
TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



*Most Automated Underreporter Program
Notices Are Correct; However, Additional
Oversight Is Needed*

September 25, 2008

Reference Number: 2008-40-180

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.

Redaction Legend:

1 = Tax Return/Return Information

Phone Number | 202-622-6500
Email Address | inquiries@tigta.treas.gov
Web Campus | <http://www.tigta.gov>



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

September 25, 2008

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: *Michael R. Phillips*
Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Most Automated Underreporter Program Notices
Are Correct; However, Additional Oversight Is Needed
(Audit # 200840003)

This report presents the results of our review to determine whether the information provided to taxpayers in notices issued by the Wage and Investment Division Automated Underreporter Program (hereafter referred to as the AUR Program or the Program) are complete and accurate. This audit was conducted as part of our Fiscal Year (FY) 2008 Annual Audit Plan and addresses the Taxpayer Protection and Rights management challenge.

Impact on the Taxpayer

The 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 advising 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. We believe these taxpayers agreed to inaccurate assessments as a result of the confusion caused by the complexity of the notices.

Synopsis

The Computer Paragraph (CP) 2000 notice is the primary notice that the IRS issues to taxpayers as a result of underreporting discrepancies. During FY 2007, the Wage and Investment Division AUR Program closed approximately 1.3 million cases after sending notices to taxpayers for underreporting discrepancies identified on their Tax Year 2005 returns.



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

To evaluate whether the notices are accurate, we selected and analyzed a statistically valid random attribute sample of AUR Program notices sent to 138 taxpayers by the Wage and Investment Division in FY 2007 and found that 7 (5.1 percent) taxpayers were sent inaccurate information on CP 2000 notices. In our sample, employee errors on CP 2000 notices resulted in taxpayers being both overassessed \$18,968 and underassessed \$1,146 in tax. Based on our analysis, we estimate that in FY 2007, 48,669 taxpayers received CP 2000 notices with inaccurate information that might have resulted in overassessments of tax. We also estimate that an additional 19,468 taxpayers might have been erroneously underassessed tax as a result of CP 2000 notices with inaccurate information. If the numbers of AUR Program notices issued by the Wage and Investment Division remain constant over the next 5 years, we estimate 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 campus¹ site management stated that these problems resulted from employee mistakes. However, we believe that the complexity of the CP 2000 notices might also be a contributing factor. In fact, during FY 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, although required by the Internal Revenue Manual, some of the Wage and Investment Division AUR Program 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 FY 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.²

Although the IRS has established a quality review process for identifying employee errors on notices, Wage and Investment Division AUR Program management has not ensured that campus site managers consistently take action to address notice inaccuracies. In addition, as of September 2007, 261 (28.6 percent) of the 911 employees in the Wage and Investment Division AUR campus sites had fewer than 2 years experience.

¹ 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.

² The Austin AUR campus site did not have a weekly notice error rate exceeding 10 percent during the first 7 months of FY 2008.



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

Wage and Investment Division AUR Program management stated that increased oversight of the quality program has led their sites to become more involved in establishing corrective action plans, developing error tracking reports, and resolving procedural issues with their employees. However, we believe that more action is needed. The combination of inexperienced staff and site managers who were not adequately addressing employee errors has resulted in a higher rate of inaccurate CP 2000 notices being issued to taxpayers.

Recommendations

We 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 Program, and 3) ensure that Program management monitors campus site compliance with requirements to submit and implement corrective action plans when notice review error rates exceed 10 percent.

Response

IRS management agreed with all of the report recommendations. AUR Program management is finalizing Continuing Professional Education training materials that include a lesson on quality notice review procedures and quality service expectations. This training will be provided as part of the FY 2009 mandatory training and delivered during the first quarter of FY 2009. In addition, the Wage and Investment Division will coordinate with the Small Business/Self-Employed Division, Office of Taxpayer Burden; the Notice Task Force Team; and other key stakeholders to improve the clarity, readability, and accuracy of the CP 2000 notices they issue. This process will likely span 2 or 3 years based on prior CP 2000 notice revisions and will require input via external and internal focus groups, notice design, and testing prior to full implementation.

IRS management has issued to the AUR campus sites a reminder of the Internal Revenue Manual requirement to timely develop, implement, and submit corrective action plans when notice review error rates exceed 10 percent. They will follow up on this requirement during periodic meetings with the campuses. The AUR Program management staff will create a site on the Compliance function shared drive for the 3 AUR campus sites to post weekly notice review results and action plans when the error rate exceeds 10 percent, allowing prompt notification to AUR Headquarters. The web site will be fully implemented after completion of briefing sessions with site management and quality coordinators.

While IRS management agreed with our recommendations and conclusions, they did not believe that our sample size was large enough to make reliable projections to the population. As a result,



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

the IRS disagreed with some of the outcome measures in Appendix IV of this report. We believe that our sample size was appropriate and our projections accurate. The purpose of audit sampling is to identify potential problems and to quantify their effect to the extent possible. We balance the cost of audit oversight with the fiscal expectations of Congress and the taxpaying public. While a larger sample might identify less common errors, our sample was adequate to identify and quantify the issues found with the accuracy of AUR Program CP 2000 notices that our recommendations and related outcome measures address. Management's complete response to the draft report is included as Appendix VI.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 622-5916.



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

Table of Contents

Background	Page 1
Results of Review	Page 4
In Some Instances, the Complexity of the Computer Paragraph 2000 Notices Might Have Resulted in Taxpayers Agreeing to Erroneous Tax Assessments	Page 4
<u>Recommendations 1 and 2:</u>	Page 7
Additional Program Oversight Is Needed to Reduce Automated Underreporter Program Notice Errors	Page 8
<u>Recommendation 3:</u>	Page 9
Appendices	
Appendix I – Detailed Objective, Scope, and Methodology	Page 10
Appendix II – Major Contributors to This Report	Page 11
Appendix III – Report Distribution List	Page 12
Appendix IV – Outcome Measures	Page 13
Appendix V – Example of a CP 2000 Notice	Page 16
Appendix VI – Management’s Response to the Draft Report	Page 26



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

Abbreviations

AUR	Automated Underreporter
CP	Computer Paragraph
FY	Fiscal Year
IRS	Internal Revenue Service



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

Background

The Automated Underreporter Program (hereafter referred to as AUR Program or the Program) is an important component of the Internal Revenue Service's (IRS) efforts to ensure voluntary taxpayer reporting compliance. During Fiscal Year (FY) 2007, nearly 3.5 million taxpayers were contacted by the AUR Program, resulting in more than \$5 billion in additional tax assessments.

