
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

Office of Inspections and Evaluations



RECOVERY ACT

*Review of the Internal Revenue Service's
American Recovery and Reinvestment Act
Fund Expenditures for Fiscal Year 2011*

August 28, 2013

Reference Number: 2013-IE-R009

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.

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

August 28, 2013

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 – Review of the Internal Revenue Service’s American Recovery and Reinvestment Act Fund Expenditures for Fiscal Year 2011 (IE-13-005-A)

This report presents the results of our inspection to verify the accuracy, timeliness, and reporting of the payment of invoices by the Internal Revenue Service (IRS) for the American Recovery and Reinvestment Act of 2009¹ (Recovery Act). Our inspection included invoices paid during the period October 1, 2010, through September 30, 2011. This is the fourth in a series of inspections regarding compliance with the Office of Management and Budget (OMB) guidance for implementation of the Recovery Act.

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

Synopsis

Our inspection showed that the IRS was in compliance with the OMB’s Recovery Act implementation guidance for the Recovery Act expenditures from October 1, 2010, through September 30, 2011. The IRS generally executed adequate internal controls to ensure timely and accurate reporting.

During the period of our inspection, the IRS paid approximately \$22 million² to vendors for Recovery Act expenses. Discounts were offered for the prompt payment of invoices, and the

¹ Pub. L. No. 111-5, 123 Stat. 115 (2009).

² The exact amount of payment for these invoices was \$21,932,552.41.



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IRS obtained approximately \$123,000 of the approximately \$214,000 available.³ The IRS is not required to obtain all discounts offered by vendors. Due to the limited scope of our inspection, we did not determine the IRS's ability or inability to obtain the offered discounts.

Response

The IRS agreed to the observations in the report. Management's complete response to the draft report is included as Appendix IV.

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

³ The actual amount of available discounts was \$214,277.04. The IRS took \$123,242.57 (57.5 percent) of the available discounts.



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Abbreviations

| | |
|-----|---------------------------------|
| IRS | Internal Revenue Service |
| OMB | Office of Management and Budget |



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Background

This is the fourth in a series of inspections regarding compliance with the Office of Management and Budget (OMB) guidance for implementation of the American Recovery and Reinvestment Act of 2009 (Recovery Act).¹ Enacted on February 17, 2009, this legislation allocated \$787 billion over 10 years in order to stimulate the national economy. The Recovery Act contains both spending and tax provisions.

The Internal Revenue Service (IRS) is responsible for administering more than 50² tax law provisions contained in the Recovery Act. In April 2009, the IRS received \$202 million of its appropriation of Recovery Act funds.³ These funds are required to implement the necessary tax changes resulting from provisions of the Recovery Act. The changes included reprogramming the IRS computer systems, updating related tax forms and publications, and providing customer service to assist taxpayers in obtaining their Recovery Act benefits. As of September 30, 2011, the IRS had obligated more than \$201 million, with disbursements exceeding \$198 million.

One of the stated goals of the Recovery Act is to “foster unprecedented levels of accountability and transparency in government spending.” The Recovery Accountability and Transparency Board (Recovery Board)⁴ provides transparency to the public concerning Recovery Act funds. One way the Recovery Board accomplishes this goal is by publishing Federal agencies’ use of Recovery funds weekly.

The OMB⁵ issued guidance documents⁶ that outlined steps for implementing the Recovery Act and clarified the requirements for processing procurements. Federal agencies are required to report to the Recovery Board, on a weekly basis, all cumulative Recovery Act obligations and

¹ Pub. L. No. 111-5, 123 Stat. 115 (2009).

² This number could be as high as 56, depending on how the law is interpreted.

³ 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. The Department of the Treasury retained \$1 million for administrative oversight, resulting in the IRS receiving \$202 million.

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

⁵ The OMB has primary responsibility for developing Governmentwide rules and procedures to ensure that Recovery Act funds are awarded and distributed in a prompt and fair manner, that use of funds is transparent to the public, and that steps are taken to mitigate fraud, waste, and abuse.

⁶ OMB, M-09-10, *Initial Implementing Guidance for the American Recovery and Reinvestment Act of 2009* (Feb. 18, 2009); M-09-15, *Updated Implementing Guidance for the American Recovery Reinvestment Act of 2009* (April 3, 2009); and M-10-34, *Updated Guidance on the American Recovery and Reinvestment Act* (Sept. 24, 2010).



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gross outlays (expenditures)⁷ in a standard reporting format. They also must use separate Treasury Appropriation Fund Symbols⁸ to track and report Recovery Act obligations and disbursements.

In performing this review during the period March through June 2013, we obtained relevant data and information from personnel at the IRS National Headquarters in Washington, D.C., and the Beckley Finance Center in Beckley, West Virginia. The review included Recovery Act invoices submitted to the IRS by vendors for payment during the period October 1, 2010, through September 30, 2011.

This inspection was performed in accordance with the Council of the Inspectors General for Integrity and Efficiency Quality Standards for Inspections. Detailed information on the objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁷ Total obligations equal the sum of financial commitments and expenditures. Total outlays consist of expenditures only.

⁸ The 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.



