

**More Information Is Needed to Determine the  
Effect of the Automated Underreporter  
Program on Improving Voluntary Compliance**

**August 2003**

**Reference Number: 2003-40-180**

**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.**



DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

August 29, 2003

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: for Gordon C. Milbourn III  
Assistant Inspector General for Audit (Small Business and  
Corporate Programs)

SUBJECT: Final Audit Report - More Information Is Needed to Determine  
the Effect of the Automated Underreporter Program on Improving  
Voluntary Compliance (Audit # 200340024)

This report presents the results of our review of the Automated Underreporter (AUR) Program. The overall objective of this review was to determine whether the Wage and Investment (W&I) Division's AUR Program is effectively selecting the most productive cases with the greatest impact on voluntary compliance. Specifically, we determined whether the purpose, strategies and plans, and management policies of the AUR Program are effectively designed to ensure the Program selects the most productive cases to meet the Internal Revenue Service's (IRS) goal of improving voluntary compliance.

In summary, we found the W&I Division's Compliance function has a comprehensive strategic planning process for the AUR Program to help ensure it manages resources and meets its annual goals and performance levels. However, the AUR Program currently has no established long-term outcome goals and measures that assess the Program's effect on reducing taxpayer burden and improving voluntary compliance. In addition, the AUR Program currently does not have sufficient data available to establish baselines and long-term goals and measures.

The Compliance function recognizes the need to develop better performance measures for the AUR Program and is currently working toward developing long-term measures and goals. We recommended that the Commissioner, W&I Division, finalize the long-term goals and the related measures currently being developed to reflect the

Program's anticipated outcomes over time and establish a consistent method to measure progress toward the long-term goals. In addition, the Commissioner should improve the AUR Program's current management information systems to capture data sufficient to establish baselines and long-term measures and goals.

Management's Response: The Commissioner, W&I Division, agreed with our recommendations and related outcome measure and has identified planned corrective actions. IRS management noted that development of long-term goals and measures is of utmost importance to the W&I Division. IRS management plans to finalize the long-term goals and related measures contained in the draft Concept of Operations for the AUR Program and establish a consistent method to measure progress toward the AUR Program's long-term goals. Management plans to partner with the Modernization and Information Technology Services organization to develop a comprehensive management information system that identifies outcome measures and accurately monitors the performance of the AUR Program. To ensure their strategic planning is successful, management is involving the W&I Division campuses in strategic planning, defining performance expectations based on site-specific needs, and providing appropriate training on W&I Division goals and objectives. Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 927-0597.

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Automated Underreporter Program on Improving Voluntary Compliance**

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## More Information Is Needed to Determine the Effect of the Automated Underreporter Program on Improving Voluntary Compliance

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### Background

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The Internal Revenue Service's (IRS) Information Reporting Program is the cornerstone of voluntary compliance and affects compliance and revenue across every taxpayer and market segment. The Information Reporting Program helps ensure a high level of compliance by requiring third parties such as employers, banks, brokerage firms, and others to file information returns to report income and certain deductions to the IRS.<sup>1</sup> In Fiscal Year (FY) 2002, the IRS received over 130 million individual income tax returns and over 1.4 billion information returns.<sup>2</sup>

The Automated Underreporter (AUR) Program is part of the Information Reporting Program. The AUR Program attempts to match taxpayer income and deduction information submitted by third parties to amounts reported on individual income tax returns.

The AUR Program is administered by the Compliance functions in the Wage and Investment (W&I) and the Small Business/Self-Employed (SB/SE) Divisions and operates at six sites in IRS campuses.<sup>3</sup> The W&I Division operates three sites at the Atlanta, Austin, and Fresno campuses. The W&I Division's AUR sites work about 55 percent of the approximately 3 million AUR cases<sup>4</sup> in inventory. During FYs 2000–2002, the W&I Division's AUR Program closed from 1.2 to 1.6 million cases and assessed from \$1 to \$1.4 billion each year.