Twice a year, the AUR Program matches taxpayer income and deductions submitted on information returns by third parties (e.g., employers, banks, brokerage firms, and other payers) against amounts reported by taxpayers on their individual income tax returns. The 2 matches identify approximately 15 million potential underreporter cases. However, due to resource constraints, the Program can work only about 4.5 million cases annually, with approximately one-half of these cases being worked in the Wage and Investment Division and the remainder in the Small Business/Self-Employed Division.

Once selected, the AUR Program cases are distributed to six campus sites¹ for processing. When the campus sites receive their inventory, tax examiners manually review each case.² After analyzing the tax returns, tax examiners are sometimes able to immediately resolve the underreporting discrepancies—no further actions are taken with these cases.

In the remaining cases, tax examiners will request additional information from taxpayers by sending a Computer Paragraph (CP) 2501 and/or a CP 2000 notice.³ Figure 1 shows how the IRS adjusts the taxpayer's income as a result of an identified underreporting issue, as well as proposes a corresponding tax assessment on the CP 2000 notice. Appendix V provides an edited example of a complete CP 2000 notice that would be issued to a taxpayer.

¹ 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. The six AUR campus sites include Atlanta, Georgia; Austin, Texas; and Fresno, California, in the Wage and Investment Division and Brookhaven, New York; Ogden, Utah; and Philadelphia, Pennsylvania, in the Small Business/Self-Employed Division.

² Tax examiners analyze more than 95 percent of the cases worked by the AUR Program. The remaining cases are systemically processed without any tax examiner review.

³ The CP 2000 notice is an IRS letter sent to a taxpayer to resolve discrepancies between income, credits, and/or deductions claimed on a tax return and those reported by a third party, as well as to propose an additional tax assessment. In some cases, a CP 2501 notice will be issued before a CP 2000 notice. The CP 2501 notice is similar to the CP 2000 notice in that it is used by the IRS to resolve discrepancies between income, credits, and/or deductions claimed on a tax return and those reported by a third party. However, the CP 2501 notice does not propose an additional tax assessment. If the taxpayer agrees with the CP 2501 notice or does not respond, the IRS will issue a CP 2000 notice.



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

Figure 1: Hypothetical Example of Information Contained in a CP 2000 Notice

3. Changes to Your Return

Note: We only show the items that have been affected by the information we received in the following chart. All other items are correct as shown on your return. Unless noted, line numbers always refer to the line number on your tax return.

Changes to Your Income and Deductions	Shown on Return	Reported to IRS or as Corrected	Difference
SECURITIES	\$ 0	\$ 23,000	\$ 23,000
	Income Net Difference		\$ 23,000
Total Change to Taxable Income			\$ 23,000

Changes to Your Tax Computation	Shown on Return	As Corrected by IRS	Difference
Taxable Income, line 43	\$ 204,000	\$ 227,000	\$ 23,000
Tax, line 44	\$ 48,000	\$ 55,500	\$ 7,500
Alternative minimum tax, line 45	\$ 4,000	\$ 3,900	\$ -100
Total Tax, line 63	\$ 52,000	\$ 59,400	\$ 7,400
	Net Tax Increase		\$ 7,400

Summary of Proposed Changes		
Amount of Tax Increase		\$ 7,400
Accuracy-Related Penalty, IRC Section 6662(a)		\$ 1,500
Interest, IRC Section 6601, From 04/02/2006 To 05/01/2007		\$ 800
Total Amount You Owe		\$ 9,700

Source: IRS-provided copy of a CP 2000 notice. We added numerical information for illustrative purposes only.

If the taxpayer provides supporting documentation and the tax examiner determines that the income, credits, and/or deductions reported on the tax return are correct, the case is closed with no changes to the taxpayer's account. However, if the examiner determines that the income, credits, and/or deductions reported on the tax return are not correct and the taxpayer agrees, the IRS will assess additional tax based on the CP 2000 notice and close the case as agreed. If the taxpayer does not agree or does not respond to the CP 2000 notice within the required time



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

period, the IRS will issue a Statutory Notice of Deficiency⁴ and assess additional tax. Figure 2 compares the number of Statutory Notices issued to the number of default assessments against taxpayers who did not respond to CP 2000 notices in FYs 2006 and 2007.

Figure 2: Comparison of Statutory Notices Issued to Default Assessments for FYs 2006 and 2007

Fiscal Year	2006	2007
Statutory Notices Issued	2,980,619	3,340,951
Default Assessments	1,752,841	2,145,715
Rate of Default Assessments	59 percent	64 percent

Source: Wage and Investment Division AUR Program Office.

The IRS estimates that for FY 2007, 91.8 percent of the AUR Program notices issued to taxpayers were accurate. However, in June 2007, the IRS Oversight Board⁵ raised concerns about taxpayers receiving AUR Program notices with inaccurate information. These issues included capital gains, dividend income, and State income tax refunds reported on individual tax returns.

This review was performed at the Wage and Investment Division AUR Program Office in Atlanta, Georgia, and the AUR campus sites in Atlanta, Georgia; Austin, Texas; and Fresno, California, during the period November 2007 through May 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

⁴ An IRS letter sent to taxpayers notifying them of an increase in the amount of taxes they owe.

⁵ The nine-member IRS Oversight Board was created by Congress under the IRS Restructuring and Reform Act of 1998 [Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.)]. The Board's responsibility is to oversee the IRS in its administration, management, conduct, direction, and supervision of the execution and application of the internal revenue laws.



***Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed***

Results of Review

In Some Instances, the Complexity of the Computer Paragraph 2000 Notices Might Have Resulted in Taxpayers Agreeing to Erroneous Tax Assessments

The CP 2000 notice is the primary notice that the IRS issues to taxpayers as a result of underreporting discrepancies. It is a complex, multipage document that compares income, credit, and/or deduction information reported to the IRS by third parties to the information provided by the taxpayer on his or her tax return. During FY 2007, the Wage and Investment Division AUR Program closed more than 1.3 million cases after sending notices to taxpayers for underreporting discrepancies identified on their Tax Year 2005 returns.

From this population, we selected and analyzed a statistically valid random attribute sample of AUR Program notices sent to 138 taxpayers and found that 7 (5.1 percent) were sent inaccurate information on CP 2000 notices in FY 2007. Figure 3 lists the types of employee errors that resulted in inaccurate information being sent to taxpayers on CP 2000 notices issued by the Wage and Investment Division.

