



Treasury Inspector General for Tax Administration Office of Audit

ACTIONS ARE NEEDED TO STRENGTHEN THE NATIONAL QUALITY REVIEW SYSTEM FOR CORRESPONDENCE AUDITS

Issued on September 20, 2013

Highlights

Highlights of Report Number: 2013-30-099 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

An audit is one of the primary enforcement tools the IRS uses to address noncompliance with the tax laws. Because problems with correspondence audits are not always recognized and reported, the IRS may be missing opportunities to reduce the noncompliance that contributes to the Tax Gap and promote tax system fairness among the tax-paying public.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine the accuracy of the results from the National Quality Review System (NQRS) and how management uses the feedback to enhance the quality of correspondence audits. The review is part of our Fiscal Year 2013 Annual Audit Plan and addresses the major management challenge of Tax Compliance Initiatives.

WHAT TIGTA FOUND

The NQRS is designed to provide IRS managers at all levels with estimates of audit quality from a sample of audits to use in identifying areas in which corrective actions are needed. However, TIGTA identified areas that could be strengthened to increase the accuracy of NQRS review results, enhance the ability of managers to identify and address quality problems with correspondence audits, and ensure that the NQRS sample is selected at random.

The auditing standards and NQRS quality measures need to be better aligned. The auditing standards, including the consideration given to significant issues, contain key requirements not evaluated under the NQRS. This can create inconsistencies in how examiners conduct audits and in how the NQRS evaluates the quality of those audits to identify errors.

For example, TIGTA evaluated a statistical sample of 127 of 2,913 correspondence audits that had been reviewed by the NQRS during an 18-month period and

found errors with penalty determinations in 65 of the audits (51 percent) that had not been detected and reported by NQRS quality reviewers.

IRS executives and stakeholders should be provided with a more comprehensive snapshot of audit quality so that needed corrective actions can be timely recognized and taken. Only one overall measure of audit quality is currently reported quarterly by the NQRS to IRS executives and other key stakeholders even though as many as 71 items are reviewed.

Finally, the random selection of audits for NQRS review could not be verified. As such, TIGTA was not able to confirm the statistical validity of the NQRS results.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS ensure that 1) the auditing standards align with the NQRS quality measures, 2) a more complete picture of correspondence audit quality is provided to NQRS customers on a regular basis, and 3) audits are selected randomly for NQRS review.

In their response to the report, IRS management agreed with the first two recommendations and plans to take corrective action. IRS management disagreed with the third recommendation, indicating that they do not have a cost-effective way to allow the randomness of the NQRS case selection process to be verified. Because the IRS's conclusion was reached after the draft report was issued, the underlying details supporting the conclusion were not evaluated. If the sample selection process cannot be verified, the IRS cannot be assured of the statistical validity of NQRS results.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2013reports/201330099fr.pdf>

E-mail Address: TIGTACommunications@tigta.treas.gov

Phone Number: 202-622-6500

Website: <http://www.treasury.gov/tigta>