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<sup>1</sup> Information returns are submitted by third parties to report certain business transactions to the IRS; e.g., the amount of payments made to and from individuals such as wages, interest, dividends, and sales of certain assets. The information is reported to the IRS on various forms such as the Form 1099 series (for various incomes such as Miscellaneous, Interest, Dividend, etc.) and the Wage and Tax Statement (Form W-2).

<sup>2</sup> This information is reported by the IRS in its *IRS 2002 Data Book*.

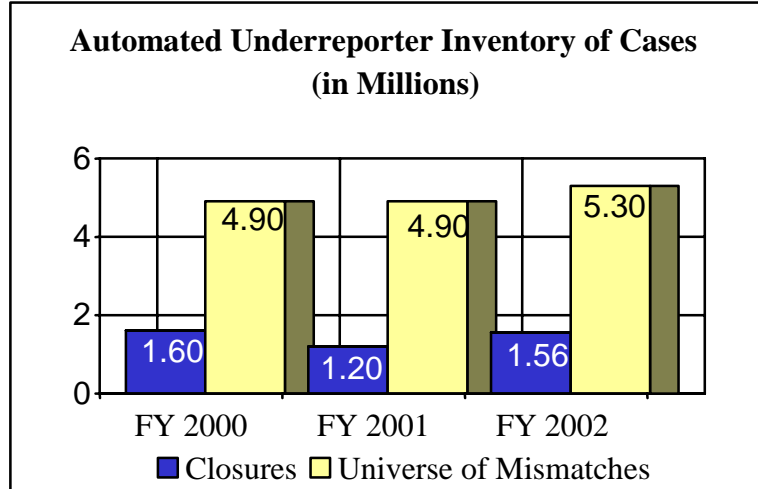
<sup>3</sup> The campuses are the data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the computing centers for analysis and posting to taxpayer accounts.

<sup>4</sup> A case is a tax return that has been identified with one or more potential underreporter discrepancies.

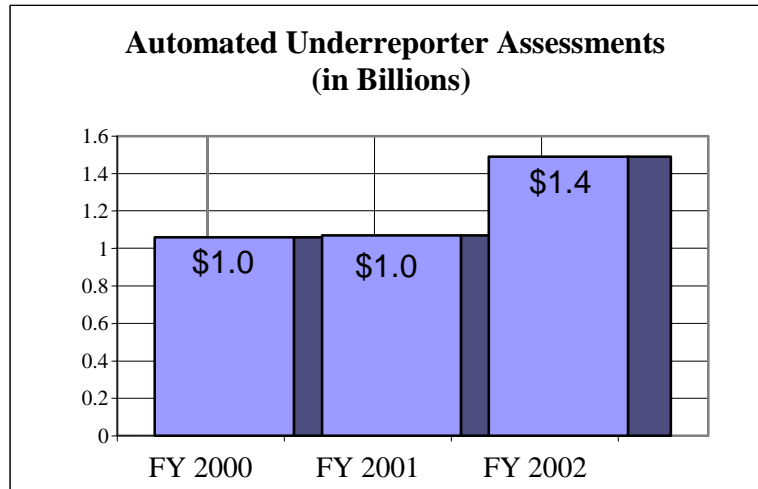
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The following charts show the number of closures and assessments made in each of the years.



*Source: The IRS' W&I Strategic Assessment FY 2004 and the IRS' AUR Closures by Disposition Report, dated February 27, 2003.*



*Source: The IRS' Business Performance Review W&I Operating Division, dated January 2002 and January 2003.*

When taxpayers file returns and various third parties report to the IRS, the IRS begins its matching process, called the Document Matching and Inventory Creation process. The Document Matching process takes place twice annually. The first match is performed at the Martinsburg Computing

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Center<sup>5</sup> (MCC) and typically occurs between July and September of each year. The second match includes extension filers and occurs between January and February.

