Highlights

Highlights of Report Number: 2007-40-131 to the Internal Revenue Service Commissioner for Wage and Investment Division.

IMPACT ON TAXPAYERS

The Customer Account Data Engine (CADE) is a new computer system designed to house the tax account information for taxpayers. The Release 2.1 version of the CADE generally posted accurate tax return information to taxpayer accounts. It is essential that the information posted to the CADE accurately reflects taxpayers’ tax return information because inaccurate information could affect subsequent activities or adjustments to taxpayer accounts.

WHY TIGTA DID THE AUDIT

This audit was initiated because the CADE is a critical building block in the Internal Revenue Service’s (IRS) modernization program that will enable the development of subsequent modernized systems to improve customer service and compliance. The CADE is designed to post information to taxpayers’ accounts on a daily rather than weekly basis, which will facilitate faster refunds to taxpayers and allow IRS employees to provide improved service to taxpayers because the employees will have up-to-date, accurate account information available.

CADE Release 2.1 began posting returns in September 2006 and contained significant additional functionality over prior releases. The objective of the audit was to determine whether CADE Release 2.1 accurately posted tax return information, focusing on functionality not included in prior releases.

WHAT TIGTA FOUND

Tax return information was accepted and generally posted accurately to CADE accounts. In addition, name and address changes were posted accurately, and a condition related to long addresses being cut off that TIGTA had previously reported was corrected. Finally, the process used to determine the audit potential of returns posting to the CADE was adequately tested.

TIGTA did identify programming problems affecting the accurate posting of Itemized Deductions, Adjusted Gross Income, and Taxable Income amounts. Itemized deduction amounts were inflated when posted to the taxpayers’ accounts. TIGTA reported this issue to the IRS and it immediately corrected the problem. There were 109 returns posted with inflated amounts before the condition was corrected.

In some circumstances, incorrect Adjusted Gross Income and/or Taxable Income amounts were posted to taxpayers’ accounts. When a return is corrected during processing, the corrected figures should be posted to the account; however, the CADE posted the original, uncorrected values. TIGTA reported this issue to the IRS and it promptly corrected the programming in February 2007. Returns posted after this date were posted with accurate information. The IRS subsequently corrected the approximately 49,000 returns posted to the CADE with erroneous Adjusted Gross Income amounts and approximately 71,000 returns posted with erroneous Taxable Income amounts.

These problems did not materially affect tax administration. Before the tax returns were posted to the CADE, the processing of the tax returns had already been completed using the correct information; therefore, the Itemized Deduction, Adjusted Gross Income, and Taxable Income amounts did not affect the taxes due or refund amounts. However, because the CADE is meant to be the repository of tax information, it must accurately reflect the information from tax returns.

WHAT TIGTA RECOMMENDED

TIGTA made no recommendations in this report because IRS management took appropriate corrective actions to our findings during the course of the audit.

READ THE FULL REPORT

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