



*Some Taxpayer Responses to
Math Error Adjustments Were Not
Worked Timely and Accurately*

July 7, 2011

Reference Number: 2011-40-059

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

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HIGHLIGHTS

SOME TAXPAYER RESPONSES TO MATH ERROR ADJUSTMENTS WERE NOT WORKED TIMELY AND ACCURATELY

Highlights

Final Report issued on July 7, 2011

Highlights of Reference Number: 2011-40-059 to the Internal Revenue Service Commissioner for the Wage and Investment Division.

IMPACT ON TAXPAYERS

The Internal Revenue Service (IRS) has the authority to adjust tax returns to correct math errors without performing an audit. When the IRS makes math error adjustments to a taxpayer's tax return, the IRS sends a notice. Although the IRS provides taxpayers with the ability to dispute adjustments made to their tax returns, improvements are needed to ensure responses are worked timely and accurately.

WHY TIGTA DID THE AUDIT

During the period January 1 to July 23, 2010, the IRS issued approximately 8.6 million math error notices. A total of 133,186 (1.6 percent) taxpayers responded to the IRS disputing the adjustments made to their tax return.

Delays in addressing taxpayers' disputes of math error adjustments could result in taxpayers not timely receiving tax benefits to which they are entitled or in a loss of revenue to the Federal Government. Our overall objective was to determine whether the IRS is accurately and timely resolving individual taxpayer responses to math error adjustments.

WHAT TIGTA FOUND

Most (98.4 percent) of the approximately 8.6 million math error notices were agreed to by the taxpayer. However, our review identified that some responses in which taxpayers disagreed with the math error notices were not worked timely or accurately.

Our review of 260 taxpayer responses worked by the IRS between January 1 and July 23, 2010, showed 104 of the 260 responses were not worked timely. TIGTA estimated that 12,232 taxpayer responses may not have been timely resolved during the period January 1 to July 23, 2010.

In addition, TIGTA found that 43 of the 260 responses reviewed were not worked accurately. TIGTA estimated that 17,627 taxpayers may not have had their responses resolved accurately during the period January 1 to July 23, 2010. In addition, TIGTA estimates inaccuracies could result in approximately \$39.5 million in lost revenue to the Federal Government and approximately \$29.2 million in tax benefits that taxpayers will not receive over the next five years.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, develop a process to monitor timeliness of working responses to math error adjustments, prioritize the working of written responses relating to Earned Income Tax Credit math error adjustments, and reinforce to Accounts Management function assistants the need to thoroughly and accurately work responses to math error adjustments.

The IRS did not agree with our recommendations to develop a process to monitor the timeliness of working responses to math error adjustments and prioritize the working of Earned Income Tax Credit recertification responses. Management agreed to reinforce the need to thoroughly and accurately work responses to math error adjustments.

As stated in our report, no processes were in place to monitor the timeliness of math error notice responses at the time of our review. Because math error authority allows the IRS to adjust a claim prior to an examination, expedited resolution is needed for these cases.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

July 7, 2011

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: (for) Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Some Taxpayer Responses to Math Error
Adjustments Were Not Worked Timely and Accurately
(Audit # 201040049)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) is accurately and timely resolving individual taxpayer responses to math error adjustments. This audit is included in the Treasury Inspector General for Tax Administration Fiscal Year 2011 Annual Audit Plan and addresses the major management challenge of Providing Quality Taxpayer Service Operations.

Management's complete response to the draft report is included in Appendix VII.

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 (Returns Processing and Account Services), at (202) 622-5916.



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Abbreviations

AMS	Accounts Management System
CIS	Correspondence Imaging System
EITC	Earned Income Tax Credit
IMF	Individual Master File
IDRS	Integrated Data Retrieval System
IRTF	Individual Return Transaction File
IRS	Internal Revenue Service
SSN	Social Security Number
TC	Transaction Code
TIGTA	Treasury Inspector General for Tax Administration



Some Taxpayer Responses to Math Error Adjustments Were Not Worked Timely and Accurately

Background

Math or clerical errors (referred to as math errors) include arithmetic type errors, missing or incorrect Social Security Numbers (SSN), missing documentation, and claims for tax credits above the allowable amounts. Internal Revenue Code Section 6213(b) (1) gives the Internal Revenue Service (IRS) the authority to adjust tax returns to correct math errors without performing an audit. Math error adjustments can be either positive or negative. We identified more than 9.4 million individual income tax returns processed during the period January 1 to December 24, 2010, that required a math error adjustment. Figure 1 shows the volume of tax returns with math error adjustments and the resulting effect to the taxpayer.

For Processing Year 2010, there were more than 400 math error conditions that could result in the IRS making an adjustment to a taxpayer's tax return.

Figure 1: Volume of Tax Returns With Math Error Adjustments Processed From January 1 to December 24, 2010

Tax Returns With Math Error Adjustments	Dollar Value of Math Error Adjustments	Effect on Taxpayer's Tax Liability
6.4 million	\$6.16 billion	Increased taxpayer's refund and/or reduced taxpayer's balance due.
3 million	\$9.54 billion	Reduced taxpayer's refund and/or increased taxpayer's balance due.
24,099	\$0	No change to the taxpayer's refund or balance due.

Source: Treasury Inspector General for Tax Administration (TIGTA) analysis of the IRS Individual Return Transaction File (IRTF) for Processing Year 2010.

This review was performed at the Wage and Investment Division Headquarters in Atlanta, Georgia, and in the Accounts Management and Examination functions and the IRS Campus in Kansas City, Missouri, during the period July 2010 through March 2011. 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. A glossary of terms is included in Appendix VI.



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Results of Review

When the IRS makes math error adjustments to a taxpayer's tax return, it sends a notice, generally a Computer Paragraph 11 Notice (Balance Due (Over \$5.00)) or a Computer Paragraph 12 Notice (Overpayment of \$1.00 or More), to the taxpayer explaining the error(s) identified and the amount of any resulting adjustment(s). The math error notice includes an account statement

More than 98 percent of the individuals receiving a math error notice between January 1 and July 23, 2010, agreed with the adjustments made to their tax returns.

showing how the changes affected the tax return and showing the corrected tax return information compared to what was reported on the original tax return. In addition, the math error notice provides both a telephone number and mailing address for the taxpayer to contact the IRS should he or she question the validity of the adjustments.