The MCC receives the information returns and builds the information return file. It then creates an inventory list of cases by matching taxpayer return data with the information return file and provides the inventory to each AUR site.

The information return file is matched with tax returns to verify that all income and deductions are reported accurately. An underreporter case results when computer analysis detects a discrepancy between the two data sources. Cases with discrepancies are categorized into 57 types (wages, nonemployee compensation, dividend, interest income, mortgage interest, etc.) and 7 potential tax changes ranging from \$150 to above \$5,000. These categories provide a system of criteria used to select cases from the available inventory.<sup>6</sup> After cases are selected from the inventory, they are worked at the three W&I Division AUR sites.

Tax examiners at the AUR sites perform in-depth analyses on all cases. After first analyzing the tax returns, the tax examiners are sometimes able to determine that income was properly reported on the tax returns. In some cases, the examiners find that the income was reported on the wrong line on the tax return or that the taxpayer provided a note on the return that explained the discrepancies. No further action is taken on these cases, which are referred to as “screened-out” cases.

In the remaining cases, the tax examiners contact taxpayers by mail for information concerning their returns and the missing income or inaccurate deductions. If the tax examiners determine income or deductions are correct based on information provided by the taxpayers, the tax examiners close the cases with no changes to the taxpayers’ accounts.

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<sup>5</sup> IRS Computing Centers support tax processing and information management through a data processing and telecommunications infrastructure.

<sup>6</sup> For a case to be included in an income category, 80 percent of the potential underreporter income must be from that income type.

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These cases are referred to as “no-change” cases. However, if the examiners determine the income or deductions are not correct and the taxpayers agree, the IRS will assess additional tax. If the taxpayers do not agree or do not respond to requests for information within the required time period, the IRS issues a Statutory Notice of Deficiency<sup>7</sup> (Letter 3219) and the taxes are assessed. This process is not considered an audit or examination of a tax return.

We performed audit testing and interviewed staff in the Atlanta and Fresno Compliance Sites, as well as the W&I Division Headquarters Office and the Corporate Planning and Development Unit in Washington, D.C., between November 2002 and May 2003. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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### **The Automated Underreporter Program’s Annual Strategic Planning Process Has Established Annual Goals and Performance Levels**

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The W&I Division’s Compliance function has a comprehensive strategic planning process to help ensure it manages resources and meets its annual goals and performance levels. The process includes the AUR Program and is rolled into the W&I Division’s Strategy and Program Plan. In addition, the AUR Program’s mission to reduce taxpayer burden and improve voluntary compliance supports the IRS and the W&I Division missions and is incorporated throughout its strategic planning process.

As part of the W&I Division’s Strategy and Program Plan, Compliance management establishes major initiatives for the AUR Program. These initiatives have appropriately included risk-based strategies to gain knowledge regarding taxpayer behavior and to consider new ways to approach inventory selection and identify educational opportunities. Initiatives and studies have included:

- Identifying cases where taxpayers repeatedly failed to report income or deductions correctly and where taxpayers have had their identities stolen.

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<sup>7</sup> This is the final notice the IRS issues to taxpayers before it assesses additional tax when taxpayers either do not agree or do not respond.



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- Developing and piloting a centralized workload selection tool to ensure taxpayers receive fair and equitable treatment. The Program analyzes the rotation of the case selection criteria each year to ensure taxpayers receive fair and equitable treatment, increase return on investment, improve voluntary compliance, and educate taxpayers.
- Working with the W&I Division's Research Office to identify why cases in one income category were unproductive with little potential for assessments.

To help ensure their strategic planning process is successful, Compliance management includes the AUR site staffs in their planning efforts. For example, management meets with appropriate senior AUR site employees to share the Program's mission and goals and to obtain their input into the strategic planning process. Management discusses information unique to each site and what factors might influence the successful performance of each site.

W&I Division Compliance management provides their overall performance expectations based on planned resource allocation and also provides training on the goals and objectives so the site managers can communicate this to their employees.

