
November 1998

EXCISE TAXES

Internal Control Weaknesses Affect Accuracy of Distributions to the Trust Funds





United States
General Accounting Office
Washington, D.C. 20548

Accounting and Information
Management Division

B-280269

November 9, 1998

The Honorable Charles O. Rossotti
Commissioner of Internal Revenue

Dear Mr. Rossotti:

This report is a follow-up to our report discussing procedures we performed to assist the Department of Transportation (DOT) and Department of Labor (DOL) Inspectors General (IG) in ascertaining whether the net excise tax collections and excise tax certifications reported by the Internal Revenue Service (IRS) for the fiscal year ended September 30, 1997, were supported by underlying records.¹ The agreed-upon procedures, along with our audit of the IRS' fiscal year 1997 Custodial Financial Statements,² and work performed at other Department of the Treasury offices and bureaus, was necessary to provide a sufficient basis to assist those IGs in forming an opinion on the financial statements of their respective departments and the relevant trust funds those departments administer, such as DOT's Highway Trust Fund and DOL's Black Lung Disability Trust Fund.

Our previous report presented errors we identified in performing these procedures, but did not discuss the underlying internal control weaknesses that allowed these errors to go undetected, nor did it discuss actions needed to address these weaknesses. This report discusses such weaknesses and presents our recommendations for corrective action.

Results in Brief

IRS does not have adequate controls over its process for certifying excise taxes for distribution to the federal government trust funds. The lack of fundamental internal controls, such as supervisory review, resulted in errors in the certifications going undetected. These errors ultimately affected the amounts distributed to the trust funds during fiscal year 1997. IRS' ineffective controls over the certification process resulted in undetected (1) mistakes by taxpayers in preparing excise tax returns, (2) input errors by IRS when entering excise tax return information in its master files,³ and (3) errors by IRS in preparing the excise tax certifications.

¹See Agreed-Upon Procedures: Excise Taxes (GAO/AIMD-98-78R, February 26, 1998).

²See Financial Audit: Examination of IRS' Fiscal Year 1997 Custodial Financial Statements (GAO/AIMD-98-77, February 26, 1998).

³The master file is a detailed database containing taxpayer information.

As a result of these errors, trust funds did not receive the appropriate amount of excise tax revenue. These errors are particularly important to the Highway Trust Fund, which receives over half of the excise taxes that are accounted for by IRS. These weaknesses were a contributing factor in the DOT IG's (1) qualified opinion on the Highway Trust Fund financial statements, (2) disclaimer of opinion on the Federal Aviation Administration's financial statements, and (3) disclaimer of opinion on the Department of Transportation's consolidated financial statements.

The errors we found relating to taxpayer mistakes, IRS data input, and certification preparation could have been detected or prevented by effective IRS procedures. IRS has taken some actions to improve certain controls over the excise tax certification process. We are making recommendations to strengthen IRS' verification and review procedures to help ensure that trust funds receive the appropriate allocation of revenue.

Background

The federal government levies excise taxes on entities and individuals for the purpose of financing general federal activities and specific government programs. Several different bureaus and offices within Treasury collected about \$59 billion of excise taxes in fiscal year 1997. The Bureau of Alcohol, Tobacco, and Firearms accounted for about \$13 billion in excise taxes on alcohol, tobacco products, and firearms while the U.S. Customs Service accounted for about \$1 billion in excise taxes on imported and exported goods and services.

However, the majority of excise taxes are accounted for by IRS. In fiscal year 1997, IRS collected about \$45 billion in excise taxes on the purchase, use, or inventory of various types of goods or services, such as gasoline and airline tickets. The various excise taxes accounted for by IRS are deposited into the general fund⁴ of the Treasury and into nine different trust funds, which are administered by six agencies or federal entities. The trust funds that received fiscal year 1997 tax revenues are shown in table 1. A list of excise taxes by trust fund is included in appendix II.

⁴The general fund accounts for receipts that are not earmarked by law for specific purposes, the proceeds of general borrowing, and the expenditure of these moneys for the general support of federal government activities.

Table 1: Trust Funds Receiving Excise Tax Revenues in Fiscal Year 1997

Dollars in millions	
Trust funds ^a	Reported tax revenues ^b
Highway	\$24,664
Airport and Airways	\$4,232
Oil Spill Liability	\$1 ^c
Aquatic Resources	\$ 347
Hazardous Substance Superfund	\$ 76 ^d
Black Lung Disability	\$ 614
Vaccine Injury Compensation	\$ 123
Inland Waterways	\$ 96

^aThe Trust Funds are administered by various federal agencies including the Department of Transportation, Department of the Interior, Environmental Protection Agency, Department of Labor, Department of Health & Human Services, and the Corps of Engineers.

^bRepresents tax revenue distributions to the trust funds for the fiscal year ended September 30, 1997.

^cThe taxing authority used to finance the fund expired on December 31, 1994.

^dSuperfund is supported primarily by an environmental tax on corporations, cost recoveries of funds spent to clean up hazardous waste sites, and fines and penalties. Prior to December 31, 1995, the fund was also supported by other taxes on crude oil and petroleum and on the sale or use of certain chemicals. The authority to assess those taxes expired on December 31, 1995.

Source: Tax revenue amounts were obtained from the respective trust fund financial statements as reported by the Bureau of the Public Debt of the Department of the Treasury. We did not audit or verify these amounts.

Administering agencies for the trust funds receiving excise tax revenue rely on the Treasury to accurately collect and distribute federal tax revenue to the appropriate trust funds. Because it collects federal tax revenue and then distributes it to government trust funds, Treasury is considered a servicing organization by agencies administering the trust funds as well as by the auditors of these agencies. Consequently, the administering agencies and their auditors need to rely on Treasury, through its various bureaus and offices, including IRS, to properly account for and distribute the amounts transferred from the government's general fund to the applicable trust funds.