Taxpayers who question the validity of the adjustments are given 60 calendar days from the date of the notice to respond to the IRS disputing the validity of the adjustments made to their tax returns. During this 60-day period, the IRS will place a freeze on the taxpayer's account to prevent the issuance of the portion of the refund associated with the error(s) identified or prevent the initiation of collection action resulting from any balance due. Once a math error adjustment is made, any subsequent action depends on the response from the taxpayer and can include:

- **Agreed Response:** The taxpayer agrees with the math error adjustments made to his or her tax return. This includes taxpayers who do not respond to the IRS notice. The IRS removes the freeze from the taxpayer's account, which will then release any refund or initiate collection of a balance due of taxes.
- **Substantiated Response:** The taxpayer disagrees with the math error adjustments and either provides the IRS with written correspondence/documentation or information via telephone contact supporting his or her disagreement. The IRS agrees with the taxpayer based on the information provided and reverses the math error adjustments. The IRS removes the freeze from the taxpayer's account, which will release any refund or initiate collection of a balance due of taxes.
- **Unsubstantiated Response:** The taxpayer disagrees with the math error adjustments. However, the taxpayer does not provide adequate support for his or her disagreement. Generally, the IRS reverses the math error adjustments and places an examination freeze on the taxpayer's account resulting in his or her tax return being referred to the Examination function for further review.

Figure 2 provides the volume of taxpayer notice responses the IRS received and worked during the period January 1 and July 23, 2010.



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**Figure 2: Taxpayer Responses to Math Errors
Processed Between January 1 and July 23, 2010**

Math Error Notice/Response Volumes	Number of Taxpayers	Percentage
Total Notices Issued	8,579,242	100%
Taxpayer Agreed	8,446,956	98.4%
Taxpayer Disagreed ¹	133,186	1.6%
Substantiated	128,860	96.8%
Unsubstantiated	4,326	3.2%

Source: TIGTA analysis of the IRS IRTF for tax returns processed during Processing Year 2010.

Although the IRS provides taxpayers with the ability to dispute adjustments made to their tax return, our review found that improvements are needed to ensure responses are timely and accurately worked.

Some Taxpayer Responses to Math Error Notices Are Not Worked Timely

We reviewed statistically valid samples of 278² taxpayer accounts that had an adjustment made to the tax return and had a math error between January 1 and July 23, 2010. During our review, we determined that the adjustments made on 18 of the 278 cases were not the result of a math error. Therefore, the results of our review were limited to 260 of the 278 cases in which we verified the adjustments made to the taxpayer's tax return were the result of a math error. Our review showed that 104 (40 percent) of the 260 responses were not worked in a timely manner. The IRS issued an interim letter to the taxpayers in 94 of the 104 cases notifying them that their cases were still being reviewed. Based on our review, an estimated 12,232³ taxpayer responses may not have been resolved timely during the period January 1 to July 23, 2010. Figure 3 provides a summary of our review.

¹ This count contains some taxpayer responses that were not related to math error notices. We were unable to determine the exact number of responses that were not related to a math error based on available IRS data.

² We reviewed a separate statistically valid sample for substantiated (132) and unsubstantiated (146) taxpayer responses. Because the sample of 132 contained 18 taxpayer responses not related to math error notices, our sample was reduced to 114 substantiated responses. See Appendix I for details of our sample selection.

³ See Appendix IV for details. The 12,232 is the sum of 8,906 taxpayers who experienced delays in receiving benefits they were entitled to receive and 3,326 taxpayers who experienced delays in the resolution of their math error adjustment.



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Figure 3: Timeliness of the Accounts Management Function’s Resolution of Taxpayer Responses Worked Between January 1 and July 23, 2010

	Number of Responses Reviewed	Number of Untimely Responses	Percentage of Untimely Responses	Average Days to Resolve Untimely Responses ⁴
Total Responses	260	104	40%	62.7
Substantiated	114	9	7.9%	49.8
Unsubstantiated	146	95	65.1%	63.8

Source: TIGTA analysis of a statistical sample of 114 substantiated and 146 unsubstantiated math error notice responses worked by the Accounts Management function between January 1 and July 23, 2010.

IRS guidelines state that responses to taxpayers disputing math error adjustments are considered timely worked if the final response is provided to the taxpayer within 30 calendar days from the taxpayer’s initial telephone call or from the earliest date the IRS received written correspondence from the taxpayer. In addition, for the purposes of our analysis, we applied the 30-day timeliness criteria to the unsubstantiated cases (those cases transferred to the Examination function) using the date the taxpayers were notified that their cases were referred to the Examination function for further review. Taxpayer responses that were not timely worked resulted from the following:

- **The IRS does not have a process to monitor the timeliness of the resolution of math error responses.** Although the function responsible for working these math error responses (Accounts Management function) has a process to evaluate the timeliness of its overall inventory,⁵ it cannot specifically determine if responses to math error notices are being worked timely. In August 2010, the Accounts Management function created a separate inventory code for math error notices. This code could be used to identify math error response work in inventory and allow management to monitor the timeliness of responses to taxpayers disputing math error adjustments.
- **The majority of untimely resolved cases we identified involved taxpayers who provided written responses.** Our review showed that 101 (97 percent) of the 104 cases that were not timely resolved involved taxpayers who provided written correspondence to the IRS. Delays in working some written correspondence resulted from the time needed for the IRS to scan written responses into its Correspondence Imaging System (CIS) prior to assigning the response to an Accounts Management function assistant for resolution. The IRS has 14 calendar days from the received date of written correspondence to scan

⁴ The number of calendar days it took the Accounts Management function to resolve untimely substantiated math error responses ranged from 39 calendar days to 73 calendar days. The number of days to resolve untimely unsubstantiated math error responses ranged from 33 calendar days to 199 calendar days.

⁵ Accounts Management function inventory includes Amended U.S. Individual Income Tax Returns (Form 1040X), taxpayer claims for a carryback, refund inquiries, and other general correspondence.



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the taxpayer's response. This accounts for almost one-half of the 30 calendar days the Accounts Management function has to timely respond to the taxpayer.

- **Responses received by telephone are given priority over written responses.** The Accounts Management function must allocate its limited resources to balance service to taxpayers who contact the IRS by telephone and those who contact the IRS in writing. IRS management indicated that taxpayer telephone responses are given priority during the filing season because telephone responses are addressed when received. Written correspondence is worked daily as resources become available and is generally worked on a first-in, first-out basis.

Although the Accounts Management function generally works its inventory on a first-in, first-out basis, it does prioritize certain types of written correspondence for which a delay could result in a hardship to the taxpayer. However, written responses to math error adjustments relating to the recertification of the Earned Income Tax Credit (EITC) do not receive this priority processing. The EITC provides assistance to lower income taxpayers. As such, delays in working their cases could result in considerable hardship. We found that 81 of the 104 untimely responses involved cases where the EITC was denied in math error processing because the Information To Claim Earned Income Credit After Disallowance (Form 8862) was not attached to the tax return as required and the case was referred to the Examination function for further review.

Recommendations

The Commissioner, Wage and Investment Division, should:

Recommendation 1: Develop a process to monitor the timeliness of responses to math error adjustments and ensure these responses are being worked within the 30 calendar day timeliness requirement.