W&I Division AUR Program management also has collaborated and coordinated with SB/SE Division AUR Program management to identify goals to address customer and employee satisfaction issues. The vision of the collaboration is driven by IRS modernization, customer service, business performance, and employee satisfaction.

These efforts should help ensure that the AUR Program's strategic planning process addresses customer and employee needs. In addition, W&I Division Compliance management's focus on improving the overall operations of the Program will help them to prioritize their limited resources.

The mission of the AUR Program is to reduce taxpayer burden and increase voluntary compliance by providing policy and guidelines for the three W&I Division AUR sites. Although W&I Division Compliance management

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### **Long-Term Performance Goals and Measures Are Needed**

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has an annual strategic planning process that establishes short-term goals, the IRS cannot determine if these or any future actions will have an effect on reducing taxpayer burden or improving voluntary compliance. It has not established long-term outcome goals and measures that reflect the outcome of the AUR Program. Knowing the effect of the AUR Program on voluntary compliance will help assure the Congress of the value the Program provides with the resources allocated.

Compliance management has established short-term performance measures that gauge the Program's activities and productivity. For example:

- To monitor activity and production, AUR Program management quantifies the total dollar amount of AUR assessments and counts such things as the number of notices issued, cases opened, and cases closed. Management tracks and ages taxpayer correspondence and the number of AUR calls received and answered and also captures employee and customer satisfaction using survey results.
- To select cases for the upcoming fiscal year, AUR Program management captures the results of cases worked by category, quantifying the assessment rate,<sup>8</sup> screen-out rate, and no-change rate.

These are valid indicators or measures to help management determine whether resources are used properly or to gauge the activity or productivity (the output) of the Program. They are also appropriate measures to aid in the selection of cases and to set short-term goals for the Program. However, these indicators do not measure the outcome of the Program; i.e., the results of the IRS' efforts to reduce taxpayer burden or improve voluntary compliance.

Federal Government agencies are expected to identify high-quality outcome measures and accurately monitor performance of programs. The Government Performance

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<sup>8</sup> The assessment rate is determined by dividing the number of cases with adjustments to taxes by subcategory or category by the total number of closed cases in each income category or subcategory.

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and Results Act of 1993 (GPRA)<sup>9</sup> and related Office of Management and Budget circulars require Federal agencies, as part of the strategic planning process, to develop general goals and objectives (including outcome-related goals and objectives) for the major functions and operations of the agency. The agencies must develop goals and objectives that define the level of performance to be achieved by a program activity. Those goals should be quantifiable and measurable unless authorized to be in an alternative form.

The AUR Program's budget for FY 2003 is \$32 million. Yet the IRS has not established long-term goals or measures to gauge the success of the Program. Not having long-term goals and measures impairs the ability of IRS management and the Congress to make informed decisions related to the W&I Division's AUR Program.

In addition, the IRS will not be able to meet goals of *The President's Management Agenda, Fiscal Year 2002*<sup>10</sup> for improving budget and performance integration. *The President's Management Agenda* is a strategy for improving the management and performance of the Federal Government. The Agenda contains five Government-wide and nine agency-specific goals to improve Federal management and deliver results that matter to the American people. It stresses the need to provide a greater focus on performance management. In addition, "...agencies will be expected to identify high quality outcome measures, accurately monitor the performance of programs, and begin integrating this presentation with associated cost."

The W&I Division Compliance function recognizes the need to develop better performance measures for the AUR Program. In the past, it has focused on annual goals and measures but is currently working toward developing long-term goals and measures through a Concept of Operations. This draft Concept includes efficiency goals, such as identifying delivery mechanisms to get cases to

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<sup>9</sup> Government Performance and Results Act of 1993, Pub. L. No. 103-62, 107 Stat. 285 (codified as amended in scattered sections of 5 U.S.C., 31 U.S.C., and 39 U.S.C.).