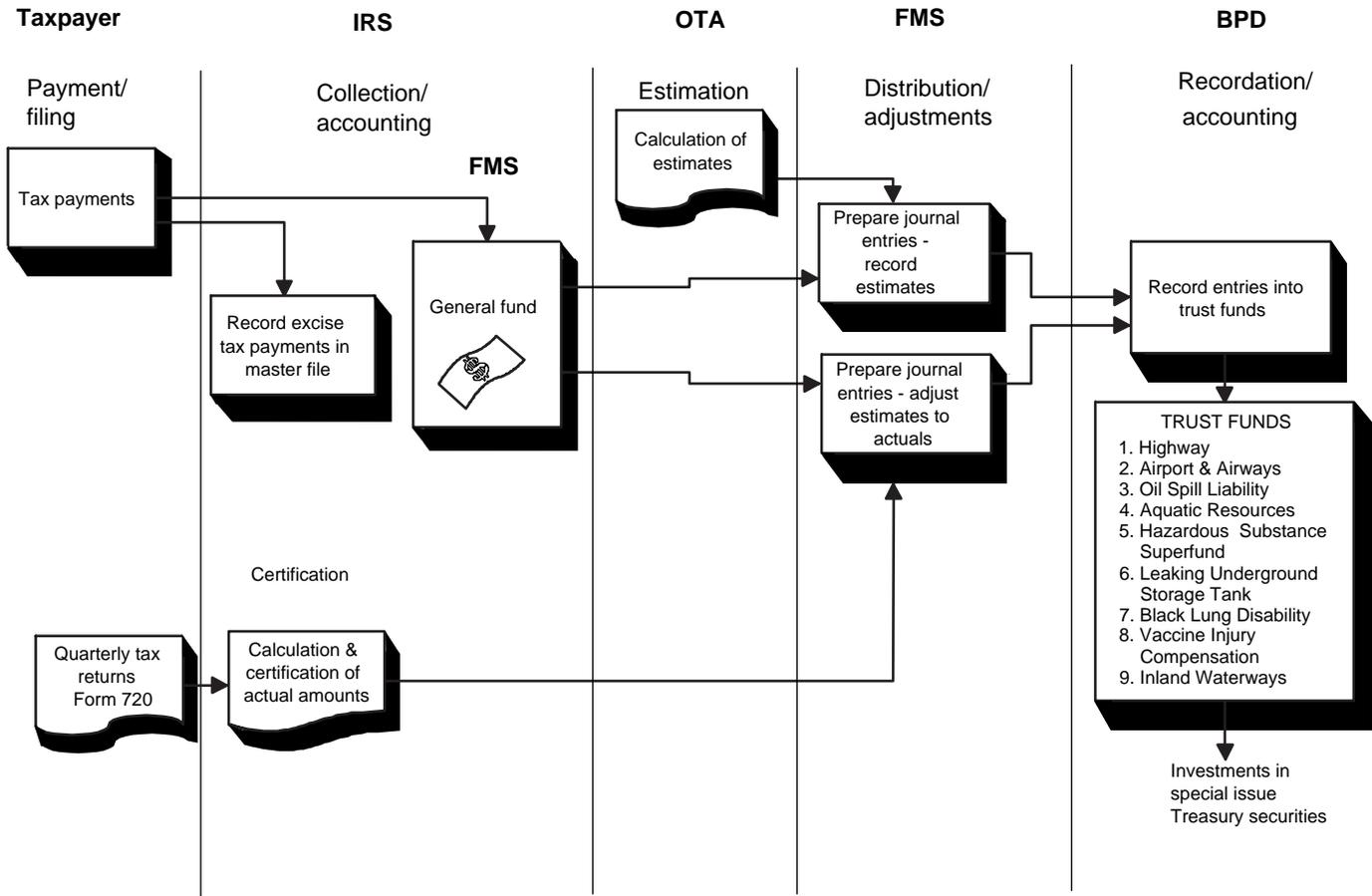
Excise taxes are deposited into the general fund as received. However, the information that ultimately determines how these receipts are actually distributed is generally submitted via the Form 720, Quarterly Federal Excise Tax Return.⁵ Because data are not available to allocate excise taxes

⁵The quarterly excise tax return is filed by taxpayers to report excise tax liability.

to the appropriate trust funds when deposits are made, Treasury uses a process to estimate the initial distribution of excise taxes. This process involves the use of economic models prepared by the Office of Tax Analysis (OTA) to estimate the initial distribution of tax receipts. Treasury's Financial Management Service (FMS) uses these estimates to prepare entries for the initial distributions to the trust funds, which are recorded by the Bureau of the Public Debt (BPD) in the books and records of the trust funds maintained by Treasury. Subsequent to this initial distribution, IRS certifies quarterly the amounts that should have been distributed to the excise tax-related trust funds based on the tax returns.⁶ FMS uses these certifications to prepare adjustments to the initial trust fund distributions. These adjustments are recorded by BPD. There is typically a 6-month lag between the quarter end and the excise tax certification by IRS. Figure 1 provides an overview of the entire process of collecting, distributing, and certifying excise tax revenue reported to the trust funds.

⁶As we have reported in several past financial statement audit reports, IRS policies and procedures for certification to Treasury of the distribution of the excise tax collections to the designated trust funds do not comply with the Internal Revenue Code. The Code requires IRS to certify the distribution of these excise tax collections to the recipient trust funds based on actual collections. However, until recently, IRS based its certifications of excise tax amounts to be distributed to specific trust funds on the assessed amount, or amounts owed, as reflected on the tax returns filed by taxpayers. In June 1998, IRS implemented a new procedure to certify the excise tax distributions based on estimated collections. We will review this new certification process as part of our fiscal year 1998 financial statement audit.

Figure 1: Overview of the Process for Distribution of Excise Tax Revenue to Trust Funds



IRS relies on a combination of manual and automated procedures to prepare its certification of excise taxes to be distributed to the trust funds. IRS calculates the trust fund distributions based on assessment information in the master file. As quarterly excise tax returns are received, IRS personnel input the liability amounts by type of excise tax, such as Diesel Fuel Tax, into its master file.⁷ The tax types are identified by IRS numbers, or abstract numbers, which are preprinted on the Form 720. It is these

⁷IRS refers to reported tax assessments on returns as “liabilities” until the information posts to the master file. For the purposes of this report, we use the term “assessments” whether or not the information has been posted to the master file.

abstract numbers that ultimately determine how amounts are distributed to the appropriate trust funds.⁸

The assessment information by type of excise tax is electronically transmitted from the master file to IRS' Automated Quarterly Excise Tax Listing (AQETL) system.⁹ An IRS analyst, who has sole responsibility for preparing the excise tax certifications, accesses this system, analyzes the data for reasonableness by, for example, comparing current period assessments to amounts reported in prior periods, and makes adjustments, as necessary. The analyst may identify necessary adjustments by analyzing significant variations from prior quarter reported assessment amounts. After making any needed adjustments, the analyst generates a report from the AQETL system which summarizes the assessment data by excise tax type. The analyst uses this report to prepare the certifications for all tax distributions other than taxes related to the Highway, Airport & Airway, and Inland Waterways Trust Funds.

For the Highway, Airport & Airway, and Inland Waterways Trust Funds, the analyst manually enters the assessment data from the report generated from the AQETL system onto electronic spreadsheets.¹⁰ These spreadsheets contain distribution rates to allocate the assessments between the trust funds and the general fund based on the assessment data entered by the analyst. The distributions from these spreadsheets, and the AQETL-system report for the other taxes, become the basis for preparing the quarterly excise tax certification letters.¹¹ IRS submits the certification letters to FMS, which uses it to prepare adjustments to the initial distributions based on the OTA estimates to bring them in line with the IRS certified amounts. These adjustments are sent to BPD, which records the entries in the books and records of the trust funds maintained by Treasury. Figure 2 shows IRS' process for certifying the trust fund distributions.

