

**Letter Report: The Internal Revenue Service
Processed Corporation Income Tax Returns
Accurately After Year 2000 Changes
Were Made**

July 2000

Reference Number 2000-30-107

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

July 21, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in cursive script that reads "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Letter Report – The Internal Revenue Service Processed
Corporation Income Tax Returns Accurately After Year 2000
Changes Were Made

This report presents the results of our review of the processing of U.S. Corporation Income Tax Returns. The audit objective was to evaluate the impact of any Year 2000 (Y2K) programming changes on the accuracy of information processed and posted to corporate accounts.

In summary, the IRS processed corporation income tax returns accurately with the correct century dates in the year 2000. Century dates were accurately recorded on the IRS' file of business accounts. Notices sent to corporate taxpayers also had accurate century date information for issuance dates, due dates, and dates shown in penalty and interest explanations.

IRS management agreed with the conclusions outlined in this report. Management's comments have been incorporated into the report where appropriate, and the full text of their comments is included as an appendix.

Copies of this report are also being sent to the appropriate IRS managers. Please contact me at (202) 622-6510 if you have questions, or your staff may call Gordon C. Milbourn III, Associate Inspector General for Audit (Small Business and Corporate Programs), at (202) 622-3837.

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Objective and Scope

The overall objective was to evaluate the impact of any Y2K programming changes on the accuracy of information in corporate accounts.

The overall objective of this audit was to evaluate the impact of any Year 2000 (Y2K) programming changes on the accuracy of information processed and posted to corporate accounts.

To accomplish the objective, we:

- Reviewed notices sent to corporate taxpayers to determine if century dates and tax periods were recorded accurately.
- Reviewed U.S. Corporation Income Tax Returns (Form 1120) processed by two Internal Revenue Service (IRS) Submission Processing Centers to verify the accuracy of information posted to the corporate accounts.
- Analyzed nationwide volumes of corporate transactions, notices sent to corporate taxpayers, and dollar differences between what corporations claimed as balances due or refunds and what the IRS computed to identify problem trends relating to the accuracy of information posted to taxpayers' accounts.

We conducted the audit work at the National Office and the Brookhaven IRS Center from January through March 2000. This audit was performed in accordance with *Government Auditing Standards*.

Major contributors to this report are listed in Appendix I. Appendix II contains the Report Distribution List.

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Background

The IRS collected approximately \$213 billion in corporate income taxes in FY 1998. During the same period, taxpayers filed 5.3 million corporate tax returns.

The IRS collected approximately \$213 billion in corporate income taxes in Fiscal Year (FY) 1998. Taxpayers filed 5.3 million corporate returns during that period.

At a January 27, 2000, Congressional hearing, IRS Commissioner Charles Rossotti stated that, "Some risks remain, and we must remain vigilant to Y2K problems beyond January 1, 2000." He further stated that, "We must safeguard against problems during the high-volume tax-filing season from February through April, the most crucial period for Y2K issues at the IRS."

The Y2K problem stemmed from the use in many computer systems of 2-digit dates for the century date, i.e., the use of "00" instead of "2000." Without programming corrections, computers were deemed to be significantly at risk of misinterpreting "00" and malfunctioning.

Other Treasury Inspector General for Tax Administration audits covering Y2K changes include a review of the IRS' Y2K end-to-end systems integration testing¹ and a review of the readiness of the IRS' computer programs for the 2000 Filing Season.²

¹ *The Internal Revenue Service Needs to Assure That All Mission Critical Systems Are Subject to a Full Year 2000 End-to-End Systems Integration Test* (Reference Number 2000-20-052, dated March 2000).

² *The Internal Revenue Service's Process for Controlling Filing Season Computer Programming Changes Does Not Ensure Critical Changes Are Effectively Implemented* (Reference Number 2000-40-069, dated May 2000).

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Results

The IRS accurately recorded and posted century date information to taxpayer accounts during the initial processing of corporate returns in the year 2000.

The IRS ensured that Forms 1120 were processed accurately, with the correct century dates, during the first 3 months of the 2000 Filing Season.

Specifically, we found that:

- The IRS sent corporations notices with accurate century dates.
- The IRS accurately recorded the century dates for taxpayer transactions on its master file of business accounts.
- There were no significant trends to indicate systemic problems with century dates.

