

REPORT ON THE  
OFFICE OF TAX ANALYSIS'  
FISCAL YEAR 1999  
REVENUE ESTIMATION PROCESS

OIG-00-097

June 23, 2000



**Office of Inspector General**

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**United States Department of the Treasury**



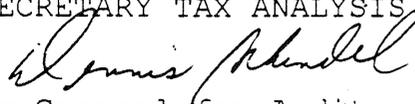
OFFICE OF  
INSPECTOR GENERAL

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

June 23, 2000

MEMORANDUM FOR LEONARD BURMAN  
DEPUTY ASSISTANT SECRETARY TAX ANALYSIS

FROM: Dennis S. Schindel   
Assistant Inspector General for Audit

SUBJECT: Report on the Office of Tax Analysis' Fiscal  
Year 1999 Revenue Estimation Process

Attached is the report on the *Office of Tax Analysis' (OTA) Fiscal Year 1999 Revenue Estimation Process*. We conducted this review as part of our audit of the Department's Fiscal Year 1999 financial statements. The Department is required to provide footnote disclosure relating to the allocation of tax revenue, including excise taxes, to the Government Trust Funds in accordance with Statement of Federal Financial Accounting Standards Number 7, *Accounting for Revenue and Other Financing Sources*.

Our objectives were to obtain an understanding of the process and controls over OTA's revenue estimation process, to evaluate the reasonableness of the estimate of fourth quarter excise tax revenue, and to provide assurance on the footnote disclosure for revenue allocations in the Department's Fiscal Year 1999 financial statements. Our objective was not to review, or reach a conclusion on, the economic models OTA uses to prepare revenue forecasts and estimates. We coordinated our work with the U.S. General Accounting Office (GAO), which performed agreed-upon-procedures for the Office of the Inspector General of the Department of Transportation related to excise tax distributions to Government Trust Funds. GAO's work with us involved reviewing OTA's estimation process.

The work we performed satisfied our objectives. We did not identify any internal control matters related to OTA's excise tax revenue estimation process.

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Our report has been reviewed by your staff. Based on mutual agreement, we are issuing this report as final.

Should you or your staff have any questions, you may contact me at (202) 927-5400 or a member of your staff may contact William Pugh, Deputy Assistant Inspector General for Financial Management and Information Technology Audits at (202) 927-5430. We appreciate the cooperation and the courtesies extended to our staff.

Attachment

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## Overview

The Department of the Treasury (Department) is responsible for managing Government Trust Funds (trust funds), some of which receive excise and payroll tax revenue, for various agencies pursuant to the Internal Revenue Code and the Social Security Act. Within the Department, the Office of Tax Analysis (OTA) is responsible for estimating tax revenues; and the Internal Revenue Service (IRS) is responsible for collecting taxes, depositing taxes into the General Fund, and certifying paid excise tax liabilities by tax type. OTA is also responsible for reviewing Social Security Administration's (SSA) tax revenue estimates; however, the Department is not responsible for overseeing or reviewing SSA's certification of social security tax liabilities. Estimating and certifying the social security tax liabilities are responsibilities of the SSA. The Financial Management Service (FMS) prepares accounting documents to process the initial distributions to the trust funds using OTA's and SSA's estimates and subsequent adjustments to the trust funds based on IRS' and SSA's certification results. The Bureau of the Public Debt (BPD) is responsible for accounting for the trust funds, using FMS' accounting documents, managing the funds, and preparing financial statements for the trust funds. In Fiscal Year (FY) 1999, approximately \$52 billion of net excise taxes, \$6 billion of Federal unemployment taxes, and \$605 billion of social security taxes were allocated to the trust funds.

IRS does not have sufficient information at the time of collection of excise taxes to distribute collections to specific trust funds because it does not require specific tax data to be provided with payments. IRS obtains this information later after it has received and processed taxpayers' quarterly tax returns. Therefore, FMS initially transfers revenue into the trust funds based upon OTA's estimates and sends accounting documentation to BPD. After IRS certifies tax collections, which is usually 6 months after the tax quarter ends, trust fund revenue is adjusted for the difference between OTA's quarterly estimate of, and IRS' certification of, paid liability. In accordance with Statement of Federal Financial Accounting Standards Number 7, *Accounting for Revenue and Other Financing Sources*, Treasury is required to provide footnote disclosure relating to the allocation of tax revenue to trust funds in its FY 1999 financial statements. The information available for the Department to prepare this disclosure consists of three quarters of IRS certifications of paid liability and OTA's estimate for the last quarter of the fiscal year.

