

GAO

Briefing Report to Congressional  
Requestors

March 1986

TAX  
ADMINISTRATION

How IRS' Philadelphia  
Service Center is  
Addressing Processing  
Problems



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

March 14, 1986

**GENERAL GOVERNMENT  
DIVISION**

B-221000

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

The Honorable J. J. Pickle  
Chairman, Subcommittee on Oversight  
Committee on Ways and Means  
House of Representatives

The Honorable John Heinz  
United States Senate

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

The Honorable Richard T. Schulze  
House of Representatives

The Honorable Robert S. Walker  
House of Representatives

Through various letters written during 1985 and the early part of 1986, you asked GAO to review the activities of the Internal Revenue Service's (IRS) 10 service centers, with particular emphasis on the Philadelphia Service Center (PSC). In response to those requests, we

- sent a letter to the Chairman, Subcommittee on Oversight, House Committee on Ways and Means dated April 24, 1985, with information on various matters relating to PSC, primarily correspondence inventories and the processing of computer tapes;
- testified on April 29, 1985, before the Oversight Subcommittee on some of the issues discussed in our April 24, 1985, letter;

- issued a report to the Oversight Subcommittee on September 30, 1985, (GAO/GGD-85-89) detailing the results of our audit work at IRS' service centers in Austin, Texas, and Fresno, California;
- issued a fact sheet dated November 22, 1985, (GAO/GGD-86-25FS) to the Senate Committee on Finance and to Senators Heinz and Roth containing information on PSC;
- testified before the Oversight Subcommittee on December 16, 1985, on the results of our audit work at all 10 service centers during 1985; and
- testified before the Oversight Subcommittee on March 4, 1986, on the status of the 1986 processing season.

As requested by your offices, this report discusses the results of our work at PSC during 1985 and the first 2 months of 1986. PSC has had a better performance record during the first few weeks of 1986 than it did during a comparable period in 1985. However, as discussed in appendix I, certain issues surfaced in 1985 that we think need continuing management attention. Two of these issues, in particular, relate to controls over the processing of computer tapes and backlogs in certain PSC inventories. In the remaining appendixes, we provide additional information on other problems experienced by PSC, steps taken by IRS to address those problems, and statistical information on staffing and inventory levels.

Our basic objectives at PSC, like at other IRS service centers, were to develop information on problems experienced in 1985, identify actions taken to prevent their recurrence in 1986 and to comment on the status of service center operations during the first few weeks of the 1986 processing season. We obtained that information through reviews of relevant IRS documentation and through interviews of numerous officials from PSC, the Mid-Atlantic Regional Office, and the National Office. To the extent considered appropriate, we relied on information developed by IRS' Office of Internal Audit during its review of PSC activities.

Because of time limitations, the Oversight Subcommittee asked that we not obtain official comments on this report from IRS. We did, however, solicit unofficial comments from the PSC Director and from appropriate officials at IRS' National Office. The PSC Director provided comments, which we have incorporated in this report.

B-221000

As arranged with your offices, we are providing copies of this report to IRS. Unless you publicly announce its contents earlier, we plan no further distribution until 30 days from the date of this report. At that time, we will send copies to interested parties and make copies available to others upon request.

If you have questions about this report, please call me on 275-6407.

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

Johnny C. Finch  
Senior Associate Director

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ABBREVIATIONS

CPL	Cycle Proof Listing
DIS	Distributed Input System
DLN	document locator number
ERS	Error Resolution System
FOD	Foreign Operations District
FTD	Federal Tax Deposit
GAO	General Accounting Office
GUF	Generalized Unpostable Framework
IDRS	Integrated Data Retrieval System
IRS	Internal Revenue Service
NCC	National Computer Center
PSC	Philadelphia Service Center
QA	quality assurance
RPS	Remittance Processing System
SCCF	Service Center Control File

STATUS OF 1986 RETURNS PROCESSING SEASON  
AT PSC AND ISSUES REQUIRING CONTINUING  
MANAGEMENT ATTENTION

As of February 21, 1986, tax return processing activities at the Philadelphia Service Center (PSC) were running smoother than they did a year ago. PSC had processed more returns and issued more refunds than it had at the same time last year. PSC also has more computer capacity than it did at this time last year, and computer programs are more efficient than they were in 1985. Service center staffing has been increased, and training has been provided in a more timely manner.

