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STATEMENT OF

JOHNNY C. FINCH, SENIOR ASSOCIATE DIRECTOR

GENERAL GOVERNMENT DIVISION

BEFORE THE

SUBCOMMITTEE ON OVERSIGHT

COMMITTEE ON WAYS AND MEANS

HOUSE OF REPRESENTATIVES

ON

IRS SERVICE CENTER OPERATIONS

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here this morning to assist the Subcommittee in its inquiry into the activities of IRS' service centers. Our testimony today is based on information that we gathered during our examination, at this Subcommittee's request, into the problems experienced by IRS' 10 service centers during 1985.

The information in this statement is based on the results of extensive interviews of officials at IRS' 10 service centers and its National Office and the review and analysis of various statistics, memoranda, and reports prepared by groups within and outside IRS, including IRS' Office of Internal Audit.

As has been chronicled by different sources during the year, IRS encountered numerous problems in 1985 that caused serious disruptions to service center operations (of which the processing of tax returns is the most significant) and that severely strained taxpayer relations. There were many reasons for those disruptions, most of which can be related in one way or another to the introduction of a new service center computer system and related input systems. IRS has taken, is taking, and plans to take several steps to correct the problems encountered during 1985 and to provide for a less disruptive processing season in 1986. Considering that IRS has had a year's experience with its new systems, we believe those actions, if appropriately implemented, should go a long way toward alleviating many of the problems experienced in 1985. There are a few potential problems, however, that cause us to hesitate

about predicting a "normal" processing season and that cause us concern about the tax administration system in general. There are also a couple of issues, relating to future computer procurements and effective communication within IRS, that could affect years beyond 1986 and that we think warrant discussion at these hearings. Another unknown is the impact that the Gramm-Rudman Act will have on IRS' funding.

I would now like to discuss the above matters in greater detail.

WHAT HAPPENED THIS YEAR?

During 1985, IRS' 10 service centers had difficulty processing tax returns timely, controlling the flow of tax returns as they moved through the processing system, and keeping non-return processing case inventories at a manageable level. As a result (1) more refunds were delayed in 1985 than in the past and interest payments on late refunds increased substantially, (2) many taxpayers had to file duplicate returns to "expedite" receipt of their refunds, (3) erroneous taxpayer notices were issued, (4) correspondence and other inventories swelled, (5) the number of telephone calls from taxpayers grew, (6) overtime costs increased, and (7) the productivity of service center personnel declined significantly. Specifically:

(1) According to information compiled by IRS for an October 1985 briefing of the Office of Management and Budget (OMB),

"Refunds for individual returns have in the past been issued within four to eight weeks depending upon the date the return was filed . . . . This past year, many more problems were encountered than usual causing an even longer lapse in refund issuance."

Besides the obvious inconvenience to taxpayers, delays in issuing refunds cost the Government money because IRS is generally obligated to pay interest on any refund that is not issued within 45 days of the date the return was filed or the return due date, whichever comes later. In that regard, as of November 8, 1985,

--IRS had issued 48.3 percent more refunds with interest to individual taxpayers compared to a similar period for 1984 (2,192,604 interest bearing refunds in 1985 versus 1,478,074 in 1984) even though the total number of refunds issued to individual taxpayers from January 1 to October 31, 1985, increased only 1.2 percent compared to a similar period in 1984 (71,787,000 refunds in 1985 versus 70,959,000 in 1984).

--IRS had paid 56.4 percent more in interest on refunds to individual taxpayers than in a similar period for 1984 ($42.8 million in 1985 versus $27.3 million in 1984) even though the total dollar amount of refunds (exclusive of interest) issued to individual taxpayers from January 1 to October 31, 1985, increased only 2.4 percent compared to a similar period in 1984 ($60.8 billion versus $59.4 billion).

(2) IRS established an Expedite Refund Program under which taxpayers who had not received their refunds within 16 weeks could file a duplicate return, which would then receive expedited processing by IRS. As of October 11, 1985, the service centers had received a total of 308,240 duplicate returns. The Philadelphia Service Center accounted for 157,141 of those duplicates.

(3) In a November 1, 1985, report, IRS' Office of Internal Audit noted that

> "Certain business tax returns and tax payments were not timely processed which caused erroneous notices. These notices either incorrectly advised taxpayers that they had not filed tax returns when they had already filed or erroneously billed taxpayers when they had already made payments."

The most prominent example involved a Federal Tax Deposit tape that was not processed in a timely manner by the Philadelphia Service Center causing most of the 26,800 business taxpayers whose deposits (totaling about $296.9 million) were recorded on that tape to receive at least one erroneous balance due notice.

Another example of an untimely processed computer tape involved about $3 million in payments from about 5,600 taxpayers. This tape, which was not timely processed by the Kansas City Service Center, caused erroneous collection actions, including issuance of 114 erroneous levies. Service center collection staff had to call the affected taxpayers and levy sources to determine the status of the levies, apologize for their issuance, and provide instructions on how to handle the levies.

A third example involved 58 tapes containing over 4 million information documents accounting for an estimated $3 billion in interest and dividend income reported to IRS by payers, such as banks and insurance companies. We identified this example during our ongoing review of IRS' Information Returns Program.

Thirty-three of the 58 tapes, containing about 2.8 million documents from 519 payers, were "lost" in the system because of weaknesses in the receipt and control of computer tapes between the Atlanta and Cincinnati Service Centers and IRS' National Computer Center (NCC). As a result, the information on these tapes was not posted to the automated master files and notices were sent to banks and other organizations erroneously advising them that they were subject to fines and other penalties for failing to report information that they had, in fact, already reported. These 33 tapes were eventually erased. To recover the data, IRS could have asked the payers to resubmit the information, but IRS advised us that this would put too much additional strain on its relations with taxpayers. The remaining 25 tapes, containing about 1.3 million documents, were overlooked at NCC but were still in the tape library. We brought this to IRS' attention, and they subsequently processed the tapes to update the master file.

IRS does not have overall statistics on the number of erroneous notices issued in 1985. However, information compiled by IRS on the results of 1.48 million math error notices that had been reviewed by service center quality reviewers during the first 9 months of 1985, before the notices were sent to taxpayers, showed that 220,200, or 14.8 percent, were incorrect. During those 9 months, the service centers had issued a total of 16.9 million math error notices to individual taxpayers.

(4) As of the end of October 1985, the 10 service centers had a total of 1,334,279 cases in their adjustments/

correspondence inventories, compared to 968,950 cases at that time in 1984. One of IRS' two criteria for determining a manageable adjustments/correspondence inventory (hereinafter referred to as correspondence inventory) is that no more than 20 percent of the cases in the inventory remain unresolved for more than 45 days. Of the controlled cases in the inventory at the end of October 1985, however, 73 percent were more than 45 days old.

Unpostable inventories also increased. An unpostable condition is one that prevents a transaction that has been processed through the service center from posting to the taxpayer accounts (otherwise known as the master file) at NCC. As of the end of October 1985, the 10 service centers had a total of 1,911,009 cases in their unpostable inventories, compared to 859,212 cases at that time in 1984.

(5) During the first 18 weeks of the May - September period, IRS responded to about 600,000 more telephone calls than it did during the same period of 1984. The number of overflow telephone calls (calls that went unanswered) also increased--from 13.6 million in 1984 to 47 million in 1985.

(6) Overtime usage from January 1 through September 30 at the 10 service centers increased from 606 staff years in 1984 to 869 staff years in 1985, an increase of 43.3 percent.

(7) Productivity at the 10 service centers declined 18.3 percentage points during the first 6 months of 1985 compared to the first 6 months of 1984. Using IRS data, we estimated the

direct staff hour costs associated with this decline to be $24.7 million. Adding overhead costs increases the estimated cost of the decline to about $38.6 million. Attachment I to this statement provides further information on how we computed this estimate.

PROBLEMS IN 1985 AND STEPS IRS HAS TAKEN TO PREVENT THEIR RECURRENCE

The difficulties IRS and the taxpaying public experienced in 1985 were attributable to several problems ranging from insufficient computer capacity to ineffective processing controls to inadequate training. Having itself recognized the existence of these problems, IRS has taken, or has indicated that it plans to take, several steps in an attempt to prevent their recurrence. This section is devoted to a discussion of those problems and IRS' corrective actions.

Computer capacity and software problems

This year IRS implemented the Service Center Replacement System (SCRS), which involved the purchase of a Univac 1100 series computer system from Sperry Corporation and the rewriting of about 1,500 computer programs. At the start of the 1985 filing season, a combination of insufficient computer capacity and inefficient computer software associated with SCRS adversely affected the service centers. These computer capacity and software problems played a major role in creating returns processing backlogs, document control problems, and excessive correspondence inventory levels.

On January 1, 1985, 7 of the 10 service centers did not have the computer capacity needed to handle their 1985 filing season workload. IRS planned, by that date, to have upgraded each center's existing Univac 1100/83 computer with one more central processing unit to form a Univac 1100/84. However, because the contractor was late delivering the central processing units, four centers--Andover, Brookhaven, Cincinnati, and Philadelphia--did not have the additional central processing units ready for use until dates ranging from mid-January to mid-February. According to National Office officials, however, Cincinnati did not need its additional processing unit at the beginning of the processing season. Also, the four largest centers--Fresno, Austin, Ogden, and Atlanta--were supposed to have both a Univac 1100/84 and a Univac 1100/82 computer ready for use during the 1985 processing season. However, the 1100/82 computers were not fully usable at these four centers until March when the tape drives needed to effectively operate the computer programs were received and a faulty central processing unit was replaced in Atlanta.

Besides not having full computer capacity on January 1, the centers did not receive the computer programs used to process tax returns until mid-January--a week later than needed. According to National Office officials, the delays occurred because testing of the programs had not been completed.

Throughout the filing season, the service centers experienced problems with computer programs. One significant problem involved programs that took longer to run than they

should have--attributable, at least in part, to the fact that the programs had been rewritten by IRS programmers who were relatively inexperienced in the new program language (COBOL).

On weekends, for example, the centers are supposed to update their data bases with information received from NCC. The data bases consist primarily of files on active or potentially active taxpayer accounts and are used by various center functions, such as the correspondence, collection, and examination sections. The weekend updates need to be completed by Monday so that those functions have the files available to do their work. According to information maintained by the National Office, however, the weekend updates often were not completed by 6:00 Monday morning during the first 19 weeks of the processing season at 7 of the 10 service centers.

	Number of weeks for which weekend update was not completed by 6:00 a.m. Monday during the first 19 weeks of the processing season
Andover	3
Atlanta	13
Austin	11
Brookhaven	15
Cincinnati	1
Fresno	17
Kansas City	12
Memphis	8
Ogden	15
Philadelphia	14

In addition to being unavailable at the start of the workday on Monday, the files were not always available during the week. For example, our analysis of reports compiled by IRS' National Office showed that of the 102 scheduled processing days between February 19 and July 12, 1985, the service centers

experienced an average of 79 days when operations were interrupted. The number of days interruptions occurred ranged from 61 at Andover to 89 at Kansas City.