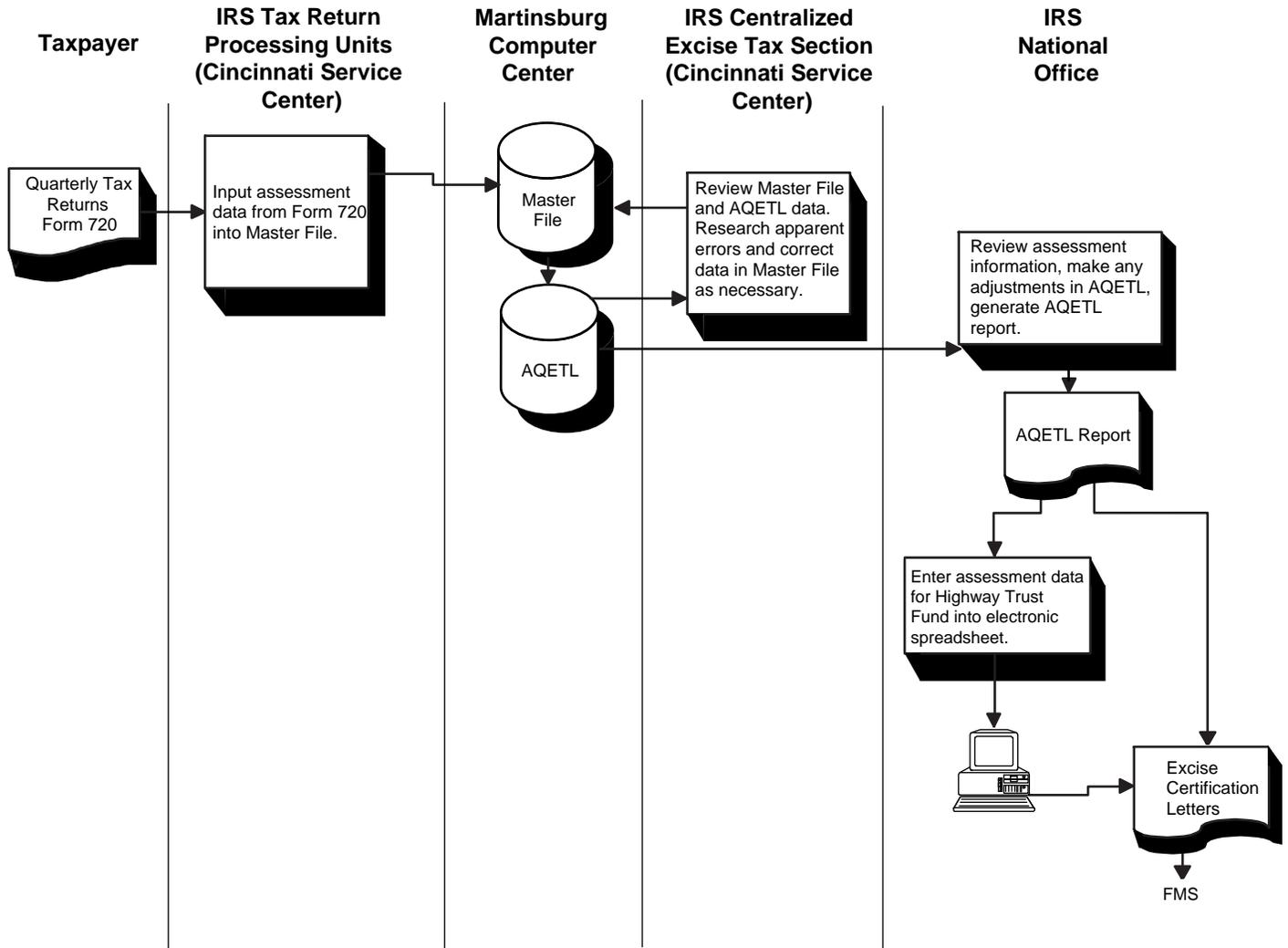
⁸See appendix III for an example of the form 720 package, which shows the different excise tax types reported on the Form 720 by abstract number.

⁹This system is used by IRS to assist tax examiners in monitoring excise tax assessments reported on Form 720.

¹⁰The electronic spreadsheet for the Highway Trust Fund is provided by the Office of Tax Analysis (OTA) while the other spreadsheets are created internally by IRS.

¹¹IRS prepares separate certification letters for each of the trust funds, with the exception of the Oil Spill Liability Trust Fund and the Hazardous Substance Superfund, which are reported on one letter.

Figure 2: Overview: IRS Process for Certifying Excise Tax Distributions



Objectives, Scope, and Methodology

The objective of the agreed-upon procedures work was to assist the Inspectors General of the Department of Transportation and Department of Labor in ascertaining whether the net excise tax collections and excise tax certifications reported by IRS for the fiscal year ended September 30, 1997, were supported by the underlying records. The objectives of this report are to discuss the underlying internal control weaknesses that allowed errors identified in the agreed-upon procedures work to occur and

to provide recommendations for correcting these weaknesses. See appendix I for a detailed discussion on the scope and methodology used to accomplish the objectives.

We conducted our work primarily from October 1997 through February 1998, with some follow-up work through June 1998, in accordance with generally accepted government auditing standards.

Taxpayer Errors Not Identified

For the majority of excise taxes reported on the Form 720, taxpayers are required to provide the purchase, use, or inventory amounts of the goods or services (e.g., number of gallons of fuel) used in determining the tax assessment. The taxpayer multiplies these amounts against the preprinted tax rates on the Form 720 to report the excise tax assessment. Thus, information contained on the tax form allows IRS to mathematically verify liability amounts reported by the taxpayer.

However, we found that IRS did not require its personnel to verify that the tax assessment amounts calculated by the taxpayers and reported on the returns agree with the supporting information provided on the tax returns. This led to inconsistencies between the assessed amount and supporting information provided by taxpayers, which IRS did not detect and correct. In 13 of the 230 taxpayer returns we reviewed, either assessment amounts we recalculated based on information contained in the return differed from the tax assessment reported on the return or all the required information was not included on the return to verify the assessment amount calculated by the taxpayer.

IRS procedure manuals required that IRS personnel review tax returns that contain \$1 million or more in excise tax assessments for reasonableness and accuracy. The manuals provided guidance for performing the reviews; however, this guidance was too general. As a result, the types of reviews performed by IRS analysts varied. In some cases, tax calculations were verified and taxpayers were contacted if data were missing, while in other cases, the return was only scanned for reasonableness.

The lack of adequate and consistent review procedures increases the likelihood that incorrect assessment amounts reported by the taxpayer on the tax return would not be detected and corrected by IRS.

As a result of our agreed upon procedures work, IRS officials indicated that IRS has acted to address the internal control weaknesses discussed above.

Specifically, these officials indicated that IRS implemented procedures to improve the review of tax returns over \$1 million. Also, IRS now requires the math verification of all tax assessments, as applicable, and analysts are required to follow-up with taxpayers to clarify inconsistent information on tax returns.

We also noted that IRS centralized its excise tax processing in the Cincinnati Service Center to improve the consistency of processing and reviewing excise tax returns and to more closely monitor refund claims. Within that center, IRS established an Excise Program Section that specializes in reviewing excise tax returns and refund claims. It is significant that many of the errors we identified during our agreed upon procedures work related to tax returns processed at other service centers prior to IRS centralizing its excise tax processing.

Inputting Errors Not Caught Through Review

As discussed above, taxpayers report the majority of excise taxes to IRS quarterly using the Form 720. Taxpayers record on the Form 720 assessment amounts owed for each abstract number listed on the form. IRS uses the Form 720 to input assessment information into the master files.

We found errors in this input process in fiscal year 1997. Specifically, we found that all or a portion of the assessment amounts for 13 of the 230 taxpayer returns reviewed were recorded in incorrect abstract numbers in the master file. In one case, IRS incorrectly recorded assessments of \$176 million from the tax return in one abstract, yet the tax return indicated that this amount should have been divided among eight different abstracts. Because the abstract numbers identify the type of excise tax (for example, Diesel Fuel Tax) to which the assessment applies and are used in the certification of amounts ultimately distributed to the various trust funds, this directly affected the accuracy of IRS' certifications. IRS officials indicated that these errors would be corrected in subsequent certifications made in fiscal year 1998.