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## Objectives, Scope and Methodology

Our objectives were to obtain an understanding of the process and controls over OTA's revenue estimation process, to ensure that the estimate of fourth quarter excise tax collections is reasonable, and to provide assurance on the required disclosure for the allocation of tax revenue to the trust funds in the Department's FY 1999 financial statements. Our objective was not to review, or reach a conclusion on, the economic models OTA uses to prepare revenue forecasts and estimates.

To meet our objectives, we performed the following:

- Met with economists from OTA to update our understanding of OTA's revenue estimation methods, its review of SSA's revenue estimates, and controls over developing the annual budget and the monthly transfers to the trust funds;
- Walkthroughs of key transactions and events in the revenue estimation process;
- Analyses of the differences between the OTA's quarterly estimated revenue amounts and IRS' certification of paid liability amounts for FY 1999;
- Followed-up on the status of implementation of the recommendation from our *Report on the OTA's Revenue Estimation Process* issued May 24, 1999.

We coordinated our work with the U.S. General Accounting Office (GAO), which in addition to performing the audit of IRS' FY 1999 financial statements, performed agreed-upon-procedures for the Office of Inspector General of the Department of Transportation related to excise tax distributions to trust funds. GAO's work included reviewing OTA's estimation process and IRS' processing of excise tax returns and certifications. We performed procedures, such as interviews with OTA economists, jointly with GAO.

We conducted our review in accordance with *Government Auditing Standards*, issued by the Comptroller of the United States.

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## Results

We concluded that OTA's excise tax revenue estimation process possesses effective controls and reviews to ensure the reasonableness of the excise tax revenue estimates. OTA's estimates are reviewed and approved by the Director of the Revenue Estimation Division before they are released, and OTA ensures that new tax laws, changes to existing tax laws, and IRS private letter rulings are considered in developing revenue estimates. In FY 1999, OTA continued to prepare the tax rate table developed in FY 1998, which documents the tax rates, tax bases, and deposit rules in effect during the tax period. OTA updates this table quarterly and receives input and review from the Office of Tax Legislative Counsel and IRS Chief Counsel before distributing the table to parties involved in trust fund management, including the program agencies.

We analyzed the differences between the OTA's quarterly estimated revenue amounts and IRS' certification of paid liability amounts for FY 1999. It is important to note that estimates and certifications are not exactly comparable for a given quarter because the certified amounts reflect only paid tax liabilities from quarterly returns IRS processed by the certification date. Differences between tax revenue estimates and amounts certified for individual trust funds ranged from 0.9 percent to 23.4 percent and from \$241,000 to \$443.3 million. We reviewed these differences with OTA and found that they generally resulted from the timing of IRS' processing and unexpected strength in the economy. The 23.4 percent difference was for the Vaccine Injury Compensation Trust Fund for the first quarter of FY 1999 and represented \$6.6 million. The \$443.3 million difference was for Highway Trust Fund for the first quarter of 1999. This amount represented only 5.9 percent of the certified amount for that quarter. The net quarterly difference for all the funds combined ranged from a low of 3.6 percent in the fourth quarter to a high of 4.5 percent in the second quarter. The trust funds were adjusted for these differences when the certification results were available. OTA considered the certification results in preparing subsequent estimates. We found no unusual variances between the FY 1999 fourth quarter estimates and the FY 1998 fourth quarter estimates.

Effective communications continued to exist among the various entities involved in the revenue allocation process. In addition to preparing and sharing the tax rate table, officials from OTA, IRS, BPD, and FMS met regularly in FY 1999 to coordinate and oversee trust fund matters with the other offices within Treasury.

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## **Status of Prior Year's Review Finding**

The following is the current status of the finding from our FY 1998 review of OTA's revenue estimation process:

### **OTA Needs to Document Its Procedures Over the Estimation Process**

Our prior year review disclosed that OTA did not have fully documented procedures for its estimation process. We recommended that OTA should fully document its procedures for controls and reviews over the tax estimation process and distribute them internally to ensure that they are consistently followed. These procedures should cover the development of yearly and monthly excise tax revenue estimations, sources of economic and industry information and tax law changes; and development and distribution of the tax rate table.

In FY 1999, we noted that OTA made significant efforts toward implementing our recommendation. Specifically, OTA developed written procedures for the excise tax trust fund receipt forecast and monthly estimates. However, these procedures are in draft form. We reviewed these draft procedures which appear complete, and when finalized, should adequately address our recommendation.