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November 1985

TAX ADMINISTRATION

Information on IRS' Philadelphia Service Center



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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

**GENERAL GOVERNMENT
DIVISION**

November 22, 1985

B-221000

The Honorable Bob Packwood
Chairman, Committee on Finance
United States Senate

The Honorable John Heinz
United States Senate

The Honorable William V. Roth, Jr.
United States Senate

On April 15, 1985, you asked GAO to investigate certain reported problems at the Internal Revenue Service's Philadelphia Service Center (PSC). We recently briefed your staffs on the status of our work. They asked that we issue our briefing package to you as a formal document.

We organized the document around the issues you asked us to address. In respective sections, we discuss PSC controls over tax returns; inventory backlogs; incidents involving documents that were, or were alleged to have been, improperly discarded or destroyed; refunds; and statistics on correspondence.

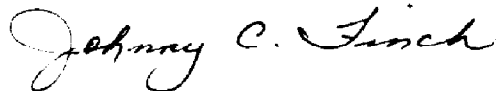
We obtained our information through discussions with IRS officials, primarily at PSC, and through a review of IRS records. Service center and regional office officials, including the Service Center Director and the Regional Commissioner, reviewed a draft of this document, and we considered their comments in preparing our final version.

As discussed with your offices, this document contains no conclusions or recommendations. We are continuing work at PSC, in response to your request, and at the Internal Revenue Service's nine other service centers, in response to a request from the Subcommittee on Oversight of the House Committee on Ways and Means. We expect to report on the final results of that work in the near future.

B-221000

As agreed with your offices, unless you publicly announce its contents or authorize its release sooner, no further distribution of this document will be made until 30 days from the date of this document.

If you have questions about our study or this document, please contact me on 275-6407.

A handwritten signature in cursive script that reads "Johnny C. Finch".

Johnny C. Finch
Senior Associate Director

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ABBREVIATIONS

ACS	Automated Collection System
DIS	Distributed Input System
DLN	Document Locator Number
ERS	Error Resolution System
GMF	Generalized Mainline Framework
GUF	Generalized Unpostable Framework
IDRS	Integrated Data Retrieval System
IRS	Internal Revenue Service
NAS	National Advanced System
NCC	National Computer Center
PSC	Philadelphia Service Center
RACS	Revenue Accounting Control System
RPS	Remittance Processing System
SCCF	Service Center Control File

CONTROLS OVER TAX RETURNS

This section contains information on certain controls in place at the Philadelphia Service Center (PSC) to protect against "lost returns," including controls over the returns processing system, controls over trash disposal, and controls at the service center's entrances and exits. This section also includes information on the Service Center Control File which is used to ensure that returns that begin processing finish processing.

CONTROLS OVER THE TAX RETURN PROCESSING SYSTEM

IRS has established various mechanisms to provide some control over tax returns as they are being processed through the service center. Some of those controls are discussed below. But first, to help put that information in perspective, we are providing descriptions of the returns processing system and the various computer systems that come into play as returns are being processed.

IRS' tax return processing system

IRS' system for processing tax returns begins with three major phases--receipt and control, document perfection, and data conversion. As described below, the processing of a return through those phases varies somewhat depending on whether the return was filed with or without a remittance.

Receipt and control

All incoming tax returns and related documents, remittances, and taxpayer correspondence enter the tax processing system through the service center's Receipt and Control Branch, one of the most labor-intensive processing functions. Here they are received, removed from envelopes, sorted, classified, and prepared for placement under batch control. All remittances are counted, associated with a tax return or related correspondence, and deposited in a Treasury tax and loan account at a Federal Reserve Bank or designated commercial bank. Returns with remittances and returns without remittances follow different processing routes through the Branch after the returns have been sorted. The differences are highlighted in the following discussions.

The service center mailroom serves as the centralized repository for all incoming mail. An "omnisort" machine is used to slice open the envelopes and sort the mail by document type. The sort is based on bar codes which have been preprinted on the outside of the envelopes included with tax return packages. Uncoded envelopes are kept together and are referred to as "white mail."

Bar coded envelopes allow the mail to be machine sorted into the following categories: Form 1040A; Form 1040 Business or Farm; Form 1040 Non-Business; Form 1040ES; Forms 940, 941, 942, and 943; Form 720; Form 1065; Form 1120; Form 1120S; Form 11 series; and correspondence.

After the mail is counted, sliced open, and sorted, it is placed in trays. The trayed envelopes are then taken to the Extracting and Sorting Unit. Extractors assigned to that unit remove the tax returns and documents from the envelopes and sort them into over 20 categories at "Tingle Tables", specially designed tables for sorting tax returns and documents. Sorts are generally based on type of return or document and whether or not a remittance is involved. After a return or document has been sorted, the extractor "passes" each envelope over a light on the Tingle Table to ensure that it is empty. Before the envelopes are discarded, they are checked by another person using an electronic candler as an added precaution to ensure that no returns, correspondence, or remittances are overlooked and inadvertently destroyed.

With-remittance returns--Extractors further sort remittance returns into "perfect" and "imperfect" return categories. "Perfect" returns go to the Remittance Processing System (RPS) Unit for transcription of the return and payment data. "Imperfect" returns (those having some problem, such as with the name or social security number) go to the Remittance Perfection Unit for research or perfection. If that unit can perfect the return through resolution of the problem, it forwards the return to the RPS Unit. If not, the return is hand-numbered and is processed through the service center's Manual Finalization Group--a group which manually processes "problem" returns with remittances and handles the deposit function.

After returns arrive in the RPS Unit, they are grouped into work units called blocks. Block sizes vary depending on the volume and type of return but are not to contain more than 100 documents. After the returns are blocked, they are ready for RPS input. As part of the input process, the same unique control number called a Document Locator Number (DLN) is automatically encoded on the remittance and the return. Then, twice a day, an RPS tape is produced. RPS tapes are further processed to (1) provide a recapitulation of each day's deposit information used for balancing purposes and (2) post payment credits to taxpayer accounts. Subsequently, the remittances are forwarded to the Manual Finalization Group, which prepares a deposit ticket and forwards the remittances for deposit in a commercial bank or Federal Reserve bank.

From the Manual Finalization function, the numbered returns are released to the Batching function on carts where blocks of the same type of return are consolidated into "batches". The blocks, however, remain intact. A batch may include up to 20 blocks of returns but there is to be only one program, type of

return, or class of tax in a batch. After a batch of returns is prepared, a batch transmittal along with key-punched control cards are prepared to accompany and account for the returns as they proceed through the remaining process. From the batching unit, the returns are transported to the next phase of the process, document perfection.

Non-remittance returns--After being sorted, the non-remittance returns are released to the Batching function on carts. The batching procedures for non-remittance returns are the same as those for with-remittance returns. Unlike remittance returns, however, the batch volume is an estimated count rather than an actual count. Non-remittance returns are assigned DLNs, final counted, and batched after the next phase of the process, document perfection.

Document perfection

The Document Perfection Branch receives batches of returns from the Receipt and Control Branch. The returns are given to tax examiners, who review each return and its accompanying schedules. This review, known as code and edit, is intended to ensure that certain items are present on the return and that the items are properly placed and legible. Illegible entries are clarified, and misplaced entries are repositioned. For example, some taxpayers may incorrectly show their Federal Income Contributions Act withholdings as income tax withheld. The examiners are expected to correct these kinds of conditions. Unsigned returns and returns missing wage statements are the predominant problems that code and edit examiners have to deal with. Examiners also enter codes on the return, such as filing status codes and exemption codes, which are subsequently entered into a computer by data transcribers to allow the computer to calculate a taxpayer's tax liability. Computer condition codes may be used to direct the computer to take certain programmed actions. For example, an "unallowable deduction" code may be entered on a return to refer it for possible audit.

Non-remittance returns--Although the code and edit process is the same for both with-remittance and non-remittance returns, procedures are different for acquiring information omitted from the return but necessary to continue processing the return. Non-remittance returns (except those involving a balance due) that involve missing information, such as a signature or a schedule, that only the taxpayer can provide are returned to the taxpayer along with an explanation. When the taxpayer furnishes the necessary information, the return re-enters the system as though it had never been filed. Because the tax examiners write a brief description of the data needed in the corner of the return, they can tell what has been requested when the return re-enters the system.

If the missing data, such as a social security number, name, or address, can be obtained from the service center's Entity Control function, it is not necessary to return the document to the taxpayer. In either case, problem-free documents remaining in the block/batch are not held up.

When a batch of non-remittance returns is completely edited, the returns are given DLNs and are final batched in the Batching and Numbering Unit. The documents are then forwarded to Data Conversion.

With-remittance returns--As mentioned above, the code and edit process is the same for both with-remittance and non-remittance returns. Because with-remittance returns are already numbered when they come to the Document Perfection Branch, they are not returned to the taxpayer if needed information is missing. Instead, these returns retain their DLNs and remain under batch control. If there is missing or incomplete data, the return is to be coded as unprocessable, and "kicked" out of the system for handling by another function.

In addition to with-remittance returns, returns which have the following characteristics are not sent back to the taxpayer if they involve missing information:

- Returns received from an Army Post Office address.
- Returns obtained by a revenue officer as a result of a taxpayer delinquency investigation.
- Returns that involve a payment due.
- Corporate returns.

These returns, with an attached Correspondence Action Sheet, are sent to the Taxpayer Relations Branch for correspondence with the taxpayer. Returns are held in the branch until a reply is received. When a reply is received, the return, along with the taxpayer response, is sent to the Receipt and Control Branch where it is put in a separate sub-batch and sent directly to code and edit.

Unlike non-remittance documents, after with-remittance documents have been edited, they are forwarded directly to Data Conversion because they have already been numbered and final batched.

Data conversion

The Data Conversion function converts information on tax returns, supporting schedules, and forms to a format and media suitable for computer processing.

The service center's computer systems

As indicated by the chart on page 9, various computer systems come into play as returns are being processed at the service center. Those systems are described below. The chart on page 10 shows how the various computer systems tie together.

Univac computer

During the 1985 tax return processing season, PSC had a Univac 1100 series computer. The computer was used to process realtime data input from (1) the Integrated Data Retrieval System (IDRS), which handles active taxpayer accounts, such as collection and examination cases, and taxpayers' inquiries on those accounts; (2) the Error Resolution System (ERS), which is used by tax examiners to correct errors found on tax returns during returns processing; and (3) the Generalized Unpostable Framework (GUF), which is used by tax examiners to correct conditions which prevent service center processed data from posting to the taxpayer accounts at the National Computer Center (NCC)-- otherwise known as the master file. The Univac was also used to update the service center's files on individual taxpayers and to process the Generalized Mainline Framework (GMF) string of computer runs. The GMF runs are the computer programs used to process the payment and tax return data that is entered through IRS' Distributed Input System (DIS) and the transactions that are entered daily on IDRS, ERS, and GUF. The transactions that pass successfully through the GMF string of runs are forwarded daily to NCC for posting to the master file.

Distributed Input System

DIS is used to enter payment and tax return data into the Univac computer. DIS consists of a series of video display terminals that are connected to a storage unit or "node." For example, the Philadelphia Service Center has 14 nodes with 24 terminals connected to each one. The nodes are connected to a master node, which is a National Advanced System (NAS) 6650 computer. NAS processes and formats the data from DIS so that the data can be processed by the Univac computer. The output from NAS are computer tapes, which are input to the GMF processing on the Univac computer.

Remittance Processing System

RPS is a multifunctional system, combining both equipment and procedures, which automates the deposit of remittances and the control of source documents. RPS is in the service center's Receipt and Control function. RPS computerizes the recapitulation of each day's deposit information while simultaneously preparing tapes to post credits to taxpayer accounts. There are four categories of payment documents processed through RPS: (1)

tax returns, (2) subsequent payments, (3) estimated tax payment vouchers, and (4) extensions of time to file tax returns accompanied with tax payments.

Error Resolution System

ERS is the on-line error correction system. It is used to correct tax return errors made while processing the returns and certain errors made by taxpayers. The errors are detected by the Univac computer when it processes the DIS input tapes and subjects them to various math and validity checks. ERS is used only for correcting errors made on the Forms 1040 and 941 series of returns. All other types of tax returns are corrected on computer-generated documents called error registers. Under ERS, the error register appears on the ERS terminal video display screen and tax examiners input the corrections on the terminal. The output from ERS is put on a magnetic computer tape and run as part of the GMF string of computer runs.