In testimony before the Subcommittee on Oversight of the House Committee on Ways and Means on December 16, 1985, and March 4, 1986, we discussed several concerns we had about operations at IRS' 10 service centers. Those concerns related to timely delivery of peripheral equipment, the capacity and reliability of front-end processors (computers through which on-line inquiries via computer terminals must pass to get realtime access to data bases on the service centers' main computers), IRS' need for a supplemental appropriation to fund increased service center staffing levels, inventory backlogs, and controls over the processing of computer tapes.

Although each of those issues affects PSC, two (the replacement of front-end processors and the obtaining of a supplemental appropriation) are beyond the control of PSC management and one (timely delivery of peripheral equipment) is not now, in our opinion, a critical concern in Philadelphia. The other two issues (inventory backlogs and controls over the processing of computer tapes) are within PSC management control and are, we believe, significant enough to warrant particular management attention in 1986.

Within the past several months, there have been several management changes in PSC. The service center's ability to deal with the above issues and others that may arise during the year may depend on how well those new managers react to their new responsibilities.

1986 TAX RETURN FILINGS

As of February 21, 1986, PSC had received fewer returns than it had received at the same time last year but it had processed more returns than last year and had processed them faster. As of that date (1) PSC had received 2,084,000 returns, about 243,000 fewer than what was received at the same time last year and about 309,000 fewer than PSC had expected to receive;

(2) PSC had processed 730,000 returns, 343,000 more than the number processed last year; and (3) the average return processing time had decreased from 17 days in 1985 to about 10 days in 1986 for Form 1040s, from 18 days to 11 days for Form 1040As, and from 16 days to 11 days for Form 1040EZs.

Also, as of February 21, 1986, the number of refunds issued by PSC was up compared to 1985 (354,000 in 1986 versus 166,000 in 1985), and the number of refunds issued as a percentage of returns processed was higher than last year (48.5 percent in 1986 compared to 42.9 percent in 1985). Besides processing tax year 1985 refunds, PSC is still processing some tax year 1984 refunds. As of February 14, 1986, 371 timely filed tax year 1984 individual income tax refund returns were being processed.

#### PSC STAFFING AND TRAINING

At the end of February 1986, PSC had about 1,460 employees working on returns processing activities compared to about 1,080 at the same time last year. Also, the total number of service center staff had increased from about 2,540 in 1985 to 3,460 in 1986. (See appendix V for a detailed comparison of PSC staffing this year compared to last.) This year, PSC hired a significant number of inexperienced staff--a fact that could pose a problem if workload levels exceed expectations. In that regard, PSC hired 957 persons in January and February, almost all of whom had no previous IRS experience.

According to PSC officials, all returns processing training for both temporary and permanent employees is on schedule. PSC officials told us about various new or expanded training programs for 1986 that have been developed locally or by the National Office. FOCUS '86 was cited by PSC officials as a new course having a positive impact on service center operations. The purpose of the 5-day course was to provide a thorough overview of all phases of service center operations, with emphasis being placed on the interrelationship of the computer system with all of the other service center functions. The targeted audience for this course at PSC is every manager. PSC had sent 213 managers to the course through February 1986 and plans to send another 33 in March.

PSC officials pointed out one training problem. The problem, as explained by PSC's Training and Development Branch Chief, is that to properly prepare for the processing season, Computer Branch training should be scheduled to be completed by mid-January. Although about two-thirds of the training courses for the Branch at Philadelphia were completed by mid-January, the remaining one-third were not scheduled to begin until



mid-January and one training course will not finish until the beginning of May.

### COMPUTER-RELATED ISSUES

During the 1985 filing season, a combination of insufficient computer capacity and inefficient software played a major role in creating returns processing backlogs, document control problems, and excessive correspondence inventories. PSC, like IRS in general, started 1986 in a better position than it started 1985 because it had more hardware on hand and because some of the computer programs that took many hours to run in 1985 are now running more efficiently.

