not formally documented. The lack of written procedures regarding Recovery Act procurement requirements was identified earlier this year by TIGTA.⁵

Recommendations

To assist in ensuring proper documentation of Recovery Act expenditures, we recommend that the Director, Procurement finalize the documentation of their Recovery Act procurement processes.

Response

The IRS agreed with TIGTA's recommendation that the Director of Procurement finalize documentation of Recovery Act procurement processes. The Procurement office completed a Policy and Procedures Memorandum which documents the Recovery Act procurement processes.⁶ Management's complete response to the draft report is included as Appendix IV.

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

⁴ The IRS received Recovery Act related invoices totaling \$13,754,127.75 and paid \$13,641,554.49; realizing \$112,573.26 in discounts of the maximum available discounts of \$137,541.28, for 81.8 percent.

⁵ TIGTA, Ref. No. 2010-11-071, *Additional Actions Are Needed to Ensure Readiness to Comply With the American Recovery and Reinvestment Act of 2009 Procurement Requirements 3* (June 2010).

⁶ Policy and Procedures Memorandum No. 70.26 entitled, "American Recovery and Reinvestment Act of 2009" was approved on November 17, 2010.



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Abbreviations

IRS	Internal Revenue Service
OMB	Office of Management and Budget
RAT Board	Recovery Accountability and Transparency Board
WebRTS	Web Request Tracking System



The IRS Accurately and Timely Accounted for
American Recovery and Reinvestment Act Fund
Expenditures During the Period February 17, 2009,
through September 30, 2009



Background

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

The Internal Revenue Service (IRS) is responsible for administering tax law changes² contained in the Recovery Act. In April 2009, the IRS received \$202 million of \$203 million of its appropriation of the Recovery Act funds.³ These funds are required to implement the necessary tax related changes resulting from the Recovery Act provisions. These changes will include reprogramming the IRS computer systems and updating related tax forms, publications, and providing customer services to assist taxpayers in obtaining their benefits. Further, we were informed that the Department of the Treasury retained \$1 million for administrative oversight.

The Recovery Act requires stringent accountability for performance and results, as well as unprecedented transparency. The Recovery Accountability and Transparency Board (RAT Board),⁴ provides transparency in the use of Recovery Act and related funds by publishing these results on Recovery.gov, <http://www.recovery.gov>, (last visited September 21, 2010).

¹ Pub. L. No. 111-5, February 17, 2009.

² The Recovery Act included more than 50 tax law provisions that the IRS is charged with administering. These tax changes included refundable credits, such as the Making Work Pay and First-Time Homebuyer Credits.

³ Pub. L. No. 111-5, February 17, 2009. This appropriation included \$80 million for Fiscal Years 2009 through 2010 to implement the Health Coverage Tax Credit program. The IRS also received \$123 million for supporting tax provision changes cited in the Recovery Act.

⁴ The RAT Board was created by the Recovery Act with two goals: to provide transparency of Recovery-related funds and to prevent and detect fraud, waste, and mismanagement. Twelve Inspectors General from various Federal agencies serve with the chairman. The RAT Board issues quarterly and annual reports to the President and Congress and, if necessary, "flash reports" on matters that require immediate attention.



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The Office of Management and Budget (OMB)⁵ issued several supplemental guidance documents⁶ that outlined steps for implementing the Recovery Act and also clarified the new requirements for processing procurements. The OMB's Initial Implementing Guidance was issued on February 18, 2009. Additional guidance was dated February 25, 2009, April 3, 2009, and March 22, 2010, and included the following requirements:

1. Federal agencies are to report to the RAT Board on a weekly basis, all cumulative Recovery Act obligations and gross outlays⁷ (expenditures) in a standard reporting format;
2. Federal agencies are to use separate Treasury Appropriation Fund Symbols⁸ to track and report Recovery Act obligations and disbursements; and
3. Federal agencies are to report the cumulative activity through Friday and submit their weekly reports the following Tuesday.

The IRS's Office of the Chief Financial Officer prepares the Total Obligations and Gross Outlays sections of the OMB Financial and Activity Report and submits it to the IRS's Recovery Act staff weekly. The staff validates the information and posts it to the OMB's MAX web page⁹ for the Department of the Treasury's consolidation and approval prior to their final posting.