The structure of the Form 720 itself contributed to several errors. The Form 720 tax return is a complex tax form consisting of three distinct parts and two additional schedules.¹² Information on the schedules includes details on excise tax assessments by semimonthly period (Schedule A), and adjustments to correct errors in previously filed Form 720s and claims against previously paid taxes (Schedule C). The

¹²See appendix III for an example of the Form 720 tax return and schedules.

information on Schedule C containing the claim and adjustment data is broken down by abstract number; however, it is aggregated into one total line on page 2 of the Form 720. Consequently, taxpayers record on the Form 720 assessment amounts owed for each abstract number listed on the form but do not reflect claims and adjustments, by abstract, on pages 1 and 2 of the Form 720. To assist in processing the tax return, IRS requires its staff to copy claims and adjustments listed on Schedule C, by abstract, to pages 1 and 2 of the Form 720. This procedure provides the data entry staff with the capability of inputting assessment, claim, and adjustment amounts, by abstract, directly off the first two pages of the tax return form without having to scan the schedules for claim and adjustment amounts to be input. However, the procedure of IRS staff manually copying claim and adjustment amounts from the schedules prepared by taxpayers increases the risk of errors, and consequently the likelihood that assessment, claim, and adjustment amounts will be incorrectly recorded in the master files.

Nine of the 13 errors that we identified were the result of (1) IRS personnel incorrectly copying the adjustment information from the Schedule C to pages 1 and 2 of the tax return, (2) IRS personnel failing to copy adjustment information from the Schedule C to pages 1 and 2 of the tax return, or (3) data entry personnel misreading the handwritten adjustments made by other IRS staff on the Form 720 when inputting this information into the master files. For example, in one case, a taxpayer claimed a credit of \$683,000, consisting of a \$685,000 decrease for gasoline tax and a \$2,000 increase for aviation fuel tax. However, IRS staff incorrectly recopied the credit amounts from the Schedule C to page 1 of the Form 720, resulting in the entire amount being recorded as gasoline tax. In another case, a taxpayer claimed a credit for \$681,000 for taxed diesel fuel. An IRS employee copied the abstract number unclearly to page 1 of the Form 720, and the amount was erroneously recorded as a credit to tax on dyed diesel fuel used in trains.

In total, in the 13 cases, we identified \$179 million of IRS errors in inputting excise tax return information to the master files. The Comptroller General's Standards for Internal Controls in the Federal Government specifies that transactions are to be promptly recorded and properly classified. The identified errors may have been avoided had procedures been in place to verify the input process. Also, errors resulting from the need for IRS staff to transfer information from the attached schedules to pages 1 and 2 of the Form 720 for each abstract could be avoided by revising the tax return form so that taxpayers, and not IRS personnel, enter

the claim and adjustment amounts by abstract from Schedule C to pages 1 and 2 of the tax return.

Certification Errors Not Prevented or Detected

As discussed previously, one analyst is responsible for compiling the quarterly certifications. This involves accessing quarterly the assessment information from the AQETL system, analyzing and adjusting these data as necessary and, for the Highway Trust Fund, inputting these data into an electronic spreadsheet, provided by OTA, to derive the quarterly certifications. We found that there is no supervisory review of the analyst's work until the certification letters are prepared, at which point they are forwarded to the Branch Chief for a high-level review and signature. We found no evidence that a detailed supervisory review is performed of the documentation supporting the certifications at any point during the certification process. Finally, we found that IRS does not review the distribution rates contained on the OTA-provided spreadsheet used to allocate certain assessments between the general fund and the Highway Trust Fund. The absence of such reviews was a factor in not detecting numerous errors in the certifications performed in fiscal year 1997 with respect to the Highway Trust Fund and the general fund.

Support for Certifications Not Adequately Reviewed

IRS' AQETL system contains the assessment data electronically transmitted from the master file. Because it is not integrated with the electronic spreadsheet used to prepare the certifications for the Highway Trust Fund, manual data entry is necessary to accomplish the calculations and summarize the information. This information is a basis for preparing the certifications. Without adequate supervisory review of these tasks, all of which are performed by one individual, there is a high risk that errors will be made and not detected and corrected. The Comptroller General's Standards for Internal Controls in the Federal Government specifies that qualified and continuous supervision is to be provided to ensure that internal control objectives are achieved. The lack of adequate supervisory review can lead to incorrect certifications and inaccurate distributions to the trust funds.

We found a number of such errors that occurred in fiscal year 1997. For example, we found that assessment amounts were (1) inadvertently omitted from the certifications and (2) did not agree with supporting documentation. In one case related to heavy vehicle use tax, the supporting schedule summarizing the tax return information reflected an assessment amount of \$195 million but the amount certified was

\$128 million. As a result, the certified amount for the Highway Trust Fund was understated by \$67 million. In another case, assessments for compressed natural gas totaling over \$500,000 were omitted from the Highway Trust Fund certification. IRS officials indicated that both of these errors were corrected in a subsequent certification that was made in fiscal year 1998. However, proper supervisory review of the analyst's work would likely have detected these errors and prevented these inaccurate distributions.

Distribution Rate Problems Affected Highway Trust Fund Distributions

IRS does not have procedures for verifying the accuracy of distribution rates contained on the electronic spreadsheet provided by OTA. These rates, many of which are based on complex formulas derived from provisions of laws, are used to allocate assessments between the general fund and the Highway Trust Fund. The lack of IRS review of the distribution rates on this spreadsheet resulted in errors in the excise tax certifications for the Highway Trust Fund going undetected. For example, we found the following problems in the electronic spreadsheet provided by OTA:

- incorrect application rates to allocate gasohol taxes, which resulted in an overstatement to the Highway Trust Fund and a corresponding understatement to the general fund of \$89,000;
- misapplied application rates between the Highway Account and Mass Transit Account for diesel fuel inventory in the certifications for the quarters ending December 1996 and March 1997, which resulted in a net understatement of the Highway Account and a corresponding net overstatement of the Mass Transit Account of \$19,000; and
- missing distribution rate formulas from the spreadsheet, which resulted in tax assessment amounts of \$1,000 and \$7,000 being excluded from the Highway Trust Fund certification.

An IRS review of the distribution rates contained on the spreadsheet could have identified these problems and prevented the distribution errors.

Conclusions

The errors we found in the review of the fiscal year 1997 excise tax certification process are the direct result of weaknesses in fundamental internal controls, specifically the lack of appropriate verification and review procedures, at all critical points in the excise tax certification process. These weaknesses led to taxpayer, IRS, and OTA errors going

undetected and directly resulted in inaccurate distributions of excise tax revenue to the trust funds in fiscal year 1997.

Recommendations

To strengthen internal controls over IRS' process of inputting tax return information into the master file, we recommend that IRS:

- Determine if it would be cost effective to develop and implement procedures requiring either key verification of the assessment amount by excise tax type before final processing or to implement other post-input controls to verify the accuracy of assessment amounts by excise tax type on the master file. In making this determination, IRS should consider establishing a dollar threshold that would ensure coverage of 90 percent of total excise tax assessments from the tax returns.
- Revise the Form 720 tax return to reflect a separate column adjacent to the column for entering the tax assessment, by abstract number, for the taxpayer to report on pages 1 and 2 of the tax return claims and adjustments, by abstract number, based on the information the taxpayer reports on Schedule C.