Figure 3: Types of IRS Errors Found on CP 2000 Notices Issued by the Wage and Investment Division in FY 2007

1) Erroneously disallowed taxes withheld.
2) Ignored reported losses on the tax return.
3) Erroneously duplicated taxpayer income when making tax assessments.
4) Ignored information that was properly reported on the tax return.
5) Made a miscalculation that resulted in a lower tax assessment.
6) Did not assess tax on additional income claimed by taxpayer.

Source: Our analysis of sampled CP 2000 notices issued in FY 2007.

In our sample, employee errors on 5 CP 2000 notices issued by the Wage and Investment Division resulted in taxpayers being overassessed \$18,968 in taxes. In [REDACTED] cases, these taxpayers did not question the information provided on the CP 2000 notices even though the information was incorrect. We believe that the complexity of the CP 2000 notice may be the reason why taxpayers agreed to the inaccurate information. However, not all employee errors in our sample of notices resulted in taxpayers being overassessed tax. In some cases, employee errors resulted in taxpayers not being properly assessed all the taxes they owed. [REDACTED]



**Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed**

During our discussions with the IRS, AUR campus site management stated that these problems resulted from employee mistakes. However, we believe that the complexity of the CP 2000 notice might also be a contributing factor. Taxpayers have long complained about the complexity of the CP 2000 notice. In November 2004, the IRS revised the CP 2000 notice in an effort to reduce taxpayer confusion and improve taxpayers' understanding of why the IRS was contacting them about their underreporting discrepancies. While the IRS has provided more information in the revised CP 2000 notice, we believe that the complexity of the notice continues to be a major source of taxpayer confusion.

For example, the IRS measures taxpayer satisfaction with its various programs through periodic customer satisfaction surveys. These surveys allow taxpayers to provide feedback and rate their satisfaction level (i.e., satisfied, dissatisfied, or neither satisfied nor dissatisfied) with the customer service provided by the IRS. Even though the IRS revised the CP 2000 notice, the level of taxpayer satisfaction with the ease of understanding notices issued by the Wage and Investment Division AUR Program based on the customer satisfaction surveys has not changed significantly. In fact, depending on the survey quarter, 24 percent to 32 percent of the taxpayers responding to these surveys in FY 2007 stated that their primary reason for calling the IRS was to have someone explain the AUR Program notice to them. Figure 4 compares the level of taxpayer satisfaction with the ease of understanding the AUR Program notices for FYs 2004 through 2007.

Figure 4: Comparison of Taxpayer Satisfaction With the Ease of Understanding AUR Program Notices Issued by the Wage and Investment Division

Fiscal Year	Percentage of Taxpayers Who Are Dissatisfied	Percentage of Taxpayers Who Are Neither Satisfied Nor Dissatisfied	Percentage of Taxpayers Who Are Satisfied
2004	21%	26%	53%
2005	18%	30%	52%
2006	17%	28%	54%
2007	15%	30%	55%

Source: Wage and Investment Division AUR Customer Satisfaction Surveys for FYs 2004-2007. Due to rounding, not all percentages add to 100 percent.

Those taxpayers who replied on the Wage and Investment Division customer satisfaction surveys that they were dissatisfied with the ease of understanding the AUR Program notices were asked



***Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed***

why they responded negatively. Some taxpayers expressed confusion resulting from the complexity of the AUR Program notices.

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

Other taxpayers commented on the lack of clarity with the information contained in the AUR Program notices.

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

Therefore, 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. These taxpayers pay whatever the IRS tells them they owe.

Based on our analysis of a sample of FY 2007 AUR Program notices issued by the Wage and Investment Division, we estimate that 48,669 taxpayers received CP 2000 notices with inaccurate information that might have resulted in overassessments of tax. We also estimate that an additional 19,468 taxpayers might have been erroneously underassessed tax as a result of CP 2000 notices with inaccurate information. If the numbers of AUR Program notices issued by the Wage and Investment Division remain constant over the next 5 years, we estimate 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.



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

Recommendations

The Director, Compliance, Wage and Investment Division, should:

Recommendation 1: Ensure that Wage and Investment Division AUR Program management incorporates additional information on notice review procedures and quality service expectations into its refresher training for Program employees.

Management's Response: IRS management agreed with this recommendation. AUR Program management is finalizing Continuing Professional Education training materials that include a lesson on quality notice review procedures and quality service expectations. This training will be provided as part of the FY 2009 mandatory training and delivered during the first quarter of FY 2009.

Recommendation 2: Coordinate with the Small Business/Self-Employed Division to simplify the CP 2000 notices issued by the AUR Program.

Management's Response: IRS management agreed with this recommendation. The Wage and Investment Division will coordinate with the Small Business/Self-Employed Division, Office of Taxpayer Burden; the Notice Task Force Team; and other key stakeholders to improve the clarity, readability, and accuracy of the CP 2000 notices they issue. This process will likely span 2 or 3 years based on prior CP 2000 notice revisions and will require input via external and internal focus groups, notice design, and testing prior to full implementation.

While IRS management agreed with the above recommendations, they did not believe that our sample size was large enough to make reliable projections to the population. As a result, the IRS disagreed with the projected outcome measures in Appendix IV—Taxpayer Rights and Entitlements for 243,345 taxpayers and Increased Revenue for 97,340 taxpayers.

Office of Audit Comment: We are pleased that IRS management agreed to implement our recommendations. However, we do not agree with management's assessment that our sample size was not large enough to make projections. We believe that our sample size was appropriate and our projections accurate. The purpose of audit sampling is to identify potential problems and to quantify their effect to the extent possible. We balance the cost of audit oversight with the fiscal expectations of Congress and the taxpaying public. While a larger sample might identify less common errors, our sample was adequate to identify and quantify the issues found with the accuracy of AUR Program CP 2000 notices that our recommendations and related outcome measures address.



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

Additional Program Oversight Is Needed to Reduce Automated Underreporter Program Notice Errors

The Internal Revenue Manual⁶ requires AUR campus sites to perform a weekly quality review of a statistically valid sample of CP 2000 notices. During this quality review process, tax examiners rework the in-process cases and review the CP 2000 notices for accuracy and overall quality prior to the notices being issued. The weekly notice quality review provides campus site management with information on current trends and accuracy to enable immediate corrective actions on problems as they are identified. The results of these weekly quality reviews are to be forwarded monthly to the AUR Program Office. However, if during these weekly reviews the number of errors discovered that affect the total balance due on the notices exceeds 10 percent of the sample, then campus site managers are required to submit a corrective action plan within 2 days to the AUR Program Office.