Another major problem experienced by all 10 service centers involved inadequate checkpoint routines in the programs. A computer program that takes a long time to run should have checkpoint routines built into the program at various intervals so that if the program fails it can be restarted from the last good checkpoint instead of from the beginning of the program. However, programs were received that either did not contain good checkpoint routines or contained no checkpoint routines at all. As a result, programs that failed had to be rerun from the beginning instead of from checkpoints. This, in turn, increased the time required to update the service center files and decreased the availability of those files to the users.

IRS' corrective actions

To help overcome the problems created by insufficient computer capacity and inefficient programs in 1985, IRS processed some information at NCC and at a State of Pennsylvania computer facility.

To alleviate processing backlogs, NCC processed 113 days of tax return data from the Brookhaven Service Center between March 14, 1985, and August 30, 1985. This represented 62 percent of Brookhaven's daily batches processed between January 1, 1985, and September 23, 1985.

IRS contracted with the State of Pennsylvania to use a Univac 1100/82 at the State's computer facility in Harrisburg, Pennsylvania. Using the Harrisburg computer, IRS personnel processed 344.6 million information returns between April 1, 1985, and June 30, 1985, and also processed tax return data for the Philadelphia and Kansas City Service Centers.

Since the beginning of the filing season, the National Office has been rewriting computer programs to make them more efficient in terms of both processing time and computer capacity used. For example:

--National Office officials told us that programs used to process the service centers' daily workloads were rewritten so that the time to process those workloads has been reduced by an estimated 75 to 80 percent. Service center officials confirmed that those programs are now running faster.

--The computer program to identify taxpayers who underreported income on their income tax returns, according to an Ogden official, took 15 tape drives to process at the beginning of the 1985 filing season but only took 5 after the program was rewritten.

--At the beginning of 1985, computer programs for updating the service centers' business and individual data files on the weekends prevented users from querying the files while they were being updated. According to National Office officials, the programs were changed so that users could query the individual file while the business file was being updated, and vice versa. As a result, the amount of realtime available to users increased.

In addition, the restart problem has been corrected. According to National Office officials, all computer processing routines that take 1 hour or more to complete now have checkpoints so that the routine can be restarted from an interim point rather than completely re-run.

In preparing for 1986, IRS has given each service center additional computer capacity. Additional central processing units were delivered to the centers in August and September 1985. Considering these most recent units, the three largest service centers (Fresno, Austin, and Ogden) now have eight central processing units each--an increase of 2 over 1985; Atlanta and Brookhaven have seven units each--an increase of 1 and 3, respectively; and the other five service centers have six units each--an increase of two. Additional disk drives and disk controllers are scheduled to be installed before January and others are scheduled to be delivered in April 1986.

To address its near-term computer capacity needs, IRS is developing an acquisition strategy which proposes a competitive replacement of the existing Sperry Univac computer system. Under this replacement project, known as the Capacity Enhancement Processing System (CEPS), IRS is proposing to acquire 11 replacement computer and disk systems subject to functional specifications requiring the most current technology available. IRS information available to us indicated that the first replacement system would be installed in a service center in August 1988, with the final system installation to be completed by December 1988.

In the long-term, IRS is planning to completely redesign and replace the returns processing system with a state-of-the-art system. That system is to be implemented during the early 1990s.

Some transcribed data were not processed by the computer

The Distributed Input System (DIS), which consists of a series of video display terminals connected to a minicomputer, is used to enter payment and tax return data into the master computer. It was first used to process individual income tax return data in 1985. During the 1985 filing season, all 10 service centers encountered problems transferring tax return and payment data from the DIS minicomputer to the master computer. The problem of payment data not getting processed timely was a major concern of service center management because if payments did not get posted to taxpayers' accounts the taxpayers could receive erroneous balance due notices.

According to service center officials, a combination of operator error and faulty software design was the major reason why the payment data from the DIS minicomputer were not being transferred to the master computer. They said some data transcribers were not aware that if new data were entered into DIS before the DIS minicomputer had completed processing, the prior data would not transfer to the master computer. Not realizing this, and because there were no computer controls to prevent it, the operators would press the "mode" key on the DIS terminal keyboard believing that this would allow them to work the next payment block sooner. Instead, the mode key stopped the DIS minicomputer from processing the block that had already been transcribed and prevented the data from transferring to the master computer. As a result, not only

would these "dropped" payments not be credited to the taxpayers' accounts, but the money amounts on the DIS generated deposit ticket would be less than the actual amount of remittances sent to the bank for deposit. The centers also experienced similar problems transferring tax return data to the master computer. In addition to the "mode key" problem, IRS officials attributed the dropped block problem to faulty software, faulty hardware, and inexperienced personnel not following proper transfer procedures.

IRS' corrective actions

To ensure that taxpayers' accounts were credited and that deposit tickets balanced with actual remittances, the service centers had to manually reconcile the output from DIS with the DIS input records. This manual reconciliation process took additional staff resources. For example, Andover needed two full-time staff and Kansas City three full-time staff to do this reconciliation. Also, Brookhaven sent staff to the bank for 3 days to straighten out the discrepancies between the DIS generated deposit tickets and the actual remittances sent to the bank.

Also, on February 22, 1985, the National Office directed the service centers to begin manually balancing computer runs to ensure that processing was complete on all data previously transcribed.

In September 1985, IRS began testing two revised computer programs to automate some of the manual balancing procedures. DIS has been modified to provide a "mismatch" listing of (1) blocks of data (e.g., returns) not transmitted from the DIS minicomputers to the master computer and (2) blocks of data that were transmitted to the master computer but did not appear on the Univac computer listing.

In addition, the National Office is also modifying programs to provide a simplified and streamlined run-to-run control for the daily processing of returns, which will ensure that output totals for each computer application balance with input totals before the data is released. Programs are being modified to halt when an imbalance is detected. The computer operator would be expected to resolve the imbalance and continue the run. These modified programs are scheduled to be implemented starting on January 1, 1986. Later in 1986, IRS plans to begin implementing fully automated run-to-run balancing.

Transcribed data did not balance with the service center control file

The service centers experienced a large number of instances where blocks of documents that were transcribed into the computer did not balance with the information on the service center control file. This year, all the service centers had difficulty resolving the out-of-balance conditions. For example, during May 1985, which was the height of the processing season, the service centers had, in total, over 3 million documents in blocks that were out of balance with the control

file. The large number of out-of-balance cases prevented returns from being processed timely, thereby delaying some refunds.

There were several reasons for the high number of out-of-balance cases. One reason was that the computer was programmed to create out-of-balance conditions that, according to service center officials, could have been handled more effectively in other returns processing areas. In 1984, for example, cases involving information within a block of returns that was transcribed out of sequence were sent to the error resolution section where the sequence errors were corrected individually. In 1985, however, the computer was programmed to create an out-of-balance condition if a sequence error occurred, and the case was directed to that service center function responsible for resolving out-of-balance conditions. This meant that the entire block of returns would be held up in the processing system in 1985 as opposed to 1984 when only those individual returns with sequence errors would have to be corrected. This programming change accounted for a substantial number of out-of-balance conditions. According to a November 1985 Internal Audit report, sequence errors accounted for over 25 percent of the out-of-balance cases at two service centers from January through March.

Another reason for the large number of out-of-balance cases was that, unlike prior years, the information transcribed from the block header card, such as the document locator number, was

not key verified--that is, the information was not transcribed a second time by another data transcriber to insure its accuracy. An incorrectly transcribed document locator number could create an out-of-balance condition because the number on the block of returns being transcribed would not match the number on the control file.

The service centers not only had large volumes of out-of-balance cases, but also had difficulty resolving the out-of-balance conditions because the computer generated registers that identify the out-of-balance blocks were not printed timely. Ideally, these registers are printed at the end of the day while the returns are still physically located in the data transcription area. However, during the filing season, at 8 of the 10 service centers, the registers were often printed 2 to 3 days after the returns had been transcribed. In addition, according to officials in six service centers, the registers did not contain enough information on the conditions that caused the blocks to be out of balance to allow examiners working the cases to readily resolve the balancing problem.

Seven service centers had problems readily resolving out-of-balance cases because, by the time the registers were received, carts containing these returns had been physically moved to other returns processing areas, such as the error resolution and files areas. As a result, more time was needed to physically locate the returns before the out-of-balance conditions could be corrected.

IRS's corrective actions

To reduce the number of out-of-balance cases caused by data transcription errors, IRS, in August 1985, required key verification of all block header information. IRS also reprogrammed its computers to allow returns where data was transcribed out of sequence to be handled by the error resolution section, as had been the procedure in 1984. To make it easier for examiners to resolve out-of-balance conditions, IRS has changed the computer-generated registers that identify out-of-balance blocks to more clearly define the out-of-balance condition. IRS statistics show that the number of documents in the 10 centers' block out-of-balance inventories at November 15, 1985, totaled about 130,000--which IRS considers manageable.

Error resolution cases backlogged in the returns processing pipeline

Computer-related problems helped to create backlogs in the error resolution stage of the returns processing cycle, which is where IRS processing errors and taxpayer errors identified by the computer are corrected. The backlog, which prevented returns from being processed timely and which reached about 2.4 million cases nationwide at the beginning of May, was caused primarily by unavailability of the Error Resolution System (ERS). ERS is the on-line system used to make the corrections directly into the computer. It was first used to process individual income tax returns in 1985. In 9 of the 10 service centers, IRS officials said that ERS was not always available to

correct errors. For example, a Kansas City official estimated that ERS was down 97 hours from March 3 through May 25, and an Atlanta official estimated that ERS was not available for 274 hours between January and June. Atlanta officials estimated that because of ERS downtime, 15,548 staff hours of production time were lost.

Officials at seven service centers told us that efforts to correct tax return errors were also hindered by the time needed to locate the returns. In some cases, such a large number of returns had accumulated in the error resolution area that it became difficult to locate specific returns with errors. In other cases, the returns had been physically moved to the next processing stage, which is the files area. The major reason for this was that blocks of returns, which were still out of balance with the service center control file, were sent to the error resolution area from the data transcription area before the out-of-balance conditions were resolved. Out-of-balance blocks do not appear in the ERS inventory until the out-of-balance conditions are resolved. Consequently, the error resolution section, believing the blocks had gone through the various computer checks and passed without error, forwarded these blocks of returns to the files area. Therefore, by the time the out-of-balance conditions were resolved and the returns appeared in the ERS inventory, the returns had been moved to the files area.

IRS' corrective actions

IRS statistics show that the nationwide error resolution inventory at September 27, 1985, had dropped to about 200,000 cases and had reached manageable proportions at all 10 service centers. National office officials do not anticipate backlogs in error resolution in 1986. They expect that the additional computer capacity available at each center will ensure ERS availability to work error cases. Also, procedures are being established in the centers to maintain better physical control over the returns so that the returns can be readily located.