To strengthen internal controls over IRS' process of certifying excise tax distributions to the general fund and federal trust funds, we recommend that IRS:

- Develop, document, and implement review procedures over the adjustment and summarization of assessment data used in the certifications. Specifically, IRS should require detailed supervisory review be performed and documented to ensure that adjustments are reasonable and adequately supported, calculations are appropriately performed, and the certification letter agrees with the supporting schedules. IRS recently changed its procedures to certify excise taxes based on estimated collections. Despite this change, review procedures are still necessary.
- Establish and implement specific procedures requiring that IRS personnel review the distribution rates provided by OTA prior to those rates being used in the certification of Highway Trust Fund distributions and document evidence of these reviews.

Agency Comments and Our Evaluation

In commenting on this report, the IRS Commissioner stated that overall he agreed with our findings and recommendations. The Commissioner noted actions either planned or already in process or implemented to address most of the issues raised in this report. These include (1) implementing

post-input controls to include a 100 percent review of all returns with tax assessments of \$1 million or more, (2) developing review procedures over the adjustment and summarization of collection data used in the certifications, including supervisory reviews prior to final certification, and (3) reviewing, as part of a recently-formed Intra-Treasury Working Group, distribution rate charts provided by OTA prior to using these rates in the certification of Highway Trust Fund distributions.

However, the Commissioner disagreed with our recommendation to revise the Form 720 tax return to require taxpayers to report claims and adjustments information on pages 1 and 2 of the tax return form. He expressed concern with how the draft report characterized the tax return form and the accompanying Schedules A and C of the form. Additionally, he noted it would be inappropriate to require the taxpayer to net the tax liability by the claim and adjustment amounts reported on the accompanying Schedule C.

We have modified the report to more appropriately reflect the nature of the Form 720 and its accompanying schedules. Consistent with these changes, we modified the recommendation to eliminate the reference to having the taxpayer net the tax liability, by abstract number, for any adjustments or claims, by abstract number, as reported on the accompanying Schedule C. However, we believe that revisions to the tax return form are needed because of the frequency of errors made by IRS in either copying claim and adjustment information from Schedule C to pages 1 and 2 of the tax return or in inputting information copied from the tax return to the master files. Specifically, the Form 720 tax return should be revised to reflect a separate column in which the taxpayer would report claims and adjustments from the Schedule C, by abstract number, adjacent to the column reflecting the tax assessment, by abstract number, on pages 1 and 2 of the Form 720. The complete text of the IRS Commissioner's response to our draft report is presented in appendix IV.

This report contains recommendations to you. The head of a federal agency is required by 31 U.S.C. 720 to submit a written statement on actions taken on these recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Reform and Oversight within 60 days after the date of this letter. A written statement also must be sent to the House and Senate Committees on Appropriations with the agency's first request for appropriations made over 60 days after the date of this letter.

We are sending copies of this report to Director of the Office of Management and Budget, the Secretary of the Treasury, the Secretary of Transportation, the Secretary of Labor, and the Inspectors' General of the Department of Transportation and Department of Labor. Copies of this letter will be made available to others upon request.

If you have any questions, please call me at (202) 512-9505 or Steven J. Sebastian, Assistant Director, at (202) 512-9521.

Sincerely yours,

A handwritten signature in black ink that reads "Gregory D. Kutz". The signature is written in a cursive style with a large initial "G" and "K".

Gregory D. Kutz
Associate Director, Governmentwide Accounting
and Financial Management Issues

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Abbreviations

AQETL	Automated Quarterly Excise Tax Listing
BPD	Bureau of the Public Debt
DOL	Department of Labor
DOT	Department of Transportation
FMS	Financial Management Service
IG	Inspector General
IRS	Internal Revenue Service
OTA	Office of Tax Analysis

Objectives, Scope, and Methodology

The objective of the agreed-upon procedures work was to assist the Inspectors General of the Department of Transportation and Department of Labor in ascertaining whether the net excise tax collections and excise tax certifications reported by IRS for the fiscal year ended September 30, 1997, were supported by the underlying records. We did not perform work on excise taxes collected by other Treasury bureaus, such as the Customs Service and the Bureau of Alcohol, Tobacco, and Firearms. We did include in our review the Federal Aid to Wildlife Restoration Fund because IRS uses different procedures to certify this trust fund.

In performing the agreed-upon procedures, we gained an understanding of the internal controls over the excise tax collection and certification process. The objectives of this report were to discuss the underlying internal control weaknesses that allowed errors identified in the agreed upon procedures work to occur and to provide recommendations for correcting these internal control weaknesses.

To accomplish our objectives, we examined, on a test basis, evidence supporting the net excise tax collection amounts reported on the fiscal year 1997 Custodial Financial Statements; specifically, we

- used Dollar Unit Sampling to select a sample of 396 combined excise tax collection and refund transactions from the master file for the first 9 months of fiscal year 1997, using a confidence level of 80 percent, a test materiality of \$400 million, and an expected error amount of \$200 million. Of this total, 390 transactions represented collections and six transactions represented refunds;
- verified sampled excise tax transactions to source documents to determine if the transactions were accurately recorded, posted to the proper tax class, and reported in the appropriate period;
- performed a predictive test¹ of excise tax revenue collections for the final 3 months of the fiscal year to determine if reported fiscal year 1997 revenue appears consistent and reasonable;
- reviewed IRS' revenue receipts and refund reconciliations between its records and Treasury for fiscal year 1997, to determine whether year-end excise tax collection balances from the general ledger materially agree with IRS' master files and Treasury records; and
- obtained an understanding of internal controls related to safeguarding assets, compliance with laws and regulations, and financial reporting.

¹A predictive test consists of comparing recorded balances with auditor's expectations. The auditor develops an expectation of what the recorded amount should be based on an analysis and understanding of relationships between the recorded amounts and other data.

In addition, to assess the reliability of key data inputs and assumptions used in the excise tax certification, we:

- Recalculated the excise tax assessments on the 230 tax returns associated with the sample of 390 excise tax collections based on the information provided on the returns (e.g., number of gallons of fuel multiplied by the tax rate equals the assessed tax). We reviewed only 230 returns because in some instances more than one receipt transaction related to the same return. Because the sample was selected based on excise tax collections, we were not able to project any errors identified on the corresponding tax assessment amounts.
- Verified that the excise tax assessment amounts by abstract number on the 230 tax returns were accurately recorded in the IRS master file and in the AQETL report.
- Determined if the rates used to allocate assessments between selected trust funds and the general fund for the final quarter of fiscal year 1997 were adequately supported.

Further, we:

- verified the mathematical accuracy for selected excise tax certifications and
- traced, on a selected basis, excise tax certifications to supporting schedules.

We conducted our work primarily from October 1997 through February 1998, with some follow-up work through June 1998, in accordance with generally accepted government auditing standards.