Corrective action plans are to provide specific details on the steps that site management plans to take to correct the problems identified during the weekly notice quality reviews. For example, a corrective action plan might include having the manager provide specific feedback to the employee who made the error, having the identified error trends and their corrective actions informally discussed during team meetings, or providing more formalized training to the site based on the types and complexity of errors identified.

We determined that 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 FY 2008, there were 12 occasions when the sites should have submitted corrective action plans to the Program Office as a result of their weekly notice error rates exceeding 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.⁷

Although the IRS has established a quality review process for identifying employee errors on notices, Wage and Investment Division AUR Program management has not ensured that campus site managers consistently take action to address notice inaccuracies. In addition, as of September 2007, 261 (28.6 percent) of the 911 employees in the Wage and Investment Division AUR campus sites had less than 2 years experience.

Wage and Investment Division AUR Program management stated that increased oversight of the quality program has led their sites to become more involved in establishing corrective action plans, developing error tracking reports, and resolving procedural issues with their employees. However, we believe that more action is needed. The combination of inexperienced staff and

⁶ Internal Revenue Manual Section 4.19.3.21.

⁷ The Austin AUR campus site did not have a weekly notice error rate exceed 10 percent during the first 7 months of FY 2008.



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

campus site managers who were not adequately addressing employee errors has resulted in a higher rate of inaccurate CP 2000 notices being issued to taxpayers.

Taxpayers voluntarily file and pay taxes based on their confidence in the tax system. Our review showed that taxpayers are negatively affected by inaccurate information on CP 2000 notices. While some taxpayers will expend the time and money needed to resolve inaccurate issues raised by the IRS, others might not question the information on the notices and pay taxes that are not owed.

Recommendation

Recommendation 3: The Director, Compliance, Wage and Investment Division, should ensure that AUR Program management monitors campus site management compliance with requirements to submit and implement corrective action plans when notice review error rates exceed 10 percent.

Management's Response: IRS management agreed with this recommendation. They have issued to the AUR campus sites a reminder of the Internal Revenue Manual requirement to timely develop, implement, and submit corrective action plans when notice review error rates exceed 10 percent. They will follow up on this requirement during periodic meetings with the campuses. The AUR Program management staff will create a site on the Compliance function shared drive for the 3 AUR campus sites to post weekly notice review results and action plans when the error rate exceeds 10 percent, allowing prompt notification to AUR Headquarters. The web site will be fully implemented after completion of briefing sessions with the site management and quality coordinators.



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the information provided to taxpayers in notices issued by the Wage and Investment Division AUR Program are complete and accurate. Unless otherwise noted, our limited tests of the reliability of data obtained from the Master File¹ did not identify any errors. We validated the reliability of computer-processed data by scanning the data received for blank, incomplete, illogical, or improper data. In addition, we traced a judgmental sample of each data set to IRS source files to ensure accuracy. We did not perform any testing of internal controls over the systems that were the sources of our data due to the scope of the review. To accomplish the audit objective, we:

- I. Determined whether the Wage and Investment Division effectively monitors and measures the completeness and accuracy of AUR Program notices issued to taxpayers.
 - A. Interviewed AUR Program management and reviewed documentation that establishes Program goals for the accuracy of Program notices issued to taxpayers.
 - B. Interviewed AUR Program management and reviewed documentation that establishes Program policy and practices for notice quality.
 - C. Reviewed customer satisfaction surveys for the Wage and Investment Division AUR Program to determine whether taxpayers have expressed concerns about the ease of understanding the Program notices they received.
- II. Determined whether taxpayers are provided with complete and accurate information on AUR Program notices.
 - A. Selected a statistically valid random attribute sample of AUR Program notices sent to 138 taxpayers by the Wage and Investment Division in FY 2007 from a population of 1,343,258 taxpayers with closed Tax Year 2005 AUR Program cases. Our sample size was determined based on a 95 percent confidence level, an estimated error rate of 10 percent, and a precision of ± 5 percent. Our sampling methodology was sufficient enough to allow us to project our sample results to the population.
 - B. Analyzed the cases in our sample to determine whether the notices sent to taxpayers by the Wage and Investment Division AUR Program were complete and accurate.

¹ The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

Appendix II

Major Contributors to This Report

Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs)
Marybeth Schumann, Director
Bryce Kisler, Audit Manager
Sharon Summers, Lead Auditor
David Hartman, Senior Auditor
Kristi Larson, Senior Auditor
Alan Lund, Senior Auditor



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Deputy Commissioner, Wage and Investment Division SE:W
Director, Compliance, Wage and Investment Division SE:W:CP
Director, Strategy and Finance, Wage and Investment Division SE:W:S
Director, Reporting Compliance, Wage and Investment Division SE:W:CP:RC
Chief, Performance Improvement, Wage and Investment Division SE:W:S:PI
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Senior Operations Advisor, Wage and Investment Division SE:W:S



***Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed***

Appendix IV

Outcome Measures

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

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential: 243,345 taxpayers over a 5-year period who received from the Wage and Investment Division AUR Program CP 2000 notices¹ with inaccurate information that might have resulted in overassessments of tax (see page 4).

Methodology Used to Measure the Reported Benefit:

We computed the potential number of taxpayers who were overassessed tax based on the results of our statistically valid random attribute sample of 138 taxpayers who were issued AUR Program notices by the Wage and Investment Division in FY 2007. The sample was selected from a population of 1,343,258 taxpayers who were issued notices in FY 2007 for Tax Year 2005. Our sample size of 138 taxpayers was determined based on a 95 percent confidence level, an estimated error rate of 10 percent, and a precision of ± 5 percent. Our sample identified seven taxpayers who were sent CP 2000 notices with inaccurate information.

For five of these taxpayers, the inaccurate information on the CP 2000 notices resulted in proposed overassessments of tax. To calculate the number of taxpayers potentially affected by proposed overassessments of tax resulting from inaccurate information on the CP 2000 notices, we applied the ²

Projecting this over a 5-year period, 243,345 taxpayers could be overassessed tax as a result of inaccurate information on CP 2000 notices issued by the Wage and Investment Division AUR Program (5 years).