Returns backed up in the files area

In addition to the control problems in the returns processing pipeline caused by the large out-of-balance and error resolution inventories, most service centers experienced problems controlling the returns going to final storage. These problems occurred because cycle proof listings, which are used to determine if the returns have completed processing, were late at various times at 9 of the 10 service centers in 1985. For example, a Kansas City Service Center official told us that these listings were delayed generally from 2 days to 1 week for each week from February through June 1985. An Atlanta official told us that listings were 2 to 3 days late for each week of the filing season through June 1985. According to officials at the nine centers that had the problem, the listings were late because of either (1) computer problems (2) low priority given to producing the report, or (3) printing and distribution problems.

Delays in receipt of the cycle proof listings made it difficult for the service centers to control returns in the files area. Normally, returns arriving at the files section are not shelved until they can be traced to a cycle proof listing to insure that all processing has been completed. Because the listings were late, the service centers had returns backlogged in the files area awaiting verification to a cycle proof listing. Also, returns were continually entering the files area and then being pulled out to work the unresolved out-of-balance and error correction cases that had been moved to the files area. This constant movement of returns made it difficult to keep track of the returns that should be sent to final storage when the cycle proof listings finally arrived. As a result, some returns that had not completed processing were inadvertently moved to final storage. For example, both Fresno and Kansas City have reported finding unprocessed blocks of returns shelved in files. Fresno found 18 unprocessed blocks; Kansas City found 16.

IRS' corrective actions

According to a December 1985 memorandum from IRS' National Office to all service centers, a cycle proof listing will be automatically generated each week. The National Office pointed out in the memorandum that:

> "To ensure that unprocessed blocks are not put in the Files, it is mandatory that [service center] management meet the requirement to use the CPL [cycle proof listing] as directed . . . It is the consensus of representatives from the National Office and field that the basic CPL concept, when properly used, provides the optimal control to ensure that unprocessed blocks are not retired with processed blocks."

Also, for 1986, the National Office has directed the service centers to establish a staging area for processed returns from which documents can be pulled for all activities before sending the documents to final storage. The blocks are also supposed to be sorted in workday sequence to make them easier to locate.

Service center control file was not kept accurate and current

All service centers had problems keeping the service center control file accurate and current. That file is the primary control over documents and revenues in the service centers. It shows when the documents were put on the file and where the documents are in the service center (awaiting computer processing or in block out of balance, error, or reject status). As documents move through the service center, the control file is supposed to be updated so that the status of all documents is known.

At least monthly, the service center is supposed to conduct a review to identify blocks of documents that have had no activity for a specified period of time. Through this analysis, blocks that require immediate attention are supposed to be located, worked, and cleared. However, this year, because of other document control problems, the centers did not have time to work the aged cases on the control file. As a result, the inventory of aged control file cases grew to over 21 million documents by May 31, 1985.

IRS' corrective action

IRS' Internal Audit analyzed the control file and found a large number of aged items. Because of this, the National Office, in June, had each service center establish a special task force to resolve aged items. The centers were directed to resolve the aged control file inventory as of May 31, 1985, which at that time consisted of 21,255,666 items, and to keep current on all subsequent control file items. As of October 28, 1985, the service centers had reduced the May 31 aged inventory to 603,235 items.

Unpostable inventories increased in 1985

This year, all the service centers experienced large increases in unpostable cases compared with last year. For example, from January through October 1985, the centers had received about 15.3 million unpostable cases, which was about 4.5 million more than they had received over the comparable period in 1984. Several factors contributed to the increase in unpostable receipts.

First, unpostable cases were created this year for conditions that in prior years had been handled by other service center functions and had not been included in the unpostable inventory. For example, this year's unpostable inventory included cases where a tax return could not post to the master file because another return had already posted. Last year, these duplicate return cases were handled by the Adjustments/Correspondence Branch and were not part of the

unpostable inventory. Similarly, cases involving returns that would not post to the master file because the remittance that was processed along with the return had not yet posted were handled by the Notice Review Unit in 1984, whereas this year they were part of the unpostable inventory. These two unpostable conditions added about 60,000 cases to Brookhaven's unpostable inventory. An Atlanta Service Center official estimated that these new unpostable conditions accounted for about 12 percent of its total unpostable inventory in 1985.

Data transcription errors also caused unpostable receipts to increase this year. For example, this year, unlike prior years, entity data (names and social security numbers) on tax returns were not key verified. Errors in the entity data accounted for a substantial portion of the unpostable inventory in several service centers. For example, the Kansas City Service Center estimated that about 39 percent of its unpostable receipts were due to problems with entity data.

Nine service centers also experienced problems resolving unpostable conditions because of computer unavailability. Under the Generalized Unpostable Framework (GUF) system, which was implemented in 1985 and is the on-line system used to work unpostable cases, tax examiners in the unpostable unit are more dependent on computer availability than they were in prior years. The tax examiners need to use GUF to correct unpostable conditions and to close the cases.

The nine service centers cited GUF availability as a problem. The service centers did not keep records on the amount of time GUF was unavailable. However, we did obtain estimates on GUF unavailability from three centers: (1) a Brookhaven official estimated GUF was not available about 46 percent of the time during the January to May period, (2) an Atlanta official estimated that GUF was unavailable about 15 to 20 percent during peak periods, and (3) a Kansas City official said that the worst period for the service center was March through May when GUF was down about 172 hours.

IRS' corrective action

To reduce the number of unpostable cases caused by errors in transcribing entity data, IRS, in August, required the service centers to key verify that data. In 1986 IRS plans to limit key verification to those data transcribers who do not maintain an acceptable quality level. Each service center is to determine its own acceptable quality level.

Because they will have increased computer capacity in 1986, the service centers do not expect GUF availability to be a problem next year.

Correspondence inventories increased

Correspondence inventories at the 10 service centers as of the end of October 1985 had increased by about 38 percent compared to a year ago (1.3 million versus 1 million).

A major reason given by officials at 8 of the 10 service centers for the high inventory levels was the unavailability of

the Integrated Data Retrieval System (IDRS) to work correspondence cases. 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. When IDRS is not available, tax examiners cannot do the research needed to work and close correspondence cases. Although the service centers did not keep formal records on the amount of time IDRS was unavailable to work correspondence cases, some estimates were made. For example, a Kansas City official estimated that from January 17 through April 30, IDRS was down about 120 hours, during 27 of the 74 scheduled workdays. An Ogden official said that IDRS was available an average of 9 hours a day from October 1984 through May 1985--it was scheduled to be available 13 hours a day during this period. A Brookhaven official said that from January through June 1985, IDRS was never available on Mondays, and was unavailable periodically on Tuesdays through Fridays.

Officials in five service centers said another reason for the high correspondence inventories was the requirement that IRS respond to a taxpayer inquiry within 7 days of receiving the inquiry if it could not be resolved within 14 days. According to the officials, the requirement created additional work because if the case could not be resolved within 14 days the service center would have to send the taxpayer two letters--one acknowledging receipt of the taxpayer inquiry and another

explaining how the inquiry was resolved. Also, staff were expending more time answering initial taxpayer inquiries and resolving the easier correspondence cases. Because staff did not have enough time to work the more difficult cases, these cases remained in the correspondence inventory. As of the end of October 1985, IRS considered 73 percent of its correspondence cases to be overaged compared to 36 percent at the end of October 1984.

IRS' corrective actions

To reduce current and future taxpayer correspondence inventory levels, IRS took steps in August 1985 to reduce the number of tax return adjustments that result in taxpayer correspondence. These changes included raising various tolerances such as those for math verifying taxpayers' calculations, issuing math error notices, and assessing Federal Tax Deposit and estimated tax penalties. IRS estimated that raising these tolerance levels would reduce correspondence inventories by about 1.9 million cases annually.

In addition, IRS temporarily revised its time frames for responding to taxpayer inquiries. Those revisions are due to expire December 31, 1985. During the 1985 filing season, service centers were required to close a case within 14 days or, if unable to do so, send the taxpayer a letter, within 7 days, acknowledging receipt of the taxpayer's inquiry. In September

1985, the National Office authorized the service centers to extend these time frames to 30 days and 21 days, respectively. Two service centers (Atlanta and Fresno) adopted the extended time frames.

Newspaper accounts have alleged, on more than one occasion, that another step IRS took to minimize its workload, including its correspondence inventories, was to shred or otherwise inappropriately destroy or discard tax returns and/or taxpayer correspondence. We discussed two such allegations in a report to the Subcommittee on September 30, 1985, dealing with the Austin and Fresno Service Centers (GAO/GGD-85-89). We also discussed various incidents at the Philadelphia Service Center in a fact sheet that we prepared at the request of the Senate Committee on Finance and Senators Heinz and Roth (GAO/GGD-86-25FS). Pertinent excerpts from those two documents are included in this statement as attachments II and III. Our work indicated that there were times when certain employees acted inappropriately, but it provided no evidence of a systematic effort within IRS to wrongfully destroy returns and/or correspondence.

Problems affected various compliance activities

Computer-related and other processing problems experienced by the service centers in 1985 affected various compliance activities. According to service center officials, these problems resulted in

--prematurely releasing refunds to taxpayers before IRS could investigate the validity of the refunds under its Questionable Refund Program and its Abusive Tax Shelter Detection Team program,

--delaying the issuance of underreporter notices and delinquency notices, and

--requiring employees to manually generate reports to manage the examination programs.

Questionable Refund Program

IRS' Questionable Refund Program identifies potentially fraudulent refunds, such as those sought by persons filing more than one return for a particular tax year, and attempts to stop those refunds before they are issued. All service centers experienced difficulties in obtaining computer tapes or listings in time to stop many questionable refunds. Service center officials generally attributed these difficulties to insufficient computer capacity, IDRS downtime, and the low priority afforded this program.

Delays in receiving computer products were aggravated by problems in physically locating tax returns containing the questionable refunds. Three service centers attributed this problem to inadequate location data on the computer products. Three other centers said the returns simply were not at the designated locations.

According to a National Office official, during the 9 months ended September 30, 1985, the service centers were unable to stop more than $1 million in refunds on over 500 of the almost 2,900 returns IRS identified as having questionable refunds.

Abusive Tax Shelter
Detection Team program

IRS established Abusive Tax Shelter Detection Teams in 1985 to identify tax returns of investors in potentially abusive tax shelters and to suspend refunds from being issued until the questionable shelters could be reviewed. However, officials at 4 of the 10 service centers said that untimely receipt of computer-generated abusive tax shelter listings or difficulties in locating taxpayers' returns within the service centers prevented them from delaying all refunds in potentially abusive tax shelters.

For example, officials at Fresno and Austin said they had problems delaying refunds on tax returns involving potentially abusive tax shelters because refund data were not updated timely by the Computer Branch due to processing delays. Atlanta and Kansas City officials said they were unable to stop some refunds because computer listings that identified tax returns with potentially abusive tax shelters were received late--up to 21 days late at Kansas City. Atlanta officials also said their problem of stopping refunds was aggravated by not being able to find the applicable taxpayer returns in the service center when they were needed. The service centers did not have data on the number or amount of refunds not suspended due to these problems.