Management's Response: IRS management disagreed with the recommendation stating that while they appreciate the importance of timely responses to math error adjustments, they have already taken steps by using interim letters in cases where resource constraints prevent it from completing the case in 30 calendar days. As indicated above, the IRS complies with Internal Revenue Manual requirements by issuing a timely interim letter and, as documented in the audit report, interim letters were issued in more than 90 percent of the cases that the IRS was unable to resolve within 30 calendar days. Accordingly, current reporting processes already track the days to closure for all case types within the Accounts Management function.

Office of Audit Comment: As we reported, our review did not identify any processes in place that would allow management to determine if math error responses were being worked timely. The IRS did send interim letters to the majority of taxpayers whose cases



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were not resolved within 30 calendar days. However, sending an interim letter does not resolve the case within the 30-calendar-day goal established by the IRS and included in the guidance in effect at the time of our review. An IRS study in January 2010 reported that interim letters are not meeting the objectives of timeliness and responsiveness but have instead become a vehicle to “buy time” in case processing.⁶

Recommendation 2: Prioritize the working of written responses relating to EITC recertification math error adjustments.

Management’s Response: IRS management disagreed with our recommendation to prioritize the working of written responses relating to EITC recertification math error adjustments. However, IRS management agreed with the importance of working all EITC cases in a timely manner. Taxpayers with certain EITC errors in the past are required to comply with statutory recertification requirements. As with other important issues, the IRS must balance resources in determining the highest priority cases. As reflected, most cases are worked on a first-in, first-out basis. Certain issues, such as identity theft and disaster claims, receive priority consideration. The IRS strives to work all EITC correspondence on a timely basis, but does not agree that it is appropriate to prioritize recertification cases above other EITC work or above other taxpayer work that must also be performed on a timely basis.

Office of Audit Comment: In its response, the IRS acknowledged that certain issues receive priority consideration. However, we disagree with the IRS’s assertion that EITC recertification cases should not receive priority consideration. The EITC is designed to assist lower income taxpayers; i.e., those who can least afford to wait for the IRS to resolve their EITC claim. Because math error authority allows the IRS to adjust a claim prior to an examination, expedited resolution is needed for these cases.

⁶ IRS Taxpayer Communications Taskgroup Interim Report (January 2010).



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Some Taxpayer Responses to Math Error Notices Are Not Worked Accurately

Our review of the 260 taxpayer responses worked by the IRS between January 1 and July 23, 2010, showed that 43 of the 260 responses were not worked accurately. Errors resulted in the IRS paying \$7,988 in erroneous refunds and incorrectly denying \$5,894 in tax benefits to taxpayers.⁷ We estimate 17,627⁸ taxpayers may not have had their responses accurately resolved during the period January 1 to July 23, 2010. Based on the results of our review, inaccuracies in resolving responses to math error notices could result in approximately \$39.5 million in lost revenue to the Federal Government and approximately \$29.2 million in tax benefits that taxpayers will not receive over the next 5 years. Figure 4 presents the results of our review.

**Figure 4: Accuracy of the Resolution of Math Error Responses
From January 1 to July 23, 2010**

	Substantiated Responses	Percentage	Unsubstantiated Responses	Percentage
Total Responses Reviewed	114	100.0%	146	100.0%
Resolved Accurately	96	84.2%	121	82.9%
Not Resolved Accurately	18	15.8%	25	17.1%

Source: TIGTA analysis of a statistical sample of 114 substantiated and 146 unsubstantiated math error notice responses worked by the Accounts Management function between January 1 and July 23, 2010.

Inaccuracies resulted from one or more of the following conditions:

- **Accounts Management function assistants reversed math error adjustments without obtaining required support from taxpayers.** Accounts Management function assistants were inaccurately reversing math error adjustments when working responses involving multiple math error adjustments. This resulted in adjustments being reversed even though taxpayers did not provide information justifying the reversal of the adjustments

⁷ *****1*****
*****1*****, the statistical validity of the error was not reliable enough to project.

⁸ See Appendix IV for details. The 17,627 is the sum of all taxpayers in Appendix IV who were burdened as a result of an inaccuracy, who received an incorrect monetary benefit, or who had a tax benefit incorrectly denied less 990 taxpayers included in our estimate of taxpayer rights and entitlements who had an error that resulted in taxpayer burden and the denial of a tax benefit.



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made. As a result, taxpayers received tax benefits to which they may not have been entitled. For example:⁹

IRS math error processing identifies a tax return with an incorrect SSN used to claim the Child Tax Credit and a tax credit that was claimed for an amount above the allowable limit (credit amount limited to \$500, taxpayer claims \$1,000). Math error adjustments result in the IRS increasing the tax by \$1,000 for the incorrect SSN and decreasing the tax credit by \$500. The taxpayer receives a math error notice explaining the adjustments made to the tax return. The taxpayer contacts the IRS to dispute the adjustment and provides support showing the SSN used on the tax return is correct. However, the taxpayer does not provide adequate support for the excess tax credit. The Accounts Management function assistor reverses the \$1,000 math error adjustment related to the SSN and the \$500 math error adjustment related to the excess tax credit. However, the \$500 adjustment for the excess tax credit should not have been reversed because the taxpayer provided no support to substantiate the claim for the excess credit.

- **Accounts Management function assistors erroneously transferred response cases to the Examination function as unsubstantiated when sufficient support was provided.**

In some instances, Accounts Management function assistors inaccurately transferred response cases to the Examination function even though the taxpayer provided adequate support that should have resulted in the adjustments being reversed. As a result, taxpayers had their tax returns unnecessarily referred to the Examination function for review and their refunds unnecessarily held. For example:

Taxpayer A received a math error notice stating that the Child and Dependent Care Credit had been denied because the required Child and Dependent Care Expenses (Form 2441) was not attached to the tax return. Taxpayer A responded to the notice and provided the required Form 2441. The information on the Form 2441 supported the taxpayer's claim for the Child and Dependent Care Credit. However, the Accounts Management function assistor inappropriately forwarded Taxpayer A's response to the Examination function instead of reversing the math error adjustment based on the support the taxpayer provided. As a result, Taxpayer A's receipt of the additional refund related to the Child and Dependent Care Credit was delayed until the math error notice response was reviewed in the Examination function.

- **Accounts Management function assistors did not accurately review all errors identified on the responding taxpayer's tax return.** When the IRS identifies a math error condition on a tax return, an Error Resolution function tax examiner assigns a code that relates to the math error adjustment identified. The math error codes on the tax

⁹ All examples used in this report are hypothetical.



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returns we reviewed did not always reflect all of the math error conditions on the tax return and/or accurately reflect the math error adjustments made on the tax return.