¹ The CP 2000 notice is an IRS letter sent to a taxpayer to resolve discrepancies between income, credits, and/or deductions claimed on a tax return and those reported by a third party, as well as to propose an additional tax assessment.

² This figure is rounded to the nearest whole number.



***Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed***

Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Actual; \$18,968 in erroneous overassessments of tax in CP 2000 notices issued to taxpayers from our sample of FY 2007 notices (see page 4).

Methodology Used to Measure the Reported Benefit:

Based on the results of our sample, we computed the actual increased taxpayer rights and entitlements if the Wage and Investment Division AUR Program had ensured that the CP 2000 notices were accurate. The sample disclosed [redacted] taxpayers who were overassessed \$18,968 in total taxes.³ We did not project the dollar amount to the population because of the variability of the dollar amounts in the sample. 1

Type and Value of Outcome Measure:

- Increased Revenue – Potential; 97,340 taxpayers over a 5-year period who received from the Wage and Investment Division AUR Program CP 2000 notices with inaccurate information that might have resulted in underassessments of tax (see page 4).

Methodology Used to Measure the Reported Benefit:

We computed the potential number of taxpayers who were underassessed taxes based on the results of our statistically valid random attribute sample of 138 taxpayers issued AUR Program notices by the Wage and Investment Division in FY 2007. The sample was selected from a population of 1,343,258 taxpayers issued notices in FY 2007 for Tax Year 2005. Our sample size of 138 taxpayers was determined based on a 95 percent confidence level, an estimated error rate of 10 percent, and a precision of ± 5 percent. Our sample identified seven taxpayers who were sent CP 2000 notices with inaccurate information.

[redacted]
[redacted] To calculate the number of taxpayers potentially affected by underassessments of tax resulting from inaccurate information on the CP 2000 notices, we applied the [redacted]

[redacted]
Projecting this over a 5-year period, 97,340 taxpayers could be underassessed tax as a result of inaccurate information on CP 2000 notices issued by the Wage and Investment Division AUR Program [redacted] 5 years).

[redacted]
[redacted]
⁴This figure is rounded to the nearest whole number.



***Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed***

Type and Value of Outcome Measure:

- Increased Revenue – Actual; \$1,146 in erroneous underassessments of tax in CP 2000 notices issued to taxpayers from our sample of FY 2007 notices (see page 4).

Methodology Used to Measure the Reported Benefit:

Based on the results of our sample, we computed the actual increase in revenue if the Wage and Investment Division AUR Program had ensured that the CP 2000 notices were accurate. The sample disclosed [REDACTED] We did not project the dollar amount to the population because of the variability of the dollar amounts in the sample.



Most Automated Underreporter Program Notices Are Correct; However, Additional Oversight Is Needed

Appendix V

Example of a CP 2000 Notice¹



Department of Treasury
Internal Revenue Service
STOP 6692 AUSC
AUSTIN, TX 73301-0021

AUR Control: 500XX-XXXX
Notice: CP2000
Notice Date: June 09, 2008

Social Security Number: XXX-XX-XXXX
Form: 1040
Tax Year: 2006

TAXPAYERS NAME
STREET ADDRESS
CITY - STATE - ZIP CODE

To call for assistance:
1-800-829-3009 (Toll Free)
1-877-477-0583 (FAX)
between 7:00 AM - 8:00 PM

You Must Return the Response Form by July 09, 2008.

1 Why are you getting this notice?

The income and payment information (e.g., income tax withheld, wages, miscellaneous income, interest, etc.) that we have on file does not match entries on your 2006 Form 1040. If this information is correct, you will owe \$584.

The proposed changes to your tax are listed below.

Table with 2 columns: Description and Amount. Rows include: 2006 Tax Increase (\$ 1,779), Payment Increase (\$ 1,244), Penalties - may not include all applicable penalties (\$ 0), Interest - if paid by July 09, 2008 (\$ 49), Proposed Balance Due (\$ 584).

2 What steps should you take?

Following these steps can help you understand this notice.

- 1. Review your 2006 tax return.
2. Compare your return to the information in the Explanation Section — page 5.
3. Decide if the information in the Explanation Section is correct.
4. Check the answers to Frequently Asked Questions — page 2.
5. Complete and return the Response Form in the enclosed envelope — page 3.
6. Complete and return the Installment Agreement Request (enclosed) if you need to set up a payment plan.
7. Review your rights in The Examination Process Booklet (enclosed).

3 What happens if you don't respond by July 09, 2008?

We will send you a final notice, followed by a bill. During this time, interest will increase and certain penalties may apply.

(SP1A)

CP2000 (Rev. 11/2004)

¹ All dates, monetary, and taxpayer identifying information contained in this example are hypothetical.



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

AUSTIN IRS CENTER

XXX-XX-XXXX
500XX-XXXX

XXXX

AO14

06/09/2008

Frequently Asked Questions

Why did it take IRS so long to contact me?

Tax years generally end on December 31, but we may not receive complete information from employers, banks, businesses, and other payers until much later.

Will I need to file amended returns (federal/state/local) if I agree with some or all of the proposed changes?

1. You do not need to file an amended federal tax return to include the proposed changes shown on this notice. We will correct this tax year when we receive your response. If you choose to file an amended tax return, write "CP2000" along the top of the 1040X, attach it behind the Response Form page and send to the address shown on this notice.
2. If the changes on this notice apply to your state tax return, file an amended state/local tax return as soon as possible. We send information about changes based on this notice to your state and local tax agencies.
3. File amended returns for any prior or subsequent tax years in which the same error occurred. You'll limit the penalty and interest you owe.

What should I do if I am currently in bankruptcy?

If you filed for bankruptcy, please complete and return the response page, including any applicable supporting documentation if you checked Option 2 or Option 3. Please be sure to also include a copy of your bankruptcy petition.

What steps do I take if I do not agree?

We need you to tell us why you do not agree and send us information to support your statement. Please refer to *The Examination Process Booklet* (enclosed) for tips about what information you should send with your response.

What if I need more time to collect my supporting documentation?

If you cannot respond by July 09, 2008, please call us at 1-800-829-3009 to request an extension. *Remember: If the tax increase is correct, then we will add interest and penalties to your bill during the extension.*

Why do I have to pay interest and penalties?

We are required by law to charge interest and penalties, if applicable, on all tax owed that is not paid in full by its due date (usually April 15). By law, interest will continue to increase until you have fully paid the tax owed and certain penalties may apply.