Types of Excise Taxes by Trust Fund

Highway Trust Fund

- Gasoline removed or entered for gasohol production containing at least 10 percent alcohol
- Gasoline removed or entered for gasohol production containing at least 7.7 percent alcohol but less than 10 percent alcohol
- Gasoline removed or entered for gasohol production containing at least 5.7 percent alcohol but less than 7.7 percent alcohol
- Gasohol containing at least 10 percent alcohol
- Gasohol containing at least 7.7 percent alcohol but less than 10 percent alcohol
- Gasohol containing at least 5.7 percent alcohol but less than 7.7 percent alcohol
- Diesel fuel
- Special Motor Fuels
- Gasoline
- Dyed diesel fuel used in certain intercity or local buses
- Other alcohol fuels
- Compressed Natural Gas
- Diesel fuel inventory
- Retail on truck, trailer, and semitrailer chassis and bodies, and tractors
- Highway type tires
- Heavy vehicle use

Airport and Airways Trust Fund

- Ticket tax
- Facilities use
- Air freight
- Aviation gasoline
- Aviation fuel (other than gasoline)
- Aviation fuel (other than gasoline) for use in commercial aviation
- Aviation fuel (floor stocks)
- Aviation gasoline (floor stocks)

Oil Spill Liability (Expired December 31, 1994)

- Imported petroleum
- Domestic petroleum

Aquatic Resources

- Fishing rods, artificial lures, etc.
- Electric outboard motors and fish finding devices

Hazardous Substance Superfund

- Imported petroleum
- Domestic petroleum

Appendix II
Types of Excise Taxes by Trust Fund

- Certain chemicals
 - Imported substances
-

Leaking Underground
Storage Tank (Not in Effect
During Fiscal Year 1997)

- Railroad diesel
 - Aviation fuel
-

Black Lung Disability

- Underground mined coal at \$1.10 per ton
 - Underground mined coal-limitation at 4.4 percent of sale price
 - Surface mined coal at \$0.55 per ton
 - Surface mined coal-limitation at 4.4 percent of sale price
-

Vaccine Injury
Compensation

- Diphtheria, pertussis, and tetanus (DPT) Vaccine
 - Diphtheria and tetanus (DT) Vaccine
 - Measles, mumps, and rubella (MMR) Vaccine
 - Polio Vaccine
-

Inland Waterways

- Inland waterways fuel use

Quarterly Federal Excise Tax Return, Form 720

Form 720
(Rev. July 1998)
Department of the Treasury
Internal Revenue Service

Quarterly Federal Excise Tax Return

► For Privacy Act and Paperwork Reduction Act Notice, see the separate instructions.

OMB No. 1545-0023

If you are not using a preprinted label, enter your name, address, employer identification number, and calendar quarter of return. See the separate instructions.

Name	Quarter ending	
Number, street, and room or suite no. (If you have a P.O. box, see page 2.)	Employer identification number	
City, state, and ZIP code (If you have a foreign address, see page 2.)		

Check here if this is a final return or a one-time filing (See instructions.)

Part I

IRS No.	Description	Tax	IRS No.
Environmental Taxes (Attach Form 6627.)			
98	Ozone-depleting chemicals (ODCs)		98
19	ODC tax on imported products		19
Communications and Air Transportation Taxes			
22	Local telephone service, toll telephone service, and teletypewriter exchange service		22
26	Transportation of persons by air		26
28	Transportation of property by air		28
27	Use of international air travel facilities		27
Fuel Taxes			
	(a) Diesel fuel, tax on removal at terminal rack	\$.244	
60	(b) Diesel fuel, tax on taxable events other than removal at terminal rack	.244	60
71	Dyed diesel fuel used in trains	.0565	71
78	Dyed diesel fuel used in certain intercity or local buses	.074	78
	(a) Kerosene, tax on removal at terminal rack	\$.244	
35	(b) Kerosene, tax on taxable events other than removal at terminal rack	.244	35
61	Liquefied petroleum gas (LPG) (such as propane or butane)	.136	61
79	Other fuels (See instructions.)		79
	(a) Gasoline, tax on removal at terminal rack	.184	
62	(b) Gasoline, tax on taxable events other than removal at terminal rack	.184	62
	(c) Gasoline, tax on failure to blend or later separation (See instructions.)		
58	Gasoline removed or entered for gasohol production containing at least 10% alcohol	.14444	58
73	Gasoline removed or entered for gasohol production containing at least 7.7% alcohol but less than 10% alcohol	.15430	73
74	Gasoline removed or entered for gasohol production containing at least 5.7% alcohol but less than 7.7% alcohol	.16248	74
59	Gasohol containing at least 10% alcohol	.130	59
75	Gasohol containing at least 7.7% alcohol but less than 10% alcohol	.14242	75
76	Gasohol containing at least 5.7% alcohol but less than 7.7% alcohol	.15322	76
69	Aviation fuel (other than gasoline)	.219	69
14	Aviation gasoline	.194	14
77	Aviation fuel (other than gasoline) for use in commercial aviation (other than foreign trade)	.044	77
101	Compressed natural gas (taxed at \$.4854 per thousand cubic feet)		101

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**Appendix III
Quarterly Federal Excise Tax Return,
Form 720**

Form 720 (Rev. 7-98)

Page **2**

IRS No.	Description	Rate	Tax	IRS No.
33	Retail Tax Truck, trailer, and semitrailer chassis and bodies, and tractors	12% of sales price		33
29	Ship Passenger Tax Transportation by water	Number of persons \$3 per person		29
31	Other Excise Tax Obligations not in registered form	Amount of obligations \$.01		31
92	Luxury Tax Passenger vehicles (See instructions.)	Rate 7% of sales price over base amount		92
36	Manufacturers Taxes Coal—Underground mined	Number of tons Sales price \$1.10 per ton		36
37		4.4% of sales price		37
38	Coal—Surface mined	\$.55 per ton		38
39		4.4% of sales price		39
66	Highway-type tires (See instructions.)			66
40	Gas guzzler tax (Attach Form 6197.)			40
97	Vaccines (See instructions.)			97
30	Foreign Insurance Taxes Policies issued by foreign insurers (See instructions.) Casualty insurance and indemnity bonds	Premiums paid Rate \$.04		30
	Life insurance, sickness and accident policies, and annuity contracts	.01		
	Reinsurance	.01		
1 Total. Add all amounts in Part I. (Complete Schedule A unless one-time filing.)			\$	

Part II

IRS No.	Description	Rate	Tax	IRS No.
41	Sport fishing equipment	10% of sales price		41
42	Electric outboard motors and sonar devices	3% of sales price		42
44	Bows	11% of sales price		44
102	Arrow components	12.4% of sales price		102
64	Waterway Fuel Tax Inland waterways fuel use tax	Number of gallons Rate \$.244		64
51	Alcohol sold as but not used as fuel (See instructions.)	.54/.40		51
20	Floor Stocks Taxes Ozone-depleting chemicals (floor stocks) (Attach Form 6627.)	Number of gallons Rate		20
103	Kerosene (floor stocks) (See instructions on page 5.)	\$.244		103
2 Total. Add all amounts in Part II.			\$	

Part III

3	Total tax. Add line 1, Part I, and line 2, Part II	
4	Adjustments and claims (See instructions. Complete Schedule C.)	
5	Net tax after adjustments and claims. Combine lines 3 and 4. (If no entry on line 4, enter amount from line 3.)	
6	Deposits you made for the quarter	
7	Overpayment from previous quarter	
8	Total of lines 6 and 7	
9	Balance Due. If line 5 is greater than line 8, enter the difference. This amount must be paid with the return. Enclose check or money order for full amount payable to "Internal Revenue Service." Write your EIN, "Form 720," and the quarter on it	
10	Overpayment. If line 8 is greater than line 5, enter the difference. If you have an entry that is less than zero on line 5, combine line 5 and line 8. Check if you want the overpayment: <input type="checkbox"/> Applied to your next return, or <input type="checkbox"/> Refunded to you.	

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete.

Sign Here

Signature _____ Date _____ Title _____
(Please type or print name below signature.) Telephone number () _____

**Appendix III
Quarterly Federal Excise Tax Return,
Form 720**

Form 720 (Rev. 7-98)

Page **3**

Schedule A Excise Tax Liability (See page 8 of the instructions.)