<sup>10</sup> Executive Office of the President, Office of Management and Budget, *The President's Management Agenda, Fiscal Year 2002*.

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employees' integrated desktop computers in the most efficient manner and handling compliance issues systemically, without human interaction. The draft Concept also includes outcome-focused, long-term goals, such as improving the identification of noncompliant taxpayers and increasing the percentage of taxpayers in full compliance.

### **Recommendations**

The Commissioner, W&I Division, should:

1. Finalize the long-term goals and related measures currently being developed for the AUR Program to reflect the Program's anticipated outcomes over time.

Management's Response: IRS management plans to finalize the long-term goals and related measures contained in the draft Concept of Operations for the AUR Program.

2. Establish a consistent method to measure progress toward the AUR Program's long-term goals. The method should include a periodic assessment of the Program's progress towards achieving its goals.

Management's Response: IRS management plans to establish a consistent method to measure progress toward long-term goals of the AUR Program.

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### **Data Are Not Currently Available to Establish Baselines for Long-Term Goals and Measures**

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To establish long-term goals and measures, W&I Division Compliance management needs meaningful outcome data from which to establish baselines to measure the AUR Program's progress toward reducing taxpayer burden or improving voluntary compliance. Currently, the management information system reports focus on measuring outputs and managing case inventory. The reports do not measure the Program's progress in meeting its long-term outcomes.

W&I Division Compliance management uses four reports to oversee and monitor the AUR selection process. These reports help management determine which categories of cases to review based on the results of closed cases. The reports provide the:

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- (1) Results of cases that are screened out, where no change is made to taxpayers' accounts, and where the IRS assessed additional tax or reduced the tax on the original returns.
- (2) Staff hours allocated for the AUR sites to open and close cases during the fiscal year.
- (3) Available inventory of cases identified by the document matching process at the MCC.
- (4) Yield rate,<sup>11</sup> assessment rate, no-change rate, and screen-out rate for the 57 categories and 7 subcategories based on a 5-year average of closed cases.

In addition, Compliance management has a report to monitor the output and activity of the AUR sites; e.g., how many cases were opened or closed or how many dollars were assessed. However, the reports do not capture the data needed to determine the cause of the discrepancies or taxpayer noncompliance; i.e., why the taxpayer failed to correctly report income and deductions.

In the draft Concept of Operations, two AUR Program goals are to increase the percentage of taxpayers in full compliance and handle a greater percentage of compliance issues systemically, without human intervention.

Management cannot measure or monitor these potential long-term goals using only the information available in the current reports.

### **The AUR Program does not have sufficient information to show what actions resolved the cases**

The AUR Program reported that, in FY 2002, it closed approximately 1.56 million cases. Of the 1.56 million closed cases, about 30 percent (462,400 cases) were screened out based on information provided on the return. The remaining 70 percent of the cases were reported with the following results:

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<sup>11</sup> The yield rate is the net result of assessment amounts and refund amounts. Refund amounts are given equal value when determining productivity of the work. This dollar amount is then divided by the number of cases worked in each subcategory or category to get the yield rate or assessment per case worked.

## **More Information Is Needed to Determine the Effect of the Automated Underreporter Program on Improving Voluntary Compliance**

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- Forty-seven percent (516,900 cases) had taxpayer agreement to the additional assessments.
- Thirty-one percent (343,500 cases) had additional assessments, but the taxpayers did not adequately respond to IRS communications and the IRS issued a Statutory Notice of Deficiency.
- Eighteen percent (194,400 cases) had no changes.
- Three percent (28,700 cases) were closed during screening with additional assessments.
- One percent (12,000 cases) was closed with various other results.

The reports do not capture data on why the mismatches in the cases occurred so that the IRS could determine how it might reduce or eliminate future unnecessary discrepancies. The AUR Program needs data that will explain what caused the discrepancies and how they were resolved. For example, new closing codes could show that the case was screened out or closed because an IRS document was missing from the case file, the taxpayer provided additional information that was not provided on the return, or the taxpayer misinterpreted the tax law and claimed an erroneous credit or deduction. Knowing this information could help Compliance function management identify what IRS processing or systemic change might eliminate or reduce future discrepancies or identify opportunities to educate taxpayers on how to avoid discrepancies and report income and deductions correctly.