Underreporter program

Computer-related problems at 8 of the 10 service centers caused delays in the issuance of underreporter notices to taxpayers. These notices are the result of matching income reported by taxpayers on their tax returns to the income reported by third parties on information returns, such as interest income reported by a bank. The notices are usually processed weekly, but this year issuance was sometimes delayed 2 to 5 weeks primarily because higher priority was given to processing tax returns than to generating the notices. Instead of a continuous and smooth flow, notices were often issued in large batches. For example, the Brookhaven Service Center twice issued about 50,000 notices in a week, compared to its weekly average of 25,000. A large batch of issuances meant, in turn, that the service centers would receive the taxpayers' responses in large batches, making it difficult for them to process those responses timely.

Collection notices

Because of the problems IRS experienced during 1985 processing returns and payments, some tax return information did not get posted to taxpayers' master file records in time to prevent the computer from generating return delinquency and balance due notices.

Officials at 7 of the 10 service centers said that they delayed mailings of delinquency notices so that they could be screened to determine if the returns had posted to the master

file after the notices were generated. For example, about 114,700 delinquency notices scheduled to be sent out from Fresno in April 1985 were delayed until mid-May to allow additional time to research and correct any errors. All but 8,000 of the delinquency notices were delayed a second time, in mid-May, and were reprinted and mailed during the July-September quarter.

The service centers also were concerned that some balance due notices may have been generated before the payments posted to the master file and undertook special procedures in response to this problem. For example, the Brookhaven Service Center began reviewing balance due notices in January 1985. From January to October 1985, the service center reviewed about 792,000 notices; about 147,000, or 19 percent, of the notices were found to be erroneous and were stopped.

Examination program management

All service centers experienced some problems with management reports generated by the Audit Information Management System (AIMS). The service center's Examination Branch uses the reports from this system to help it manage its workloads. These reports, which contain information on the status of examination cases, examination accomplishments, and resources usage, were not produced timely, or in some cases accurately. As a result,

additional resources were used to manually generate management data. For example, Cincinnati officials said they spent at least 3 staff years maintaining manual controls on their management reports. Examination Branch staff had to manually track closed cases and check each case against the AIMS report to assure accuracy of the report.

Another common problem experienced by the Examination Branches was that AIMS would not accept taxpayer assessments made within 90 days of the statute expiration date. As a result, these assessments had to be made manually. For example, Brookhaven officials said they spent 1,400 hours manually processing about 10,000 assessments in 1985. Memphis officials said they manually processed between 5,000 and 6,000 assessments in 1985. Fresno officials estimated that they processed between 4,000 and 5,000 assessments manually.

IRS' corrective actions

The problems experienced by the compliance activities this year were due to delays in processing tax returns and payments and in generating computer reports and listings. Because the service centers expect to be able to efficiently and effectively process and control all tax documents in 1986, they do not expect to encounter similar problems next year.

Quality assurance function not effective

All 10 service centers experienced difficulties performing quality assurance reviews of the DIS and ERS functions. In addition, the Notice Review Units at five centers had problems reviewing taxpayer notices in a timely manner. Also, 5 of the 10 service centers were affected by late receipt of quality assurance reports. The above problems may have contributed to the centers issuing erroneous math error notices.

ERS

Erroneous math error notices were issued, in part, because quality reviewers were unable to comprehensively review work done on ERS. Returns that fail the computer's math and validity checks are reviewed by tax examiners in the error correction unit to determine whether the taxpayer made a math error and should be sent a notice. Quality review of the work done on ERS, which is used to correct computer-identified errors, was based on a computer-selected sample of tax examiners' work. However, the sample selection criteria skewed the sample toward the easier work done by tax examiners. For example, if a tax examiner worked errors on 1040-EZ returns and 1040 Business and Farm returns on the same day, the quality assurance sample would most likely come from the less complicated 1040-EZ returns. This skewing of quality assurance efforts toward less complicated returns not only made it hard for IRS to get a true indication of quality but also reduced the review of the more

complicated returns that are more likely to result in math error notices. Quality review was further hampered because the computer-generated printout used by quality reviewers to determine the corrections tax examiners made to tax returns were difficult to read. In addition, quality reviewers had a difficult time locating tax returns needed to perform their reviews because the returns had been moved to the filing area and were commingled with returns that had completed processing.

DIS

Many erroneous math error notices are initially caused by data transcription errors. Therefore, it is important that an effective quality review be done on the work done by DIS operators in transcribing return information. This year, however, quality reviewers encountered problems reviewing that work.

Similar to ERS, quality review samples for DIS operators are computer generated and records of DIS operators work are printed out for use by quality review staff. The quality reviewers use both IDRS and the original entry documents to verify the DIS entries. Delays in printing DIS quality review samples and difficulties locating documents in the service centers contributed to delaying and degrading the quality reviews. These problems not only delayed quality feedback to both data transcribers and supervisors but also increased the workload of the error correction units.

--entry level salaries that were often lower than those offered by local fast food restaurants, and

--limited public transportation.

Besides tax return processing, other service center functions were affected by the shortage of experienced staff. For example:

--Between December 1984 and March 1985, Sperry Corporation performed computer system audits at each of IRS' service centers and found that 8 of the 10 centers did not have sufficient program analysts in their computer branches to provide adequate coverage during the filing season. Program analysts are responsible for helping to assure that computers operate efficiently and that computer programs generate the desired products on a timely basis.

--Officials at all of the service centers said they experienced staffing problems during 1985 in the division that handles correspondence with taxpayers. Many of the problems resulted from attrition of experienced personnel who were looking for either higher graded or more permanent positions, and were aggravated by difficulties in hiring and training replacements.

--Four centers experienced staff reductions in the Examination Branch, which is responsible for reviewing tax returns for audit potential and handling those audit issues that can be resolved by correspondence with the taxpayer. According to service center officials, those staff reductions sometimes resulted in delayed assessments or the potential for lost revenues. Fresno and Memphis, for example, curtailed their non-filer examination programs. Under this program, taxes are assessed on those identified non-filers who do not file their returns after being contacted by IRS. Curtailment of the program in Fresno resulted in delayed assessments of taxes and penalties of about $75 million until 1986, at which time the service center plans to work the 1985 cases. A Memphis official said the center does not plan to work its 1985 cases in subsequent years. Memphis officials estimated that potential revenues of about $16 million could be lost if those cases are not worked.

IRS' corrective actions

At the time of our inquiries, individual service centers and IRS' national office were considering various strategies to overcome staff recruitment and retention problems. We do not

Notice review unit

A service center's Notice Review Unit reviews, on a sample basis, math error notices before they are mailed to taxpayers. Notice review is the last opportunity the centers have to prevent issuing erroneous math error notices. According to officials in five service centers, the Notice Review Units encountered difficulties reviewing notices this year because the units consistently received notices a day later this year than in prior years. Last year the units received the notices on Monday; this year they received them on Tuesday. The notices show the following Monday as the assessment date. This means that the notices need to be sent out no later than Friday. Thus, the centers had one less day during the week to review the notices before they had to be sent out. Officials at 5 of the 10 service centers also said they had difficulties locating the tax returns needed to conduct the reviews.

Quality assurance reports

Five of the 10 service centers stated that, because the computer was needed to process tax returns and other high priority items, quality review reports were often not timely. This lack of timeliness affected service center functions because managers could not easily isolate problem areas and take corrective action. The quality assurance staff manually produced reports when they did not have computer-generated reports available, but that was more time consuming.

IRS' corrective actions

For 1986, IRS plans to improve its overall quality review efforts by increasing the quality review staffing from 4 percent to 5 percent of total direct staff hours worked, resources permitting. According to National Office officials, IRS has modified the sample selection criterion on ERS to allow quality reviewers to examine all types of returns corrected by tax examiners and has made the quality review printout easier to read. National Office officials report that DIS quality review has been changed to allow quality reviewers to do their review on-line, which should eliminate a need for the computer-generated quality review sample record. According to IRS, however, that change is dependent on the availability of DIS terminals, which could become a problem during peak processing periods. To further prevent erroneous math error notices from being issued, National Office officials said the centers will increase the number of math error notices reviewed. National Office officials also said the criteria used to select notices for review is being changed to better ensure that notices with a high potential for error will be reviewed.

Problems hiring and retaining staff

Officials at several service centers said that they had problems attracting new employees and retaining experienced employees. They cited various reasons, including

--lack of part-time work and flexible work hours,

--job stress due to performance standards,

--the short term nature of seasonal employment,

know to what extent those strategies have been or will be implemented.

Andover officials told us, for example, that they expect their staffing problems to worsen in 1986 because of attrition and an expected 25 percent increase in workload from new work being shifted to the service center. To keep employees from leaving, the center is establishing a child care facility and an employee health improvement program and is considering filling some part-time positions on a permanent basis.

IRS' National Office has indicated that to help overcome staff problems, it is considering, among other things,

--use of "off-site" facilities where feasible and practical;

--in-depth exit interviews and collection of a data base of reasons/conditions for leaving;

--training and development of in-house recruitment planning expertise, or contracting with professional consultants in recruitment and retention planning; and

--use of multifunctional personnel.

Training problems

As mentioned earlier, IRS introduced several new input systems during 1985. Those new systems incorporated technology and functions not available previously to the service centers. During our review, we identified certain problems that arose due to, or at least were exacerbated by, staff unfamiliarity with the new input systems. As we discussed earlier, for example, each of the service centers experienced problems this year with data not transferring from the DIS minicomputer to the master

computer. A significant factor contributing to that problem was the fact that some operators and managers were not fully trained on DIS and thus misused the mode key on the DIS terminal keyboard.

Such problems indicate that service center staff were not trained as well as might have been expected prior to the 1985 processing season. In that regard, service center officials reported that they encountered various types of employee training problems during 1985, including (1) late receipt of training materials; (2) late presentation of training due to the late receipt of materials, the lack of adequate training facilities to handle the large number of new hires to be trained, and the unavailability of computer time for training purposes; (3) insufficient and inadequately prepared instructors; and (4) insufficient training of managers.

Processing Division officials at four centers told us that the untimely receipt of training materials, which they considered inadequate in some cases, caused problems in processing tax return data. For example, Austin and Atlanta officials said that inadequate training and training materials caused problems with the system used for inputting taxpayer remittance data into the computer. As a result, some payments did not get processed into the computer, while in other cases remittance data were not transcribed in the proper sequence.

IRS' corrective actions

IRS' National Office and individual service centers have developed new training materials and classes to address the problems identified in 1985. The National Office has established a system to monitor the processing of manuals and training materials to the service centers so as to assure timely delivery. Furthermore, the National Office has issued revised instructor guides to better prepare instructors for their teaching duties.

A new training curriculum, combining on-the-job training with formalized courses, has been developed for service center personnel working with the computers. That curriculum includes training for

--all service center IDRS terminal operators in standard terminal operations and trouble-shooting procedures;

--all service center managers on the relationships between automated processing systems and the impact of those systems on center operations;

--all service center first-line managers in workload management and controls and in early problem identification and resolution; and

--all Computer Branch managers, programmers, operators, analysts, and other employees on the concepts and system applications needed to better perform their jobs.

In December 1985, we contacted each of the service centers and were told that delivery of training materials, training of instructors, and employee training were on schedule.

WHAT WILL HAPPEN IN 1986?

