



Treasury Inspector General for Tax Administration Office of Audit

PAYMENTS PROCESSED THROUGH THE REMITTANCE STRATEGY FOR PAPER CHECK CONVERSION ARE POSTED ACCURATELY, BUT DEPOSIT TIMELINESS NEEDS IMPROVEMENT

Issued on April 16, 2010

Highlights

Highlights of Report Number: 2010-40-048 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The Remittance Strategy for Paper Check Conversion (RS-PCC) is a system being implemented by the Internal Revenue Service (IRS) to electronically process taxpayers' checks. Remittances are being accurately processed through the RS-PCC, but only 13 percent of the 770,504 payments were deposited the next business day. The Lost Opportunity Cost (the interest value of money not deposited by close of business the day after receipt) associated with the deposits not being timely is \$696,115. Taxpayers lose the benefit of the interest earned on timely deposits that is credited to the Department of the Treasury.

WHY TIGTA DID THE AUDIT

This audit was initiated because the IRS accepts billions of dollars in payments every year from taxpayers paying estimated tax payments in advance of filing their tax returns, submitting payments with their tax returns, and paying past due taxes. Most of these payments are made with paper checks. The objective of this audit was to determine the timeliness and accuracy of processing paper remittances through the RS-PCC and to determine whether it is functioning as intended.

WHAT TIGTA FOUND

Checks are generally being posted accurately and secured both before and after processing. The system that maintains the archived images of RS-PCC checks is reliable. Payments are applied per the taxpayers' requests.

However, the codes used to track electronic payments need enhancements. The lack of specific batch coding makes it difficult for the IRS to know which locations are processing the most payments received from taxpayers or to identify when there is a problem with a particular location's processing of payments.

Email Address: inquiries@tigta.treas.gov

Web Site: <http://www.tigta.gov>

A test of 901,455 RS-PCC payments identified 130,951 payments (15 percent) that were inaccurately coded. Because payments were not coded according to established criteria, other payment types were erroneously included in the population and TIGTA could not identify all RS-PCC payments. The IRS' expectation is that all funds be deposited within 24 hours. Of 770,504 payments processed through the RS-PCC, only 99,828 payments (13 percent) met the next business day standard. The remaining 670,676 payments (87 percent) were deposited in a time period more than the next business day. The Lost Opportunity Cost associated with these deposits not being timely is \$696,115.

Payments of \$100,000 or more are considered timely deposited if the payments are deposited the same day as received. Of the 670,676 payments deposited untimely, 910 payments were for \$100,000 or more. None of the 910 payments were deposited on the same day as received. The Lost Opportunity Cost associated with these deposits not being timely deposited is \$316,021. While these 910 payments are less than 1 percent of the total volume of payments processed, they account for about 45 percent of the Lost Opportunity Cost.

Also, the IRS has not determined if the RS-PCC has reduced the staff hours needed to process remittances, decreased the Lost Opportunity Cost on payments, or decreased mail costs. Therefore, it could not provide any calculations or figures to determine if the RS-PCC is making payment processing more efficient or cost effective.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, further refine the RS-PCC codes to be able to track batches of payments down to the location where the batches of payments were processed and revise the internal guidelines to clarify the criteria used to identify RS-PCC payments to ensure they are properly coded. The Commissioner should also monitor Lost Opportunity Cost and other costs such as labor and mail costs associated with the RS-PCC as it is implemented, and develop a strategy to improve timeliness and reduce the Lost Opportunity Cost associated with processing payments through the RS-PCC at the Consolidated Processing Centers.

In their response to the report, IRS officials agreed with all of our recommendations.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2010reports/201040048fr.pdf>

Phone Number: 202-622-6500