How can I prevent an error in the future?

1. Include all income you've received during the year on your tax return.
2. Wait to file your return until you receive all income statements to be sure your return is complete. If you do not receive an income statement in time to meet the April 15th deadline, estimate the amount of income using pay stubs, bank statements, etc.
3. Check the records (for example, W-2s, 1098s, 1099s, etc.) you receive from your employer, mortgage company, bank, or other source of income to be sure the information they're reporting is correct. (Some states pay taxable unemployment benefits, so report that as income as well.)
4. If you receive any additional information after you filed your return, you should amend your return with the corrected information as soon as possible to avoid any interest or penalties.
5. Keep accurate and complete records. Normally, keeping your records for three years is sufficient.

What if I have more questions?

If we haven't answered your question here, you can find other Frequently Asked Questions on our website, www.irs.gov, or you can call 1-800-829-4477, topic 652, for pre-recorded responses.

{SP1A}

Page 2

CP2000 (Rev. 11/2004)



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

AUSTIN IRS CENTER

XXX-XX-XXXX
500XX-XXXX

XXXX

AO14

06/09/2008

Response Form

1. Review the Explanation Section to decide whether you agree or do not agree with IRS's proposed changes.
2. Complete and return the Response Form by July 09, 2008.
3. If you need additional time, call us at 1-800-829-3009.

STEP A | Check only one of the three options. Then, go to Step B.

*If you agree with the changes IRS is proposing, return this form with your FULL or PARTIAL payment along with the completed *Installment Agreement Request* for the remaining balance (if applicable).*

OPTION 1 | I Agree with All Changes

I agree with the changes to my 2006 tax return.

I understand that I owe \$ 584 in additional tax, penalties, and interest.

I understand that the law requires IRS to charge interest on taxes that are not paid in full by April 17, 2007.

In addition, I understand that the IRS will charge interest until I have paid the tax in full. Certain penalties may also apply.

I understand that I can challenge these changes in the U.S. Tax Court only if IRS determines after the date I sign this form that I owe additional taxes for 2006.

I understand that I can file for a refund at a later date.

Signature _____

Date _____

If you do not agree with the changes IRS is proposing, return this form. When you return this form, include a signed statement that explains what you do not agree with. Also include copies of any documents, such as a corrected W-2, 1099, or missing forms, that support your statement.

OPTION 2 | I Do Not Agree with Some of the Changes

I've enclosed documentation to support the entries on my original return.

OPTION 3 | I Do Not Agree with Any of the Changes

I've enclosed documentation to support the entries on my original return.

STEP B | Check the applicable payment options. Then, go to Step C.

Tip! Pay as much as you can now to keep penalty and interest charges low.

Make your check or money order payable to "United States Treasury." Write "Tax Year 2006 CP2000," this Social Security Number 456-83-8978, and your phone number on your check or money order.

OPTION 1 | I'm paying the full amount of \$ 584.

OPTION 2 | I'm making a payment of \$ _____ because either:

I'm paying the amount I agree with or

I'm making a partial payment at this time

OPTION 3 | I'd like to request a payment plan to pay the tax I owe.

*Complete the *Installment Agreement Request* (Form 9465) and mail it along with this form.*



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

AUSTIN IRS CENTER

XXX-XX-XXXX
500XX-XXXX

XXXX

AO14

06/09/2008

STEP C Contact Information	
1. Please verify your address and note any corrections below. <i>(Print clearly.)</i>	
TAXPAYERS NAME STREET ADDRESS CITY – STATE – ZIP CODE	Make corrections below
2. Please list your phone numbers and the best time to call below.	
Home	Best Time to Call
Work	Best Time to Call
3. If you would like to authorize someone, in addition to you, to contact IRS concerning this notice, please include the person's contact information and sign below.	
Name	Phone
Address	
I authorize the person listed above to discuss information with and provide information to IRS about this notice.	
Signature	Date
<small>The authority granted in Step C is limited as indicated by the statement above the signature line. The contact may not sign returns, enter into agreements, or otherwise represent you before the IRS. If you want to have a designee with expanded authorization, see IRS Publication 947, Practice Before the IRS and Power of Attorney.</small>	

Before Mailing Please make sure you have:

- Completed Steps A, B, and C (both sides of this form).
- Included this form and your payment (if applicable) in the envelope provided.
- Included the *Installment Agreement Request* (if applicable) in the envelope provided.
- Made a copy for your records of the *Response Form* and the *Installment Agreement Request* if you used it.
- Checked that the IRS address shows through the envelope window.

Please Fold Here. Do not detach. Please be sure our address shows through the envelope window.

AUR Control Number: 500XX-XXXX

Notice Number: CP2000
Notice Date: 06/09/2008

INTERNAL REVENUE SERVICE

AUSTIN IRS CENTER
STOP 6692 AUSC
AUSTIN, TX 73301-0021

XXX-XX-XXXX
TAXPAYERS NAME
STREET ADDRESS
CITY – STATE – ZIP CODE

{RF02}

Page 4

CP2000 (Rev. 11/2004)



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

AUSTIN IRS CENTER

XXX-XX-XXXX
500XX-XXXX

XXXX

AO14

06/09/2008

Explanation Section

How to Review This Section

1. Compare your records with the records we received under **Information Reported to IRS**.
2. Review the **Reasons for the Changes** to see why we changed your return.
3. Proceed to **Changes to Your Return** to see how your new tax was calculated.
4. Once you have fully reviewed the **Explanation Section**, please complete and return the **Response Form** in the envelope provided.

1. Information Reported to IRS that differs from the amounts shown on your return.

This section tells you specifically what income information IRS has received about you from others (including your employers, banks, mortgage holders, etc.). The information listed below does not match the information you listed on your tax return. Use this table to compare the data IRS has received from others to the information you listed on your tax return to understand where the discrepancy, or difference, occurred. To assist you in reviewing your income amounts, the table may include both reported and unreported amounts from the same payer.

If this information is correct, your tax increase is **\$ 1,779 plus all applicable penalties, interest and payment adjustments such as federal tax withholding, excess social security tax withheld, etc.** If you pay in full by **July 09, 2008**, you'll owe **\$ 584**.

