



Treasury Inspector General for Tax Administration Office of Audit

MOST AUTOMATED UNDERREPORTER PROGRAM NOTICES ARE CORRECT; HOWEVER, ADDITIONAL OVERSIGHT IS NEEDED

Issued on September 25, 2008

Highlights

Highlights of Report Number: 2008-40-180 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The Automated Underreporter (AUR) Program is an important component of the Internal Revenue Service's (IRS) efforts to ensure voluntary taxpayer reporting compliance. This Program uses third-party payer information (such as that from banks and brokers) to determine whether taxpayers have reported all of their income. Notices are sent notifying taxpayers of additional tax on any unreported income. While most AUR Program notices were correct, some taxpayers were negatively affected by inaccurate information on the notices. TIGTA believes these taxpayers agreed to inaccurate assessments as a result of the confusion caused by the complexity of the notices.

WHY TIGTA DID THE AUDIT

The IRS Oversight Board raised concerns about taxpayers receiving AUR Program notices with inaccurate information. This audit was initiated to determine whether the information provided to taxpayers in notices issued by the Wage and Investment Division AUR Program are complete and accurate. The IRS estimates that for Fiscal Year 2007, 91.8 percent of the AUR Program notices issued to taxpayers were accurate.

WHAT TIGTA FOUND

TIGTA's analysis of a statistically valid random attribute sample of Computer Paragraph (CP) 2000 notices sent by the Wage and Investment Division to 138 taxpayers in Fiscal Year 2007 found that 7 (5.1 percent) taxpayers were sent inaccurate information on CP 2000 notices. The errors in the sample cases resulted in taxpayers being both overassessed \$18,968 and underassessed \$1,146 in tax. If the numbers of AUR Program notices issued by the Wage and Investment Division remain constant over the next 5 years, TIGTA estimates that 243,345 taxpayers might be overassessed tax and

97,340 taxpayers might be underassessed tax based on erroneous information in the CP 2000 notices.

During our discussions with the IRS, AUR campus site management stated that these problems resulted from employee mistakes. However, TIGTA believes that the complexity of the CP 2000 notices might also be a contributing factor. In fact, during Fiscal Year 2007, customer satisfaction surveys for the Wage and Investment Division AUR Program indicated that, depending on the survey quarter, 24 percent to 32 percent of the taxpayers stated that their primary reason for calling the IRS was to have someone explain the CP 2000 notice to them. The complexity of the CP 2000 notice could be why some taxpayers do not question the information provided on the notice even when that information is incorrect.

In addition, some of the Wage and Investment Division AUR campus site managers did not always comply with the requirement to submit a corrective action plan when the weekly notice quality review error rate exceeded 10 percent. During the first 7 months of Fiscal Year 2008, there were 12 occasions when the campus sites should have submitted corrective action plans to the Program Office because their weekly notice error rates exceeded 10 percent. However, the sites submitted only 5 (41.7 percent) corrective action plans, and only 3 (25 percent) of these corrective plans were submitted within the 2-day requirement.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Director, Compliance, Wage and Investment Division, 1) ensure that AUR Program management incorporates additional information on notice review procedures and quality service expectations into its refresher training for Program employees, 2) coordinate with the Small Business/Self-Employed Division to simplify the CP 2000 notices issued by the AUR Program, and 3) ensure that AUR Program management monitors campus site compliance with requirements to submit and implement corrective action plans when notice review error rates exceed 10 percent.

In their response to the report, IRS officials agreed with our recommendations and plan to take appropriate corrective actions.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2008reports/200840180fr.pdf>

Email Address: inquiries@tigta.treas.gov
Web Site: <http://www.tigta.gov>

Phone Number: 202-622-6500