This inspection was performed at the IRS Office of the Chief Financial Officer in Washington, D.C. and the IRS Office of Procurement in Oxon Hill, Maryland, during the period May through September 2010. The period of the inspection was from February 17, 2009,

⁵ The OMB has the primary responsibility for developing Government-wide rules and procedures to ensure funds are awarded and distributed in a prompt and fair manner; uses of funds are transparent to the public; and steps are taken to mitigate fraud, waste and abuse.

⁶ M-09-10, Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009, February 18, 2009, and M-09-15, Updated Implementing Guidance for the American Recovery Reinvestment Act of 2009, April 3, 2009.

⁷ Total Obligations equal financial commitments and expenditures. Total Outlays are only expenditures.

⁸ Treasury Appropriation Fund Symbol is an identification code assigned by the Department of the Treasury, in collaboration with the OMB and the owner agency, to an individual appropriation, receipt, or other fund account. It is used to describe a particular type of Treasury Fund Symbol that has budget authority. All financial transactions of the Federal Government are classified by a Treasury Fund Symbol for reporting to the Department of the Treasury and the OMB.

⁹ OMB's Max web page is a web-based apportionment system to send apportionment requests to OMB. Agency budget offices use the apportionment application to help prepare apportionment requests; send requests to OMB and run reports against previously approved apportionments. OMB examining divisions use the application to send electronic copies of approved apportionment to agencies and run reports against previously approved apportionments.



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through September 30, 2009, to coincide with the enactment of the Recovery Act until the end of the Fiscal Year 2009.

We will inspect Recovery Act procurement activities for Fiscal Year 2010 in other ongoing or planned inspections.

This inspection was performed in accordance with the Council of the Inspectors General for Integrity and Efficiency Quality Standards for Inspections. Those standards require that we plan and perform the inspection/evaluation to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the objectives. We believe that the evidence obtained provides a reasonable basis for the findings and conclusions based on the objectives. Detailed information on the objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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Results of Inspection

The IRS accurately and timely reported the Recovery Act procurements and was in substantial compliance with the OMB Implementing Guidance during the period February 17, 2009, through September 30, 2009. For the Recovery Act expenditures, the IRS is executing adequate internal controls to ensure timely and accurate reporting. However, their controls and processes are not formally documented. The need for written procedures regarding Recovery Act procurement requirements was identified earlier this year by the Treasury Inspector General for Tax Administration.¹⁰

Recovery Act Expenditures Reported by the IRS were Accurate and Substantiated by Complete and Reliable Supporting Invoices

During the period February 17, 2009, through September 30, 2009, the IRS initiated procurement actions implementing the Recovery Act program objectives. The IRS purchased goods and services totaling almost \$14 million.¹¹ These purchases consisted of systems changes for reprogramming the IRS's computer systems and updating related tax forms, publications and customer services to assist taxpayers in obtaining the Recovery Act benefits. Further, the IRS appropriately obtained nearly 82 percent (\$112,000 of \$137,000) of the total available discounts for Recovery Act related procurements.

Amounts the IRS Reported to the Office of Management and Budget Reconciled to the IRS's Financial Systems

The IRS submitted accurate weekly reports of cumulative Recovery Act obligations and gross outlays. The IRS reported their initial obligation for \$20 million for Health Insurance Tax Credit Administration posted on the IRS's April 24, 2009, report. We verified the accuracy of the IRS's weekly reports by reconciling individual vendor invoices to the appropriate IRS weekly report submitted to the Department of the Treasury and to the information reported on Recovery.gov, <http://www.recovery.gov>, (last visited September 21, 2010).

¹⁰ Treasury Inspector General for Tax Administration, Ref. No. 2010-11-071, *Additional Actions Are Needed to Ensure Readiness to Comply With the American Recovery and Reinvestment Act of 2009 Procurement Requirements* 3 (June 2010).

¹¹ The IRS received Recovery Act related invoices totaling \$13,754,127.75 and paid \$13,641,554.49; realizing \$112,573.26 in discounts of the maximum available discounts of \$137,541.28 (81.8 percent).



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Transparency and accuracy is very dependent on the Recovery Act related procurements being properly classified. These Recovery Act procurements were issued as additional Contract Line Item Numbers¹² in WebRTS, Integrated Financial System,¹³ and on invoices.

The IRS's Financial Reports Complied with the Office of Management and Budget's Guidance and Recovery Act Requirements

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

- Submitting weekly reports of its cumulative Recovery Act obligations and gross outlays in the prescribed format;
- Using separate Treasury Appropriation Fund Symbols for their two Recovery Act funds; and
- Ensuring Recovery Act financial reporting is transparent to the public by posting data to the IRS Recovery Act Web site and submitting data to the RAT Board for posting to the Government-wide Web site.