Item No.	Issue	Received From	Account Information	Amount Reported to IRS by Others	Amount Included on Your Return	Difference
1	TAXABLE WAGES	PAYER INFORMATION	SSN XXX-XX-XXXX Form W-2	\$ 5,200	\$ 0	\$ 5,200
		TAXABLE WAGES Total		\$ 5,200	\$ 0	\$ 5,200
2	TAX WITHHELD	PAYER INFORMATION	SSN XXX-XX-XXXX Form W-2	\$ 922	-	-
		TAX WITHHELD Total		\$ 922	\$ 0	\$ 922
3	SOCIAL SECURITY WITHHELD	PAYER INFORMATION	EIN XX-XXXXXX SSN XXX-XX-XXXX Form W-2	\$ 322	-	-

{EX06}

Page 5

CP2000 (Rev. 11/2004)



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

AUSTIN IRS CENTER

XXX-XX-XXXX
500XX-XXXX

GAON

AO14

06/09/2008

Item No.	Issue	Received From	Account Information	Amount Reported to IRS by Others	Amount Included on Your Return	Difference
4	SOCIAL SECURITY WITHHELD	PAYER INFORMATION	EIN XX-XXXXXX SSN XXX-XX-XXXX Form W-2	\$ 5,840	-	-
*SOCIAL SECURITY WITHHELD Total				\$ 6,162	\$ -	\$ -

* This notice includes other proposed changes, not reflected in the information shown above, that are included in the net balance due amount shown on page 1 of this notice. For detailed information on these items, please refer to the Changes to Your Return Section located at the end of this notice.



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

AUSTIN IRS CENTER

XXX-XX-XXXX
500XX-XXXX

XXXX

AO14

06/09/2008

2. Reasons for the Changes

This section provides explanations to help you understand the proposed changes to your tax return.

The paragraphs that follow provide explanations for:

- the items listed in Section 1. *Information Reported to IRS*
- the changes to your tax computation listed in Section 3. *Changes to Your Return*
- the penalty and interest charges listed in Section 3. *Changes to Your Return*
- *Payment Instructions*
- *Additional Information* that will help you understand this notice and what action you need to take to resolve the tax discrepancy

Within each subsection below, the paragraphs are organized by topic to help you review them.

These paragraphs explain the items listed in Section 1. *Information Reported to IRS.*

Other Income

General

MISIDENTIFIED INCOME

If any of the income shown on this notice is not yours, send us the name, address, and social security number of the person who received the income. Please notify the payers to correct their records to show the name and social security number of the person who actually received the income, so that future reports to us are accurate.

FORM W-2 OR 1099 NOT RECEIVED

The law requires you to report your income correctly. If your payers did not send you a yearly income statement (Form W-2, Form 1099, etc.), you must use the information you have (pay stubs, monthly income statements, deposit slips, etc.) to estimate the total amount of income you received during the year.

{EX10}

Page 7

CP2000 (Rev. 11/2004)



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

AUSTIN IRS CENTER

XXX-XX-XXXX
500XX-XXXX

XXXX

AO14

06/09/2008

Deductions

Itemized Deductions - Schedule A

LIMIT ON SCHEDULE A ITEMIZED DEDUCTIONS

We changed the amount claimed for itemized deductions because your adjusted gross income (AGI) exceeds:

- * \$150,500 for filing status Single, Married Filing Jointly, Qualifying Widow(er) or Head of Household.
- * \$75,250 for filing status Married Filing Separately.

Once your AGI exceeds the amounts shown above, limitations are imposed on the itemized deductions that you can claim. The proposed change is reflected in the itemized deduction amount shown in the Explanation Section of this notice.

Other Deductions

EXEMPTION DEDUCTION REDUCED

We reduced the exemption deduction claimed on your return because your adjusted gross income (AGI) is more than the allowable amount for a full deduction:

- * \$150,500 for filing status Single.
- * \$225,750 for filing status Married Filing Jointly or Qualifying widow(er).
- * \$112,875 for Married Filing Separately.
- * \$188,150 for Head of Household.

Once your AGI exceeds the amount shown above for your filing status, the allowable exemption deduction is reduced.

Payments & Credits

Withholding Credit and Estimated Tax Payments

UNDERCLAIMED WITHHOLDING

Our records indicate you may be entitled to a larger amount of withholding than you claimed on your tax return. Please review the payer information provided in this letter with your records. If this payer information is incorrect, please provide a statement so that we can correct our records.

If this payer information is correct, please respond to this notice so that we may make the necessary adjustments to your account.

{EX10}

Page 8

CP2000 (Rev. 11/2004)



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

AUSTIN IRS CENTER

XXX-XX-XXXX
500XX-XXXX

XXXX

AO14

06/09/2008

Payments & Credits

Excess Social Security & RRTA

EXCESS SOCIAL SECURITY TAX/RAILROAD RETIREMENT TAX (SST/RRT)

Social Security withholding in 2008 was limited to \$5,840.40. If you filed a joint return, this limit applies to each taxpayer. You must figure the credit separately for each spouse to determine if either one had excess withholding. You can claim a credit for any excess withholding if you had 2 or more employers. Use Form 843, Claim for Refund and Request for Abatement, to claim a refund of excess Railroad Retirement Tier 2 tax. See Pub.505, Tax Withholding and Estimated Tax for more details.

Penalty & Interest Charges

Interest Charges

INTEREST PERIOD - IRC SECTION 6601

We are required by law to charge interest on unpaid tax from the due date of the tax return to the date the tax is paid in full. The law requires that interest continue to be charged on the unpaid balance, including penalties, until paid in full.

For More Information about Your Penalty & Interest Charges

DETAILED PENALTY/INTEREST COMPUTATION

If you require a detailed penalty or interest computation for this notice, please call the toll-free telephone number listed on page 1.

Additional Information

FORMS OR SCHEDULES AVAILABILITY

If you need forms or schedules to respond to this notice you may get them by:

- * Visiting local offices and some public libraries
- * Calling 1-800-TAX-FORM (1-800-829-3876) or
- * Visiting the IRS Web site at www.irs.gov.

{EX21}

Page 9

CP2000 (Rev. 11/2004)



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

AUSTIN IRS CENTER

XXX-XX-XXXX
500XX-XXXX

XXXX

AO14

06/09/2008

3. Changes to Your Return

Note: We only show the items that have been affected by the information we received in the following chart. All other items are correct as shown on your return. Unless noted, line numbers always refer to the line number on your tax return.