Generalized Unpostable Framework

GUF is the realtime computer system used to correct conditions which prevent transactions that have been processed through the service center from posting to the taxpayer accounts at NCC. Each week, the service center receives from NCC a tape of transactions that did not post to the master file. Most unpostable conditions relate to problems with taxpayers' names, social security numbers, or employer identification numbers, which cause a mismatch between the service center's records and NCC's records. To correct an unpostable condition, tax examiners often must first research the taxpayer's account on IDRS (see below) and examine the source document. Corrections are entered onto the GUF terminals and are processed by the Univac computer as part of the GMF string of computer runs.

Integrated Data Retrieval System

IDRS is a realtime system that contains information on active taxpayer accounts. It is used to research accounts in response to taxpayer inquiries, enter adjustments to taxpayer accounts, and generate notices and letters to taxpayers. Adjustments made to taxpayer accounts on IDRS are processed daily through the GMF string of runs and are forwarded to NCC for posting to the master file. Taxpayers' accounts are deleted from IDRS after the adjustments post to the master file and NCC forwards the posting tape to the service center. The deletions occur during the weekend updates of the IDRS files.

Revenue Accounting Control System (RACS)

RACS is a minicomputer-based system designed to assume the manual balancing, posting, and reporting processes performed in service centers. Its data base consists of the service center's General Ledger File and subsidiary files used in balancing and

reporting transactions. The General Ledger File records each accounting transaction as a debit or credit to the proper general ledger account. The transactions are also recorded in one or more of the subsidiary files. Transactions are posted to the RACS file daily through the GMF string of runs and are updated weekly from tapes received from NCC.

Automated Collection System (ACS)

ACS is a computerized telephone tax collection system designed to provide efficient case inventory management and to improve collection efforts through the automated scheduling of taxpayer cases for review via computer terminals. Each service center handles the collection inventory of at least two call sites, which work the collection cases within the geographic area covered by the service center. Collection cases appear on ACS after the normal balance due and delinquent return notices have been issued. Under ACS, the service center researches suspense files, inputs all IDRS actions, processes paper output from ACS, and performs other research and follow-up actions on ACS.

How IRS controls tax returns as they are being processed

Following is a description of certain mechanisms that IRS has established to provide some control over the returns processing system. It should be remembered that we are describing the controls as they are intended to work, without any assertion as to how they have actually worked. We are continuing to do work at PSC as well as IRS' other nine service centers that should enable us to comment on the effectiveness of some of those controls during the 1985 processing year.

Process controls

IRS has numerous process controls in place that are intended to ensure that the data flowing through its returns processing system is complete, accurate, and timely. The processing controls are designed to provide reasonable assurance that tax return input data will be (1) discretely identified to the taxpayer, (2) complete and accurate before it is processed, (3) recorded when it enters the system and accounted for in system output, (4) converted to machine processing format without loss or addition of data, and (5) processed accurately. In essence, the Receipt and Control, Document Perfection, and Data Conversion functions discussed earlier are data input process controls.

DLNs

Each document processed through IRS' tax processing system is assigned its own unique identifying number--a DLN. That number is used as a means of controlling, identifying, and

locating a return or document as it is processed through the service center. DLNs are assigned during the initial stages of document processing. In the case of with-remittance documents, the DLN is assigned during the remittance processing phase in Receipt and Control. Non-remittance documents are assigned DLNs after the code and edit phase in the Document Perfection Branch. DLNs are assigned either by the computer or manually and consist of several digits which indicate certain information about the document.

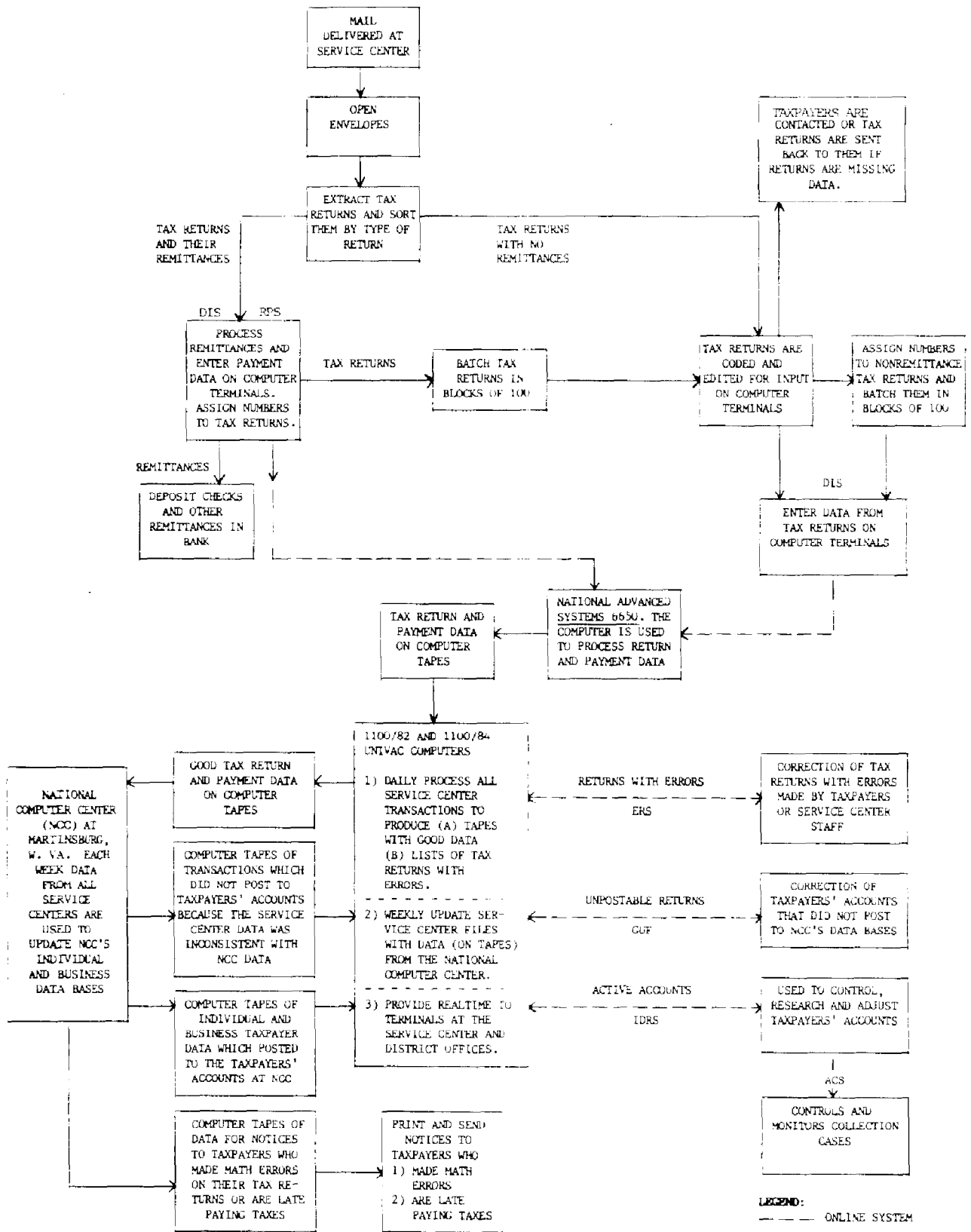
Batch/block control

All tax returns and related documents processed through the returns processing system are placed under batch control. A batch is a group of like returns or documents put together for processing and control purposes. The returns or documents, which could number as many as 2,000, are processed together through each function. A block of work, representing as many as 100 documents, is a group or sub-batch of returns or documents identified with consecutive DLNs to control the identity of the records. Therefore, a batch of returns may be comprised of up to 20 blocks of returns.

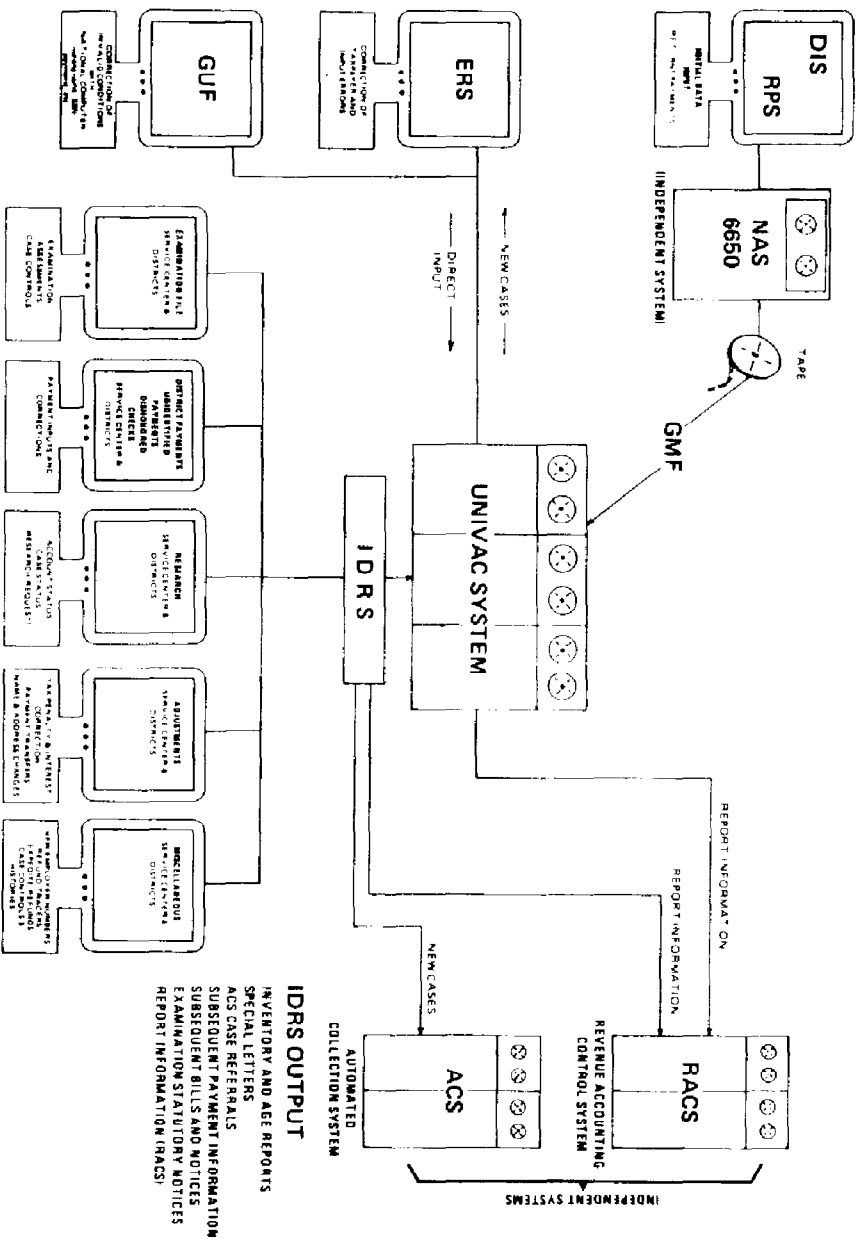
Each batch of work is assigned a number and each block within that batch is assigned (1) the batch number along with a suffix of between 01 and 20; (2) a DLN consisting of the service center code, tax class, document code, and the block number; and (3) an alphanumeric code for computer processing control. A Batch Transmittal, prepared for each batch, lists the block DLN for each block within the batch.

Batch control cards are prepared for each processing step. The cards include information on the number of items in the batch, the date of receipt, and the scheduled date for completing service center processing. When processing is complete in a functional area and returns are ready to move to the next area, one of the batch control cards is released to the Reports Unit in the Accounting Branch where it is used to prepare the daily Batch Profile Report. Managers can use the report to track the flow of work through the service center and to monitor the timeliness of processing in each major function. Further, the report can be used to determine the location of any batch of work in the service center.

SERVICE CENTER RETURNS PROCESSING SYSTEM



COMPUTER SYSTEMS



CONTROLS OVER TRASH DISPOSAL

The shredding machine at PSC has been used to shred paper refuse. However, PSC officials said that the shredder has not operated since the beginning of 1984 primarily because they consider it a fire hazard. PSC trash is currently taken to the City of Philadelphia incinerator. Burn barrels located throughout PSC are used to collect trash and are loaded directly onto trucks at PSC's loading dock for trips to the incinerator. On each trip, the IRS driver is accompanied by a contractor employee whose janitorial duties include picking up trash throughout the service center and helping transport it for disposal.