#### Computer equipment

At January 1, 1986, PSC had two additional central processing units, a 50 percent increase over last year, and more peripheral equipment than at the start of 1985. PSC is expecting delivery of even more peripheral equipment--12 disk drives and 2 disk controllers--in March. The PSC Director told us that he expected to complete 1986 processing on time even if the additional equipment is not available.

#### Computer software

Available evidence indicates that IRS' computer programs are more accurate and are running more efficiently than they were at the start of 1985. Checkpoints have been added to many programs and the run times of many programs, such as those involved in weekend updates, have been shortened. One result of this improvement in computer programs has been an increase in the availability of IRS' Integrated Data Retrieval System (IDRS). At PSC, IDRS was available 506 hours for the weeks ending January 4 through February 16, 1986, compared to 259 hours for the same period in 1985.

### CONTROLS OVER COMPUTER TAPES

The issue that first focused congressional attention on PSC involved untimely processing of a computer tape containing records of 28,835 federal tax deposits totaling about \$296.9 million from about 26,800 taxpayers. We discussed that issue in our April 24, 1985, letter to the Oversight Subcommittee Chairman (see app. III). During our December 16, 1985, testimony before that Subcommittee, we expressed a concern that problems involving the processing of computer tapes might recur in 1986 unless appropriate management controls had been implemented. Based on information compiled during our review, including the

results of a January 24, 1986, report by IRS' Internal Audit, we believe there is sufficient cause for continuing concern about this issue at PSC.

A recent reorganization of PSC's Computer Branch may enhance the effectiveness of the service center's computer operations, but that will not be known until the new organization is fully staffed and has had time to function.

Internal Audit report  
on Computer Branch operations

On January 24, 1986, Internal Audit issued a report on the results of the first phase<sup>1</sup> of its nationally coordinated audit of Computer Branch operations. Based on audit work at the Cincinnati and Philadelphia Service Centers from July through October 1985 and limited work at the Kansas City Service Center, Internal Audit drew the following conclusions:

"Although all service centers encountered problems during 1985, the severity of the problems in each Computer Branch was directly related to the quality of local control systems.

. . . . .

"The Service needs to establish a reliable system of management controls in the Computer Branch to provide reasonable assurance that the function is effectively and efficiently processing data. The controls should assure that effective management oversight is provided, specific and complete procedures are issued, accountable positions are assigned for accomplishing and monitoring tasks and audit trails are established and maintained.

"The absence of strong management oversight and comprehensive, clear national instructions have adversely affected the ability of Computer Branch to meet its mission. Frequently, traditional practices, which have been verbally transmitted over the years, are relied upon for completing daily tasks. Many of

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<sup>1</sup>According to Internal Audit, the first phase of this audit was designed to identify conditions warranting immediate management action while the second phase will address other aspects of Computer Branch operations during the 1986 filing season.

these practices and local written procedures vary widely among service centers. To an extent, the reliability of local procedures and practices depended on the experience and commitment of current management; there is no assurance that good local systems would be maintained by the next generation of managers and employees.

"Management did not ensure that local procedures were prepared, reflected current requirements, were sent to the National Office as required, or, if sent, analyzed to ensure that national objectives and intentions were met. General national guidelines, combined with incomplete local procedures did not provide the Service assurance that each of the service centers had installed minimum levels of controls required to effectively meet objectives in a high risk, highly visible process in which one error can affect tens of thousands of taxpayers."

In his overall response to Internal Audit's report the Assistant Commissioner for Computer Services noted that:

"We are in agreement with the report and are taking steps to implement all of the recommendations identified. Now that the Computer Branch operations are under the control of the Assistant Commissioner (Computer Services), we plan to institute disciplines which will benefit the Service Center Computer Branches. These disciplines are directed towards: (1) managerial training; (2) tape retention; (3) preventive maintenance; and (4) Service-level agreements with customers. With the establishment of the User Assistance and Computer Capacity Management Office, we are reviewing current guidelines, procedures, and [Internal Revenue Manuals] in order to make needed modifications to insure effective controls. . .

. . . . .

". . . All new guidelines and [Manual] changes will be developed by July 1986."

Internal Audit's report included several findings relating to inadequate controls over the processing of computer tapes. Among those were the following relating to the scheduling function, the magnetic media library, and computer run reviews.