The Internal Revenue Service Sent Corporations Notices with Accurate Century Dates

The IRS accurately recorded century date information on computer-generated notices sent to corporate taxpayers.

The IRS accurately recorded century date information on computer-generated notices sent to corporate taxpayers.

Our review of selected notices involving Forms 1120 processed during a 3-week period showed that the century dates were accurately reflected for the following:

- Tax periods.
- Issuance dates.
- Due dates.
- Payment dates.
- Dates in explanations of interest and penalties.

There were no indications of any systemic problems regarding the accuracy of Y2K century dates on notices sent to corporate taxpayers.

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The Internal Revenue Service Accurately Recorded the Century Dates for Taxpayer Transactions on Its Master File of Business Accounts

The IRS accurately recorded key dates for corporate taxpayers on its file of business accounts.

The IRS accurately recorded the century dates for tax periods, transaction dates, account posting dates, collection and assessment statutory expiration dates, return and remittance received dates, and assessment dates on its master file of business accounts.

Our computer analyses further verified that the julian date and the transaction date for the extra day in the leap year were programmed and correctly used in the processing of Forms 1120.

There Were No Significant Trends to Indicate Systemic Problems with Century Dates

Trend analyses conducted on data produced during the initial weeks of the 2000 Filing Season further showed that century dates and taxpayer information for Forms 1120 were recorded accurately.

During our nationwide analyses of the volumes of notices issued to corporate taxpayers and transactions that could not post to the IRS' corporate accounts, we found no significant trends to indicate systemic problems with century dates.

We also did not identify any significant trends to indicate that taxpayer information was inaccurately posted to taxpayers' accounts. A nationwide analysis of settlement differences between what taxpayers claimed and what the IRS computed on Forms 1120 showed that, in the first 9 weeks of the 2000 Filing Season, less than 1 percent of the returns filed had differences between what the taxpayer showed on the return and what the IRS computed.

Conclusion

The IRS ensured that century dates on notices sent to corporate taxpayers were accurate in the year 2000. The IRS also accurately recorded century dates and taxpayer

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information in corporate accounts during the processing of Forms 1120 in the year 2000.

Management's Response: IRS management agreed with the conclusions outlined in this report. Management's complete response to the draft report is included as Appendix III.

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Appendix I

Major Contributors to This Report

Gordon C. Milbourn III, Associate Inspector General for Audit (Small Business and Corporate Programs)

Richard J. Dagliolo, Director

Robert K. Irish, Audit Manager

Michael D. Luongo, Senior Auditor

Philip Peyser, Senior Auditor

Margaret F. Filippelli, Auditor

Stephen Wybaillie, Auditor

Joseph C. Butler, Computer Specialist

Kevin T. O’Gallagher, Computer Specialist

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Appendix II

Report Distribution List

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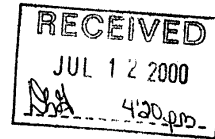
Appendix III

Management's Response to the Draft Report



COMMISSIONER

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



July 11, 2000

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR AUDIT

FROM: *for* Charles O. Rossotti *CDLulenzee*
Commissioner of Internal Revenue

SUBJECT: Office of Treasury Inspector General for Tax Administration (TIGTA) Draft Letter Report – The Internal Revenue Service (IRS) Processed Corporation Income Tax Returns Accurately After Year 2000 Changes Were Made (Reference No. 199930115)

Thank you for the opportunity to respond to your draft letter report about the Year 2000 changes to Corporation Income Tax Returns. We are pleased you were able to verify the success of our efforts to implement Year 2000 changes to our corporate processing systems. The success of the transition to the new century date is attributable to the effective partnerships between our business and information systems organizations.

The report states IRS notices and computer records had accurate century dates and there were no significant trends to indicate systemic problems with century dates. Properly recording the various dates is an important part of tax return processing. An inaccurate date can result in erroneous penalties and interest or incorrectly computed statute periods. We are glad our extensive efforts to ensure accurate century date changes protected our corporate taxpayers from such errors.

If you have any questions regarding this response, please contact Sheldon D. Schwartz, Acting Assistant Commissioner (Forms and Submission Processing), at (202) 622-2875.