All drivers and janitorial employees are instructed to report any tax returns, checks, or related documents found in the trash. It was a janitorial employee who found tax returns with remittances in burn barrels on April 26, 1985, triggering a weekend search that resulted in 109 tax returns, checks, or other documents being found in the trash. (See p. 33 for more on this incident.)

The Acting Chief Warehouseman responsible for overseeing trash disposal told us that anytime he receives a cardboard box marked "BURN" for disposal, he asks the warehouseman who brought it to the loading dock where he got it. He then has the box ripped open and its contents sorted through. He said he has always followed this procedure and that it is not something he started after all the publicity about lost and shredded returns appeared in newspapers this year.

CONTROLS AT ENTRANCES AND EXITS

There are security guards posted at all PSC entrances and exits. They are authorized to search packages whenever the need arises, such as when an employee acts suspiciously or the guards are warned in advance that employees may be leaving with PSC property.

The guards are authorized to stop employees and ask them to open anything they are carrying. They have authority to then ask employees to search through the contents while the guard observes what they are doing.

A sign is posted at each PSC entrance and exit that states in part:

"Packages, briefcases, and other containers brought into, while on, or being removed from the property are subject to inspection. A full search of a person may accompany an arrest."

SERVICE CENTER CONTROL FILE (SCCF)

SCCF is a primary control over documents in the service center. It is an inventory file of all blocks of documents that have been input into the service center's computer system and placed under control for processing. SCCF is created before the tax data is transcribed from the documents into the computer. Documents are deleted from SCCF when they have finished service center processing. If no processing activity occurs on a block of documents on SCCF after 6 weeks, an age list is printed and Accounting Branch personnel are supposed to resolve the processing problem and ensure that the block of documents is processed to NCC. Computer processing problems and terminal input errors in 1985 increased the number of items on the SCCF age list. For example, during returns processing, computer terminal operators incorrectly transcribed the DLNs on some blocks of returns. As a result, mismatches occurred because the numbers were not on SCCF.

In June 1985, because of large volumes of aged items on SCCF, IRS established an SCCF Cleanup Task Force in each service center. According to IRS documents, the task force objective was to clean up, by September 30, all documents on SCCF dated May 31 or prior. The following tables, the most recent available to us when we compiled this information, show the status of that SCCF cleanup effort at each service center.

IRS' SOCF Statistics
Status of May 31 SOCF Inventory
As of September 21, 1985

<u>Service Center</u>	<u>Number of Documents on May 31 SOCF</u>	<u>Number of May 31 Documents Still Open As of Sept. 21^a</u>	<u>Number of Documents Removed From SOCF Since May 31</u>	<u>Percent Removed</u>
Andover (ANSC)	1,658,736	21,550	1,637,186	98.7
Austin (AUSC)	2,333,639	237,277	2,096,362	89.8
Brockhaven (BSC)	1,845,693	247,863	1,597,830	86.6
Cincinnati (CSC)	1,340,759	19,576	1,321,183	98.5
Fresno (FSC)	2,574,283	134,001	2,440,282	94.8
Kansas City (KCSC)	2,229,972	28,147	2,201,825	98.7
Memphis (MSC)	1,669,176	66,440	1,602,736	96.0
Atlanta (ATSC)	2,290,386	97,844	2,192,542	95.7
Ogden (OSC)	1,711,282	16,018	1,695,264	99.1
Philadelphia (PSC)	<u>2,767,719</u>	<u>302,608^b</u>	<u>2,465,111</u>	89.1
Total	<u>20,421,645</u>	<u>1,171,324</u>	<u>19,250,321</u>	94.3

^aThe cut-off dates for these statistics varied slightly by service center.

^bThe Philadelphia Service Center had reduced this inventory to 156,407 documents as of October 30, 1985.

Number and Type of Documents
Relating to May 31 Inventory
Still Open on SCOP
As of September 21, 1985^a

<u>Individual</u>	<u>ANBC</u>	<u>AUSC</u>	<u>BSC</u>	<u>CSC</u>	<u>FSC</u>	<u>KCSC</u>	<u>MBC</u>	<u>MISC</u>	<u>OBC</u>	<u>PSC</u>	<u>Total</u>
Payment Documents	333	16,287	14,616	1,060	8,425	1,581	3,357	4,392	271	25,361	75,683
Room 1040	3,705	62,043	60,779	1,873	29,025	3,867	12,857	26,535	1,924	73,446	276,054
Estimated Payments	182	5,579	5,777	71	6,617	644	969	2,239	9	11,463	33,550
Other	<u>6,726</u>	<u>44,563</u>	<u>59,466</u>	<u>8,326</u>	<u>42,203</u>	<u>5,189</u>	<u>14,071</u>	<u>26,964</u>	<u>8,418</u>	<u>64,596</u>	<u>280,522</u>
Subtotal	<u>10,946</u>	<u>128,472</u>	<u>140,638</u>	<u>11,330</u>	<u>86,270</u>	<u>11,281</u>	<u>31,254</u>	<u>60,130</u>	<u>10,622</u>	<u>174,866</u>	<u>665,809</u>
<u>Business</u>											
Room 720	163	1,086	529	58	958	191	484	401	70	1,073	5,013
Room 940	1,031	9,852	9,728	432	5,529	1,094	3,497	4,518	269	13,425	49,375
Room 941 (old)	1,322	12,937	23,119	631	7,702	1,340	3,851	3,536	375	23,471	78,284
Room 941 (new)	255	4,781	6,809	308	1,249	1,063	1,059	1,633	191	8,155	25,503
Room 942	75	5,375	2,686	269	1,441	254	2,142	1,543	76	5,085	18,946
Room 943	26	1,243	197	17	501	130	450	207	25	522	3,318
Room 1120	1,329	10,241	11,752	1,460	5,429	2,402	4,201	3,473	792	10,639	51,718
Payment Documents	215	6,301	6,326	595	3,129	784	1,562	3,402	414	10,058	32,786
Other	<u>6,188</u>	<u>56,989</u>	<u>46,079</u>	<u>4,476</u>	<u>21,793</u>	<u>9,608</u>	<u>17,940</u>	<u>19,001</u>	<u>3,184</u>	<u>55,314</u>	<u>240,572</u>
Subtotal	<u>10,604</u>	<u>108,805</u>	<u>107,225</u>	<u>8,246</u>	<u>47,731</u>	<u>16,866</u>	<u>35,186</u>	<u>37,714</u>	<u>5,396</u>	<u>127,742</u>	<u>505,515</u>
Total Individual and Business	<u>21,550</u>	<u>237,277</u>	<u>247,863</u>	<u>19,576</u>	<u>134,001</u>	<u>28,147</u>	<u>66,440</u>	<u>97,844</u>	<u>16,018</u>	<u>302,608</u>	<u>1,171,324</u>

^aThe cut-off dates for these statistics varied slightly by service center.

FACTORS CONTRIBUTING TO
INVENTORY BACKLOGS AT THE
PHILADELPHIA SERVICE CENTER

As discussed later in this document, many returns at the Philadelphia Service Center were in various error categories during the 1985 processing season. The following section includes information on the inventory levels in three of those categories--block-out-of-balance, error resolution, and unpostable--and various factors contributing to the growth in those inventories during 1985.

The Commissioner of IRS' Mid-Atlantic Region, which includes PSC, told us, in general, that many of the problems referred to in our report on the service centers in Austin, Texas, and Fresno, California¹--such as untimely training and inefficient computer programs--also affected PSC. According to the Regional Commissioner, several of those problems were outside the control of PSC. With specific reference to the large inventories experienced in 1985, PSC officials cited various contributing factors. Those factors are discussed below.

The information in this section came primarily from interviews with PSC personnel and documentation provided by IRS. The tables in this section showing inventory levels at PSC came from statistical reports maintained by the service center. The tables showing inventory levels at all 10 service centers came from IRS' National Office.

FACTORS CONTRIBUTING TO PSC's
BLOCK-OUT-OF-BALANCE
INVENTORY BACKLOG

When a condition exists in a given block of documents that creates an out-of-balance situation, the result is referred to as a "block-out-of-balance." Common examples are: (1) the sum of money amounts from each document within a block does not match the block header money total for the block or (2) the actual count of documents within the block is different from the total in the block header. As indicated in the tables on pages 18 and 19, PSC's block-out-of-balance inventories reached higher levels in 1985 than in 1984, and were higher, as of October 18, 1985, than at any other service center. Service center officials cited the following as factors contributing to those inventories.

¹Information on IRS Service Centers in Austin, Texas and Fresno, California (GAO/GGD-85-89; Sept. 30, 1985).

Contributing factors

- ° The National Office established additional block-out-of-balance criteria for individual tax returns for the 1985 processing year.
- ° Certain supervisory training was not provided in a timely manner to DIS managers. Specifically, it was not provided until the period March 18 through 22, 1985--almost 3 months into the processing year. Because supervisory transcribers did not have the ability to answer certain questions asked of them by the entry operators, input errors resulted.
- ° Human errors in the numbering of tax returns resulted in the same block number being assigned to two different blocks of returns.
- ° The document control and/or the block header record were sometimes transcribed incorrectly.
- ° The Data Conversion Branch hired 329 new data transcribers this processing year compared to only 140 last year. According to Branch officials, the inexperience of these many new transcribers probably resulted in additional errors which caused block-out-of-balance conditions.
- ° The new Distributed Input System required an adjustment period (learning curve) even for the experienced transcribers.
- ° Some block control clerks (temporaries and seasonals) did not know how to correct certain accounting-related problem conditions.
- ° Staffing in the block-out-of-balance correction unit was not increased to keep pace with volume.
- ° Computer runs were not properly sequenced. In other words, tax return data was run before the related control data was run through the service center computer system.
- ° Some document control tapes were not run; others were run twice.
- ° Because of a DIS software problem, certain correctly transcribed blocks of returns would get "hung" in the system. Although supervisory transcribers were aware of the problem and added the "hung" blocks to their next day's computer input, they failed to place the related blocks of tax returns in the proper work group. As a result, such blocks of returns were moved to files as

though they had cleared the computer system. This resulted in unlocatable returns, and without the returns, errors identified during subsequent processing could not be resolved.

PHILADELPHIA SERVICE CENTER
BLOCK-OUT-OF-BALANCE INVENTORIES

<u>Inventory at end of month</u>	Number of documents			
	Individual tax returns		Business tax returns	
	1984	1985	1984	1985
January	19,643	48,331	7,844	41,308
February	17,386	207,912	33,873	248,654
March	17,853	594,718	22,168	203,400
April	29,010	148,700	29,302	741,200
May	31,134	379,228	85,208	189,757
June	30,511	240,104	43,466	58,298
July	55,627	193,794	49,524	59,299
August	30,041	81,264	62,263	43,248
September	(not available)	59,792	(not available)	19,350
October	(not available)	16,441	(not available)	15,206

BLOCK-OUT-OF-BALANCE INVENTORIES
BY SERVICE CENTER
INDIVIDUAL AND BUSINESS DOCUMENTS COMBINED
WEEK OF OCTOBER 18, 1985

<u>Service Center</u>	<u>Number of documents</u>
Andover	4,442
Atlanta	21,753
Austin	2,543
Brookhaven	19,553
Cincinnati	2,337
Fresno	9,030
Kansas City	10,280
Memphis	3,136
Ogden	4,410
Philadelphia	<u>28,218</u>
Total	<u>105,702</u>

FACTORS CONTRIBUTING TO PSC'S
ERROR RESOLUTION INVENTORY BACKLOG

As discussed earlier, ERS is an on-line system used to correct certain tax return errors made either by the taxpayer in preparing the return or by IRS in processing it. As indicated by the tables on pages 24 and 25, the error resolution inventory at PSC reached several hundred thousand in mid-1985 before dropping significantly, but was still higher than the inventory at any other service center as of September 13, 1985. PSC officials cited the following as factors contributing to that inventory.