The IRS is aware that math error codes are not always being accurately assigned by Error Resolution function tax examiners. To address this concern, IRS guidelines require Accounts Management function assistors who work responses from taxpayers to use the assigned math error notice codes only as a reference point when working taxpayer responses and remind Accounts Management function assistors to not assume the notice codes assigned correctly reflect all math error adjustments made to the responding taxpayer's tax return. Despite these guidelines, Accounts Management function assistors incorrectly worked some of the cases we reviewed. For example, we identified instances in which Accounts Management function assistors evaluated only the adjustments indicated by a math error notice code. Adjustments that did not have a corresponding math error notice code were not reviewed as part of the Accounts Management function assistor's decision on whether the taxpayer's dispute of the math error adjustments was substantiated. We are planning to conduct a separate audit that will evaluate the accuracy of the math error codes assigned by Error Resolution function tax examiners.

- **Accounts Management function assistors did not always follow procedures when closing unsubstantiated cases.** IRS guidelines provide specific steps an Accounts Management function assistor must take to ensure an unsubstantiated math error response is timely and accurately referred to the Examination function. Accounts Management function assistors were not always following the procedures for closing unsubstantiated math error responses. As a result, receipt of the response in the Examination function was delayed or the IRS's computer system incorrectly treated the response as substantiated. For example:

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Recommendation

The Commissioner, Wage and Investment Division, should:

Recommendation 3: Develop and distribute written communication reinforcing to Accounts Management function assistors the need to thoroughly and accurately work responses to math



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error adjustments and the impact on both the IRS and the taxpayer when responses are not accurately resolved.

Management's Response: IRS management agreed with this recommendation. Necessary communications will be prepared to reinforce the need for thorough and accurate work related to math error adjustments. Communications will include the impact to the IRS and the taxpayer when the responses are not accurately resolved.

Overall Office of Audit Comment: In IRS management's response to the outcome measures in our report, they agreed with our projections but did not agree with the associated dollar value. The IRS stated that the dollar value of our outcome measure was based on a sample of only eight cases. However, that is not the case. In fact, we reviewed a statistically valid sample of 132 substantiated responses to math error notices closed between January 1 and July 23, 2010. We used this sample to estimate the number of cases with processing inaccuracies and the dollar impact of the inaccuracies we identified. The methodology we used to compute our dollar projections was developed by a statistician and our projections were subsequently reviewed by the same statistician.



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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the IRS is accurately and timely resolving individual taxpayer responses to math error adjustments. To accomplish the objective, we:

- I. Obtained and reviewed the IRS's guidance for timely and accurately working math error responses. In addition, we met with management to identify internal controls.
 - A. Evaluated the accuracy and timeliness of the Accounts Management function's actions to resolve taxpayer responses to math error notices. We reviewed statistical samples of 260 math error responses worked by the Accounts Management function between January 1 and July 23, 2010. We utilized information contained in the IRS Individual Master File (IMF), the IRTF, the Accounts Management System (AMS), the IDRS, and the CIS to identify and review taxpayer responses to math error notices.
 - B. Reviewed a statistically valid sample of 132¹ of the 130,616² substantiated math error responses we identified. We determined our population of substantiated math error responses by selecting all taxpayer accounts containing a Transaction Code (TC) 291 with Source Code 02 or a TC 290 with Source Code 02 from the IMF processed between January 1 and July 23, 2010. We matched these two files to all 2010 tax returns we identified from the IRTF with a math error. Because a TC 290 and a TC 291 both indicate an adjustment to an original filed tax return, we eliminated any tax accounts that contained both a TC 291 and a TC 290 to prevent including these cases in our population twice. Our sample was selected using a 20 percent expected error rate,³ a 90 percent confidence level, and a ± 6 percent precision level.

¹ We reviewed all 132 substantiated responses but found 18 responses were not related to a math error, reducing the total to 114. The 114 is the number used in the Results of Review section of this report for the substantiated responses, specifically in Figure 3.

² The 130,616 responses represent all taxpayer accounts that had a substantiated math error response processed between January 2 and July 23, 2010, regardless of when the original tax return or math error adjustment was processed.

³ Our expected sample error rate was based on the actual error rate of the timeliness of IRS processing for nonmath error taxpayer correspondence.



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- C. Reviewed a statistically valid sample of 146 of the 5,111⁴ unsubstantiated math error response cases that were referred from the IRS Accounts Management function to the IRS Correspondence Examination function. We identified our population by selecting all taxpayer accounts with a TC 470 and a Closing Code 94 (taxpayer claim is pending for a math error) from the IMF processed between January 1 and July 23, 2010. Our sample was selected using a 50 percent expected error rate,⁵ a 90 percent confidence level, and a ± 7 percent precision level.
- D. Quantified the impact on taxpayers and the IRS by projecting our sample results for substantiated and unsubstantiated responses to their respective populations.

Data validation methodology

During this review, we relied on data extracted from the IRS's IRTF for Processing Year 2010 located on the TIGTA Data Center Warehouse. We also relied on data extracts from the IRS IMF that were provided by the TIGTA Office of Information Services. Before relying on our data, we ensured that each file contained the specific data elements we requested. In addition, we selected a random sample of 10 records from each IRTF extract and 10 records from each IMF extract. Using the IRS IDRS, we verified the data contained in these sample records accurately reflected the information contained in the IRS's computer systems. We also compared selected data fields for each taxpayer response in our statistical samples to the AMS, CIS, and IDRS to verify that the data in these fields were accurate. As a result of our testing, we determined the data used in our review were reliable.

Internal controls methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined the following internal controls were relevant to our audit objective: internal controls prescribed by the IRS's Internal Revenue Manual that are used by the Accounts Management function to process taxpayer replies to math error notices. We evaluated those internal controls by interviewing management and reviewing policies and procedures. We also conducted tests of IRS actions taken in response to taxpayer replies to math error notices to ensure the controls identified were functioning properly.

⁴ The 5,111 represents all taxpayer accounts that had an unsubstantiated response to a math error adjustment processed between January 1 and July 23, 2010, regardless of when the original tax return or math error adjustment was processed.

⁵ Our expected sample error rate was based on the actual error rate of the timeliness of IRS processing of correspondence received by the Compliance function and our review of a judgmental sample of 21 unsubstantiated cases.



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Appendix II

Major Contributors to This Report

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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 of Operations, Wage and Investment Division SE:W
Deputy Commissioner of Services, Wage and Investment Division SE:W
Director, Compliance, Wage and Investment Division SE:W:CP
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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 Burden – Potential; 8,906 taxpayers who experienced delays in receiving benefits to which they were entitled as a result of the IRS not timely working their substantiated disputes of math error adjustments during the period January 1 through July 23, 2010 (see page 3).

Methodology Used to Measure the Reported Benefit:

We identified 8,579,242 unique tax returns processed between January 1 and July 23, 2010, from the IRTF that contained 1 or more math error notice codes. We also identified 2,509,683 taxpayer accounts on the IMF in which a TC 290/291 with a Source Code 02 posted to the taxpayer's account between January 1 and July 23, 2010. The IRS uses a TC 290/291 with Source Code 02 to adjust taxpayers' accounts for substantiated math error responses.