Note: You must complete Schedule A if you have a liability for any tax in Part I of Form 720. Do not complete Schedule A for taxes on bows, arrow components, electric outboard motors and sonar devices, sport fishing equipment, alcohol sold as but not used as fuel, inland waterways fuel use, or for any floor stocks taxes or for one-time filings.

1 9-day-rule taxes

(a) Record of Net Tax Liability	Period	
	1st-15th day	16th-last day
First month	A	B
Second month	C	D
Third month	E	F
Special rule for September*	▶	
(b) Net liability for 9-day-rule taxes. (Add the amounts for each semimonthly period.)		

2 30-day-rule taxes (IRS Nos. 98 and 19)

(a) Record of Net Tax Liability	Period	
	1st-15th day	16th-last day
First month	G	H
Second month	I	J
Third month	K	L
Special rule for September*	▶	
(b) Net liability for 30-day-rule taxes. (Add the amounts for each semimonthly period.)		

3 Alternative method taxes (IRS Nos. 22, 26, 28, and 27)

(a) Record of Taxes Considered as Collected	Period	
	1st-15th day	16th-last day
First month	M	N
Second month	O	P
Third month	Q	R
Special rule for September*	▶	
(b) Alternative method taxes. (Add the amounts for each semimonthly period.)		

4 14-day-rule gasoline, diesel fuel, and kerosene taxes (IRS Nos. 60, 35, 62, 58, 73, 74, 59, 75, 76, and 14)

(a) Record of Net Tax Liability	Period	
	1st-15th day	16th-last day
First month	S	T
Second month	U	V
Third month	W	X
Special rule for September*	▶	
(b) Net liability for 14-day-rule gasoline, diesel fuel, and kerosene taxes. (Add the amounts for each semimonthly period.)		

*Complete only as instructed. See page 8.

**Appendix III
Quarterly Federal Excise Tax Return,
Form 720**

Form 720 (Rev. 7-98)

Page **4**

Schedule C Adjustments and Claims

• Complete Schedule C for adjustments and claims *only* if you are reporting a liability in Part I or II of Form 720.

Attach a statement explaining each adjustment or claim as required. Include your name and EIN on the statement. See page 8 of the instructions.

Part I Adjustments to Previously Filed Forms 720

(a) Quarter ending	(b) IRS No.	(c) Type of tax	(d) Tax as originally reported on Form 720 or as previously corrected	(e) Adjusted tax	(f) Change (decrease) or increase
1 Total adjustments. Combine all amounts in column (f)					1

Part II Claims

Month your income tax year ends ▶

2 Nontaxable Use of Gasoline/Gasohol Period of claim ▶

	Rate	Gallons	Amount of claim	IRS No.
a Off-highway business use of gasoline	\$.184			62
Off-highway business use of:				
b Gasohol containing at least 10% alcohol	\$.130			59
c Gasohol containing at least 7.7% alcohol but less than 10% alcohol	.14242			75
d Gasohol containing at least 5.7% alcohol but less than 7.7% alcohol	.15322			76

3 Nontaxable Use of Aviation Gasoline Period of claim ▶

	Rate	Gallons	Amount of claim	IRS No.
a Used in foreign trade or in certain aircraft	\$.194			14
b Used in commercial aviation (other than foreign trade)	.15			

4 Nontaxable Use of Undyed Diesel Fuel/Kerosene* Period of claim ▶

*Applies to kerosene taxed beginning July 1, 1998.

Claimant certifies that the fuel did not contain visible evidence of dye. Exception, if any of the fuel included in this claim did contain visible evidence of dye, attach a detailed explanation and check here. Claimant has in its possession the name and address of the person(s) who sold the fuel to the claimant and the date(s) of the purchase(s).
Caution: Claims cannot be made on line 4 for the tax paid on diesel fuel or kerosene used on a farm for farming purposes or for the exclusive use of a state or local government.

	Rate	Gallons	Amount of claim	IRS No.
a Heating oil	\$.244			60
b Off-highway business use	.244			
c Qualified local and school buses	.244			
d Certain intercity and local bus use	.17			
e Train use	.1875			

5 Nontaxable Use of Aviation Fuel (other than gasoline) Period of claim ▶

	Rate	Gallons	Amount of claim	IRS No.
a Used in foreign trade, on a farm, or in certain aircraft	\$.219			69
b Used in commercial aviation (other than foreign trade)	.175			

6 Sales by Registered Ultimate Vendors of Undyed Diesel Fuel Period of claim ▶
UV Registration No. ▶

Claimant certifies that the diesel fuel did not contain visible evidence of dye. Exception, if any of the diesel fuel included in this claim did contain visible evidence of dye, attach a detailed explanation and check here. Claimant sold the fuel at a tax-excluded price, repaid the amount of tax to the buyer, or has obtained written consent of the buyer to take the claim; and obtained the required certificate from the buyer and has no reason to believe any information in the certificate is false.

	Rate	Gallons	Amount of claim	IRS No.
a Use on a farm for farming purposes	\$.244			60
b Use by a state or local government	.244			

**Appendix III
Quarterly Federal Excise Tax Return,
Form 720**

Form 720 (Rev. 7-98)

Page 5

7 Sales by Registered Ultimate Vendors of Kerosene* Period of claim ▶
UV Registration No. ▶

*Applies to kerosene taxed beginning July 1, 1998.

Claimant certifies that the kerosene did not contain visible evidence of dye.

Exception. If any of the kerosene included in this claim did contain visible evidence of dye, attach a detailed explanation and check here, Claimant sold the fuel at a tax-excluded price, repaid the amount of tax to the buyer, or has obtained written consent of the buyer to take the claim; and obtained the required certificate from the buyer and has no reason to believe any information in the certificate is false.

	Rate	Gallons	Amount of claim	IRS No.
a Use on a farm for farming purposes	\$.244			35
b Use by a state or local government	.244			
c Sale from a blocked pump	.244			

8 Nontaxable Use of LPG in Certain Buses Period of claim ▶

	Rate	Gallons	Amount of claim	IRS No.
a Intercity and local buses	\$.062			61
b Qualified local and school buses	.136			

9 Gasohol Blending Period of claim ▶

Claimant bought gasoline taxed at the full rate and blended it with alcohol to make gasohol. The gasohol was used or sold for use in a trade or business. For each batch of gasohol, claimant has the required information relating to the purchase of the gasoline and alcohol used to make the gasohol and to support the amount claimed.

	Percentage of alcohol in the gasohol	Rate	Gallons of		Amount of claim (rate x gals. of gasoline)	IRS No.
			Gasoline	Alcohol		
a	At least 10% alcohol	\$.03956				62
b	At least 7.7% alcohol but less than 10% alcohol	.0297				
c	At least 5.7% alcohol but less than 7.7% alcohol	.02152				

10 Gasoline (Sold for the uses described.) Period of claim ▶

Gasoline or gasohol was sold to a state or local government for its exclusive use, to a nonprofit educational organization for its exclusive use, as supplies for vessels or aircraft, for export, or for use in the production of special fuels. Claimant obtained a certificate of ultimate purchaser or proof of export from the buyer or a certificate of ultimate vendor.