IRS does not anticipate major processing problems in 1986. IRS' belief is based on the actions it has taken, is taking, and

plans to take to counter the problems it had in 1985. These actions include

--increasing the computer capacity at its 10 service centers by adding a total of 20 central processing units and related peripheral equipment;

--increasing the efficiency of its computer programs, including reducing the time needed to process its weekend workload;

--increasing its training efforts for service center staff, particularly in the computer and processing areas;

--budgeting more time for quality assurance functions and improving some of its quality review procedures; and

--adding more returns processing controls, both manual and automated.

Another factor that should help IRS is the fact that Internal Audit plans to devote considerable resources to service center operations next year, which should help management more quickly identify problems and design solutions. Considering that IRS has had a year's experience with its new systems, we believe that those actions, if appropriately implemented, should go a long way toward alleviating many of the problems experienced in 1985.

We do, however, have some concerns about (1) certain factors that could cause problems during the 1986 processing season; (2) certain matters that may not adversely affect IRS' ability to process returns but that could, we believe, adversely affect the tax administration system; and (3) issues that go beyond next year.

Concerns about the 1986 processing season

Despite the prospects for a smoother 1986 processing season, five unknowns cause us some concern. These relate to (1) whether the service centers will be able to reduce their correspondence and unpostable inventories to manageable levels before January 1, 1986; (2) whether IRS strategies to alleviate staffing problems will be effective; (3) whether sufficient controls have been implemented to insure that computer tapes containing tax return and payment data are processed timely; (4) whether peripheral computer equipment will be delivered in a timely manner; and (5) whether the service centers' front-end processors will be able to process IRS' realtime workload.

Inventory levels

A major concern with respect to 1986 is whether the service centers will be able to reduce their correspondence and unpostable inventories to manageable levels by the end of this year. As of October 24, 1985, Cincinnati was the only service center that had reduced both those inventories to levels approximating what IRS considers manageable.

IRS considers a correspondence inventory manageable when no cases are uncontrolled beyond 14 days after IRS received the correspondence and no more than 20 percent of the controlled cases are 45 days old or older. As the tables in attachment IV show, the correspondence inventories at each of the service centers, except Cincinnati, exceeded the 20 percent criterion as of the end of October. At four of those centers (Atlanta,

Brookhaven, Memphis, and Philadelphia) the number of controlled correspondence cases older than 45 days was in excess of 80 percent.

IRS considers an unpostable inventory manageable if no more than 20 percent of the cases has been in the inventory anywhere from 3 to 10 weeks, depending on the unpostable condition involved. As of the end of October 1985, only three service centers (Cincinnati, Ogden, and Andover) had unpostable inventories that included less than 30 percent overage cases.

If the service centers cannot get their correspondence and unpostable inventories down to a manageable level by the beginning of 1986, taxpayers could again experience delays in getting their inquiries answered and their transactions posted to the master file.

Staffing

IRS' ability to hire and retain service center staff, especially in the returns processing area, is not an issue that first arose in 1985. The conditions that service center officials cited, such as low pay and undesirable working conditions, existed before 1985 and will continue, to some degree, in 1986. IRS has developed certain strategies that it hopes will help alleviate those problems, but there is no way of knowing, yet, how successful those strategies will be.

Another factor that contributes to our uncertainty about whether IRS will have adequate staffing in all locations is IRS' decision to redistribute service center workload effective

January 1, 1986. As shown in the following table, that redistribution involves six service centers:

Realigned District Office	Losing Service Center	Gaining Service Center
Sacramento	Fresno	Ogden
St. Paul	Ogden	Andover
Louisville	Memphis	Cincinnati
Parkersburg	Memphis	Cincinnati
Little Rock	Austin	Memphis

What remains to be seen is whether the gaining service centers can effectively staff the increased workload. Data obtained from IRS indicates that the Cincinnati and Andover Service Centers would seem the most vulnerable. The data indicates that the returns processing functions in both those centers will experience a workload increase in excess of 20 percent as a result of the redistribution. Such an increase could cause problems if the service centers are unable to obtain the necessary staff to handle that work. Also, the centers could have problems trying to train the additional hires needed to handle the increased workload.

Controls over computer tapes

As we noted earlier, one of the difficulties IRS experienced this year involved the untimely processing of computer tapes containing tax return and payment data. We had discussed this problem, as it related to the Philadelphia Service Center, in an April 24, 1985, document addressed to the Chairman of the Subcommittee on Oversight. Unless appropriate management controls have been implemented, IRS cannot be assured

that this problem will not occur again in 1986. IRS' Internal Audit has been conducting a nationally coordinated review of management controls in the service centers' computer branches and, we understand, will be issuing a report shortly. Because of Internal Audit's involvement and our own time constraints, we did not assess computer branch controls.

Peripheral computer equipment

IRS has upgraded the computer capacity at all 10 service centers by adding a total of 20 central processing units to the 1985 complement of 48 central processing units. The central processing units have all been delivered and site preparation has been completed at the service centers. However, delivery of the peripheral equipment--the disk controllers and disk drives needed to fully use the computers' capacity--will not be completed at the beginning of the filing season. By January, 38 of the 52 disk controllers and 100 of the 176 disk drives IRS has ordered for the new processors will be installed. The remaining 14 controllers and 76 disk drives are scheduled to be delivered in March 1986. In December, IRS officials told us that the equipment scheduled for delivery in March is not needed for returns processing in 1986 and its delivery may be delayed.

As discussed before, the four largest service centers were unable to use all of their central processing units early in 1985 due to a late delivery of peripheral equipment--one of the factors that affected their performance. This could be a factor in 1986 if the peripheral equipment associated with the most recently installed processing units is needed but not delivered

on time. Also, any equipment installation during the filing season could have a disruptive effect on service center processing. Typically, new hardware is installed at computer centers during times that are least disruptive to production processing--nights or weekends. During the tax filing season, there is no least disruptive time.

Accordingly, IRS should firm up, as soon as possible, its decision about the need for the equipment to be delivered in March so that it can take steps to either (1) ensure that the equipment is delivered on time or (2) defer delivery until after the filing season.

Front-end processors

We are concerned whether the front-end processors to the main Univac computers at each service center will have enough capacity and reliability to process IRS' realtime workload. Front-end processors are the computers through which all on-line inquiries via computer terminals must pass to get access to key IRS data bases on IRS' main Univac computers. The data bases are used by various service center functions such as those responsible for responding to taxpayer inquiries, processing refunds and adjustments to taxpayers accounts, examining taxpayer returns, collecting taxes, and investigating tax crimes. Each service center has one front-end processor. If that unit fails, access to the main computers is not possible until the unit is repaired. To illustrate that this situation can occur, an IRS National Office official told us that the front-end processor at the Atlanta Service Center was down for about 30 hours just recently and that Sperry Corporation flew in a replacement.

An additional concern involves the potential for an increase in the workload to be processed by the "front-end." Considering the current backlog of correspondence and IRS' stated intent to emphasize taxpayer service for the coming year, the capacity of the front-end processors may become a problem.

The increased workload could lengthen computer terminal response time and further increase IRS' backlogs.

As a solution to these problems, IRS has awarded a contract to replace the front-end processors but the contract is being protested. The earliest planned installation of a new front-end processor at a service center is August 1986--after the filing season.

Concerns about the tax administration system

Among the many steps IRS took in trying to deal with the problems encountered in 1985 were two that we recommend IRS reconsider--one (changes to various tolerances) because we believe it goes too far, the other (a decision to partially key verify certain data) because we believe it does not go far enough. Our concerns here relate more to the potential impact on the tax system than to the potential impact on the 1986 processing season.

Tolerances

One of the steps IRS took in an attempt to reduce its correspondence inventories to manageable levels was to increase several of its tolerances so as to reduce the number of taxpayer accounts needing adjustment and thus the volume of taxpayer correspondence. IRS estimated, for example, that raising the tolerance for assessing the Federal Tax Deposit penalty would reduce correspondence inventories by 1.7 million cases and would save 74 staff years. Considering IRS' estimate that increasing the tolerance would also generate an annual revenue loss of $185

million, we are concerned that the disadvantages associated with the increased tolerances may outweigh the advantages. Our concern about tolerances is also fueled by a concern for taxpayer equity and those taxpayers who dutifully comply with the tax laws.

Key verification

As we discussed earlier, IRS has decided to require that entity data from tax returns be key verified only for those data transcribers who do not maintain acceptable quality levels. We understand, in talking to National Office officials, that the decision to limit key verification was predicated on the availability of resources. We recognize that IRS does not have unlimited resources. Given what is at stake, however, we think IRS should reconsider whether key verification is the most appropriate place to save resources. We believe it is vital, from a taxpayer relations standpoint, that IRS do its utmost to process tax returns accurately and timely. IRS' problems during the past processing season resulted, in part, from erroneously transcribed tax return entity data, causing returns not to post to the master file and thus delaying refunds and generating taxpayer inquiries. We think IRS is taking an unnecessary risk by limiting key verification of that data. In our opinion, a better approach would be to begin the season with 100 percent key verification of entity data and reduce that level if performance shows that original entry accuracy is within an acceptable range over a period of time.

Concerns about some longer term issues

In considering the future, it is important that we not limit our concerns to 1986. As we have discussed in this document, this year's difficulties were due, in large part, to problems related to the Service Center Replacement System. We have been reviewing the acquisition and implementation of SCRS at the Subcommittee's request and will be issuing a separate report next year. Although it is too early for us to reach conclusions on most of the issues we are pursuing, one issue we see developing--an issue that we think was crucial to successful implementation of SCRS--bears mentioning in this statement because it relates to a recurring theme. That theme is the lack of a proper focal point for managing a procurement through design and implementation.

In June 1979, for example, GAO reported on the need for IRS to better plan for and control its ADP resources (GGD-79-48). We pointed out, among other things, the need for a an appropriate focal point within the organization to exercise control over major systems during their design and implementation. In our opinion, SCRS provides indications that problems were experienced, or at least exacerbated, due to the absence of such a focal point.

IRS established a Systems Development Office to plan for, support, and initiate SCRS. Among other things, that Office was responsible for feasibility studies, conversion studies, and transition plans. The transition plans were the basic

management tool for providing a method of moving from the old systems to replacement systems. The plans identified milestones and assigned responsibility for the various implementation steps. These responsibilities included equipment procurement, site preparation, applications software development, software testing, equipment installation, and personnel training.

Once the overall plans were in place and the SCRS project was started, however, the Systems Development Office was disbanded. Each functional organization identified in the transition plans was responsible for managing its part of the project. There was no controlling organizational component to oversee the overall progress of SCRS. As a result, critical management functions, such as ensuring that system sizing assumptions were adhered to, milestone dates were reasonable, and software was fully tested before it was implemented, were not effectively carried out.

Because IRS plans to replace SCRS, through another major procurement, by 1989 and then again in the early 1990s, it is important that IRS take the steps necessary to insure that those systems are brought on line more smoothly than was SCRS. Key in that regard is establishment of an appropriate focal point within the organization to manage the system design and implementation.