To eliminate as many of the tax adjustments as possible that were not related to math error responses, we matched the taxpayer accounts identified with a TC 290 or TC 291 Source Code 02 to the tax returns we identified that had one or more math error notice codes assigned. As a result of this analysis, 54,666 tax returns had at least 1 math error notice code and a TC 290 Source Code 02 posted to the taxpayer's account. We also determined that 76,721 returns had at least 1 math error notice code and a TC 291 Source Code 02 posted to the taxpayer's account. We eliminated 771 cases that were included in both the TC 290 and TC 291 populations, which resulted in 130,616 substantiated math error response cases.

Because the use of a TC 290 and 291 with Source Code 02 is not exclusive to math error responses, it is possible for both a math error notice code and a TC 290 or TC 291 to post to a taxpayer's account where the TC 290/291 was not related to a substantiated math error response. Because we were unable to identify these cases based on the data available, we assumed these adjustments related to a math error response when identifying the population of substantiated math error responses.

We randomly selected and reviewed a statistically valid sample of 132 of the 130,616 substantiated math error responses using a 90 percent confidence level, a ± 6 percent precision, and an expected error rate of 20 percent to determine our sample size.



Some Taxpayer Responses to Math Error Adjustments Were Not Worked Timely and Accurately

IRS guidelines state responses to taxpayers disputing math error adjustments are timely worked if the final response is provided to the taxpayer within 30 calendar days from the taxpayer's initial telephone call or from the earliest date the IRS received written correspondence from the taxpayer. For substantiated math error responses, the IRS's reversal of the disputed math error adjustments is considered the final response.

We used the AMS, the CIS, and the IDRS to identify the date the taxpayer provided support that substantiated his or her dispute of the math error adjustments and the date the IRS adjusted the taxpayer's account to reverse the disputed math error adjustments for each of our sample cases.

The IRS did not adjust the taxpayer's account within 30 calendar days of receiving support from the taxpayer in 9 (6.8 percent) of the 132 cases reviewed. Our review of the 132 substantiated cases identified 18 cases in which the TC 290/291 was not the result of a taxpayer's response to a math error notice. We have included these cases in the projection of our results because they were representative of our population. However, these cases were excluded when discussing the results of our review of math error responses in the body of the report.

Based on our review results, we estimate that 8,906 of the 130,616 substantiated taxpayer responses to math error notices were not worked timely. We are 90 percent confident that the actual number of substantiated taxpayer responses that were not worked timely is between 4,177 responses and 13,635 responses. The margin of error is $\pm 4,729$ taxpayer responses.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 3,326 taxpayers who experienced delays in the resolution of their math error adjustments because the IRS did not timely work their unsubstantiated disputes of math error adjustments during the period January 1 through July 23, 2010 (see page 3).

Methodology Used to Measure the Reported Benefit:

The IRS uses a TC 470 with a Closing Code 94 when a taxpayer's dispute of a math error adjustment is identified as unsubstantiated and the case is referred to the Examination function. We identified 5,111 taxpayer accounts on the IMF that had a TC 470 with Closing Code 94 posted between January 1 and July 23, 2010.

We randomly selected and reviewed a statistically valid sample of 146 of the 5,111 unsubstantiated math error responses. We determined our sample size using a 90 percent confidence level, a ± 7 percent precision, and an expected error rate of 50 percent.

IRS guidelines state responses to taxpayers disputing math error adjustments are timely worked if the final response is provided to the taxpayer within 30 calendar days from the taxpayer's initial telephone call or from the earliest date the IRS received written correspondence from the taxpayer. For unsubstantiated math error responses, the IRS's adjustment to refer the case to the



Some Taxpayer Responses to Math Error Adjustments Were Not Worked Timely and Accurately

Examination function is considered the final response. We used the AMS, the CIS, and the IDRS to identify the date the taxpayer provided his or her unsubstantiated response to the math error adjustments, as well as the date the IRS entered the adjustment to refer the case to the Examination function for each of our sample cases.

The Accounts Management function did not enter the adjustments to refer the cases to the Examination function within 30 calendar days of receiving the taxpayers' dispute in 95 (65.1 percent) of the 146 cases. Based on our results, we estimate 3,326 of the 5,111 unsubstantiated math error responses processed between January 1 and July 23, 2010, were not worked timely. We are 90 percent confident that the actual number of unsubstantiated math error responses that were not worked timely is between 2,998 responses and 3,654 responses. The margin of error is ± 328 taxpayer responses.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 2,969 taxpayers who were incorrectly advised to file an amended return to substantiate their dispute of a math error adjustments during the period January 1 through July 23, 2010 (see page 7).

Methodology Used to Measure the Reported Benefit:

We identified 8,579,242 unique tax returns processed between January 1 and July 23, 2010, from the IRTF that contained 1 or more math error notice codes. We also identified 2,509,683 taxpayer accounts on the IMF in which a TC 290/291 with Source Code 02 posted to the taxpayer's account between January 1 and July 23, 2010. The IRS uses TC 290/291 with Source Code 02 to adjust taxpayers' accounts for substantiated math error responses.

To eliminate those tax adjustments that were not related to math error responses, we matched the taxpayer accounts identified with a TC 290 or TC 291 Source Code 02 to the tax returns that had one or more math error notice codes assigned. As a result of this analysis, we determined 54,666 tax returns had at least 1 math error notice code assigned and a TC 290 Source Code 02 was posted to the taxpayer's account. We also determined that 76,721 returns had at least 1 math error notice code assigned and a TC 291 Source Code 02 was posted to the taxpayer's account. We eliminated 771 cases that were included in both the TC 290 and TC 291 populations, which resulted in 130,616 substantiated math error response cases.

Because the use of TC 290 and 291 with Source Code 02 is not exclusive to math error responses, it is possible for both a math error notice code and a TC 290 or TC 291 to be posted to a taxpayer's account and the TC 290 or TC 291 not be related to a substantiated math error response. Because we were unable to identify these cases based on the data available, we assumed these adjustments related to a math error response when identifying the population of substantiated math error responses.



Some Taxpayer Responses to Math Error Adjustments Were Not Worked Timely and Accurately

We randomly selected and reviewed a statistically valid sample of 132 of the 130,616 substantiated math error responses. We used a 90 percent confidence level, a ± 6 percent precision, and an expected error rate of 20 percent to determine our sample size.

We used the AMS and the CIS to identify specific details of taxpayer responses to the math error adjustments and actions taken by the Accounts Management function, such as any notes made by the IRS employee in the Accounts Management function of whether or not the taxpayer's response should be identified as an unsubstantiated math error response. We also used the IDRS to identify the specific details of the adjustments input to refer the taxpayers' unsubstantiated math error responses to the Examination function.

The IRS provided incorrect information/advice to taxpayers in 3 (2.3 percent) of the 132 substantiated cases. Our review of the 132 substantiated cases identified 18 cases in which the TC 290/291 was not the result of a taxpayer's response to a math error notice. We have included these cases in the projection of our results because they are representative of our population. However, these cases were excluded when discussing the results of our review of math error responses in the body of the report.