Scheduling function - In reviewing this function, which is responsible for identifying all computer work that should be accomplished and assuring that computer runs are completed on time, Internal Audit noted that:

"Unlike other functional areas in the Service, there is no effective system of controls to assist service centers in meeting the objectives of scheduling. As a result, the Service cannot ensure that all computer runs are correctly processed. In 1985, Internal Audit has reported eleven instances, involving approximately 320,000 taxpayers, where magnetic tapes were either scheduled and deleted or never scheduled for processing.

. . . . .

"The Service has not identified an accountable position nor defined the schedulers' responsibilities for the direct receipt of magnetic tapes. Schedulers receive magnetic tapes directly from the Optical Character Recognition and Remittance Processing systems bypassing the Library Function. At one service center [Philadelphia], two [Optical Character Recognition] tapes were not processed timely because a scheduler was absent on the day the tapes were delivered."

Of the 11 instances identified by Internal Audit involving magnetic tapes that were either scheduled and deleted or not scheduled for processing, 7 occurred at PSC. A brief description of the seven instances, as obtained from Internal Audit, follows.

1. PSC did not process in a timely manner three magnetic tapes containing 2,171 Employer's Quarterly Federal Tax Returns (Form 941). Two of the tapes, the original and a replacement, included 980 Form 941s for the quarter ended June 30, 1984. The third tape included 1,191 Form 941s for the quarter ended September 30, 1984. The return information was not processed for input to the master file until February 1985. The tapes were not timely processed because PSC management did not have effective controls over magnetic tapes and did not react to complaints from the reporting agent supplying the tapes. The problem resulted in erroneous delinquency notices to the 980 June 30 filers (IRS was able to prevent issuance of erroneous notices to the September 30 filers).

2. Three magnetic tapes containing 37,024 timely filed Form 1040EZ returns were not processed until June 17, 1985. The tapes had been delivered to the Computer Branch on May 1, 7, and 17, 1985. Because the time allowed IRS to issue refunds without having to pay interest thereon expired on May 30, 1985, the untimely processing of these tapes caused the government to pay some interest on the overpayments. The three tapes were not processed timely because controls did not assure that the tapes were scheduled or processed.
3. PSC did not process the correct magnetic tape on September 6, 1985, for a special National Office project, which was intended to clear invalid unpostable codes from IDRS. National Office instructions as to which tape to process were forwarded through channels to a scheduling technician. The proper tape was not scheduled, however, and therefore not run as part of the special project. An incorrect tape was run resulting in erroneous delinquency notices to about 4,747 taxpayers, according to Internal Audit estimates.

Because of an inadequate problem identification and reporting system, not all functions affected by the problem were promptly notified. By the time it was determined that erroneous delinquency notices would result from use of the incorrect tape the notices had already been issued.

Further, upper level management at both PSC and the Mid-Atlantic Region did not receive in a timely manner accurate information relative to the initial cause of the problem and the potential adverse impact on taxpayers.

- 4-7. Internal Audit identified the other four instances of tape processing problems when it traced a sample of unprocessed documents and determined that four reels of magnetic tape, with information from thousands of tax returns, had not been processed. Two of those tapes involved employer's quarterly tax returns, individual income tax returns, payment posting vouchers, and various other returns affecting about 28,000 taxpayers. The other two tapes contained the final output of two Error Resolution System runs involving at least 9,574 documents.

According to Internal Audit, those four tapes were not processed because controls were not effective in the Computer Branch to ensure that (1) an audit trail was maintained so that transactions could be traced from their initiation through final disposition, (2) control was established over unscheduled tapes or tapes removed from the processing schedule, and (3) tape output continued to be accounted for from one process to the next.

Magnetic media library - This is intended to be a secure area for controlling all magnetic tapes and disks. The librarians' responsibilities include setting-up jobs for processing, shipping tapes to other locations, maintaining and updating a library inventory system, maintaining required backup files in proper storage, and cleaning and evaluating tapes. After reviewing library operations, Internal Audit noted that:

"The [Internal Revenue Manual] does not provide clearly defined procedures for job set-up and for assuring that tapes are accounted for and controlled after the jobs are completed. In addition, procedures have not been established for the delivery of tapes produced outside the Computer Branch, such as those created by the [Optical Character Recognition and Remittance Processing] systems.