Changes to Your Income and Deductions	Shown on Return	Reported to IRS, or as Corrected	Difference
TAXABLE WAGES	\$ 178,466	\$ 183,666	\$ 5,200
	Income Net Difference		\$ 5,200
SCHEDULE A LIMITATION (ITEMIZED DEDUCTIONS WORKSHEET, LINE 12)	\$ 576	\$ 680	\$ -104
Exemption Amount, line 42	\$ 2,772	\$ 2,684	\$ -88
	*Deductions Net Difference		\$ -192
	Total Change to Taxable Income		\$ 5,392

Changes to Your Tax Computation	Shown on Return	As Corrected by IRS	Difference
Taxable Income, line 43	\$ 159,923	\$ 165,315	\$ 5,392
Tax, line 44	\$ 39,366	\$ 41,145	\$ 1,779
Total Tax, line 63	\$ 39,366	\$ 41,145	\$ 1,779
	Net Tax Increase		\$ 1,779
Income Tax Withheld, line 64	\$ 42,261	\$ 43,183	\$ 922
Excess Social Security and RRT Tax Withheld, line 67	\$ 0	\$ 322	\$ 322
	*Net Payment Increase		\$ 1,244

Summary of Proposed Changes		
Amount of Tax Increase		\$ 1,779
Payment Increase		\$ 1,244
Interest, IRC Section 6601, From 04/17/2007 To 07/09/2008		\$ 49
Total Amount You Owe		\$ 584

**Decreases to Deductions result in an increase to Taxable Income.
Increases to Payments decrease the amount owed.



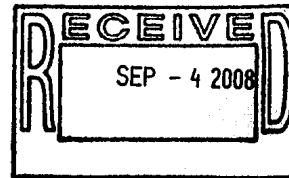
*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

Appendix VI

Management's Response to the Draft Report



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308



SEP 04 2008

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: *for* Richard Byrd, Jr. *Pamela D. Watson*
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Most Automated Underreporter Program
Notices Are Correct; However, Additional Oversight is Needed
(Audit # 200840003)

I reviewed your draft report and agree with your overall conclusions. The IRS strives to ensure the accuracy of the notices sent to taxpayers and I am pleased you found that the vast majority of notices we issue are accurate. During Fiscal Year (FY) 2007, the Wage and Investment Automated Underreporter (AUR) Program issued approximately 2.5 million notices of which nearly 1.9 million were Computer Paragraph (CP) 2000 notices, which are issued to request verification for unreported income, payments, or credits.

Prior to issuing a notice, we analyze third party documents we receive and compare them to filed returns in order to resolve any discrepancies we identify without contacting the taxpayer. We were able to resolve approximately 404,000 accounts in FY 2007 during this analysis phase, thereby, preventing taxpayer burden.

We update our training material annually for new hires and validate the required skill set through on-the-job training and 100 percent work reviews. Mandatory Continuing Professional Education (CPE) refresher training sessions for AUR tax examiners are held at the sites each fiscal year. Beginning in FY 2009, the CPE sessions will include a lesson on Quality that specifically addresses Notice Accuracy.

The AUR Program Management staff will establish a site on the Compliance shared drive for the sites to report weekly notice review results and to post their action plans when the error rate exceeds 10 percent. The AUR headquarters will use this site to timely monitor the error rates and planned corrective actions.



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

2

The AUR National Program Management staff is also in discussion with the Notice Task Force Team appointed to assess and recommend enhancements to numerous letters and notices. The focus of this team is to improve notice clarity Servicewide, including the CP 2000 Notice.

While we agree with your overall conclusions, we disagree with some of the outcome measures you outlined in Appendix IV of your report, specifically those which were calculated and then projected over a 5 year period (Taxpayer Rights and Entitlements for the 243,345 taxpayers, and Increased Revenue for 97,340 taxpayers). Statistical experts from the Wage and Investment Research Division reviewed your sampling methodology and use of projections and determined your sample size was too small to make reliable projections to the population. Your two outcome measures based on actual data were correctly presented and we agree with those.

Attached are our comments to your recommendations. If you have any questions, please call me at (404) 338-7060 or members of your staff may contact Jim Grimes, Director, Compliance, at (404) 338-9904.

Attachment



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

Attachment

RECOMMENDATION 1

The Director, Compliance, Wage and Investment Division, should ensure that Wage and Investment Division AUR Program management incorporates additional information on notice review procedures and quality service expectations into its refresher training for Program employees.

CORRECTIVE ACTION

We agree with this recommendation. The Automated Underreporter (AUR) Program Management is finalizing Continuing Professional Education (CPE) training materials that include a lesson on quality notice review procedures and quality service expectations. This training will be provided as part of FY 2009 mandatory CPE training and delivered during first quarter FY 2009.

IMPLEMENTATION DATE

January 15, 2009

RESPONSIBLE OFFICIAL

Director, Reporting Compliance, Wage and Investment

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control process.

RECOMMENDATION 2

The Director, Compliance, Wage and Investment Division, should coordinate with the Small Business/Self-Employed Division to simplify the CP 2000 notices issued by the AUR Program.

CORRECTIVE ACTION

We agree with this recommendation. The W&I Division will coordinate with the Small Business/Self-Employed Division, Office of Taxpayer Burden, the Notice Task Force Team and other key stakeholders to improve the clarity, readability and accuracy of the CP 2000 notices we issue. This process will likely span two or three years based on prior CP 2000 Notice revisions and will require input via external and internal focus groups, notice design, and testing prior to full implementation.

IMPLEMENTATION DATE

September 15, 2011

RESPONSIBLE OFFICIAL

Director, Reporting Compliance, Wage and Investment



*Most Automated Underreporter Program Notices Are Correct;
However, Additional Oversight Is Needed*

2

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control process.

RECOMMENDATION 3

The Director, Compliance, Wage and Investment Division, should ensure that AUR Program management monitors site management compliance with requirements to submit and implement corrective action plans when notice review error rates exceed 10 percent.

CORRECTIVE ACTION

We agree with this recommendation. We have issued a reminder to the AUR campus sites of the IRM requirement to timely develop, implement and submit corrective action plans when notice review error rates exceed 10 percent. We'll follow up on this requirement during periodic meetings with the campuses.

The AUR Program Management staff will create a site on the Compliance shared drive for the three AUR sites to post weekly notice review results and action plans when the error rate exceeds 10 percent allowing prompt notification to AUR Headquarters. The web site will be fully implemented after completion of briefing sessions with Site Management and Quality Coordinators.

IMPLEMENTATION DATE

January 15, 2009

RESPONSIBLE OFFICIAL

Director, Reporting Compliance, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control process.