Based on our review results, we estimate taxpayers were incorrectly advised in 2,969 of the 130,616 substantiated math error responses processed between January and July 23, 2010. We are 90 percent confident the actual number of taxpayers who received incorrect advice is between 172 taxpayers and 5,766 taxpayers. The margin of error is $\pm 2,797$ taxpayer responses.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 805 taxpayers who experienced delays in the resolution of their disputed math error adjustments because the IRS did not accurately work their disputes during the period January 1 through July 23, 2010 (see page 7).

Methodology Used to Measure the Reported Benefit:

The IRS uses a TC 470 with a Closing Code 94 when a taxpayer's dispute of a math error adjustment is identified as unsubstantiated and the case is referred to the Examination function. We identified 5,111 taxpayer accounts on the IMF that had a TC 470 with Closing Code 94 that was posted between January 1 and July 23, 2010.

We randomly selected and reviewed a statistically valid sample of 146 of the 5,111 unsubstantiated math error responses. We determined our sample size using a 90 percent confidence level, a ± 7 percent precision, and an expected error rate of 50 percent.

We used the AMS and the CIS to identify specific details of taxpayer responses to the math error adjustments and actions taken by the Accounts Management function, such as any notes made by the IRS employee in the Accounts Management function of whether or not the taxpayer's response should be identified as an unsubstantiated math error response. We also used the IDRS



Some Taxpayer Responses to Math Error Adjustments Were Not Worked Timely and Accurately

to identify the specific details of the adjustments input to refer the taxpayers' unsubstantiated math error responses to the Examination function.

The IRS incorrectly transferred the taxpayer's response to the Examination function in 23 (15.8 percent) of the 146 unsubstantiated responses we reviewed. As a result, taxpayers had the resolution of their dispute of the math error adjustments delayed or did not receive their tax benefits timely. Based on our results, we estimate taxpayers experienced delays in 805 of the 5,111 unsubstantiated cases processed between January 1 and July 23, 2010. We are 90 percent confident that the actual number of taxpayers who experienced delays is between 554 taxpayers and 1,056 taxpayers. The margin of error is ± 251 taxpayer responses.

Type and Value of Outcome Measure:

- Revenue Protection – Potential; \$39,521,235 in tax benefits the IRS will incorrectly pay to 34,635 taxpayers over the next 5 years related to the IRS's inaccurate resolution of taxpayer substantiated math error responses (see page 7).

Methodology Used to Measure the Reported Benefit:

We identified 8,579,242 unique tax returns processed between January 1 and July 23, 2010, from the IRTF that contained 1 or more math error notice codes. We also identified 2,509,683 taxpayer accounts on the IMF in which a TC 290/291 with Source Code 02 posted to the taxpayer's account between January 1 and July 23, 2010. The IRS uses a TC 290/291 with Source Code 02 to adjust taxpayers' accounts for substantiated math error responses.

To eliminate those tax adjustments that were not related to math error responses, we matched the taxpayer accounts identified with a TC 290 or TC 291 Source Code 02 to the tax returns we identified that had one or more math error notice codes assigned. As a result of this analysis, we determined 54,666 tax returns had at least 1 math error notice code assigned and a TC 290 Source Code 02 was posted to the taxpayer's account. We also determined that 76,721 returns had at least 1 math error notice code assigned and a TC 291 Source Code 02 was posted to the taxpayer's account. We eliminated 771 cases that were included in both the TC 290 and TC 291 populations, which resulted in 130,616 substantiated math error response cases.

Because the use of a TC 290/291 with Source Code 02 is not exclusive to math error responses, it is possible for both a math error notice code and a TC 290 or TC 291 to be posted to a taxpayer's account and the TC 290 or TC 291 not be related to the substantiated math error response. We assumed the adjustments related to a math error response when identifying the population of substantiated math error responses because the only way to identify the reason for these adjustments would involve reviewing each taxpayer's return and account.

We randomly selected a statistically valid sample of 132 cases from the population of 130,616 substantiated math error responses using a confidence level of 90 percent, a



*Some Taxpayer Responses to Math Error Adjustments
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precision factor of ± 6 percent, and an expected error rate of 20 percent to determine our sample size.

We used the IDRS to identify the type and dollar amount of the math error adjustments and the adjustments input by the Accounts Management function in response to the taxpayer's substantiated response. We used the AMS and the CIS to identify specific details of taxpayer responses to the math error adjustments and actions taken by the Accounts Management function, such as any notes made by the IRS employee in the Accounts Management function of whether or not the taxpayer's response should be identified as a substantiated math error response.

The adjustments made by the IRS in response to the taxpayer's dispute were inaccurate in 7 (5.3 percent) of the 132 substantiated math error response cases reviewed resulting in the taxpayers' refunds being overstated by a total of \$7,988. Our review of the 132 substantiated cases identified 18 cases in which the TC 290/291 was not the result of a taxpayer's response to a math error notice. We have included these cases in the projection of our results because they were representative of our population. However, these cases were excluded when discussing the results of our review of math error responses in the body of the report.

Based on our review results, we estimate inaccurate resolution of substantiated math error responses resulted in the IRS incorrectly giving 6,927 taxpayers \$7,904,247 in tax benefits to which they were not entitled between January 1, 2010, and July 23, 2010. We are 90 percent confident that the actual number of taxpayers is between 2,722 and 11,131 and the amount of tax benefits incorrectly paid is between \$2,553,263 and \$14,714,590. We estimate the IRS could incorrectly pay 34,635 taxpayers \$39,521,235 in tax benefits to which they are not entitled over the next 5 years.

Figure 1 shows the results of our substantiated math error response case review and the projection analysis for those taxpayers who received more benefits than they were entitled to because of the inaccurate resolution of their math error response.

***Figure 1: Projection Analysis – Tax Benefits
Incorrectly Paid to Taxpayers Due to Inaccurate Resolution***

	Size	Inaccurate	Dollar Impact (Understated Tax)
Sample	132	7	\$7,988
Population/Projection	130,616	6,927	\$7,904,247

Source: TIGTA analysis of a statistically valid sample of 132 substantiated math error responses processed between January 1 and July 23, 2010.



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Type and Value of Outcome Measure:

- Taxpayer Rights and Entitlements – Potential; at least \$29,161,010 in tax benefits the IRS will not pay to 39,580 taxpayers who substantiate their dispute of a math error adjustment over the next 5 years because the IRS incorrectly worked their dispute (see page 7).

Methodology Used to Measure the Reported Benefit:

We identified 8,579,242 unique tax returns processed between January 1 and July 23, 2010, from the IRTF that contained 1 or more math error notice codes. We also identified 2,509,683 taxpayer accounts on the IMF in which a TC 290/291 with Source Code 02 posted to the taxpayer's account between January 1 and July 23, 2010. The IRS uses a TC 290/291 with Source Code 02 to adjust taxpayers' accounts for substantiated math error responses.