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Results of Inspection

Recovery Act Expenditures Were Reported Accurately and Timely

The IRS generally executed adequate internal controls to ensure timely and accurate reporting for the Recovery Act expenditures during the review period. The IRS has adequate, documented operating procedures for ensuring that Recovery Act procedures are properly and timely reported.

The Internal Revenue Service Did Not Take All Available Discounts

The IRS obtained approximately \$123,000 (57.5 percent) of the \$214,000 in total discounts offered by vendors. Even though the Prompt Payment Act⁹ does not require that Federal agencies take all available discounts that are offered, taking the discounts provides the IRS with the opportunity to make better use of these funds. Due to the limited scope of our inspection, we did not determine the IRS's ability or inability to obtain the offered discounts.

Financial Reports Complied With the Office of Management and Budget's Implementing Guidance and Recovery Act Requirements

The IRS was in general compliance with OMB's guidance and Recovery Act requirements by:

- Submitting all 52 weekly reports of its cumulative Recovery Act obligations and gross outlays in the prescribed format;
- Using separate Treasury Appropriation Fund Symbols for its two Recovery Act funds; and
- Ensuring Recovery Act expenditures were timely forwarded to the Department of the Treasury for posting to Recovery.gov.

⁹ Pub. L. No. 97-177, 96 Stat. 85 (1982)(codified as amended at 31 U.S.C. § 3901 et seq.).



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to verify the accuracy, timeliness, and reporting of the payment of invoices for the IRS's Recovery Act¹ procurement expenses for the period October 1, 2010, through September 30, 2011 (Fiscal Year 2011). We reviewed all Recovery Act invoices that the IRS paid during the period.

To accomplish this objective, we:

- I. Documented procedures used to identify, record, and report Recovery Act expenditures, including internal controls.
 - A. Interviewed personnel in the Budget Execution Office in the IRS's National Headquarters to identify the reporting process.
 - B. Interviewed personnel in the Beckley Finance Center in Beckley, West Virginia, to identify and document the invoice payment process.
 - C. Reviewed the Financial and Activity Reports for the period under inspection, which are posted on Recovery.gov.
- II. Determined whether Recovery Act procurement expenditures that the IRS reported were accurate and substantiated by complete and reliable supporting documentation.
 - A. Identified all Recovery Act expenditures for the period October 1, 2010, through September 30, 2011.
 - B. Traced Recovery Act procurement expenditures to available supporting documentation, including invoices, receiving reports, and check payment records.
 - C. Verified the mathematical accuracy of expenditures and supporting documentation.
 - D. Compared Recovery Act expenditures from the Weekly Financial Report on Recovery.gov to the amounts the IRS recorded in the Integrated Financial System.²

¹ Pub. L. No. 111-5, 123 Stat. 115 (2009).

² 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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- E. Determined if the IRS used separate Treasury Appropriation Fund Symbols³ for its two Recovery Act funds:
 - 1. Treasury Appropriation Fund Symbol 20-0129 2009/2011 for Administrative Expense – Recovery Act.
 - 2. Treasury Appropriation Fund Symbol 20-0934 2009/2011 for Health Insurance Tax Credit Administration – Recovery Act.
 - F. Reconciled disbursements from the Integrated Finance System to the Total Gross Outlays in the Financial and Activity Report.
 - G. Obtained Status of Available Funds Reports from the IRS.
 - H. Reconciled the IRS Recovery Act weekly reports provided for the review period to the expenditures posted on Recovery.gov.
- III. Determined whether the IRS had established effective controls to identify, record, and report Recovery Act expenditures in accordance with OMB guidance.
- A. Obtained and reviewed all guidance issued by the OMB pertaining to procurement of goods and services using Recovery Act funds.
 - B. Evaluated the procedures for recording Recovery Act obligations, outlays, disbursements, and payments made against these funds and reconciled the sum of the obligations, expenditures, and disbursements amounts from the Status of Available Funds Reports to the Total Obligations and Gross Outlays columns of the Financial and Activity Report.

³ The 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.



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Appendix II

Major Contributors to This Report

Kevin P. Riley, Director
Stanley Rinehart, Supervisory Evaluator
Mark Anderson, Program Analyst



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Appendix III

Report Distribution List

Principal Deputy Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Assistant Deputy Commissioner for Operations Support OS
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 Liaison: Chief, Agency-Wide Shared Services OS:A



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Appendix IV

Management's Response to the Draft Report

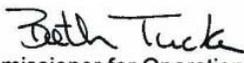


DEPUTY COMMISSIONER

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

August 13, 2013

MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR INSPECTIONS
AND EVALUATIONS

FROM: Beth Tucker 
Deputy Commissioner for Operations Support

SUBJECT: Draft Inspection Report - Review of the Internal Revenue
Service's American Recovery and Reinvestment Act Fund
Expenditures for Fiscal Year 2011 (IE-13-005-A)

Thank you for the opportunity to comment on the subject draft report. We appreciate your report recognizing that the IRS executed adequate internal controls to ensure timely and accurate reporting of Recovery Act expenditures during the period October 1, 2010, through September 30, 2011. We will continue to timely forward our reports to Recovery.gov to maintain the transparency of the IRS's Recovery Act expenditures.

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