The IRS Submitted the Recovery Act Reports in a Timely Manner

The IRS submitted timely financial reports to the Department of the Treasury for submission to the RAT Board. The reports included obligation and gross outlay activity through the prior Friday. The Department of the Treasury transmits the reports weekly to the RAT Board. The OMB requires Federal agencies to transmit the reports each Tuesday afternoon, but will allow an extension until Wednesday morning. The RAT Board includes timely received reports from the agencies in its weekly posting to Recovery.gov, <http://www.recovery.gov>, (last visited September 21, 2010). This process will assist in ensuring that the public has unprecedented transparency into how the IRS is using Recovery Act funds.

¹² Federal Acquisition Regulation 4.1001 states, "Contract line items should provide unit prices or lump sum prices for separately identifiable contract deliverables, and associated delivery schedules or performance periods. Line items may be further subdivided or stratified for administration purposes."

¹³ Financial system used by the IRS to ensure proper accounting and timely reporting of the appropriated funds received by the IRS.



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Recommendation

Recommendation 1: To assist in ensuring proper documentation of Recovery Act expenditures, we recommend that the Director, Procurement finalize the documentation of their Recovery Act procurement processes.

Management's Response: The IRS agreed with the recommendation that the Director of Procurement finalize documentation of Recovery Act procurement processes. The Procurement office completed a Policy and Procedures Memorandum which documents the Recovery Act procurement processes.¹⁴

¹⁴ Policy and Procedures Memorandum No. 70.26 entitled, "American Recovery and Reinvestment Act of 2009" was approved on November 17, 2010.



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Appendix I

Detailed Objectives, Scope, and Methodology

The overall objective of this inspection was to verify the accuracy of the IRS's accounting and timeliness of reporting of American Recovery and Reinvestment Act (Recovery Act) of 2009¹ procurement expenditures. This inspection also determined whether the invoices submitted by the contractor and paid by the IRS were accurate, supported, and allowable. We reviewed all six invoices for the period February 17, 2009, through September 30, 2009. The IRS purchased goods and services totaling \$13,754,127.

To accomplish these objectives, we:

- I. Determined whether Recovery Act procurement expenditures reported by the IRS are accurate and substantiated by complete and reliable supporting invoices.
 - A. Interviewed IRS personnel involved in the administration of Recovery Act related contracts to gain an understanding of the invoice verification process.
 - B. Obtained all Recovery Act related procurement contracts for the period February 2009 through September 2009, and related invoices paid through October 2009, covering expenditures through September 30, 2009.
 - C. Identified all Recovery Act related procurement expenditures during February 2009 through September 2009.
 - D. Traced Recovery Act procurement expenditures to available supporting documentation.
 - E. Verified the mathematical accuracy of each expenditure and supporting documentation.
- II. Determined if the reports submitted by the IRS to the Office of Management and Budget (OMB)² reconciled to their financial system.

¹ Pub. L. No. 111-5, February 17, 2009.

² The OMB has the primary responsibility for developing Government-wide rules and procedures to ensure funds are awarded and distributed in a prompt and fair manner; uses of funds are transparent to the public; and steps are taken to mitigate fraud, waste and abuse.



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- A. Obtained all the weekly Financial and Activity Reports³ provided to the Department of the Treasury and subsequently submitted to the Recovery Accountability and Transparency Board (RAT Board),⁴ and posted to the Recovery Act Web site <http://www.recovery.gov>, (last visited September 21, 2010).
 - B. Obtained Status of Funds reports from the IRS's Integrated Financial System.⁵
 - C. Reconciled the sum of the obligations, expenditures and disbursement amounts from the Integrated Financial System report to the Total Obligations and Gross Outlays⁶ columns of the Financial and Activity Report.
 - D. Reconciled the 25 weekly reports provided during the period April 24, 2009, through September 30, 2009. This was in addition to reviewing reports for the prior period of February 23, 2009, through April 23, 2009.
- III. Determined whether the IRS has established effective controls to identify, record, and report Recovery Act expenditures in accordance with the OMB's guidance.⁷
- A. Obtained and reviewed all guidance issued by the OMB pertaining to procuring goods and services using Recovery Act funds.
 - B. Reviewed the IRS's methodology for recording and monitoring Recovery Act funds.
 - C. Evaluated procedures for recording Recovery Act obligations and payments made against Recovery Act funds.