To eliminate those tax adjustments that were not related to math error responses, we matched the taxpayer accounts identified with a TC 290 or TC 291 Source Code 02 to the tax returns that had one or more math error notice codes assigned. As a result of this analysis, we determined 54,666 tax returns had at least 1 math error notice code assigned and a TC 290 Source Code 02 was posted to the taxpayer's account. We also determined that 76,721 returns had at least 1 math error notice code assigned and a TC 291 Source Code 02 was posted to the taxpayer's account. We eliminated 771 cases that were included in both the TC 290 and TC 291 populations, which resulted in 130,616 substantiated math error response cases.

Because the use of a TC 290/291 with Source Code 02 is not exclusive to math error responses, it is possible for both a math error notice code and a TC 290 or TC 291 to be posted to a taxpayer's account where the TC 290 or TC 291 is not related to a substantiated math error response. We assumed these adjustments related to a math error response when identifying the population of substantiated math error responses because the only way to identify the reason for these adjustments would involve reviewing each taxpayer's return and account.

We randomly selected a statistically valid sample of 132 cases from the population of 130,616 substantiated math error responses. We used a confidence level of 90 percent, a precision factor of ± 6 percent, and an expected error rate of 20 percent to determine our sample size.

We used the IDRS to identify the type and dollar amount of the math error adjustments and the adjustments input by the Accounts Management function in response to the taxpayer's substantiated response. We used the AMS and the CIS to identify specific details of taxpayer responses to the math error adjustments and actions taken by the Accounts Management function, such as any notes made by the IRS employee in the Accounts Management function of whether or not the taxpayer's response should be identified as a substantiated math error response.



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We found that adjustments made to taxpayers' accounts who disputed a math error adjustment were inaccurate in 8 (6.1 percent) of the 132 substantiated responses, resulting in refunds being understated or balance due amounts being overstated by a total of \$5,894. Our review of the 132 substantiated cases identified 18 cases in which the TC 290/ 291 was not the result of a taxpayer's response to a math error notice. We have included these cases in the projection of our results; however, these cases were excluded when discussing the results of our review of math error responses in the body of the report.

Based on our review results, we estimate the inaccurate resolution of substantiated math error responses resulted in 7,916 taxpayers receiving \$5,832,202 less in tax benefits than they were entitled to receive between January 1 and July 23, 2010. We are 90 percent confident that the actual number of taxpayers is between 3,440 and 12,393 and the amount of tax benefits not paid is between \$1,385,490 and \$11,916,370. We estimate 39,580 taxpayers will not receive tax benefits totaling \$29,161,010 over the next 5 years.

Figure 2 shows the results of our substantiated math error response case review and the projection analysis for those taxpayers who did not receive the benefits to which they were entitled due to the inaccurate resolution.

**Figure 2: Projection Analysis – Tax Benefits
Denied Taxpayers Due to Inaccurate Resolution**

	Size	Inaccurate	Dollar Impact (Overstated Tax)
Sample	132	8	\$5,894
Population/Projection	130,616	7,916	\$5,832,202

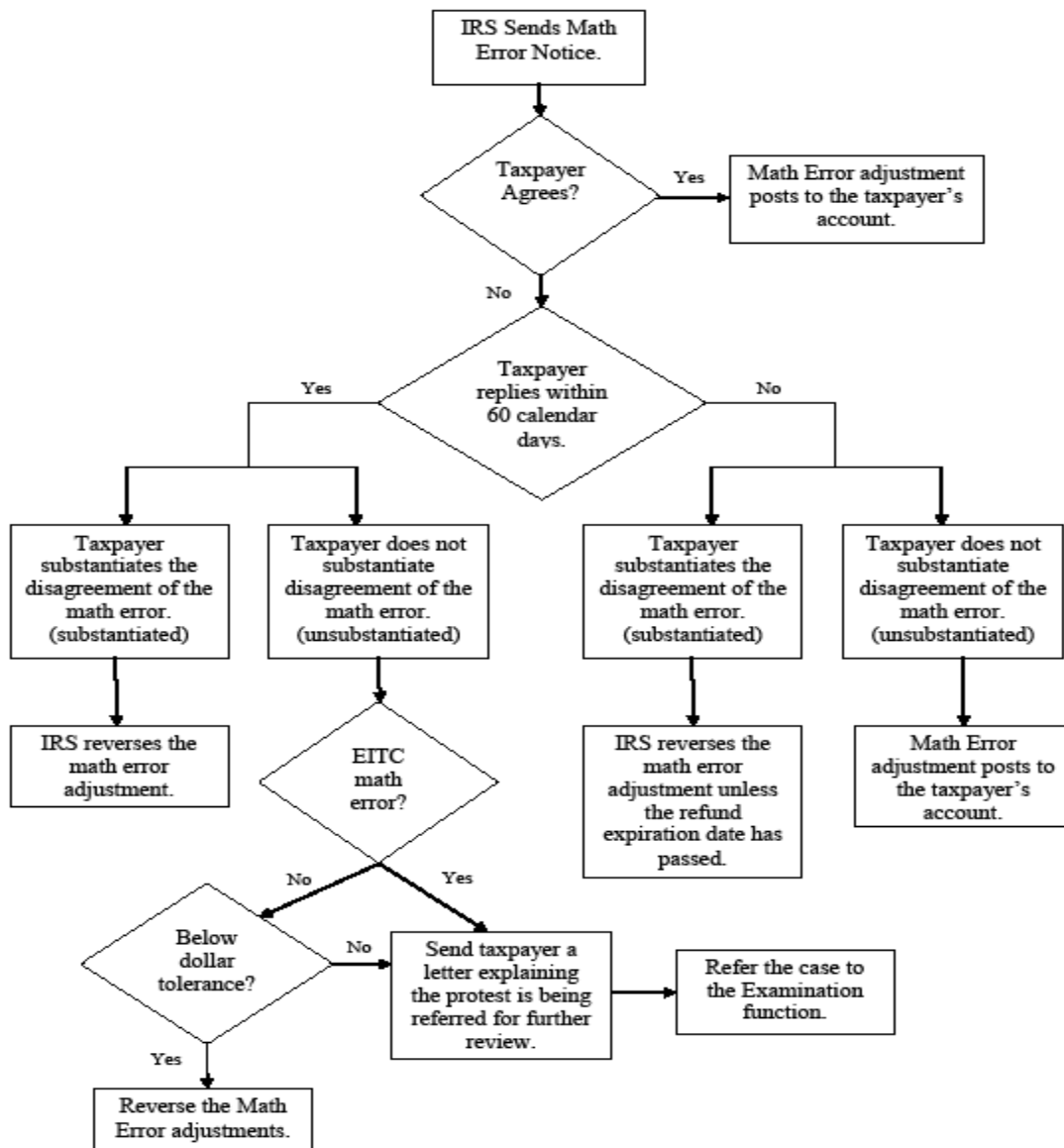
Source: TIGTA analysis of a statistically valid sample of 132 substantiated math error responses processed between January 1 and July 23, 2010.