	Rate	Gallons	Amount of claim	IRS No.
a Gasoline	\$.184			62
b Gasohol containing at least 10% alcohol	.130			59
c Gasohol containing at least 7.7% alcohol but less than 10% alcohol	.14242			75
d Gasohol containing at least 5.7% alcohol but less than 7.7% alcohol	.15322			76
e Aviation gasoline	.194			14

11 Other claims. See page 11 of the instructions.

	Tax	Amount of claim	IRS No.
a Ozone-depleting chemicals; exported			98
b Communications tax; exempt use by the customer			22
c Transportation of persons by air; refunds to customer (other than alternative method)			26
d Truck, trailer, and semitrailer chassis and bodies; used for further manufacture			33
e Truck, trailer, and semitrailer chassis and bodies, and tractors; exported			33
f Tires; used in further manufacture of a taxable article			66
g Tires; exported, sold or used in foreign trade, or sold to a state or local government or to a nonprofit educational organization			66
h Taxed tires; sold on or in connection with truck, trailer, and semitrailer chassis and bodies, and tractors, reported on IRS No. 33 (See page 4 of the instructions.)			66
i Gas guzzler vehicles; resold for emergency use			40

12 Total claims. Add all amounts in Part II of Schedule C. 12

Part III Total Adjustments and Claims

3 Total adjustments and claims. Combine the amounts on lines 1 and 12. Enter the result here and on page 2, Part III, line 4 of Form 720.	13		
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Comments From the Internal Revenue Service

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



COMMISSIONER

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

September 25, 1998

Mr. Gene L. Dodaro
Assistant Comptroller General
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Dodaro:

Thank you for the opportunity to comment on the draft report entitled "Excise Taxes: Internal Control Weaknesses Affect Accuracy of Distributions to the Trust Funds." Overall, we are in agreement with the findings and recommendations contained in the report. Our comments to each specific recommendation follow. Also enclosed is additional information from Chief Counsel that provides comments and recommended changes to the text of this report.

RECOMMENDATION:

Determine if it would be cost effective to develop and implement procedures requiring either key verification of the assessment amount by excise tax type before final processing or to implement other post-input controls to verify the accuracy of assessment amounts by excise tax type on the master file. In making this determination, the Internal Revenue Service (IRS) should consider establishing a dollar threshold that would ensure coverage of 90 percent of total excise tax assessments from the tax returns.

RESPONSE:

We agree and have implemented post-input controls to include a 100 percent review of all returns with an assessment of a million dollars and over. We are currently exploring the possibility of lowering the dollar threshold for returns that should be reviewed for accuracy.

RESPONSIBLE OFFICIALS: Chief Operations Officer
Assistant Commissioner (Forms and Submission Processing)
National Director, Submission Processing
Chief, Accounting Branch

See comment 1.

**Appendix IV
Comments From the Internal Revenue
Service**

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EFFECTIVE DATE: February 1, 1999

RECOMMENDATION:

Revise the Form 720, Quarterly Federal Excise Tax Return, and its accompanying instructions to require taxpayers to include on pages 1 and 2 of the tax return form any claims and adjustments, by abstract number, from the supporting schedules. These amounts would be shown along with the original assessment by abstract and the taxpayer would be required to calculate the liability by type of excise tax.

RESPONSE:

We disagree. The recommendation is based upon an erroneous description of the Form 720. In describing the Form 720, the report states that it is a set of forms that includes the Form 720 and two supporting schedules and implies that the Form 720 is a summary document similar to the Form 1040. This is incorrect.

Form 720 is used to report quarterly liability for many excise taxes, each identified by abstract number. Pages 1 and 2 of the return are comprised of three parts: Part I reports taxes that are subject to deposit requirements; Part II reports taxes that are not subject to deposit requirements; and Part III provides a computation of whether there is a balance due or an overpayment.

Schedules A and C, pages 3 through 5, are described in the report as supporting schedules to Form 720. However, Schedule A reports net tax liability for each semimonthly period in the quarter by deposit category and is used by IRS to determine whether deposit requirements have been met. Schedule C reports both adjustments to returns filed in prior quarters (similar to a Form 1040X) and refund claims unrelated to liabilities reported on pages 1 and 2. Schedule C is used by filers in lieu of the Form 8949, Claim for Refund of Excise Taxes. Thus, the information from Schedules A and C is independent from the information reported on pages 1 and 2.

As a convenience, Form 720 filers are permitted to use the amount of any refund claimed on Schedule C as a payment towards any amount of excise tax that is owing. Their excise tax liability is not reduced by the amount of these claims, rather the claims are used to satisfy, in part or in full, the amount owed to the government. This is analogous to claiming refundable credits against income tax liability. Taxable income is not reduced by the credit; rather, the credit is treated as a payment in the same manner as amounts withheld by an employer. Thus, it would be incorrect to net the tax liability reported on pages 1 and 2 by the amounts claimed on Schedule C.

See comment 2.

**Appendix IV
Comments From the Internal Revenue
Service**

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RESPONSIBLE OFFICIALS: Associate Chief Counsel (Domestic)
Assistant to the Chief, Branch 8 (Passthroughs and
Special Industries)

EFFECTIVE DATE: N/A

RECOMMENDATION:

Develop, document, and implement review procedures over the adjustment and summarization of assessment data used in the certifications. Specifically, IRS should require detailed supervisory review be performed and documented to ensure that: adjustments are reasonable and adequately supported, calculations are appropriately performed, and the certification letter agrees with the supporting schedules. IRS recently changed its procedures to certify excise taxes based on estimated collections. Despite this change, review procedures are still necessary.

RESPONSE:

We agree with this recommendation. Review procedures over the adjustment and summarization of collection data used in the certifications are currently under development. As part of the new procedures, we have assigned additional analysts to analyze the collection report data and review the Automated Quarterly Excise Tax Listing. These analysts will perform "checks and balances" of each other's work to ensure the accuracy of the reports.

In addition, the collection reports (including adjustments) will be submitted for supervisory review prior to certification. Procedures will be developed to document supervisory reviews.

RESPONSIBLE OFFICIALS: Chief Operations Officer
Assistant Commissioner (Forms and Submission
Processing)
National Director, Submission Processing
Chief, Accounting Branch

EFFECTIVE DATE: December 1, 1998

RECOMMENDATION:

Establish and implement specific procedures requiring that IRS personnel review the distribution rates provided by Office of Tax Analysis (OTA) prior to these rates being used in the certification of Highway Trust Fund distributions and document evidence of these reviews.

**Appendix IV
Comments From the Internal Revenue
Service**

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RESPONSE:

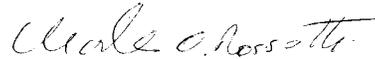
We agree. The rate chart has been developed and reviewed by the Intra-Treasury Working Group. The rate chart has been verified by each agency's legal Counsel not only for the Highway Trust Fund, but for all taxes reported on the Form 720. The table will be reviewed quarterly and will be used to update OTA models and monthly transfers. This will become part of the official certification process and maintained for audit trail purposes.

RESPONSIBLE OFFICIALS: Chief Operations Officer
Assistant Commissioner (Forms and Submission
Processing)
National Director, Submission Processing
Chief, Accounting Branch

COMPLETION DATE: August 1, 1998

If there are any questions, please call Floyd Williams, National Director for Legislative Affairs, at (202) 622-3720.

Sincerely,



Charles O. Rossotti

Enclosure

**Appendix IV
Comments From the Internal Revenue
Service**

The following are GAO's comments on the Internal Revenue Service's letter dated September 25, 1998.

GAO Comments

1. The technical comments from the Chief Counsel have been incorporated as appropriate, but the enclosure has not been included in this appendix.
2. Discussed in "Agency Comments and Our Evaluation" section.

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