When establishing long-term goals and measures, management needs timely and complete information to monitor and improve their results. The reports that W&I Division Compliance function management uses help them determine which categories of cases to select for review based on the results of the closed cases. However, these reports alone will not enable management to establish long-term goals and measures for the AUR Program.

## More Information Is Needed to Determine the Effect of the Automated Underreporter Program on Improving Voluntary Compliance

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### **The AUR Program does not identify costs associated with working cases by category**

Currently, the AUR Program captures the yield from cases by category but cannot identify the costs associated with working cases in each category. AUR Program management uses its inventory selection tool to calculate the yield rate, assessment rate, no-change rate, and screen-out rate for the categories and subcategories based on a 5-year average of closed cases. This allows Compliance function management to forecast results based on the cases that have been selected for review in the AUR Program.

For FY 2003, Compliance management used the inventory selection tool to identify the cases that might yield the most additional tax assessments. They then selected cases from most of the remaining W&I categories to ensure equal and fair coverage to all taxpayers.

However, management cannot use the tool to determine the expected costs associated with working cases in each category. Management does not know if it costs more to work some cases than others or if costs to work those cases might exceed the expected yield. We believe that costs should be one of the factors taken into consideration when selecting cases to work.

W&I Division Compliance function management estimates they have resources to examine only 20 percent of all mismatches.<sup>12</sup> Without sufficient performance data relating to key program goals, Compliance function management will not be able to effectively adjust AUR Program priorities, make resource reallocations, or take other appropriate management actions.

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<sup>12</sup> Booz-Allen & Hamilton, *Preliminary Exam Strategy and Recommendations: Wage & Investment Operating Division Compliance Exam Strategy*, January 17, 2001.

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**Recommendation**

The Commissioner, W&I Division, should:

3. Improve the AUR Program's current management information systems to capture data sufficient to establish baselines and long-term measures and goals.

Management's Response: IRS management plans to partner with the Modernization and Information Technology Services organization to develop a comprehensive management information system that identifies outcome measures and accurately monitors the performance of the AUR Program.



### **Detailed Objective, Scope, and Methodology**

The overall objective of this review was to determine whether the Wage and Investment (W&I) Division's Automated Underreporter (AUR) Program is effectively selecting the most productive cases with the greatest impact on voluntary compliance. Specifically, we determined whether the purpose, strategies and plans, and management policies of the AUR Program are effectively designed to ensure the Program selects the most productive cases to meet the Internal Revenue Service's (IRS) goal of improving voluntary compliance. We performed the following tests:

- I. Determined whether the mission of the AUR Program is aligned with the missions of the W&I Division and the IRS to improve voluntary compliance by researching the Division and IRS web sites and interviewing W&I Division Compliance function and AUR Program management.
- II. Determined whether the AUR Program has an adequate strategic planning process to assess whether the IRS has set valid annual and long-term goals for the Program and ensured that the goals are incorporated in the case selection process. We interviewed:
  - A. Appropriate officials responsible for managing the AUR Program and preparing the Program's strategy, goals, and measures and conducted interviews to determine the planning process and methodology.
  - B. W&I Division Compliance function and AUR Program management to determine if the AUR Program: (1) has specific long-term goals that focus on outcomes and reflect the purpose of the Program, (2) has annual performance goals that demonstrate progress toward achieving the long-term goals, and (3) collaborates and coordinates with related programs that share similar goals and objectives.
- III. Determined whether W&I Division Compliance function and AUR Program management have sufficient data from which to monitor and control the AUR Program to ensure it meets its goals and strategies. We interviewed Compliance function and AUR Program management to determine how the Program was monitored and to identify which reports are available for management oversight and monitoring of the Program's case selection process and how the reports are used in selecting cases for review.
- IV. Determined the projected expenditures for the IRS to administer the Program for Fiscal Year 2003 by obtaining budget information from W&I Division strategy and planning documents.