Contributing factors

- ° Because of various hardware and software problems experienced in the early part of the 1985 processing year, PSC's Computer Branch fell several days behind in processing tapes containing transcribed tax returns. In order to catch up, IRS management, in April 1985, leased a comparable computer system from the State of Pennsylvania. Although this decision resulted in the timely processing of more tax returns, it created a sudden backlog situation for the ERS Unit--a backlog which they had not been staffed to handle.
- ° ERS had a greater downtime than anticipated. During the period February through July 1985, ERS was not available to correct errors for a total of 367.9 hours.
- ° During the period mid-February through April 1985, the ERS Unit lost 45 tax examiners of which 36 were experienced. These people were lost through resignations, voluntary furloughs, reassignments, or terminations. Although the positions were eventually filled with new trainees, this loss of experience affected the Unit's ability to reduce its inventory.
- ° National Office guidelines to give priority to large dollar refund returns "hung-up" in various error categories also affected the overall productivity of the ERS Unit. That happened because refund returns are not separately batched nor normally identifiable. To comply with the guidelines, PSC and National Office programmers jointly developed a special computer program to identify refund returns contained on unloaded error tapes and, after purging the ERS file of unworkable returns, loaded the refund returns into ERS. Then (1)

the blocks had to be brought up on ERS terminal screens, (2) the refund returns had to be pulled from the original blocks in which they were batched (3) the error had to be corrected systematically or controlled and directed for a manual refund, and (4) the returns had to be refiled in their original blocks. Later, the blocks had to again be brought up on ERS terminals to process the remaining returns in the blocks that were in error. Additionally, to expedite the locating of the blocks of returns, a special refiling effort was undertaken to place approximately 40,000 blocks of returns in strict DLN sequence. During the time that refunds were given priority, ERS productivity decreased by about 50 percent.

- ° Certain characteristics of ERS contributed to PSC's inability to expeditiously process certain refund returns. Specifically, if too much data was loaded into the ERS workable file, the system sent the data to an overflow file; however, it did this in DLN order with the highest DLNs sent to the overflow file first. Because Foreign Operations District¹ returns were assigned the highest DLNs, ERS examiners could not reach any such returns that were in overflow status until (1) file space was made available in the workable file and (2) the space made available was not filled by other error records that were loaded into the system.
- ° During the period mid-February through mid-March 1985, response times on the ERS terminals were unacceptably long, according to IRS National Office analysts. Slow response times occurred due to the following reasons:

- (1) The ERS controllers and terminals were sharing a power line with electric calculators and the electric motors were affecting data transmission.

¹The Foreign Operations District administers the internal revenue laws and related statutes applicable to U.S. citizens residing or doing business abroad (including territories and possessions), nonresident aliens, and foreign taxpayers doing business in the U.S. with books and records abroad. Returns filed by such taxpayers are processed by the PSC.

- (2) Local vendor officials had installed too many terminals per power line; and
 - (3) Unused local lines and non-ERS remote lines connected to the service center computer were not being deactivated during the night shift. This caused an electrical drain on the system.
- ° The ERS Unit experienced an unusually high volume of "duplicate" blocks in ERS. This problem affected ERS productivity and occurred for the following reasons: (1) the Computer Branch loaded error tapes twice, (2) DIS entry operators made transcription errors in entering block DLNs, and (3) blocks were assigned DLNs that had previously been used. The last two types of errors caused productivity losses for both the ERS Unit and the Accounting Branch. Specifically, the ERS Unit was unable to resolve the block with the incorrect DLN because the pulled block of work (with the true DLN) did not match the returns appearing on the ERS terminal screens. Furthermore, such unworkable blocks were taking up valuable space in the system. Once this situation was identified, the ERS Unit referred the block of returns to the Data Control Unit (Accounting Branch) for research. Through August 20, the ERS Unit referred 123 "duplicate" DLN blocks to the Data Control Unit. The first type of error (loading error tapes twice) resulted in wasted effort. According to ERS management officials, error tapes were twice loaded into the ERS system on several occasions.
- ° The same DIS software problem (blocks of transcribed work getting "hung" in DIS) that affected the block-out-of-balance backlog also affected the ERS backlog. As a result, tax returns relating to "hung" blocks were left in their original work group and were inadvertently sent to the Files Unit. According to an ERS supervisor, document control problems continued to escalate and finally reached a point where only half of the returns in ERS could be located for correction purposes. In June 1985, National Office officials provided PSC with a program change which permitted ERS examiners to extend the suspense period for unlocatable returns from 25 to 90 days. This change freed

valuable file space for truly workable cases and provided a means to control and concentrate efforts on researching missing documents.

- ° Many of the ERS control clerks were new and sometimes only pulled a portion of the returns that were needed for error correction thereby slowing the correction process for the returns not pulled. A batching procedure of using more than one folder for a block contributed to this problem.
- ° On more than one occasion, the Computer Branch failed to run the ERS overflow tape into ERS. This oversight caused the ERS examiners to run out of work before the work day expired. This result occurred because ERS managers had determined the number of new error records to be loaded into ERS based on the assumption that the overflow records would be loaded as usual.
- ° For a variety of reasons, neither the Mid-Atlantic Region nor PSC's Management Support Branch were able to focus close attention on the ERS inventory situation at PSC. Thus, line management attempted to resolve the ERS inventory problems on its own. However, in early July 1985, a Management Support Branch analyst and a regional analyst were designated to assist in monitoring ERS activities at PSC.

PHILADELPHIA SERVICE CENTER
1985 ERROR RESOLUTION INVENTORY

<u>Inventory at end of month</u>	<u>ERS</u>		<u>Overflow Records^a</u>	<u>Unloaded Records^b</u>	<u>Total</u>
	<u>Individual Returns</u>	<u>Business Returns</u>			
May	65,688	1,346	19,891	478,128	565,053
June	109,108	39,600	3,106	462,099	613,913
July	153,301	18,826	33,292	71,786	277,205
August	61,658	16,809	-0-	-0-	78,467
September	40,215	11,805	-0-	-0-	52,020
October	14,150	4,545	-0-	-0-	18,695

^aRecords within the system but beyond the temporary processing capacity of the system.

^bRecords outside the system, waiting to be brought into the system.

ERROR RESOLUTION INVENTORIES
BY SERVICE CENTER
WEEK ENDED SEPTEMBER 13, 1985

<u>Service Center</u>	<u>Inventory</u>
Andover	10,602
Atlanta	39,769
Austin	29,439
Brookhaven	28,359
Cincinnati	10,837
Fresno	21,010
Kansas City	16,087
Memphis	18,185
Ogden	19,288
Philadelphia	<u>47,978</u>
Total	<u><u>241,554</u></u>

FACTORS CONTRIBUTING TO PSC'S
UNPOSTABLE INVENTORY BACKLOG

An unpostable condition is one which prevents a transaction that had been processed through the service center from posting to the taxpayer accounts at NCC. As the tables on pages 29 and 30 show, PSC's inventory of unpostables reached higher levels in 1985 than in 1984, and was larger than the inventory at any other service center as of October 18, 1985. PSC officials cited the following as factors contributing to that inventory.

Contributing factors

- ° One of the most common unpostable conditions encountered this year involved tax returns attempting to post to the master file at NCC before the related payments posted. When this situation occurs, the return will not post and will come back to the service center on an unpostable tape. Through August 31, 1985, this unpostable condition occurred a total of 105,807 times for individual returns and 58,173 times for business returns. We obtained the following explanations as to why this condition occurred.
 - (1) Blocks of returns were released through the pipeline based on the erroneous assumption that out-of-balance conditions relating to the payment data had been resolved. Another variation of this problem occurred when the inventory backlog became so large that canvas hampers, instead of the normal carts, were used to carry returns through the processing pipeline. Due to the excessive labor required to pull blocks identified as having a payment imbalance condition from these hampers, an "upper management" decision was made to release the hampers through the pipeline even though payment data problems had not been resolved.
 - (2) Three tapes containing payment data were not sent to NCC due to an oversight by Computer Branch personnel. This problem resulted in a total of 37,595 unpostables.
- ° A second common unpostable condition involved a second return attempting to post to the master file after a first had posted. As of November 2, 1985, PSC's Unpostable Unit had received 85,712 unpostable cases resulting from this situation.
- ° The lack of consistent IDRS and GUF availability also contributed to the backlog. IDRS is needed for research purposes and GUF is needed to work/close unpostable cases. During the period January through August 31, 1985, GUF and IDRS were down a total of 468 and 352 hours, respectively.

- ° PSC had an unusually high volume of unpostable cases that were on the pre-GUF paper system and unresolved as of December 31, 1984. This inventory of about 120,000 items was resolved during the period January through August 1985 and greatly affected the Unpostable Unit's ability to keep up with the GUF unpostable inventory. This was primarily because the most experienced examiners were used to resolve the pre-GUF cases and, therefore, could not devote all of their time to the GUF inventory.
- ° Transcription errors made by DIS entry operators involving entity information, such as taxpayer names or social security numbers, also accounted for a large number of unpostables. Of the 557,744 entity-related unpostable conditions that occurred through August 31, 1985, lead unpostable examiners estimated that 159,433 were attributable to DIS transcription errors. The remaining 398,311 were attributed to (1) the taxpayer using the wrong social security number or employer identification number (2) the IRS master file not reflecting a change in the taxpayer's name, or (3) PSC code and edit examiners making coding errors.
- ° Another factor affecting PSC's ability to reduce the unpostable inventory this year was the relatively high number of new examiners. Specifically, of 193 examiners working unpostable cases as of the end of August 1985, approximately 170 were either newly hired or were detailed in from various functions in the service center during 1985. Most of these people were initially trained to resolve only two types of unpostable conditions. As experience was gained, they were assigned expanded responsibilities.
- ° The Computer Branch did not load NCC unpostable tapes into GUF on a regular basis. This situation occurred because
 - (1) GUF computer runs were taking too long to run causing major scheduling conflicts and
 - (2) The computer room had insufficient tape drives to run the GUF runs along with other scheduled runs.

Note: Another contributing factor, early in the processing year, was a PSC perception that GUF had insufficient file space to hold unpostables that were received. For example, as of March 5, 1985, 4 weeks of unpostables were not loaded due to this perception even though file space was available.

Holding NCC unpostable cases had three effects: (1) unpostable cases became "aged" before GUF examiners were able to work on them, (2) problem resolution program cases included on the unloaded GUF tapes could not be worked, and (3) additional interest accrued on timely-filed returns contained on unloaded tapes as of June 14, 1985.

- ° Another problem was the inability to get tax returns pulled on a timely basis. This occurred because all inventories backed up this year and placed a greater than normal strain on the Files Unit to pull requested documents. Also, the untimely loading of unpostable tapes contributed to this problem. That is, unloaded tapes were sometimes processed in bulk causing the Files Unit to pull returns from multiple cycles.
- ° Another problem was the lack of GUF terminals. In total, the GUF Unit has 18 terminals. Also, other terminals located throughout the service center were used for the GUF backlog that resulted. However, from mid-May to early August, ERS terminals (120 in total) were generally not available for GUF use during the day shift because of the ERS backlog. GUF examiners were permitted to use ERS terminals for part of the second shift during the period March 11 through August 26, 1985. Starting August 27, ERS terminals were available for GUF use for 8 hours during the night shift.
- ° Another common unpostable condition this year involved payments that attempted to post to modules in the master file but were rejected because the modules indicated that no money was due. This unpostable condition occurred for the following reasons:
 - (1) If a taxpayer owed an amount for one year and filed for a refund in a later year, the computer would hold part or all of the refund to satisfy the delinquency. If the taxpayer subsequently made a payment toward his or her delinquency, the payment would not post because the account had already been satisfied.
 - (2) A payment was directed to the wrong year or module due to a coding error.
 - (3) An assessment that was in progress had not posted to the master file to establish the amount due, but payment had been received from the taxpayer and had tried to post to the master file.

PHILADELPHIA SERVICE CENTER
1984 VS. 1985 UNPOSTABLE INVENTORY COMPARISON
INDIVIDUAL AND BUSINESS DOCUMENTS COMBINED

<u>Inventory at</u> <u>End of Month</u>	<u>Documents</u>		<u>1985</u> <u>GUF</u>
	<u>1984</u> <u>Paper System</u>	<u>1985</u> <u>Paper System</u>	
January	30,835	116,803	87,597
February	72,817	43,264	122,530
March	71,498	12,250	195,449
April	94,335	5,244	269,772
May	104,300	3,777	263,118
June	93,509	2,794	266,194
July	97,085	3,226	427,072
August	129,073	-0-	372,187
September	109,362	-0-	361,818
October	98,921	-0-	296,372 ^a

^aOf this ending inventory, 124,928 were considered "aged" (i.e., 3 weeks old or older).