Another long-term concern relates to communication. As we did our work, it seemed to us as if some service centers were doing a better job of isolating problems and reacting to those problems than were others. It seemed to us also that IRS, as a

whole, might have been better able to deal with this year's problems if knowledge of those problems had been more timely communicated to the appropriate levels of management within and outside a particular service center and if a particular center's solutions to those problems were better communicated to the National Office and to other centers.

As a result of this year's problems, it seems reasonable to believe that IRS employees will be more sensitive to conditions that could lead to problems in 1986 and will be quick to communicate those problems to the appropriate level of management. IRS plans to establish a 24-hour-a-day, 7-day-a-week command post at the National Office are indicative, we believe, of its recognition of the need for that kind of communication--although that command post has not yet been tested in operation.

On December 11, 1985, an IRS National Office official told us the command post would handle urgent Computer Branch problems and would be staffed by two persons per shift who would be responsible for (1) fielding calls from the service centers, (2) apprising appropriate persons of the problem, (3) following up to make sure action has been taken on the problem, and (4) disseminating information on the problem and the corrective action to other service centers. We were told that the command post should be operational by the second or third week in January 1986.

The success of the command post concept as well as other IRS actions will depend on (1) whether IRS' organization

facilitates effective communications between and among service centers and between service centers and the National Office, (2) whether IRS' management information system provides the type of information management needs to identify problems before they get out of control and whether that information is being used effectively, and (3) whether IRS' use of productivity standards fosters the kind of competition between service centers and individual managers that might discourage them from surfacing problems and seeking solutions.

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This concludes my prepared statement. We would be pleased to respond to any questions.

ATTACHMENT I

SERVICE CENTER PRODUCTIVITY

Productivity is a key measure of how well an organization is performing. Productivity in a public sector organization is analogous, we believe, to the degree of profits produced in a private business. Using data obtained from IRS' management information system, we measured productivity at the IRS service centers in terms of the volume of work produced (e.g., tax returns processed) as compared to the staff hours used to do that work.

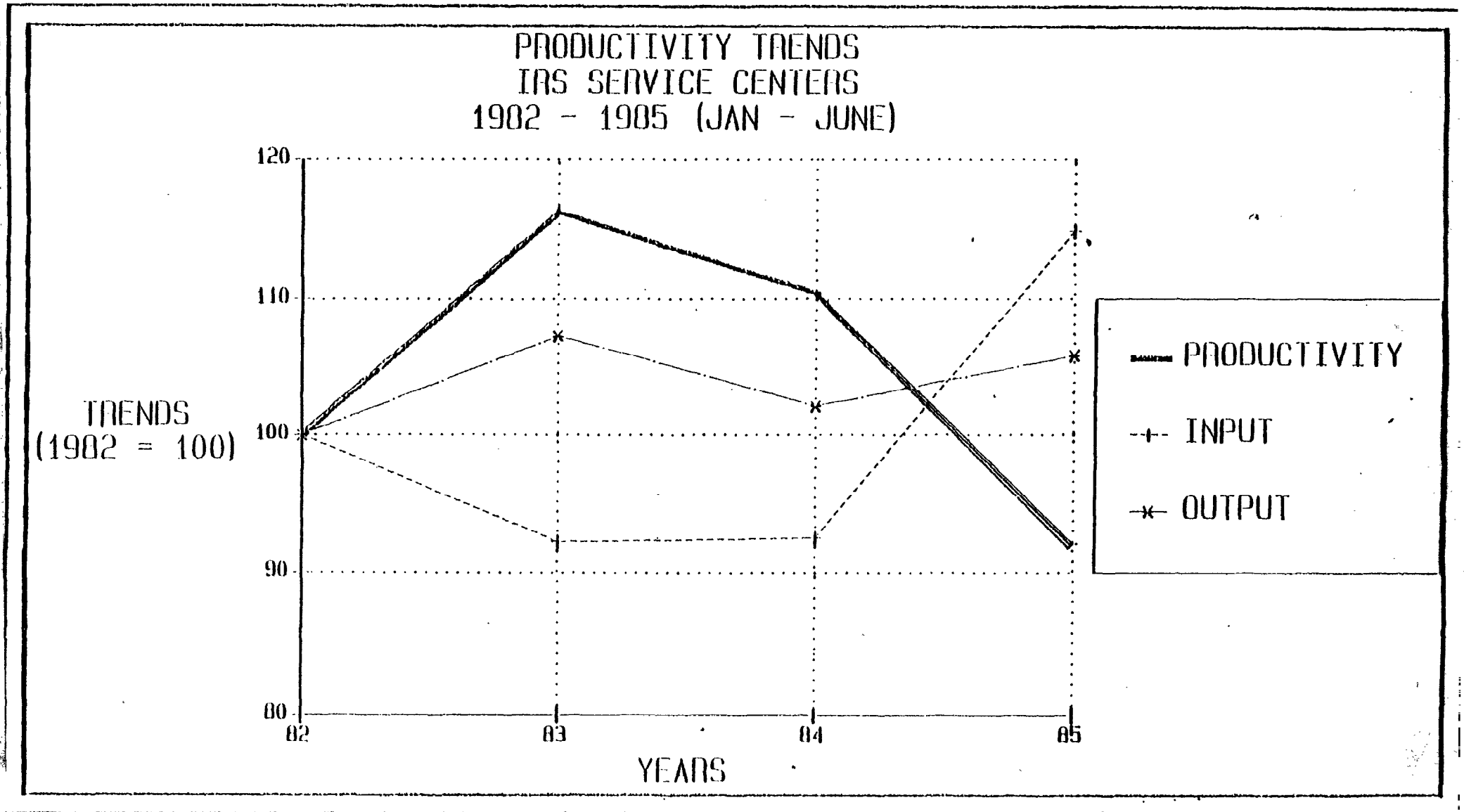
As shown in the following table and depicted in the chart on the next page, service center productivity during the January to June filing season increased between 1982 and 1984 but then decreased in 1985.

January to June Productivity Trends

	Input	Output	Productivity
1982 (base)	100.0	100.0	100.0
1983	92.2	107.2	116.3
1984	92.5	102.1	110.4
1985	114.9	105.8	92.1

Source: IRS Work Planning and Control System.

From 1982 through 1984, service center productivity increased 10 percent because work completed (output) increased while the staff hours to complete that work (input) decreased. In 1985, however, workload increased slightly, but the staff hours to complete that work increased about 24 percent over 1984. The result: a significant downturn in productivity.


PRODUCTIVITY TRENDS
IRS SERVICE CENTERS
1982 - 1985 (JAN - JUNE)
TRENDS
(1982 = 100)
120
110
100
90
80
82
83
84
85
YEARS
PRODUCTIVITY
INPUT
OUTPUT

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The staff cost of that productivity decline is significant. If productivity had remained constant between 1984 and 1985 rather than going down, the staff hours required to do the work in 1985 would have been 2.7 million hours less than was actually used. Using IRS data on the average cost of a service center staff hour, the cost of those staff hours is about $24.7 million. If overhead is added to those staff hours, the cost increases to about $38.6 million.

We also estimated annual trends for the 4 years. Because 1985 was not complete at the time of our review, we estimated input and output for the last half of 1985. The results were similar to the January to June trends. Productivity increased regularly through 1984, but declined about 18 percentage points in 1985. We estimate this decline cost the service centers 4.4 million staff hours at a direct cost of almost $41 million. If overhead is included, our estimated cost increases to almost $64 million.

Productivity of major functions

Major service center functions where bottlenecks occurred during the 1985 filing season showed similar productivity declines. For example, the returns processing functions, consisting of Receipt and Control, Code and Edit, and Data Conversion, produced the following January to June productivity trends:

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Pipeline Productivity (January to June)

	Input	Output	Productivity
1982 (base)	100.0	100.0	100.0
1983	85.5	92.1	107.7
1984	81.7	91.4	111.9
1985	101.6	92.4	90.9

Although productivity for the processing functions increased significantly through 1984, it took a significant drop during the 1985 filing period. While output increased slightly, the staff hours used to produce that work increased about 24 percent. We estimate the cost of the additional staff hours at about $6.4 million for the direct time and about $10 million including overhead.

We also reviewed the productivity of those functions responsible for controlling taxpayer correspondence. Because the workload for these functions is more year-round than seasonal, we reviewed these productivity trends on an annual basis. Productivity increased from 1982 through 1984, then declined about 28 percentage points in 1985 because staff years to handle taxpayer inquiries increased about 29 percent while work completed declined minimally. The estimated cost of the additional direct staff hours was about $6.8 million.

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THE HANDLING OF TAXPAYER CORRESPONDENCE AT THE FRESNO AND AUSTIN SERVICE CENTERS[1]

Newspaper accounts alleged that employees in both the Fresno and Austin Service Centers had inappropriately destroyed taxpayer correspondence. While doing our work at the two centers, we examined into the basis for the allegations. The following information was obtained from (1) interviews with service center officials, (2) reviews of service center correspondence processing procedures, and (3) examinations of various IRS correspondence relating to the issue.

FRESNO SERVICE CENTER

Newspaper accounts alleged that IRS employees at the Fresno Service Center were instructed by their supervisors to destroy between 50,000 and 63,000 letters received from business taxpayers concerning their balance due notices. The allegation, made by the National Treasury Employees Union, was that the taxpayer correspondence was destroyed without thoroughly researching the cases in order to reduce a rising correspondence backlog and thereby create an appearance of increased productivity.

According to Fresno's officials, from about December 3, 1984, to February 15, 1985, the service center modified its correspondence processing procedures by limiting the amount of research that had to be performed on some cases within a specific group of about 27,000 balance due inquiries from business taxpayers. The modified procedures also eliminated the requirement that tax examiners send letters to taxpayers informing them that their inquiries had been resolved. As a result of the modified correspondence procedures, some taxpayers may have been subjected to subsequent collection action because IRS assumed that the taxpayers' accounts were settled when they were not. Also, some taxpayers would not have received letters from IRS explaining that their inquiries had been resolved.

Service center management said that they modified the correspondence processing procedures to help reduce growing correspondence inventories that were caused, for the most part, by the lack of sufficient computer availability to work and close the correspondence cases. According to Fresno officials, the modified procedures did not result in the premature destruction of taxpayer correspondence. Rather, they said that the taxpayer correspondence was destroyed after the cases were closed and quality-reviewed, which is in accordance with IRS procedures.

IRS Procedures For Processing Taxpayer Correspondence

The following summarizes IRS' procedures for (1) researching taxpayer correspondence, (2) informing taxpayers of how their cases were resolved, and (3) destroying taxpayer correspondence.

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[1]This is an excerpt from a GAO report on IRS' Austin and Fresno Service Centers (GAO/GGD-85-89).

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Research procedures

When processing taxpayers' inquiries on balance due accounts, the following research actions are required.

1. The taxpayer inquiry is analyzed to determine what action is required to resolve the inquiry.

2. IDRS is checked to determine the status of the taxpayer's account and whether a payment had posted to the account after the balance due notice in question was issued. If IDRS shows that the payment has posted to the taxpayer's account, the case can be closed.