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Appendix V

Process to Resolve Responses to Math Error Notices





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Were Not Worked Timely and Accurately*

Appendix VI

Glossary of Terms

Accounts Management System (AMS) – a web-based resource that brings various IRS systems together in one common view to share taxpayer information and integrates access to many tools used by IRS employees.

Computer Paragraph Notice – the most common form of communication with the taxpayer regarding their account to notify them of any change to the taxpayer's original return or in response to taxpayer correspondence.

Correspondence Imaging System (CIS) – an inventory system used to scan written correspondence in order to convert paper documentation to digital images for the IRS to work cases in a paperless environment.

Data Center Warehouse – provides data and data access services through the TIGTA Intranet.

Filing Season – the period from January 1 through April 15 when most individual income tax returns are filed.

Individual Master File (IMF) – contains information about taxpayers filing individual income tax returns and related documents.

Individual Return Transaction File (IRTF) – contains data transcribed from initial input of the original individual tax returns during return processing.

Integrated Data Retrieval System (IDRS) – a computer system with the capability to instantaneously retrieve or update stored taxpayers' account information.

Internal Revenue Manual (IRM) – provides procedural guidance for the IRS's operations.

IRS Campus – 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.

Processing Year – the year beginning January 1 in which the IRS processes the tax returns for the prior calendar year. For example, the IRS processed Tax Year 2010 tax returns beginning in January 2011.

Transaction Code (TC) – a three-digit code used to identify actions being taken to a taxpayer's account on various IRS systems.



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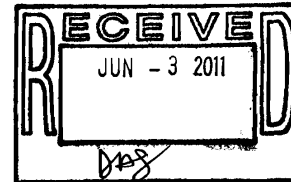
Appendix VII

Management's Response to the Draft Report



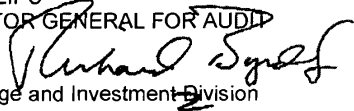
COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308



June 3, 2011

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard Byrd, Jr. 
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Some Taxpayer Responses to Math
Error Adjustments Were Not Worked Timely and
Accurately (Audit # 201040049)

We have reviewed the subject draft report. The IRS is committed to providing the best service to our customers and recognizes this audit as a welcome opportunity to review our processes.

The IRS agrees that responses to math error adjustments should be worked timely and properly, however, we must also balance our responses to written math error notice inquiries with other written taxpayer correspondence we receive. Our resources are limited, which presents challenges when handling over 20 million pieces of paper correspondence received in the Accounts Management function, annually, along with increasing telephone demand. While important, replies to math errors represent a small fraction of our overall inventory.

We must balance our service between disputes regarding math errors received through written correspondence and inquiries received through the Toll-Free telephone lines. Typically, explanations of math error adjustments, via the phone, require further clarification to ensure the taxpayer fully understands our response.

Your report identifies timeliness issues on 40 percent of the sampled cases, based on a 30-day response timeframe. While the taxpayer did not receive a final response within 30 days, it is important to note the IRS issued an interim letter for over 90 percent of the cases. While interim letters do not resolve the taxpayer issue, they do provide an acknowledgement that we are working on the taxpayer's case. Timely interim letters comply with the Internal Revenue Manual requirements, and they keep taxpayers informed regarding the status of their cases.



*Some Taxpayer Responses to Math Error Adjustments
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We reviewed the Outcome Measures in Appendix IV and found your methodology to be problematic regarding the dollar projections related to lost revenue and tax benefits denied due to inaccurate resolution of the math error case. We agree with your projections for the population with inaccurate resolution. However, applying a dollar value to that population based on a sample of only eight cases is, in our view, not appropriate. To make predictions for lost revenue on a population of 6,927 cases or taxpayers with 90 percent confidence interval, 6 percent margin of error, and 20 percent error estimate rate, the Treasury Inspector General for Tax Administration would have to use a sample size of 119 cases, and would need a similar sample size to predict a dollar figure for tax benefits denied due to the inaccurate resolution. Due to the insufficient sample size for a dollar projection, we do not agree with your five year projected outcomes.

Attached are our comments to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Peter J. Stipek, Director, Customer Account Services, Wage and Investment Division, at (404) 338-8910.

Attachment



*Some Taxpayer Responses to Math Error Adjustments
Were Not Worked Timely and Accurately*

Attachment

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 1:

Develop a process to monitor the timeliness of responses to math error adjustments and ensure these responses are being worked within the 30 calendar day timeliness requirement.

CORRECTIVE ACTION:

We appreciate the importance of timely responses to math error adjustments and have already taken steps by using interim letters in cases where resource constraints prevent us from completing the case in 30 days. As indicated above, the IRS complies with the Internal Revenue Manual requirements by issuing a timely interim letter, and, as documented in your report, interim letters were issued in over 90 percent of the cases that the IRS was unable to resolve within 30 days. Additionally, current reporting processes already track the days to closure for all case types within Accounts Management.

Implementation Date:

Implemented

Responsible Official:

N/A

Corrective Action Monitoring Plan

N/A

RECOMMENDATION 2:

Prioritize the working of written responses relating to EITC recertification math error adjustments.

CORRECTIVE ACTION:

The IRS agrees with the importance of working all EITC cases in a timely manner. Taxpayers with certain EITC errors in the past are required to comply with statutory recertification requirements. As with other important issues, the IRS must balance resources in determining the highest priority cases. As your report reflects, most cases are worked on a first-in, first-out basis. Certain issues, such as identity theft and disaster claims, receive priority consideration. The IRS strives to work all EITC correspondence on a timely basis, but does not agree that it is appropriate to prioritize recertification cases above other EITC work or above other taxpayer work that must also be performed on a timely basis.



*Some Taxpayer Responses to Math Error Adjustments
Were Not Worked Timely and Accurately*

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Implementation Date:

N/A

Responsible Official:

N/A

Corrective Action Monitoring Plan

N/A

RECOMMENDATION 3:

Develop and distribute written communication reinforcing to Accounts Management function assistants the need to thoroughly and accurately work responses to math error adjustments and the impact on both the IRS and the taxpayer when responses are not accurately resolved.

CORRECTIVE ACTION:

We agree with this recommendation. Necessary communications will be prepared to reinforce the need for thorough and accurate work related to math error adjustments. Communications will include the impact to the IRS and the taxpayer when the responses are not accurately resolved.

Implementation Date:

January 15, 2012

Responsible Official:

Director, Accounts Management, Wage and Investment Division

Corrective Action Monitoring Plan

The IRS will monitor this corrective action as part of our internal management control system.