UNPOSTABLE INVENTORIES
BY SERVICE CENTER
AS OF OCTOBER 18, 1985

<u>Service Center</u>	<u>Inventory</u>
Andover	98,456
Atlanta	249,292
Austin	317,040
Brookhaven	276,076
Cincinnati	65,678
Fresno	333,320
Kansas City	73,799
Memphis	117,712
Ogden	76,426
Philadelphia	<u>340,047</u>
Total	<u><u>1,947,846</u></u>

INCIDENTS INVOLVING "LOST" DOCUMENTS AT PSC

One of the issues we were asked to look into by the Senate Committee on Finance and by Senators Heinz and Roth was "lost returns." In doing that, we identified, from IRS records, 9 alleged incidents of improperly discarded or destroyed documents involving the Philadelphia Service Center during the 5 years ended June 1985. This section provides information on each of those incidents.

DETAILS OF NINE ALLEGED INCIDENTS OF IMPROPERLY DISCARDED OR DESTROYED DOCUMENTS AT PSC

As indicated by the following table, IRS investigated nine incidents in which documents (generally tax returns) were found to have been or were alleged to have been improperly discarded or destroyed. Details of those incidents and the results of IRS' investigations follow.

NINE ALLEGED INCIDENTS OF
"LOST" DOCUMENTS AT IRS'
PHILADELPHIA SERVICE CENTER
FROM JULY 1980 TO JUNE 1985

<u>Brief Description of Alleged Incident</u>	<u>When did Incident Allegedly Occur?</u>	<u>Who Investigated Incident?</u>	<u>Did IRS' Investigation Substantiate Allegation?</u>
1. Janitorial employee reported finding some tax returns and/or remittances in burn barrels.	April 1985	PSC and Regional Inspection	Yes
2. Mail clerk continually discarded taxpayers' forms and checks in waste-paper basket.	April 1985	PSC	Yes
3. Ninety-two processed tax returns were found in trash receptacles in two women's restrooms in two separate incidents.	July 1984	Regional Inspection	Yes
4. Fifty thousand tax returns were allegedly destroyed.	A few years ago	Regional Inspection	No
5. File clerk misfiled a batch of 16 processed tax returns.	April 1983	PSC	Yes
6. Tax examiner routed cases to files when they should have been worked, or closed cases without taking necessary action.	October, November 1982	PSC	Yes
7. Employee threw a folder containing various tax documents into a waste basket.	April 1982	PSC	Yes
8. An unspecified number of processed tax returns were allegedly found in a trash container.	1982	PSC	No
9. Forms requesting copies of tax returns were destroyed.	1981	Regional Inspection	Yes ^a

^aPartially, see page 38 for details.

Janitorial employee reported
finding some tax returns and/or
remittances in burn barrels

As reported to the PSC Director in a May 30, 1985, memo from IRS' Internal Audit Division:¹

"On April 26, 1985, an employee of the General Services Administration found envelopes containing unprocessed documents and remittances in a trash barrel on the loading dock. Service center management and Inspection determined that several trash barrels contained 109 discarded envelopes from which all information had not been extracted. The 109 envelopes included: 94 remittances for \$333,440; 36 individual income tax returns; 24 Forms 1040 ES (Estimated Tax for Individuals); and 49 miscellaneous documents. Of the 94 remittances, 47 were not associated with documents. The remittances ranged from \$1 to \$68,000."

"On April 30, 1985, an Internal Auditor selected three brown envelopes from a trash barrel in the Receipt and Control area. One envelope contained a check for \$2,500."

"The majority of the 109 envelopes are classified as "flats" (over-sized envelopes too large to be opened by automated omnisort equipment). The other envelopes are classified as "fats" (normal size envelopes stuffed with documents and therefore too wide for omnisort equipment). The envelope discovered by Internal Audit was a normal size, dark brown envelope which had been opened by omnisort equipment and machine candled²."

Further, Internal Audit said:

"Causes which contributed to remittances, tax returns and other documents not being removed from the envelopes included:

--verbal instructions to rip apart flat envelopes were not followed-up by management or quality reviewed;

¹The Internal Audit Division is part of Regional Inspection.

²Candling is the process used to decide whether or not an envelope is empty by measuring the intensity of light as it is shined through the envelope.

- verbal instructions were not reinforced by written instructions;
- the special candling problem presented by omnिसorted brown envelopes was either not recognized or not addressed;
- Quality Assurance Branch did not ensure that samples of discarded envelopes were included in their quality reviews and that adequate coverage was provided on the day and swing shifts;
- of the 12 Mail Processing and Extracting Unit employees processing flats at the time of the discovery, two inexperienced employees were assigned when more experienced employees were available; and
- of the 12 employees, three worked 19, 17 and 14 consecutive days and the unit supervisor and the primary shift supervisor each worked over 80 hours a week during the week of the discovery and the previous week."

On June 7, 1985, the PSC Director responded by noting the following corrective actions:

- "a. Instructions have been issued to all Extraction employees to tear open all oversize envelopes to minimize items left inside.
- b. Sweepers spot-check waste from flats extraction.
- c. Extraction Unit managers review representative sampling from all burn barrels (including regular machine candled envelopes, ..., fats envelopes, flats envelopes, boxes and miscellaneous waste such as undeliverables) prior to removal from Extraction Room. Burn barrels are covered to preclude addition of non-reviewed waste.
- d. Quality Assurance Branch reviews representative sampling from all burn barrels prior to removal from Extraction Room.
- e. The Receipt & Control Branch Chief (or Division Chief/Assistant Division Chief in his absence) reviews representative

sample from all burn barrels prior to removal from Extraction Room.

- f. An Extraction Waste Verification Report (documenting all reviews in c. and e. above) has been established.
- g. Instructions have been issued to all candling employees to tear open all color envelopes including all brown regular size envelopes.
- h. National Office has been alerted with recommendations for [Internal Revenue Manual] instructions. . .
- i. Written procedures are being prepared to augment all prior Receipt & Control Branch instructions for release later this month. These procedures will include periodic written alerts to the extraction and candling staffs.
- j. Quality Assurance Branch will recommend changes to [Internal Revenue Manual] for inclusion of review of extraction waste."

Mail clerk continually discarded taxpayers' forms and checks in wastepaper baskets

In April 1985, an intermittent mail clerk was counseled by her supervisor "for continually disposing of taxpayers' forms and checks in the wastepaper basket. . ." In June 1985, IRS terminated that clerk's employment stating:

"Your actions constitute a violation of Section 226.1 of the Handbook of Employee Responsibilities and Conduct, Internal Revenue Manual 0735.1, which states in part: 'Any money, property or other thing of value received by or coming into custody of an employee in connection with the discharge of duties relating to enforcement of Internal Revenue laws must be accounted for... in accord with established procedures,' and Section 226.2 which states in part: 'It is unlawful to remove or conceal, alter, mutilate, obliterate, or destroy records or documents or to remove or attempt to remove with the intent of performing any of the above actions.'"

Ninety-two processed tax returns
found in trash receptacles
in two women's restrooms in
two separate incidents

On two occasions (July 26, 1984, and July 30, 1984) PSC supervisors reported to the Regional Inspector's Office that PSC employees had found tax returns in the women's restroom. On the first occasion, 35 Form 1040s were found in the women's restroom trash can. The second instance involved 57 tax returns (27 Form 941s and 30 Form 1040s) found by an employee in a different women's restroom. A maintenance custodian found the documents while emptying a trash container in the first incident; a tax examiner found the tax documents in the second incident.

Internal Audit's review of master file information for the discarded returns showed that all tax returns had been processed although some returns had not been timely processed (but not because the returns were in the restroom).

As a result of its examination into these returns, Internal Audit said:

"...our review did not identify any trends in addresses or tax preparers. Also, we did not identify any tax return that involved a service center employee.

In conclusion, we were unable to determine the point at which these returns were discarded. We see no benefit or detriment to the taxpayers as a result of this situation."

Fifty thousand tax returns
were allegedly destroyed

An employee at IRS, who subsequently retired, reported on March 19, 1985, a rumor that tax returns located in a hamper were destroyed by accident a "few years ago."

IRS' Inspection Service discussed this rumor with a PSC official who confirmed that a rumor of as many as 50,000 tax returns being destroyed has been circulating "for many years." Inspection Service discussions with persons who had heard the rumor confirmed there was no substance to the rumor. Inspection closed the case because no one was able to furnish any evidence to suggest that tax returns were destroyed.

File clerk misfiled a batch
of 16 processed tax returns

On April 6, 1983, an employee who was refiling (refiling consists of filing documents or returns into blocks set up in the filing area) on the day shift found a batch of refiles which were misfiled in one block. The work was banded together with a volume tag of 20 still on it. However, out of this batch of 20 documents only four actually belonged where they were found. Because of this misfiling, the possibility existed that the returns would never have been found. According to the Chief of PSC's Tax Accounts Division, this could have resulted in serious problems for the taxpayers involved or it could have hindered the government in the proper collection of taxes due.

The intermittent file clerk, who was accused of intentionally misfiling 16 processed tax returns during her probationary employment period, resigned on May 10, 1983.

Tax examiner routed cases
to files when they should have
been worked, or closed cases
without taking necessary action

On December 17, 1982, a tax examiner in the Adjustments and Correspondence Branch was notified that she had inflated her production statistics by 269 cases for the period of October 26, 1982, to November 24, 1982. PSC review of all 269 cases indicated that the employee did not answer taxpayers' letters when required or request taxpayer transcripts or tax returns when required. The examiner either had routed cases to the files when they should have been worked or had closed cases when further action was required.

The employee was removed from IRS, effective April 22, 1983, for falsifying official work records.

Employee threw a folder
containing various tax
documents into a waste basket

On April 26, 1982, a data transcriber was observed by her supervisor throwing a folder into a waste basket. The supervisor retrieved the folder and found that it contained various official documents such as completed taxpayer returns, schedules, W-2 Forms, and taxpayer correspondence.

The employee's action constituted a violation of Section 225.2 of IRS' Handbook of Employee Responsibilities and Conduct (Internal Revenue Manual 0735.1) which states in part: "Employees must...dispose of their work promptly and accurately." The employee was terminated July 9, 1982.

An unspecified number of
processed tax returns were
allegedly found in a trash container

In April 1985, the Assistant Director at PSC reported to the Mid-Atlantic Regional Commissioner an incident that allegedly happened in 1982. This report was in response to the Regional Commissioner's request "for information of any knowledge of records or returns destruction in the past few years."

The Assistant Director's report included the following incident:

"Name of Individual - Unknown.

Statement of Allegation - It is believed fully processed returns or documents were found in a trash container in the Files area.

Date - 1982

Action Taken - Again it is believed this was referred to Inspection and a full scale investigation conducted."

Internal Security (another part of Regional Inspection) had no knowledge or record of the alleged incident.

Destruction of forms
requesting copies of tax returns

Information furnished on March 19, 1985, by a former PSC employee indicated that requests for copies of income tax returns were destroyed in 1981 at the service center.

Internal Security investigated the incident and found, in addition to the person making the allegation, three service center employees who recalled that IRS' own internal request forms (i.e., taxpayers were not the requesters) to obtain copies of tax returns were destroyed. The original income tax returns--which were to be photocopied--were returned to files. The request forms, in an estimated 18 boxes each of which had 175 to 200 requests, were destroyed to alleviate a backlog of tax returns requiring photocopying.

One of the employees who admitted destroying the requests identified the other two employees involved in the destruction. This employee stated she was instructed by her supervisor to "remove the request forms off the photocopy request backlog and put the request forms in the trash and place the original income tax returns in buckets to be refiled." The employee's supervisor "advised that the destruction of requests could have happened but she does not recall such an incident and further advised if the destruction of requests did occur, it would have been a directive from higher management."

On April 22, 1985, Internal Security closed its investigation, and asked to be advised if PSC took any administrative action.