3. If there is not enough information on IDRS to close the case, a master file transcript of the taxpayer's account is requested. If the transcript shows that the payment in question has been resolved, the case can be closed. If not, more research must be done, such as reviewing the taxpayer's tax return.

Procedures for responding to taxpayers

When taxpayers' balance due inquiries are resolved, the taxpayers should receive either (1) a computer-generated notice which tells what action was taken to resolve the balance due condition or (2) a personalized letter from the tax examiner who handled the case explaining that the issue in question has been resolved.

A personalized letter is sent to a taxpayer when the action that resolves the taxpayer inquiry will not automatically cause a computer-generated notice to be issued to the taxpayer. For example, at times a taxpayer's tax payment does not post to the master file until after the taxpayer receives a balance due notice. When the payment does post to the master file, the computer will automatically clear the balance due condition. However, the computer will not generate a notice informing the taxpayer that the balance due condition was resolved--the tax examiner handling the taxpayer inquiry must generate the letter.

The computer will automatically generate a notice to the taxpayer when it takes an overpayment from one of the taxpayer's tax modules and applies it to another module where there is an underpayment. For example, if a taxpayer had overpaid the Federal Unemployment Tax Act (FUTA) tax but still owed tax on the Form 941 (Employer's Quarterly Federal Tax Return), the computer would automatically transfer the FUTA overpayment to the underpaid 941 account. The computer should also automatically issue the taxpayer a notice explaining this transaction. In this case, the tax examiner is not required to send the taxpayer a personalized letter.

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Procedures for destroying taxpayer correspondence

After a tax examiner resolves the taxpayer's inquiry, the documents associated with the case, such as the taxpayer's written inquiry and the copy of the taxpayer's master file transcript, are coded "D" (for destroy) by the tax examiner and forwarded to the quality review function. The only documents that should not be coded for destruction are those that show that the tax examiner adjusted the taxpayer's account. For example, if a taxpayer requested an abatement of the delinquency penalty for reasonable cause and the tax examiner agreed, the document showing the abatement action should not be coded for destruction. All case documents will be coded for destruction in those cases where the tax examiner did not have to adjust the taxpayer's account. For example, if a taxpayer inquiry concerned a payment which did not post to the account until after the balance due notice was issued, the tax examiner does not have to adjust the account because the computer would have already made the adjustment. In this case, the taxpayer's inquiry and all other documents associated with the case will be destroyed.

How The Correspondence In Question Was Handled

In anticipation of converting to the new computer system in October 1984, service center management decided to build up an inventory of correspondence cases which would be worked during the conversion process. According to Fresno officials, the service center took the following action on about 27,000 balance due inquiries received in August and September 1984 from businesses.

1. The taxpayers were sent postcards acknowledging IRS' receipt of the taxpayers' inquiries.

2. A hold of 15 weeks was put on the cases to prevent the issuance of subsequent balance due notices.

3. Transcripts of the taxpayers' master file accounts were ordered.

4. The cases were then set aside to be worked during the conversion process.

The conversion process was delayed by IRS' National Office and when the new computer system was on-line it did not operate efficiently. As a result, correspondence inventories continued to grow because the amount of time the computer was available to work the cases was less than planned. In an effort to reduce the inventories and to concentrate its resources on taxpayer correspondence that appeared to have problems requiring immediate action, service center management decided to limit the amount of research done on the 27,000 cases. Before modifying the

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correspondence procedures, a sample of 50 balance due cases was taken to determine if the cases could be effectively closed by limiting the research. The sample results showed the following.

—27 cases had already been resolved because the payments in question had posted to the master file. The account balances on these cases were zero so that no subsequent balance due notices would have been sent to the taxpayers.

—22 cases had already been resolved because the payments in question had been offset by the computer transferring an overpayment from another account. These taxpayers were sent computer-generated notices explaining the transfer of funds from one account to another. Also, 19 of the 22 cases still showed a balance due amount and new balance due notices showing the corrected amount had been sent to the taxpayers.

—1 case showed no change from the balance due notice in question.

The sample results indicated to service center management that the cases could be closed without obtaining additional master file transcripts. According to Fresno officials, the service center then used, during the period December 5, 1984, to about February 15, 1985, the following procedures for working the 27,000 cases.

1. If the account showed a zero balance or if no account existed on IDRS and the taxpayer's inquiry just concerned the one payment issue, the case was closed and the correspondence was coded "D" for destruction.

2. If the case contained more than one taxpayer issue, the case was controlled on IDRS and a master file transcript was ordered.

3. If the case still showed a balance due amount on IDRS, a hold of 26 weeks was put on the case to prevent subsequent balance due notices from being generated. The case was put aside to be worked later.

4. If the case involved the 4th balance due notice (final notice before seizure), the case was processed immediately in accordance with normal IRS correspondence processing procedures.

IRS officials did not have estimates on the number of cases that fell into each of the above four categories. However, the cases that would have been affected most by the modified procedures were those that fell into the first category.

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Those cases would have been affected as follows:

—If the case was on IDRS and showed a zero balance and did not deal with an issue that would automatically generate a computer notice to the taxpayer, no personalized letter would have been sent to the taxpayer. Therefore, the taxpayer would not know that his or her inquiry had been resolved.

—If the case did not appear on IDRS and the master file transcript that IRS ordered in September 1984 did not show that the payment issue had been resolved, it was assumed that the issue was resolved when it may not have been. In this case, the balance due amount would be below the collection tolerance required to be on IDRS. The taxpayer would be subject to subsequent IRS collection action when the accrued interest on the balance due amount brought the amount over the tolerance level.

Both of these situations could have resulted in subsequent inquiries from taxpayers on the status of their accounts.

AUSTIN SERVICE CENTER

Newspaper accounts alleged that between 4,000 and 6,000 requests from businesses that IRS adjust their accounts were inappropriately destroyed at the Austin Service Center.

Service center officials told us that taxpayer correspondence was destroyed over a 3 day period in December 1984, without the knowledge and approval of service center management. A unit manager in the Adjustments/Correspondence Branch allegedly instructed one tax examiner to destroy the correspondence without having the cases quality reviewed. Service center officials said the unit manager, who has since resigned from IRS, denied that she instructed the tax examiner to destroy the correspondence.

Service center officials said that, as best as they could determine, there was no adverse affect on the taxpayers because the correspondence would have been destroyed under established operating procedures after the cases had been quality reviewed. Service center officials said they could not determine the specific taxpayers affected because, at the time the correspondence was destroyed, the service center did not have inventory control over correspondence cases. No records were maintained on the specific correspondence handled by each correspondence unit. Service center officials said that premature destruction of correspondence could not go undetected under current procedures because inventory controls for each case are established on IDRS and weekly inventory listings are available for supervisory review.

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INCIDENTS INVOLVING "LOST" DOCUMENTS AT PSC[1]

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.

[1]This is an excerpt from a GAO fact sheet on IRS' Philadelphia Service Center (GAO/GGD-86-25FS)

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

Brief Description of Alleged Incident	When did Incident Allegedly Occur?	Who Investigated Incident?	Did IRS' Investigation Substantiate Allegation
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]

[a]Partially, see page 38 for details.

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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 candled[2]."

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;

---

[1]The Internal Audit Division is part of Regional Inspection.
[2]Candling 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 omnisorted 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

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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.'"

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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.

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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.

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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."

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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.

ATTACHMENT IV

SELECTED INVENTORY STATISTICS

National

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
ıary	692,471	857,844	338,114	960,359	25	66	547,561	446,433	606,334	947,155
ruary	779,035	728,055	325,635	740,335	15	62	956,228	680,998	820,690	1,246,098
ch	1,335,284	1,244,361	475,762	775,252	15	59	1,397,305	1,580,719[a]	856,156	1,838,757[a]
il	1,206,664	1,216,147	564,007	820,575	14	56	1,205,272	1,702,943	987,140	2,227,442
	1,448,874	1,853,764	705,528	1,124,035	16	50	1,763,469	2,709,667	1,349,869	2,805,998
e	1,554,550	1,521,243	847,165	1,387,601	18	48	1,271,990	2,383,836	1,315,895	3,202,638
y	1,226,096	1,274,164	943,903	1,657,534	26	54	809,696	1,763,032	1,150,317	3,308,819
ıst	1,366,667	1,523,016	916,989	1,510,368	32	66	1,005,282	1,508,165	1,158,057	2,915,820
ember	1,148,249	1,214,688	865,954	1,431,757	34	70	1,042,086	1,253,421	1,006,159	2,410,014
ber	1,140,616	1,019,541	968,950	1,334,279	36	73	763,028	1,230,536	859,212	1,911,009
mber	1,072,897	-	932,981	-	36	-	654,216	-	745,872	-
mber	874,707	-	966,913	-	61	-	688,747	-	866,710	-
tal	13,846,110	12,452,823					12,104,880	15,259,750		

ginning in March 1985, the unpostables receipts and inventories reflect all functional areas. Before March these atistics reflected only those cases worked by the unpostables unit, the primary unit which works unpostable cases.

ATTACHMENT IV

SELECTED INVENTORY STATISTICS

Andover Service Center

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
nuary	53,079	41,827	18,164	34,009	15	32	31,733	39,159	54,004	52,087
ɔruary	53,617	51,735	26,835	26,652	10	19	59,546	89,657	57,042	116,907
rch	76,251	85,459	26,285	32,580	10	12	80,061	123,511	57,444	132,300
ril	71,655	63,417	27,507	42,063	8	14	65,631	141,330	50,808	130,219
y	115,860	126,772	70,408	59,614	9	17	150,676	161,080	86,687	130,004
ne	96,053	130,093	77,380	93,171	12	20	94,180	186,179	81,295	161,047
ly	74,819	96,779	86,474	104,002	19	28	55,947	203,466	68,102	166,726
gust	78,953	122,172	66,370	90,254	20	34	72,776	85,810	56,908	143,793
ptember	73,788	99,209	62,150	86,579	18	27	88,879	70,170	46,216	117,472
tober	61,673	76,131	66,054	66,689	26	37	54,645	64,002	30,685	92,440
vember	53,421	-	52,702	-	52	-	27,814	-	46,362	-
cember	45,962	-	43,805	-	30	-	40,416	-	49,478	-
otal	855,131	893,594					822,304	164,364		

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SELECTED INVENTORY STATISTICS

Atlanta Service Center

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
nuary	79,384	89,252	24,383	99,318	20	60	70,081	35,183	71,861	154,773
bruary	73,694	69,774	28,325	47,839	9	78	104,409	36,367	93,841	151,239
rch	149,337	130,725	47,060	49,818	6	60	157,009	197,002	108,113	227,396
ril	125,576	118,946	62,426	58,614	8	32	157,763	202,319	134,946	298,787
y	127,163	165,748	64,393	108,112	21	44	201,148	318,031	178,798	390,880
ne	145,738	134,993	69,606	151,216	20	56	131,678	269,432	187,262	432,955
ly	129,479	121,024	84,235	191,904	32	58	102,748	146,242	175,386	451,236
gust	131,722	124,489	90,557	181,311	35	69	126,184	177,529	199,174	414,336
ptember	162,928	105,580	93,704	196,813	41	78	119,261	121,749	154,859	316,271
tober	135,295	85,567	76,796	198,705	39	83	87,283	121,785	135,902	270,027
vember	120,402	-	92,053	-	65	-	71,080	-	121,083	-
cember	88,546	-	108,211	-	56	-	74,425	-	150,325	-
Total	1,469,264	1,146,098					1,402,724	1,625,639		