³ The Financial and Activity Report is required by all agencies receiving Recovery Act funds. They must submit the following information to OMB for cumulative Recovery Act activities through the preceding Friday: cumulative year-to-date amounts by Treasury Appropriation Fund Symbol, total appropriations, total obligations and total expenditures as recorded in the agency's financial systems and a short bulleted list of the major actions taken to date and major planned actions. "Major" actions include those of likely interest to senior government officials, Congress, and the public.

⁴ The RAT Board was created by the Recovery Act with two goals: to provide transparency of Recovery-related funds and to prevent and detect fraud, waste, and mismanagement. Twelve Inspectors General from various Federal agencies serve with the chairman. The RAT Board issues quarterly and annual reports to the President and Congress and, if necessary, "flash reports" on matters that require immediate attention.

⁵ Financial system used by the IRS to ensure proper accounting and timely reporting of the appropriated funds received by the IRS.

⁶ Total Obligations equal financial commitments and expenditures. Total Outlays are only expenditures.

⁷ M-09-10, Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009, February 18, 2009, and M-09-15, Updated Implementing Guidance for the American Recovery and Reinvestment Act of 2009, April 3, 2009.



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- D. Identified concerns and issues currently being experienced in regards to contractors, invoicing / billing practices, or any specific invoices.
 - E. Verified that separate Treasury Appropriation Fund Symbols⁸ were used for their two Recovery Act funds. One was used for Administrative Expense – Recovery Act and a second for Health Insurance Tax Credit Administration – Recovery Act.
- IV. Reviewed the IRS's procedures to ensure timely reporting of Recovery Act expenditures, including established internal controls.
- A. Discussed the process to record and report Recovery Act expenditures to the Department of the Treasury for inclusion in the Financial and Activity Report.
 - B. Reviewed Department of the Treasury Financial and Activity Reports from February through September 2009 posted on Recovery.gov, <http://www.recovery.gov>, (last visited September 21, 2010).

⁸ Treasury Appropriation Fund Symbol is an identification code assigned by the Department of the Treasury, in collaboration with the OMB and the owner agency, to an individual appropriation, receipt, or other fund account. It is used to describe a particular type of Treasury Fund Symbol that has budget authority. All financial transactions of the Federal Government are classified by Treasury Fund Symbol for reporting to the Department of the Treasury and the OMB.



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Appendix II

Major Contributors to This Report

Kevin P. Riley, Director
Stanley Rinehart, Supervisory Evaluator
Roy Burton, Program Analyst



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Appendix III

Report Distribution List

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



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Appendix IV

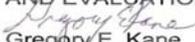
Management's Response to the Draft Report



CHIEF FINANCIAL OFFICER

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

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR INSPECTIONS
AND EVALUATIONS

FROM: 
Gregory E. Kane
Acting Chief Financial Officer

SUBJECT: Revised Draft Inspection Report – The IRS Accurately and
Timely Accounted for American Recovery and Reinvestment Act
Fund Expenditures During the Period February 17, 2009,
through September 30, 2009
(IE 10 011 A)

Thank you for the opportunity to comment on the Treasury Inspector General for Tax Administration (TIGTA) Revised Draft Inspection Report – The IRS Accurately and Timely Accounted for American Recovery and Reinvestment Act Fund Expenditures During the Period February 17, 2009, through September 30, 2009. Our response is attached.

We are pleased that you recognize IRS timeliness and accuracy in reporting Recovery Act procurements during the period February 17, 2009 through September 30, 2009. The recommendation that the Director, Procurement finalize documentation of Recovery Act procurement processes is currently underway. The Policy and Procedures Memorandum is currently being routed through the final approval cycle and we will provide TIGTA with a copy when it is signed.

We appreciate the continued support and guidance TIGTA has provided. If you have any questions, please contact me at (202) 622-6400, or have a member of your staff contact Ursula Gillis, Acting Associate Chief Financial Officer, at (202) 622-8770.

Attachment



The IRS Accurately and Timely Accounted for
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Recommendation 1:

To assist in ensuring proper documentation of Recovery Act expenditures, we recommend that the Director, Procurement finalize the documentation of their Recovery Act procurement processes.

Corrective Action:

We agree with TIGTA's recommendation that the Director of Procurement finalize documentation of Recovery Act procurement processes. The Procurement office has completed a Policy and Procedures Memorandum which documents its Recovery Act procurement processes that is being routed through the final approval cycle.

Implementation Date:

December 31, 2010

Responsible Official:

Director, Procurement

Corrective Action Monitoring Plan:

N/A