The Service Center Director, after consulting with the Personnel Branch about the current employment status of all employees possibly involved in the incident, found there was only one employee remaining at PSC. The Director, in view of this and after considering all the facts, did not believe a sustainable action could be taken against the one employee. Consequently, the case was closed without action.

REFUNDS

This section includes statistical information on refunds and narrative information on (1) findings by IRS' Internal Audit with respect to an alleged back dating of refund checks, (2) IRS' Expedite Refund Program, and (3) reasons why a taxpayer might have received a refund without interest to which he or she was entitled.

STATISTICAL INFORMATION ON REFUNDS

The following tables provide various statistics relating to refunds and the interest paid thereon. We obtained the information in these tables from IRS officials at PSC and the National Office. Each table contains national information with breakouts by service center where appropriate.

INDIVIDUAL INCOME TAX RETURNS RECEIVED
AND PROCESSED BY SERVICE CENTER
THROUGH SEPTEMBER 30: 1984 vs. 1985

<u>Service Center</u>	<u>Cumulative Receipts</u>			<u>Cumulative Processed</u>		
	<u>September 30</u>			<u>September 30</u>		
	<u>1984</u>	<u>1985</u>	<u>Change</u>	<u>1984</u>	<u>1985</u>	<u>Change</u>
	<u>--Thousands--</u>			<u>--Thousands--</u>		
Andover	8,373	8,628	255	8,338	8,568	230
Atlanta	10,445	10,981	536	10,256	10,828	572
Austin	11,455	11,815	360	11,325	11,755	430
Brookhaven	8,168	8,375	207	8,018	8,516	498
Cincinnati	7,950	8,164	214	7,878	8,113	235
Fresno	11,273	11,928	655	11,078	11,893	815
Kansas City	9,870	10,185	315	9,708	10,147	439
Memphis	10,724	11,061	337	10,629	11,037	408
Ogden	10,474	10,771	297	10,385	10,680	295
Philadelphia	7,906	8,249	343	7,742	8,043	301
Total	<u>96,638</u>	<u>100,157</u>	<u>3,519</u>	<u>95,357</u>	<u>99,580</u>	<u>4,223</u>

INDIVIDUAL REFUNDS CERTIFIED
BY NATIONAL COMPUTER CENTER
SEPTEMBER 27, 1984, AND SEPTEMBER 26, 1985

<u>Cumulative from January</u>	<u>1984</u>	<u>1985</u>	<u>Percent Change</u>
Number (Thousands)	70,547	71,304	1.1
Amount of principal (Millions)	\$58,755	\$60,185	2.4
Average refund ^a	\$832.86	\$844.06	1.3

^aActual computation of average refund using the above figures varies slightly because of rounding.

NUMBER OF REFUNDS ISSUED
BY SERVICE CENTER
MAY 30: 1984 vs. 1985^a

<u>Service Center</u>	<u>Number of Refunds Issued</u>		<u>Percent Change</u>
	<u>1984</u> <u>(tax year 1983)</u>	<u>1985</u> <u>(tax year 1984)</u>	
Andover	5,921,266	5,917,121	-0.07
Atlanta	7,103,875	7,268,289	+2.31
Austin	7,769,669	7,754,505	-0.20
Brookhaven	5,434,982	5,417,374	-0.32
Cincinnati	5,811,841	5,840,062	+0.49
Fresno	7,229,101	7,230,373	+0.02
Kansas City	6,806,561	6,774,831	-0.47
Memphis	7,744,914	7,820,702	+0.98
Ogden	6,966,884	6,967,335	+0.01
Philadelphia	<u>5,352,732</u>	<u>4,955,414</u>	-7.42
Total	<u>66,141,825</u>	<u>65,946,006</u>	-0.30

^aIf a taxpayer files a return on or before April 15 and is entitled to a refund, IRS is required to pay interest on that refund if it fails to get the refund out by May 30. Thus the significance of the May 30 cut off data for this table.

IRS HIGHLIGHT REPORT
RELATING TO
INTEREST PAID ON
TIMELY FILED RETURNS
AS OF OCTOBER 18, 1985

Refunds:

- For the months of June, July, August, September and 3 weeks of October 1985, IRS issued 46.9 percent more refunds than for the same period last year.
- IRS paid interest on 48.5 percent more refunds in this period compared to the last year.
- The amount of interest paid in 1985 was 56.4 percent ahead of the amount paid in 1984, \$41,848,530 and \$26,754,364 respectively.
- For the week ending October 18, 1985, IRS paid a total of \$524,644 in interest. Philadelphia and Fresno Service Centers accounted for 33.6 percent and 18.1 percent, respectively, of the national total. Memphis Service Center was the lowest center with 2.1 percent of the total interest paid.

Except for the last item, the above information is reflected in the following table.

INTEREST PAID ON TIMELY FILED
INDIVIDUAL INCOME TAX RETURNS
JUNE 2 THROUGH OCTOBER 18, 1985 COMPARED
TO JUNE 3 THROUGH OCTOBER 19, 1984

<u>Cumulative</u>	<u>Total refunds</u>		<u>Refunds with and without interest</u>		
	<u>Number^a</u>	<u>Principal and interest^b</u>	<u>Number^c</u>	<u>With Interest^d</u>	<u>Without Number^e</u>
1984	1,607,200	\$1,350,040,332	1,464,276	\$26,754,364	142,924
1985	2,360,978	\$1,620,002,565	2,174,739	\$41,848,530	186,239
Difference					
84/85	+753,778	+\$269,962,233	+710,463	+\$15,094,166	+43,315
% of Change					
84/85	46.90%	20.00%	48.52%	56.42%	30.31%

^aTotal number of timely filed original settlement refunds issued.

^bTotal amount of refunds issued (principal and interest combined).

^cTotal number of timely filed original settlement refunds issued with interest.

^dTotal amount of interest paid on these returns.

^eTotal number of timely filed original settlement refunds issued without interest.

Notes:

The statistics reflect interest paid on timely filed calendar year individual income tax returns (Forms 1040, 1040A, 1040EZ) and do not reflect amended (Form 1040X), fiscal year, or prior year (other than 1984) returns.

Not included in the interest paid figures shown above is the interest paid on manual refunds. Information received from the Manual Refund Interest Comparison report (May 31 through Aug. 23) indicates that an additional \$3,733,955 was paid in 1985 compared to \$515,206 in 1984. Comparative volume figures on the number of manual refunds issued were not available.

INTEREST PAID ON TIMELY FILED
INDIVIDUAL INCOME TAX RETURNS BY SERVICE CENTER
THROUGH OCTOBER 18, 1985 COMPARED
TO JUNE 3 THROUGH OCTOBER 19, 1984^a

Service Center	Number		Interest		Principal	
	1984	1985	1984	1985	1984	1985
Atlanta	221,663	266,863	\$4,376,959	\$4,042,773	\$177,992,445	\$142,395,562
Andover	113,283	142,413	1,880,280	2,150,740	78,352,157	76,857,086
Kansas City	117,849	163,034	1,829,103	2,413,914	79,278,480	85,303,418
Cincinnati	89,972	103,535	1,344,387	1,668,381	62,890,970	59,848,006
Austin	167,841	243,202	2,530,249	4,265,870	108,818,943	137,404,885
Brookhaven	136,494	173,801	2,629,265	3,214,648	105,466,804	102,595,892
Philadelphia	147,147	509,473	3,378,707	14,333,361	139,104,138	422,024,017
Ogden	137,211	163,144	1,944,959	2,193,544	91,270,565	79,599,224
Memphis	134,647	175,423	2,149,642	2,405,196	99,444,203	86,595,034
Fresno	198,147	233,849	4,690,833	5,159,991	195,329,802	168,304,998
Total	<u>1,464,254</u>	<u>2,174,737</u>	<u>\$26,754,384</u>	<u>\$41,848,418</u>	<u>\$1,137,948,507</u>	<u>\$1,360,928,122</u>

^aThe totals for the first four columns in this table differ slightly from the figures in the table on the previous page. IRS National Office officials attributed this to the fact that the information for this table and the preceding one came from two distinct sources. They said that the information shown on this table is generally intended for internal IRS statistical purposes only, and very minor differences are not a matter of concern.

IRS INTERNAL AUDIT FOUND THAT REFUND
CHECKS WERE NOT SYSTEMATICALLY FALSE
DATED IN PHILADELPHIA

In the general process of issuing tax refunds, two agencies are involved. IRS determines which taxpayers are to receive refunds and the amount. The Treasury Department's Financial Management Service, based on information provided by the IRS, prints, dates, signs, and disburses the checks.

Organizationally, as indicated below, IRS has 10 service centers that initiate refund processing and the Financial Management Service has 7 financial centers that print out and issue refund checks.

FINANCIAL MANAGEMENT SERVICE
FINANCIAL CENTER
Austin Financial Center
Birmingham Financial Center

Chicago Financial Center
Kansas City Financial Center
Philadelphia Financial Center

San Francisco Financial Center

Washington, D.C.
Financial Center¹

CORRESPONDING IRS
SERVICE CENTER
Austin Service Center
Atlanta Service Center
Memphis Service Center
Cincinnati Service Center
Kansas City Service Center
Andover Service Center
Brookhaven Service Center
Philadelphia Service Center
Fresno Service Center
Ogden Service Center

Philadelphia Service Center

The Internal Revenue Service initiates refunds via computer and manually. Computer generated refunds involve shipment of refund data via magnetic tape from NCC to the 7 financial centers. Manual refunds involve shipment of refund data between each IRS service center and the appropriate financial center.

At the request of the United States Attorney, Eastern District of Pennsylvania, IRS' Internal Audit conducted a review to obtain information relating to an allegation that IRS sought to avoid the payment of interest on late refunds by systematically false dating refund checks.

Examination of
computer generated refunds
by IRS' Internal Audit

IRS issued instructions to accelerate refund processing during the last 2 weeks of the interest free period (ending May 30). A similar acceleration occurred last year. These processing instructions were directed toward ensuring that the financial centers would process and mail as many refunds as possible on or before May 30.

¹Foreign Operations District.

IRS' Internal Audit found that of the 1,639,664 computer generated refunds printed and dated May 30 by the Philadelphia and Washington, D.C., Financial Centers, 1,630,602 were received by the Postal Service on May 30. The 2 financial centers did not deliver the remaining 9,062 refunds to the Postal Service until May 31. This happened because:

- The Philadelphia Financial Center damaged/mutilated 4,191 checks during processing. The damaged/mutilated checks were replaced and mailed on May 31 but dated May 30.
- The remaining 4,871 were delayed 1 day because the Washington, D.C., Financial Center must receive approval from IRS' Philadelphia Service Center before delivering the checks to the Postal Service, and the person designated to approve the delivery was on leave May 30. The checks were mailed on May 31 but were dated May 30. The Washington, D.C., Financial Center only processes tax refund checks for Foreign Operations District taxpayers. These refund checks are not delivered to the Postal Service until approval is received, to give PSC additional time to research for erroneous refunds.

Based on an opinion from its Chief Counsel, IRS decided to pay interest, as appropriate, on the refunds of the taxpayers affected by these two problems. Some taxpayers may have filed after April 15 and may not have been entitled to interest because 45 days had not elapsed.

Also, Internal Audit concluded, based on its tests, that computer generated refunds from NCC issued after May 30 contained interest.

Examination of
manual refunds
by IRS' Internal Audit

Internal Audit also reviewed the processing of manual refunds between May 28 and June 10. During this period, PSC issued about 12,000 manual refunds. Internal Audit identified 302 of these refunds that did not include interest although the taxpayers may have been entitled to it. Internal Audit referred the cases to PSC management for corrective action. Of the 302 manual refunds:

- 264 required processing by the Washington Financial Center because they involved Foreign Operations District taxpayers. PSC processed these refunds without interest and routinely mailed input tapes to the Financial Center on

May 29 and 30, but the tapes were not received until after the interest free period. The Financial Center printed, dated, and mailed these refund checks on June 4.

- 38 required processing by the Philadelphia Financial Center. PSC processed these refunds without interest but did not prepare the input tapes until May 30 (22 refunds) or later (16 refunds). The Financial Center printed, dated, and mailed these refunds after the interest free period (generally between June 4 and 10).