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SELECTED INVENTORY STATISTICS

Austin Service Center

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
uary	114,914	128,223	34,764	96,495	10	72	65,737	23,807	66,398	96,910
ruary	121,951	98,312	47,781	76,538	9	52	127,371	97,487	104,198	149,789
ch	209,812	169,891	72,669	98,686	10	52	184,220	268,037	108,825	306,399
il	190,272	153,260	62,316	117,827	18	53	181,072	245,968	137,189	376,232
	218,025	206,452	78,630	140,772	19	56	278,203	348,474	209,615	417,639
e	219,531	179,058	72,911	164,350	17	40	175,182	343,536	202,386	506,655
y	204,218	223,478	100,706	244,477	20	50	109,116	168,544	170,207	449,310
ust	191,416	219,054	87,755	219,329	46	64	164,713	278,777	173,261	467,101
tember	212,959	142,201	67,394	205,743	44	65	109,435	100,845	144,905	359,331
ober	201,920	104,411	115,352	165,510	14	65	80,633	184,103	128,512	304,642
ember	160,251	-	112,282	-	60	-	65,596	-	56,727	-
ember	111,745	-	94,913	-	68	-	186,833	-	133,165	-
otal	2,157,014	1,624,340					1,728,111	2059,578		

ATTACHMENT IV

ATTACHMENT IV

SELECTED INVENTORY STATISTICS

Brookhaven Service Center

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
iary	77,038	95,955	62,992	266,695	50	84	59,298	58,006	71,501	64,447
uary	77,605	66,825	55,208	154,408	28	96	81,769	31,035	88,455	59,709
h	114,829	99,420	71,044	107,419	24	40	98,885	90,642	69,304	106,241
l	115,652	80,160	92,995	83,907	24	77	74,078	112,320	71,317	178,271
	98,464	92,638	93,926	86,577	22	71	166,643	377,424	117,693	372,229
	142,361	141,449	131,515	109,378	30	56	122,977	335,007	150,884	464,135
	101,525	110,101	149,023	145,529	37	58	66,870	212,401	151,988	474,122
st	164,597	132,462	184,210	159,683	49	67	80,296	112,998	144,302	368,304
ember	110,990	108,316	201,258	181,608	29	71	113,634	133,163	132,192	300,488
ber	122,338	99,024	229,273	180,384	35	84	87,304	152,265	111,188	258,842
mber	98,738	-	227,254	-	69	-	55,128	-	76,041	-
mber	95,156	-	240,421	-	94	-	51,269	-	78,744	-
tal	1,319,293	1,026,350					1,058,151	1,615,261		

ATTACHMENT IV

SELECTED INVENTORY STATISTICS

Cincinnati Service Center

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
nuary	40,957	51,616	14,835	15,533	15	20	13,752	22,320	35,424	59,543
bruary	46,354	48,313	14,071	16,843	7	27	53,809	73,744	43,703	91,754
rch	88,229	91,430	22,093	21,683	4	19	58,827	104,759	41,048	102,168
ril	86,475	97,499	30,280	43,065	11	7	56,673	125,196	52,723	116,815
y	84,931	116,854	29,685	54,278	4	20	74,243	137,152	79,102	92,265
ne	94,987	104,346	31,754	68,165	5	24	66,349	127,239	70,319	118,109
ly	71,493	81,617	28,614	65,653	10	33	43,360	72,358	60,441	124,390
gust	79,450	95,845	19,666	46,109	7	31	67,752	66,791	63,069	94,713
ptember	69,077	77,955	32,979	40,562	7	32	63,685	54,756	51,120	77,645
tober	60,352	56,650	30,690	34,706	9	18	44,118	47,756	43,963	70,831
vember	67,534	-	17,159	-	14	-	22,378	-	26,166	-
cember	38,868	-	15,759	-	21	-	69,454	-	62,698	-
Total	828,707	822,125					634,400	832,071		

ATTACHMENT IV

SELECTED INVENTORY STATISTICS

Fresno Service Center

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
uary	109,583	167,601	78,950	103,462	40	71	78,390	91,731	98,120	132,081
ruary	100,735	99,044	55,065	94,681	29	77	138,409	60,536	109,699	154,793
ch	180,568	213,689	65,000	117,404	36	75	287,168	204,886	145,870	250,477
il	169,793	195,387	76,344	125,487	19	50	210,775	213,478	168,950	285,683
	234,818	338,129	104,936	168,839	21	51	288,602	504.061	233,794	445,854
e	233,544	236,349	122,937	190,407	20	51	185,481	312,406	219,906	498,427
y	200,409	206,207	142,227	235,810	24	54	117,856	239,328	182,535	567,688
ust	228,333	240,032	142,112	231,084	29	69	145,969	243,686	173,631	549,561
tember	141,905	195,496	118,629	212,911	42	75	152,970	203,294	133,822	508,798
tober	154,036	181,752	142,477	228,934	49	76	57,890	165,743	81,769	336,096
vember	146,234	-	149,769	-	88	-	146,516	-	102,126	-
cember	120,369	-	135,467	-	70	-	58,458	-	85,761	-
Total	2,020,327	2,073,686					1,868,484	2,239,149		

ATTACHMENT IV

SELECTED INVENTORY STATISTICS

Kansas City Service Center

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
uary	25,432	47,819	18,800	88,410	21	52	44,892	46,917	45,932	72,980
ruary	86,896	90,243	29,474	111,100	26	54	98,760	81,546	65,945	141,174
ch	136,008	95,946	66,210	80,126	20	58	114,740	145,255	80,083	150,368
il	105,165	156,584	70,487	77,916	30	59	104,650	162,964	95,913	178,888
	142,266	282,510	66,006	102,865	38	45	131,902	217,556	121,038	200,570
e	175,128	113,971	101,813	108,030	41	42	104,724	211,812	106,656	219,163
y	119,124	104,018	110,106	94,448	45	41	62,253	152,175	85,921	186,450
ust	145,041	148,136	114,945	83,343	46	44	79,912	139,481	76,730	163,862
tember	91,581	98,438	78,323	59,708	32	35	102,039	81,179	71,678	96,698
ober	128,631	76,736	99,859	45,770	28	41	65,681	98,021	55,471	85,414
ember	100,224	-	83,981	-	48	-	39,757	-	50,462	-
ember	74,111	-	93,142	-	24	-	44,909	-	60,812	-
otal	1,329,607	1,214,401					994,219	1,336,906		

ATTACHMENT IV

ATTACHMENT IV

SELECTED INVENTORY STATISTICS

Memphis Service Center

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
uary	52,445	54,489	17,693	50,858	14	a	46,075	19,979	55,521	154,903
ruary	57,452	54,443	17,713	35,768	12	a	86,431	106,043	82,363	163,249
ch	111,775	171,242	29,830	112,141	12	81	188,437	120,226	101,164	214,849
il	123,765	130,055	53,265	109,048	8	96	122,488	149,865	99,221	245,827
	112,278	157,807	54,687	132,289	16	70	149,328	180,064	116,891	291,470
e	140,880	177,674	74,302	143,731	12	66	115,625	187,307	110,250	309,817
y	96,701	112,660	69,547	161,298	36	64	83,478	136,942	82,022	237,564
just	62,088	118,013	51,353	146,442	a	79	68,001	83,888	79,192	174,523
tember	68,106	111,632	54,780	141,843	71	83	93,224	104,096	117,202	146,503
ober	78,764	88,953	48,885	129,384	77	84	107,343	101,195	142,824	106,420
vember	122,729	-	45,027	-	81	-	86,272	-	164,632	-
cember	103,409	-	63,655	-	a	-	61,640	-	150,082	-
Total	1,130,392	1,176,968					1,208,342	1,189,605		

ata is not available due to computer conversion.

ATTACHMENT IV

ATTACHMENT IV

SELECTED INVENTORY STATISTICS

Ogden Service Center

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
nuary	84,669	105,803	27,138	86,657	22	a	83,761	b	63,565	65,120
bruary	89,767	81,241	30,871	61,879	13	55	111,587	56,078	84,907	72,993
rch	162,950	139,783	51,891	67,702	13	46	155,680	195,531	81,363	174,266
ril	145,993	158,768	64,267	83,469	12	32	136,529	172,876	100,558	173,112
y	193,887	252,591	84,522	127,838	10	39	215,717	296,261	138,084	191,584
ne	176,309	212,203	79,821	182,424	16	38	156,344	259,473	112,187	219,827
ly	151,622	133,957	85,890	191,091	24	58	94,707	137,372	96,152	206,901
gust	182,149	192,491	69,373	162,961	28	66	114,940	152,211	102,906	149,192
ptember	152,559	129,645	62,548	154,134	25	69	123,157	106,522	77,936	103,695
tober	131,970	119,957	64,454	136,073	27	63	88,415	104,187	65,795	74,606
vember	133,589	-	74,579	-	a	-	45,744	-	36,496	-
cember	102,802	-	74,922	-	51	-	78,438	-	65,120	-
Total	1,708,266	1,526,439					1,405,019	1,480,511		

ata is not available due to computer conversion.

gden did not receive or process any unpostables during January 1985.

ATTACHMENT IV

ATTACHMENT IV

SELECTED INVENTORY STATISTICS

Philadelphia Service Center

	ADJUSTMENTS/CORRESPONDENCE						UNPOSTABLES			
	Receipts		Ending Inventory		Percent Overage		Receipts		Ending Inventory	
	1984	1985	1984	1985	1984	1985	1984	1985	1984	1985
uary	54,970	75,259	40,395	118,922	18	86	53,842	109,331	44,008	94,311
ruary	70,964	68,125	20,292	114,627	8	63	94,137	48,505	90,537	144,491
ch	105,525	46,776	23,680	87,693	10	72	72,278	130,870	62,952	174,293
il	72,318	62,071	24,120	93,326	12	68	95,613	176,627	75,515	243,608
	121,182	114,263	58,335	142,851	8	60	107,007	169,564	68,167	273,503
e	130,019	91,107	85,126	176,729	14	61	119,450	151,445	74,750	272,503
y	76,796	84,323	87,081	223,322	20	64	73,361	294,204	77,563	444,432
ust	102,918	130,322	90,648	210,300	24	77	84,739	166,994	88,884	390,435
tember	64,356	146,216	94,189	151,856	30	82	75,802	277,647	76,229	383,113
ober	65,637	130,360	95,110	148,124	35	82	89,716	191,479	63,103	311,701
ember	69,775	-	78,175	-	a	-	93,931	-	65,777	-
ember	93,739	-	97,338	-	61[b]	-	22,905	-	30,525	-
otal	1,028,199	948,822					982,781	1,716,666		

ta is not available due to computer conversion.

erage statistics are for three weeks only.

ATTACHMENT IV

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