"Signing for custody of tapes, transferred from or to the library, has not been defined. Procedures differ among centers in acknowledgements of receipt and often no acknowledgements were provided. At one service center [Philadelphia], only three reels of a five reel tape file were sent from the service center to the National Computer Center (NCC). Computer Branch contended that all five tapes had been delivered to the shipping function. Subsequently, one of the tapes was located in the library and the other in the shipping office. As a result, a file update was delayed at least one week.

"Procedures for verifying the custody of tapes charged out of the library are not comprehensive. Centers do not physically verify the location of the tapes during the semiannual inventory. . . .

. . . . .

"The [Internal Revenue Manual] requires the Library Function to follow-up after fourteen calendar days on

any unacknowledged receipt of a tape shipment; however, the service centers either did not follow-up or follow-up timely. One service center [Philadelphia] had unacknowledged control documents (Forms 3220) dated back to March 1985 which were not in chronological order. A review of tape shipments for four days identified missing Forms 3220 for two shipments. A shipped FTD [Federal Tax Deposit] tape was not entered on any Form 3220, and in two instances, the identical transmittal number was used twice. As a result, there is no assurance shipped tapes are timely sent and received."

Computer run reviews - These reviews are intended to help insure that all tapes are processed in a timely manner. After assessing those controls, Internal Audit noted that:

"Controls have not been established to ensure that Computer Branch employees performed pre-run checks. The text of the [Internal Revenue Manual] does not provide clearly defined responsibilities for these reviews. . . . Operators rely on librarians to accurately set-up jobs but, without pre-run checks, there is no assurance that all necessary input and output tapes are physically on the job cart. Consequently, centers experience problems in locating tapes which lead to delays in processing . . . programs."

"Post-run reviews of completed jobs were not performed as required. . . . As a result, there is no assurance that all necessary tapes were processed. . . . For example, at one center, a tape containing tax return data was scheduled for processing but not input due to an operator error. As a result of not processing the tape, refunds were not promptly processed and interest had to be paid on the overpayments of tax. A post-run review could have detected the unprocessed tape."

Recent reorganization could improve  
Computer Branch effectiveness

As discussed on pages 17 through 21, PSC's Computer Branch experienced numerous problems in 1985, not unlike the Computer Branches at other service centers. Although some of those problems were due to insufficient computer capacity and inefficient software, IRS recognized that other problems might be due to operational inefficiencies. In that regard, IRS' Deputy Commissioner, on February 12, 1985, authorized a task

force study of the Computer Branch organization, including its structure, functional responsibilities, and management.

In its August 19, 1985, report, the task force noted that "The Service's critical mission in data processing exceeds the current capacities of the Computer Branches." The task force recommended a reorganization that would provide managerial oversight of computer operations 24 hours a day, 7 days a week and would provide necessary support functions on a continuous basis through the creation of "teams" which would staff the systems on a four-shift basis.

In an October 9, 1985, memorandum to IRS' regional commissioners, the Deputy Commissioner noted that:

". . . For planning purposes, sufficient resources are being provided each Region to assure that all Service Center programs are accomplished according to schedule and with high quality. Included specifically are the critical staff years for the round-the-clock operations in the Computer Branch which [the task force] recommended and I approved."

The task force's recommendations resulted in a reorganization of PSC's Computer Services and Accounting Division. The division was renamed the Computer Services Division and was expanded from two to four branches. The former Computer Branch was split into an Operations Branch and a Support Branch and the Office Automation Information Center, which had been in the Office of the PSC Director, was established as a separate branch in the Computer Services Division.

Implementation of the task force's recommendations at PSC will also require the hiring of 21 additional computer operators in 1986 to staff four shifts, according to the Chief of PSC's Computer Services Division. To this end, PSC's Personnel Office obtained a list of 18 eligible persons from the Office of Personnel Management on December 18, 1985. After screening the individuals' qualifications, the Personnel Office offered positions to three; two accepted. As of February 28, 1986, 19 of the operator positions remained unfilled. The PSC Director told us that the service center is doing everything it can to fill those positions.