The PSC Director said that corrective action was taken on 289 of the 302 manual refunds resulting in interest payments to taxpayers totaling \$10,810.29. The remaining 13 taxpayers were found not entitled to interest because they received a computer generated refund within the interest free period. Thus, the manual refund generated in a later cycle was an erroneous duplicate payment.

The Internal Audit investigation concluded that IRS did not seek to avoid the payment of interest to taxpayers on late refunds by systematically false dating refund checks. Also, on August 16, 1985, the United States Attorney, Eastern District of Pennsylvania, stated that "...IRS's documentation and that of the Financial Management Service appear to be very complete on the chronology of the tax refund process, and there appear to be no irregularities that rise even remotely to a level of criminal misconduct."

EXPEDITE REFUND PROGRAM

Because of problems it had experienced in processing this year's tax returns, IRS established a program by which taxpayers could expedite receipt of their refunds by filing duplicate returns. That program, referred to as the Expedite Refund Program, was established as of May 29, 1985, and is scheduled to end on December 31, 1985. Under that program:

- A taxpayer could file a duplicate return after 16 weeks from the date of his or her original return. As of July 1, 1985, the waiting period was reduced to 12 weeks.
- The taxpayer had to call IRS, at which time IRS would send the taxpayer a package including a pink expedite slip. When the taxpayer mailed in his or her duplicate return, the pink slip would clearly identify it as such. In addition to the above, PSC allowed taxpayers to just write "duplicate" on their returns and send them in without first getting the special package.

--A special address was established at each service center to receive the duplicates, and a special area was set up in the service center to handle the duplicates.

--At the service center the duplicates are (1) batched and placed on expedite refund carts and (2) researched on IDRS to determine the status of the original return.

--If research shows no record of the original return, the duplicate is processed.

--If research shows the original return is in an error category (such as an unpostable) the duplicate is sent to the appropriate area for resolution within 2 days.

Phase II of Expedite Refund Program

If 6 weeks have elapsed since the duplicate return was filed and the taxpayer still has not received his or her refund, the service center is to move into phase II of the Expedite Refund Program. Under that phase, IDRS is researched to determine the status of the duplicate return. Research could show either that the return was processed and the refund was paid, or that there is no record of the duplicate return in the system (in which case a paper copy of the return is supposed to be sent to accounting for manual payment), or that the duplicate return is in an error category (in which case the return is to be sent to the appropriate area for resolution within 1 day).

PSC staffing of the Expedite Refund Program

In early June, 33 people were assigned to PSC's Expedite Refund Program. In mid July, due to the backlog of unresolved duplicates, 19 people from IRS' Philadelphia District Office and the entire staff from PSC's adjustments and Correspondence Branch (75 people) were detailed to help with the program. As of mid September--the most recent data available to us--72 people were assigned to the program.

- - - -

PSC and regional officials told us that the Expedite Refund Program proved to be more costly than if IRS had tried to resolve the returns in the various error categories through normal processing procedures. They attributed that to the unexpected volume of duplicate returns, the complexity associated with establishing special processing and control procedures, and the number of persons needed to staff the program.

Statistics on the Expedite Refund Program

The following tables provide statistical information, obtained from IRS, on the number of timely filed individual returns for which refunds were not issued, the number of duplicate returns received by each service center, and the status of the Expedite Refund Program at PSC.

PSC'S REPORT OF TIMELY FILED INDIVIDUAL
RETURNS FOR WHICH REFUNDS WERE NOT ISSUED
AS OF OCTOBER 22, 1985

<u>Where Return Is</u>	<u>Number of Returns</u>
Error Resolution inventory	1,154
Block-Out-Of-Balance inventory	909
Reject inventory ^a	28
Unpostable inventory	<u>593</u>
Total	<u>2,684</u>

^aRejects are returns that are unprocessable for numerous reasons, such as missing schedules, many of which require contact with the taxpayers.

DUPLICATE RETURNS BY SERVICE CENTER
AS OF SEPTEMBER 13, 1985

<u>Service Center</u>	<u>Receipts</u>	<u>Returns Requiring Original Input^a</u>	<u>Percent Requiring Original Input</u>
Andover	5,058	3,980	79
Atlanta	25,451	14,221	56
Austin	33,100	20,830	63
Brookhaven	13,875	8,430	61
Cincinnati	4,219	2,723	65
Fresno	12,622	7,789	62
Kansas City	19,738	13,212	67
Memphis	15,576	10,011	64
Ogden	7,514	5,236	70
Philadelphia	<u>149,174</u>	<u>73,637^b</u>	49
Total	<u>286,327</u>	<u>160,069</u>	56

^aIf IRS did not have a record of the original return, input of the duplicate was required.

^bMay be understated because, at the time of this report, PSC had not completed research on 2,472 receipts.

PHILADELPHIA SERVICE CENTER
EXPEDITE REFUND PROGRAM
STATUS AT OCTOBER 25, 1985

Individual Income Tax Returns:

A.	Duplicates Received ^a	160,909
		<hr/>
B.	IRS researched on IDRS	160,147
	Awaiting research	762
	Total returns	<hr/> 160,909 <hr/>
C. Disposition of Researched Returns:		
	No record of original return ^b	82,796
	Original return posted	35,828
	Original return in an error category:	
	Unpostables	6,572
	Rejects	17,450
	Miscellaneous ^c	11,426
	Error resolution	6,075
		<hr/> 160,147 <hr/>

^aStatistics are not maintained on the number of taxpayers who filed more than two returns, but PSC officials told us that they have seen evidence that it did happen. Thus, the 160,909 does not equate to distinct taxpayers.

^b"No record of original return" does not mean that IRS did not physically have the original return. Rather, it means that the return was not in the IDRS data base when researched. For example, when IRS checked IDRS, the original return could have been in a block-out-of-balance status or outside ERS waiting to be entered.

^cMiscellaneous means a return was previously filed and the original return is being controlled until questions about the taxpayer's account (not just the return) are resolved.

PHILADELPHIA SERVICE CENTER
PHASE II OF EXPEDITE REFUND PROGRAM
STATUS AT OCTOBER 25, 1985

Returns Researched 119,797

Disposition of duplicate returns researched:

Refunds issued ^a	106,627
No record of duplicate return ^b	2,589
Return in error category	3,130
Miscellaneous ^c	<u>7,451</u>
	<u>119,797</u>

^aIn addition to these refunds, 2,541 returns were sent to the Accounting Branch for manual payment.

^bAs explained in footnote "b" on the prior table, "no record of duplicate return" does not mean that IRS did not physically have the duplicate return.

^cSee footnote "c" on the prior table.

Note: Overall, PSC officials estimate the number of remaining refunds to be paid as follows:

	160,909	duplicates received (see page 54)
less	106,627	refunds issued (see above)
less	35,828	returns posted (see page 54)
less	2,541	returns sent to Accounting Branch for manual payment (see above)
plus	2,684	original timely filed returns in an error category (see page 52)
	<u>18,597</u>	

SOME REFUND CHECKS THAT SHOULD HAVE
INCLUDED INTEREST DID NOT

Some taxpayers received refund checks this year that should have, but did not, include interest. IRS officials provided us with the following information to explain how that could have happened and what IRS is doing about it.

How it could happen

- The taxpayer filed and dated a duplicate return after April 15, 1985.
- IRS did not change the date on the duplicate return back to April 15, 1985. This occurred when taxpayers began sending in duplicates after waiting 16 weeks, but before IRS established its expedite refund procedures on May 29, 1985. It could have occurred also if the taxpayer did not identify the duplicate as a duplicate.
- If a return was not identified as a duplicate, IRS would correctly treat it as the only return filed. If it was not filed until after April 15, 1985, the taxpayer would not be entitled to interest until 45 days after the filing date.
- Thus, if the erroneously dated duplicate processed through the system before the original and posted to the master file, IRS would decide whether it owed the taxpayer interest by looking at the date on the duplicate.

What IRS is doing about it

- Correction of the situation discussed above should begin when the taxpayer's original return finally processes through the system and tries to post to the master file. IRS procedures to catch more than one return posting to the same taxpayer account on the master file are not new.
- Taxpayers who filed duplicates are identified, by a code 189, when their second returns attempt to post to the master file.
- When a code 189 is identified, the service center checks the date on the return that would not post (which is actually the first return filed by the taxpayer) to determine if interest should be paid.
- If interest is due, the return is sent to the Adjustments and Correspondence Branch for interest calculation.

- The interest check and an explanatory notice are sent to the taxpayer.
- As of November 2, 1985, PSC had identified 85,712 code 189 unpostables.
- IRS does not keep easily retrievable statistics on how many of the 85,712 required an interest calculation and a check.

CORRESPONDENCE INVENTORY

This section includes information relating to PSC's Adjustments and Correspondence Branch. That Branch is responsible for responding to taxpayer inquiries and making appropriate adjustments to taxpayer accounts. Specifically, this section presents statistical information on the Branch's correspondence inventory and discusses procedures for handling correspondence marked for destruction.

STATISTICS ON CORRESPONDENCE

The following tables provide detailed statistical information on the correspondence inventory in PSC's Adjustments and Correspondence Branch. Because the Branch relies on IDRS to do its work, we are including tables that provide information on the availability of that system in 1984 and 1985. The information in these tables was obtained from records maintained at the service center.

Philadelphia Service Center
Adjustments and Correspondence Branch
Opening Correspondence Inventory
By Week of Year

<u>Week of year</u>	<u>1984</u>	<u>1985</u>	<u>Week Ending</u>
1	91,383	148,237	(Jan. 4)
2	95,819	153,592	(Jan. 12)
3	100,457	157,525	(Jan. 19)
4	94,872	169,782	(Jan. 26)
5	93,261	164,873	(Feb. 2)
6	86,219	172,388	(Feb. 9)
7	79,445	172,909	(Feb. 16)
8	70,724	158,675 ^b	(Feb. 23)
9	70,516	154,776 ^c	(Mar. 2)
10	75,972	133,985	(Mar. 9)
11	77,058	119,611	(Mar. 16)
12	76,401	108,710	(Mar. 23)
13	75,679	102,230	(Mar. 30)
14	69,276	90,226	(Apr. 6)
15	72,441	90,726	(Apr. 13)
16	67,956	92,695	(Apr. 20)
17	112,773	94,593	(Apr. 27)
18	117,815	94,782	(May 4)
19	118,045	99,702	(May 11)
20	133,685	114,784	(May 18)
21	110,368 ^a	135,620	(May 25)
22	120,478	139,290	(June 1)
23	118,609	149,479	(June 8)
24	129,443	153,632	(June 15)
25	128,866	158,042	(June 22)
26	126,880	180,885	(June 29)
27	124,086	188,552	(July 6)
28	114,274	192,797	(July 13)
29	112,301	208,927	(July 20)
30	111,018	221,787	(July 27)
31	113,578	240,872	(Aug. 2)
32	115,507	249,768	(Aug. 10)
33	116,998	242,299	(Aug. 17)
34	109,411	235,129	(Aug. 24)
35	112,782	223,129	(Aug. 31)
36	111,123	213,713	(Sept. 7)
37	114,875	210,561	(Sept. 14)
38	115,546	201,084	(Sept. 21)
39	115,577	193,836	(Sept. 28)
40	120,276	184,618	(Oct. 5)
41	118,184	177,534	(Oct. 12)
42	120,431	184,093	(Oct. 19)
43	115,200	187,708	(Oct. 26)
44	124,915	191,163	(Nov. 2)
45	131,871		
46	141,591		
47	143,749		
48	143,623		
49	145,101		
50	137,806		
51	137,712		
52	135,876		

^aReflects adjustment (decrease) of 32,114 due to physical count.

^bReflects adjustment (decrease) of 5,241 due to eliminating duplicate cases.

^cReflects adjustment (decrease) of 8,633 due to transferring work to district office.

Data Source: Adjustments and Correspondence Branch's weekly "Status and Comparison Report."