**More Information Is Needed to Determine the Effect of the  
Automated Underreporter Program on Improving Voluntary Compliance**

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**Appendix II**

**Major Contributors to This Report**

Michael R. Phillips, Assistant Inspector General for Audit (Wage and Investment Income Programs)

Augusta R. Cook, Director

Paula W. Johnson, Audit Manager

Linda Bryant, Senior Auditor

Gwendolyn Green, Auditor

Sylvia Sloan-Copeland, Auditor

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Automated Underreporter Program on Improving Voluntary Compliance**

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**Appendix III**

**Report Distribution List**

Commissioner N:C  
Deputy Commissioner for Services and Enforcement N:SE  
Commissioner, Small Business/Self-Employed Division S  
Acting Deputy Commissioner, Small Business/Self-Employed Division S  
Deputy Commissioner, Wage and Investment Division W  
Director, Compliance, Wage and Investment Division W:CP  
Director, Strategy and Finance, Wage and Investment Division W:S  
Director, Reporting Compliance, Wage and Investment Division W:CP:RC  
Chief Counsel CC  
National Taxpayer Advocate TA  
Director, Office of Legislative Affairs CL:LA  
Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O  
Office of Management Controls N:CFO:AR:M  
Audit Liaison:  
    Chief, Customer Liaison S:COM  
    GAO/TIGTA Liaison, Wage and Investment Division W:S:PA

## **More Information Is Needed to Determine the Effect of the Automated Underreporter Program on Improving Voluntary Compliance**

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### **Appendix IV**

#### **Outcome Measures**

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to the Congress.

##### Type and Value of Outcome Measure:

- Reliability of Information – Potential; \$32 million<sup>1</sup> for Fiscal Year (FY) 2003 (see page 5).

##### Methodology Used to Measure the Reported Benefit:

This outcome is the amount allocated by the Internal Revenue Service (IRS) for the administration of the Wage and Investment (W&I) Division's Automated Underreporter (AUR) Program. The W&I Division's AUR Program budget for FY 2003 is \$32 million.<sup>2</sup> However, the IRS cannot determine how effective the AUR Program has been in improving voluntary compliance because it has not established long-term goals and measures to reflect the outcome of the AUR Program and to measure its progress.

Reliability of Information is defined as ensuring the accuracy, validity, relevance, and integrity of data, including the sources of data and the applications and processing thereof, used by the organization to plan, monitor, and report on its financial and operational activities. Without long-term goals and measures, management information is not sufficient to make judgments on the planning, monitoring, and reporting of the AUR Program.

Reliability of Information is used here to demonstrate the value of our audit recommendations on tax administration and business operations. This issue is of interest to the IRS and Treasury executives, the Congress, and the taxpaying public, and is expressed in quantifiable terms to provide further insights to the value of the entity affected and potential impact of the issue.

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<sup>1</sup> *Wage & Investment Strategy and Program Plan, FY 2003–2004.*

<sup>2</sup> The \$32 million was not only allocated to selecting and working of the individual cases, but also to administer the entire AUR Program.

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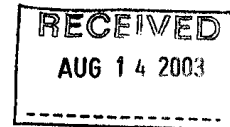
Appendix V

**Management's Response to the Draft Report**



DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

August 14, 2003



MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

Henry O. Lamar, Jr.  
Commissioner, Wage and Investment Division

SUBJECT:

Draft Audit Report: More Information is Needed to Determine  
the Effect of the Automated Underreporter Program on  
Improving Voluntary Compliance (Audit # 200340024)

I am very pleased that you acknowledged our comprehensive strategic planning process, which helps ensure we manage our resources and meet our annual goals and performance levels for the Automated Underreporter (AUR) Program. The purpose of the AUR program is to address non-compliance by matching taxpayer income and deduction information submitted by third parties to amounts reported on individual income tax returns and to attempt to touch as many categories or segments of non-compliant taxpayers as resources allow. This program supports the IRS and Wage and Investment (W&I) Division missions, and the balanced approach to compliance that is incorporated throughout the W&I Strategy and Program Plan.

