



Treasury Inspector General for Tax Administration Office of Audit

THE INTERNAL REVENUE SERVICE IS MAKING PROGRESS TOWARD IMPLEMENTING DAILY PROCESSING OF INDIVIDUAL TAX RETURNS

Issued on July 24, 2012

Highlights

Highlights of Report Number: 2012-40-085 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The Customer Account Data Engine 2 (CADE 2) will expand daily processing of individual tax returns and will result in a single relational database that houses all individual taxpayer accounts. This database will replace the Individual Master File and serve as a central source of individual tax return data, making reporting and retrieval of taxpayer account data faster and more efficient. The benefits of daily processing include faster refunds for taxpayers and timelier responses to taxpayers' inquiries about their accounts.

WHY TIGTA DID THE AUDIT

This audit was initiated as part of TIGTA's efforts to evaluate the IRS's modernization of its tax processing systems. The overall objective of this review was to evaluate the accuracy of the IRS's implementation of daily tax return processing during the 2012 Filing Season.

WHAT TIGTA FOUND

At the end of Calendar Year 2011, the IRS had identified more than 122 million taxpayer accounts for daily processing and more than 148 million taxpayer accounts for weekly processing. Through April 30, 2012, the IRS had successfully processed 71 million individual tax returns through daily tax return processing.

The IRS's planning efforts reduced the risk associated with the daily processing of individual tax returns. In addition, the IRS accurately identified tax accounts for daily processing.

The IRS analyzed tax account transactions and other conditions that affect tax return processing and identified those that would require additional time to ensure tax returns were processed correctly. These transactions are referred to as disqualifiers. Tax accounts that contain one or more disqualifiers will continue to be processed weekly. TIGTA's review of 89 of

108 disqualifiers on more than 79 million taxpayer accounts processed between January 17 and February 29, 2012, found that the IRS computer system was correctly programmed.

The IRS conducted reviews of tax accounts and tax return transactions during the 2012 Filing Season to monitor the accuracy of CADE 2 processing. However, it verified only a fraction of the approximately 119 million individual tax returns processed through April 30, 2012. In addition, the IRS did not track which disqualifiers it verified as part of its review. Unless the IRS verifies at least a limited number of tax accounts that contain each of the identified disqualifiers, it cannot be assured that individual tax account transactions are properly posting to the Master File.

WHAT TIGTA RECOMMENDED

TIGTA made no recommendations as a result of the work performed during the review. However, key IRS officials reviewed the report prior to its issuance and agreed with the facts and conclusions presented.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2012reports/201240085fr.pdf>