Philadelphia Service Center
Adjustments and Correspondence Branch
Correspondence Receipts
By Week of Year

<u>Week of year</u>	<u>1984</u>	<u>1985</u>	<u>Week Ending</u>
1	14,328	13,528	(Jan. 4)
2	21,245	26,125	(Jan. 12)
3	20,435	24,909	(Jan. 19)
4	30,419	19,260	(Jan. 26)
5	16,523	21,270	(Feb. 2)
6	25,241	17,075	(Feb. 9)
7	17,786	19,561	(Feb. 16)
8	23,509	22,443	(Feb. 23)
9	27,506	8,376 ^a	(Mar. 2)
10	18,727	21,652	(Mar. 9)
11	23,793	15,577	(Mar. 16)
12	22,063	12,087	(Mar. 23)
13	21,588	9,226	(Mar. 30)
14	22,237	15,258	(Apr. 6)
15	20,350	14,902	(Apr. 13)
16	67,865	18,304	(Apr. 20)
17	38,725	16,786	(Apr. 27)
18	28,705	21,391	(May 4)
19	43,075	30,923	(May 11)
20	32,181	33,244	(May 18)
21	29,451	20,107	(May 25)
22	15,927	22,852	(June 1)
23	33,423	22,278	(June 8)
24	23,012	16,868	(June 15)
25	19,513	39,819	(June 22)
26	29,382	21,410	(June 29)
27	15,290	11,876	(July 6)
28	30,544	26,333	(July 13)
29	18,922	21,911	(July 20)
30	27,791	32,729	(July 27)
31	26,829	23,938	(Aug. 2)
32	21,047	16,888	(Aug. 10)
33	17,172	29,902	(Aug. 17)
34	27,533	34,411	(Aug. 24)
35	21,137	29,529	(Aug. 31)
36	15,628	33,146	(Sept. 7)
37	22,878	32,400	(Sept. 14)
38	18,821	35,652	(Sept. 21)
39	17,625	30,231	(Sept. 28)
40	16,552	32,251	(Oct. 5)
41	19,372	49,871	(Oct. 12)
42	17,935	35,630	(Oct. 19)
43	22,204	45,264	(Oct. 26)
44	30,242	38,720	(Nov. 2)
45	34,289		
46	14,782		
47	13,429		
48	21,217		
49	18,627		
50	25,412		
51	19,556		
52	22,135		

^aReflects adjustment (decrease) of 4,053 due to duplicate cases being found.

Data Source: Adjustments and Correspondence Branch's weekly "Status and Comparison Report."

Philadelphia Service Center
Adjustments and Correspondence Branch
Correspondence Closures
By Week of Year

<u>Week</u> <u>of year</u>	<u>1984</u>	<u>1985</u>	<u>Week</u> <u>Ending</u>
1	9,892	8,173	(Jan. 4)
2	16,607	22,192	(Jan. 12)
3	26,020	12,652	(Jan. 19)
4	32,030	24,169	(Jan. 26)
5	23,565	13,755	(Feb. 2)
6	32,015	16,554	(Feb. 9)
7	26,507	28,554	(Feb. 16)
8	23,717	17,709	(Feb. 23)
9	22,050	29,167	(Mar. 2)
10	17,641	36,026	(Mar. 9)
11	24,450	26,478	(Mar. 16)
12	22,785	18,567	(Mar. 23)
13	27,991	21,230	(Mar. 30)
14	19,072	14,758	(Apr. 6)
15	24,835	12,946	(Apr. 13)
16	23,048	16,406	(Apr. 20)
17	33,683	16,597	(Apr. 27)
18	28,475	16,471	(May 4)
19	27,435	15,841	(May 11)
20	23,384	12,408	(May 18)
21	19,341	16,437	(May 25)
22	17,796	12,663	(June 1)
23	22,589	18,125	(June 8)
24	23,589	12,458	(June 15)
25	21,499	16,976	(June 22)
26	32,176	13,743	(June 29)
27	25,102	7,631	(July 6)
28	32,517	10,203	(July 13)
29	20,205	9,051	(July 20)
30	25,231	13,644	(July 27)
31	24,900	15,042	(Aug. 2)
32	19,556	24,357	(Aug. 10)
33	24,759	37,072	(Aug. 17)
34	24,162	46,411	(Aug. 24)
35	22,796	38,945	(Aug. 31)
36	11,876	36,298	(Sept. 7)
37	22,207	41,877	(Sept. 14)
38	18,790	42,900	(Sept. 21)
39	12,926	39,449	(Sept. 28)
40	18,644	39,335	(Oct. 5)
41	17,125	43,312	(Oct. 12)
42	23,166	32,015	(Oct. 19)
43	12,489	41,809	(Oct. 26)
44	23,286	40,042	(Nov. 2)
45	24,569		
46	12,624		
47	13,555		
48	19,739		
49	25,922		
50	25,506		
51	21,392		
52	11,337		

Data Source: Adjustments and Correspondence Branch's weekly "Status and Comparison Report."

Philadelphia Service Center
Adjustments and Correspondence Branch
Ending Correspondence Inventory
By Week of Year

<u>Week of year</u>	<u>1984</u>	<u>1985</u>	<u>Week Ending</u>
1	95,819	153,592	(Jan. 4)
2	100,457	157,525	(Jan. 12)
3	94,872	169,782	(Jan. 19)
4	93,261	164,873	(Jan. 26)
5	86,219	172,388	(Feb. 2)
6	79,445	172,909	(Feb. 9)
7	70,724	163,916	(Feb. 16)
8	70,516	163,409	(Feb. 23)
9	75,972	133,985	(Mar. 2)
10	77,058	119,611	(Mar. 9)
11	76,401	108,710	(Mar. 16)
12	75,679	102,230	(Mar. 23)
13	69,276	90,226	(Mar. 30)
14	72,441	90,726	(Apr. 6)
15	67,956	92,695	(Apr. 13)
16	112,773	94,593	(Apr. 20)
17	117,815	94,782	(Apr. 27)
18	118,045	99,702	(May 4)
19	133,685	114,784	(May 11)
20	142,482	135,620	(May 18)
21	120,478	139,290	(May 25)
22	118,609	149,479	(June 1)
23	129,443	153,632	(June 8)
24	128,866	158,042	(June 15)
25	126,880	180,885	(June 22)
26	124,086	188,552	(June 29)
27	114,274	192,797	(July 6)
28	112,301	208,927	(July 13)
29	111,018	221,787	(July 20)
30	113,578	240,872	(July 27)
31	115,507	249,768	(Aug. 2)
32	116,998	242,299	(Aug. 10)
33	109,411	235,129	(Aug. 17)
34	112,782	223,129	(Aug. 24)
35	111,123	213,713	(Aug. 31)
36	114,875	210,561	(Sept. 7)
37	115,546	201,084	(Sept. 14)
38	115,577	193,836	(Sept. 21)
39	120,276	184,618	(Sept. 28)
40	118,184	177,534	(Oct. 5)
41	120,431	184,093	(Oct. 12)
42	118,184	187,708	(Oct. 19)
43	124,915	191,163	(Oct. 26)
44	131,871	189,841	(Nov. 2)
45	141,591		
46	143,749		
47	143,623		
48	145,101		
49	137,806		
50	137,712		
51	135,876		
52	146,674		

Data Source: Adjustments and Correspondence Branch's weekly "Status and Comparison Report."

PHILADELPHIA SERVICE CENTER
ADJUSTMENTS AND CORRESPONDENCE BRANCH
INTEGRATED DATA RETRIEVAL SYSTEM
1984 UNAVAILABILITY

	<u>Hours Scheduled</u>	<u>Hours Unavailable</u>	<u>Percent of Time Unavailable</u>
January	242.5	89.7	37.0
February	270.0	45.8	17.0
March	229.5	38.7	16.9
April	294.0	70.0	23.8
May	299.0	36.2	12.1
June	294.0	89.7	30.5
July	294.0	66.8	22.7
August	322.0	77.3	24.0
September	266.0	93.2	35.0
October	300.0	75.8	25.3
November	244.0	107.0	43.9
December	233.0	62.0	26.6
Total	<u>3,288.0</u>	<u>852.2</u>	25.9

PHILADELPHIA SERVICE CENTER
ADJUSTMENTS AND CORRESPONDENCE BRANCH
INTEGRATED DATA RETRIEVAL SYSTEM
UNAVAILABILITY DURING 1985

<u>Weeks of 1985</u>	<u>Hours</u>		<u>Percent Unavailable</u>
	<u>Scheduled</u>	<u>Unavailable</u>	
January (1st)	36.0	36.0	100.0
(2nd)	60.0	22.1	36.8
(3rd)	60.0	40.3	67.2
(4th)	60.0	7.4	12.3
(5th)	48.0	30.5	63.5
Total	<u>264.0</u>	<u>136.3</u>	51.6
February (6th)	60.0	26.1	43.5
(7th)	60.0	17.8	29.7
(8th)	48.0	16.9	35.2
(9th)	61.0	5.6	9.2
Total	<u>229.0</u>	<u>66.4</u>	29.0
March (10th)	65.0	19.9	30.6
(11th)	68.0	20.5	30.1
(12th)	74.0	6.4	8.6
(13th)	75.0	5.6	7.5
Total	<u>282.0</u>	<u>52.4</u>	18.6
April (14th)	75.0	18.3	24.4
(15th)	75.0	31.4	41.9
(16th)	75.0	38.1	50.8
(17th)	75.0	15.0	20.0
Total	<u>300.0</u>	<u>102.8</u>	34.3
May (18th)	75.0	13.3	17.7
(19th)	75.0	15.2	20.3
(20th)	75.0	16.4	21.9
(21st)	75.0	25.3	33.7
(22nd)	68.0	5.2	7.6
Total	<u>368.0</u>	<u>75.4</u>	20.5
June (23rd)	75.0	14.6	19.5
(24th)	75.0	8.7	11.6
(25th)	75.0	0	0
(26th)	75.0	14.5	19.3
Total	<u>300.0</u>	<u>37.8</u>	12.6
July (27th)	60.0	7.4	12.3
(28th)	75.0	19.0	25.3
(29th)	75.0	5.9	7.9
(30th)	75.0	.9	1.2
(31st)	75.0	8.1	10.8
Total	<u>360.0</u>	<u>41.3</u>	11.5

PHILADELPHIA SERVICE CENTER
ADJUSTMENTS AND CORRESPONDENCE BRANCH
INTEGRATED DATA RETRIEVAL SYSTEM
UNAVAILABILITY DURING 1985 (cont'd.)

<u>Weeks of 1985</u>	<u>Hours</u>		<u>Percent Unavailable</u>
	<u>Scheduled</u>	<u>Unavailable</u>	
August (32nd)	75.0	3.6	4.8
(33rd)	75.0	18.9	25.2
(34th)	77.0	1.2	1.6
(35th)	83.5	9.2	11.0
Total	<u>310.5</u>	<u>32.9</u>	10.6
September (36th)	68.0	.9	1.3
(37th)	85.0	4.2	4.9
(38th)	85.0	5.7	6.7
(39th)	85.0	10.4	12.2
Total	<u>323.0</u>	<u>21.2</u>	6.6
October (40th)	85.0	21.3	25.1
(41st)	85.0	25.6	30.1
(42nd)	68.0	2.0	2.9
(43rd)	85.0	2.3	2.7
Total	<u>323.0</u>	<u>51.2</u>	15.9
November (44th)	85.0	21.5	25.3

PROCEDURES FOR HANDLING CORRESPONDENCE
MARKED FOR DESTRUCTION

If a tax examiner in the Adjustments and Correspondence Branch reads a piece of correspondence and determines that no action (such as adjustment of a taxpayer account) is required, he or she considers the correspondence "classified waste." At the end of the day, examiners put their "classified waste," along with all other correspondence worked during the day, in folders with their names on them.

The next day, PSC's Quality Assurance Branch reviews a sample of each tax examiner's work, noting any errors (including correspondence erroneously identified as "classified waste"), and returns the work to the unit supervisor who is expected to counsel tax examiners about any errors found. Then, a clerk in the Adjustments and Correspondence Branch separates the correspondence into "classified waste" and "good" correspondence. Pursuant to a recent change in procedures, the "classified waste" is boxed, dated, and sent to the records warehouse for at least 6 months before it is destroyed. In the past, "classified waste" had been placed in waste baskets designated for daily destruction. "Good" correspondence, because it is the basis for an adjustment, goes to the Document Retention Unit to be filed with the original tax return.

As part of its review, Quality Assurance prepares a report on each tax examiner, showing the number of items reviewed and the number of errors found. The report does not, however, include a separate category for recording errors by examiners in marking documents for destruction. Thus, we could not determine how often Quality Assurance identified erroneously marked documents, if at all.

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