Developing long-term goals and measures for the AUR program is of utmost importance to W&I, and we are including them in our Concept of Operations (CONOPS), which is currently under development. Our recent priorities have included developing risk-based strategies to gain knowledge of taxpayer behavior and to determine new ways to approach inventory selection. We have developed a centralized workload selection tool to encompass all income categories to ensure taxpayers receive fair and equitable treatment. We are partnering with Stakeholder Partnerships, Education & Communication (SPEC) to address educational opportunities for our repeat taxpayer cases, and with W&I Research to identify why certain income categories are historically non-productive. To ensure that strategic planning is successful, we are involving W&I campuses in strategic planning, defining performance expectations based on site-specific needs, and providing appropriate training on W&I goals and objectives.

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We concur with your outcome measures. Attached is a detailed response outlining corrective actions that we will take to address your recommendations.

If you have any questions, please contact Jim Grimes, Director, Reporting Compliance at (404) 338-7643.

Attachment

## **More Information Is Needed to Determine the Effect of the Automated Underreporter Program on Improving Voluntary Compliance**

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Attachment

### **RECOMMENDATION #1**

The Commissioner, W&I Division should finalize the long-term goals and related measures currently being developed for the Automated Underreporter Program to reflect the Program's anticipated outcomes over time.

### **CORRECTIVE ACTIONS**

We will finalize the long-term goals and related measures contained in the draft Concept of Operations (CONOPS) for the Automated Underreporter Program. We believe that the development of the CONOPS will enhance our ability to determine long-term goals and the related measures.

### **IMPLEMENTATION DATE**

June 30, 2004

### **RESPONSIBLE OFFICIAL**

Director, Reporting Compliance, Wage and Investment Division

### **CORRECTIVE ACTION MONITORING PLAN**

Implementation of these corrective actions will be monitored through our internal control system and managerial oversight. Delays in implementation will be reported to appropriate executives.

### **RECOMMENDATION #2**

The Commissioner, W&I Division, should establish a consistent method to measure progress toward the AUR Program's long-term goals. The method should include a periodic assessment of the Program's progress towards achieving its goals.

### **CORRECTIVE ACTIONS**

We concur with the recommendation and will establish a consistent method to measure progress toward long-term goals of the Automated Underreporter Program. We are conducting a study to determine the most non-compliant taxpayer population that will produce the highest yield.

### **IMPLEMENTATION DATE**

June 30, 2004

### **RESPONSIBLE OFFICIAL**

Director, Reporting Compliance, Wage and Investment Division

### **CORRECTIVE ACTION MONITORING PLAN**

Implementation of these corrective actions will be monitored through our internal control system and managerial oversight. Delays in implementation will be reported to appropriate executives.

**More Information Is Needed to Determine the Effect of the  
Automated Underreporter Program on Improving Voluntary Compliance**

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**RECOMMENDATION #3**

The Commissioner, W&I Division, should improve the AUR Program's current management information systems to capture data sufficient to establish baselines and long-term measures and goals.

**CORRECTIVE ACTIONS**

We will partner with the MITS Organization to develop a comprehensive Management Information System that identifies outcome measures and accurately monitors the performance of the AUR Program.

**IMPLEMENTATION DATE**

June 30, 2006

**RESPONSIBLE OFFICIAL**

Director, Reporting Compliance, Wage and Investment Division

**CORRECTIVE ACTION MONITORING PLAN**

Implementation of these corrective actions will be monitored through our internal control system and managerial oversight. Delays in implementation will be reported to appropriate executives.