



Treasury Inspector General for Tax Administration Office of Audit

IMPROVEMENTS ARE NEEDED IN DOCUMENTATION AND DATA ACCURACY FOR THE EMPLOYMENT TAX STUDY

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Highlights

Highlights of Report Number: 2014-10-031 to the Internal Revenue Service Deputy Commissioner for Services and Enforcement and Director, Office of Research, Analysis, and Statistics.

IMPACT ON TAXPAYERS

The National Research Program (NRP) Employment Tax Study is designed to collect examination data to allow the IRS to understand the compliance characteristics of taxpayers and use the information to improve employment tax compliance. If complete and accurate data are not collected as part of the NRP Employment Tax Study, study results may not allow the IRS to focus its limited resources on productive areas, reduce burden on compliant taxpayers, or better educate taxpayers on employment tax issues.

WHY TIGTA DID THE AUDIT

The overall objective of this review was to determine whether the examinations conducted as part of the NRP Employment Tax Study considered mandatory (issues specific to a particular IRS business unit), required (issues common among all IRS business units), and worker classification employment tax issues, and whether examiners properly documented examination work and appropriately recorded examination results.

WHAT TIGTA FOUND

TIGTA determined that examiners generally completed required forms for the NRP Employment Tax Study to document that they considered mandatory, required, and worker classification issues. However, various supporting documents were not included in the electronic case files. For example, examiners generally noted that they performed payroll reconciliations on the required forms for a statistical sample of cases TIGTA reviewed. However, in 32 percent of the cases reviewed, examiners did not document steps taken to perform the payroll reconciliations. For instance, examiners noted that they reconciled the Employer's Quarterly Federal Tax Return to Wage and Tax Statements, but there was no documentation in some electronic case files to verify these reconciliations were completed. Required

managerial reviews were not effective in identifying the issues TIGTA found.

TIGTA also found inaccuracies on the NRP Employment Tax databases. From a statistical sample of 95 closed cases, TIGTA determined that 1,037 of 3,065 data elements related to examination workpapers and 44 of 1,683 data elements related to examination reports were not accurately reflected on the NRP Employment Tax databases.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Small Business/Self-Employed Division, and Commissioner, Tax Exempt and Government Entities Division, remind managers and examiners of the importance of adequately documenting case files and document lessons learned to improve future quality of employment tax examinations. In addition, TIGTA recommended that the Director, Office of Research, improve the quality of the data compiled as part of the NRP Employment Tax Study.

In their response to the report, IRS officials agreed with TIGTA's recommendations and plan to or have taken corrective actions. The IRS plans to discuss better documentation of case files with staff and managers and inform all examiners about best practices and techniques to improve employment tax audit quality overall. Also, the IRS plans to employ a data perfection process to identify and correct data problems.

READ THE FULL REPORT

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

<http://www.treas.gov/tigta/auditreports/2014reports/201410031fr.pdf>.

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