The reorganization of PSC's Computer Branch seems to be an appropriate step toward improving the effectiveness of the service center's computer operations. The success of that reorganization, however, cannot be assessed until the new organization is fully staffed and has had time to function.



INVENTORY BACKLOGS

Another issue we discussed in our December 16, 1985, testimony was the effect that backlogs in certain service center inventories might have on the 1986 processing season. We noted that if service centers could not 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.

PSC began 1986 with sizeable inventories in several areas, including unidentified remittances (payments made by taxpayers that cannot be credited to their accounts because of insufficient identifying information) and rejects (returns that cannot be processed for numerous reasons, such as missing schedules, many of which require contact with the taxpayers). From the standpoint of workload, however, and the potential effect on service center resources, the two inventories we referred to in our December testimony--adjustments/correspondence and unpostables--seem most in need of management attention at PSC. PSC is also faced with a backlog in its Service Center Control File, which is a file showing unprocessed documents.

Adjustments/correspondence inventory

The adjustments/correspondence inventory consists of taxpayer and IRS-initiated tax account adjustment requests. As shown in appendix IV, PSC's adjustments/correspondence inventory, according to PSC's records, reached sizeable proportions in 1985--getting as high as 249,768 cases. A detailed discussion of factors that contributed to the rise in that inventory and various steps the service center took in an attempt to reduce the inventory can be found on pages 40 through 44.

As noted in appendix IV, PSC's records indicate that the adjustments/correspondence inventory had decreased to 93,574 cases by the end of December. Thinking that the inventory was down to a relatively manageable level, the PSC Director moved some staff out of the Adjustments and Correspondence Branch to work in other areas. However, in January 1986, service center staff took several inventory counts, which indicated that the reported inventory was understated. The Director then asked Internal Audit to (1) determine why the inventory was understated, (2) oversee establishment of an accurate recording and reporting system, and (3) oversee another physical inventory and establish an accurate count.

A complete physical inventory, taken from February 7 to 9 under Internal Audit's oversight, showed the adjustments/correspondence inventory to be 221,800 cases of which 198,600 cases were at PSC and 23,200 cases were at a district office. Although it has not yet completed its work, Internal Audit has indicated that PSC's inventory may have been understated because of inadequacies in the manual inventory system and in management of the system.

### Unpostables

An unpostable condition is one which prevents a transaction that had been processed through the service center from posting to the taxpayer accounts at NCC. On December 28, 1985, PSC had a reported inventory of 244,130 returns and documents that could not be posted because of various unpostable conditions. Resolution of almost all of those unpostables was the responsibility of the Unpostables Unit in the Document Perfection Branch. Although the inventory had been reduced to 187,454 by February 14, 1986, that level exceeds IRS' criteria for manageability.

IRS considers an unpostable inventory manageable if (1) unpostables are taken into inventory within a week of receipt from NCC and closed unpostables are transmitted at least once a week to NCC, (2) cases to be worked do not exceed a 9 workday processing cycle, and (3) aged cases (3 weeks old or older) do not exceed 20 percent of the total service center unpostable inventory less bankruptcy cases. Measured against those criteria, PSC's unpostable inventory on February 14, 1986, was not at a manageable level because, according to information obtained from IRS' National Office, about 34 percent of that inventory was aged.

### Service Center Control File (SCCF)

The SCCF is an inventory file of all blocks of documents that have been input into the service center's computer system and placed under control for processing. Documents are entered on SCCF before the tax data on them are transcribed into the computer. Documents are deleted from SCCF when they have finished service center processing. If no processing activity occurs on a block of documents after 6 weeks, an age list is printed and Accounting Branch personnel attempt to resolve the processing problem and ensure that the block of documents is processed to NCC.

In June 1985, because of large volumes of aged items on SCCF, IRS established a task force in each service center. According to IRS records, the task force objective was to clean

up, by September 30, all documents on SCCF dated May 31 or earlier. The number of documents on the May 31 SCCF at PSC was 2,767,719. IRS' records indicate that PSC realized it could not meet the September 30 completion date and, as a result, developed a plan, with National Office assistance, that called for clean up of the service center's SCCF by December 31. As of February 4, 1986, however, PSC's SCCF still contained 33,547 documents dated May 31 or earlier.

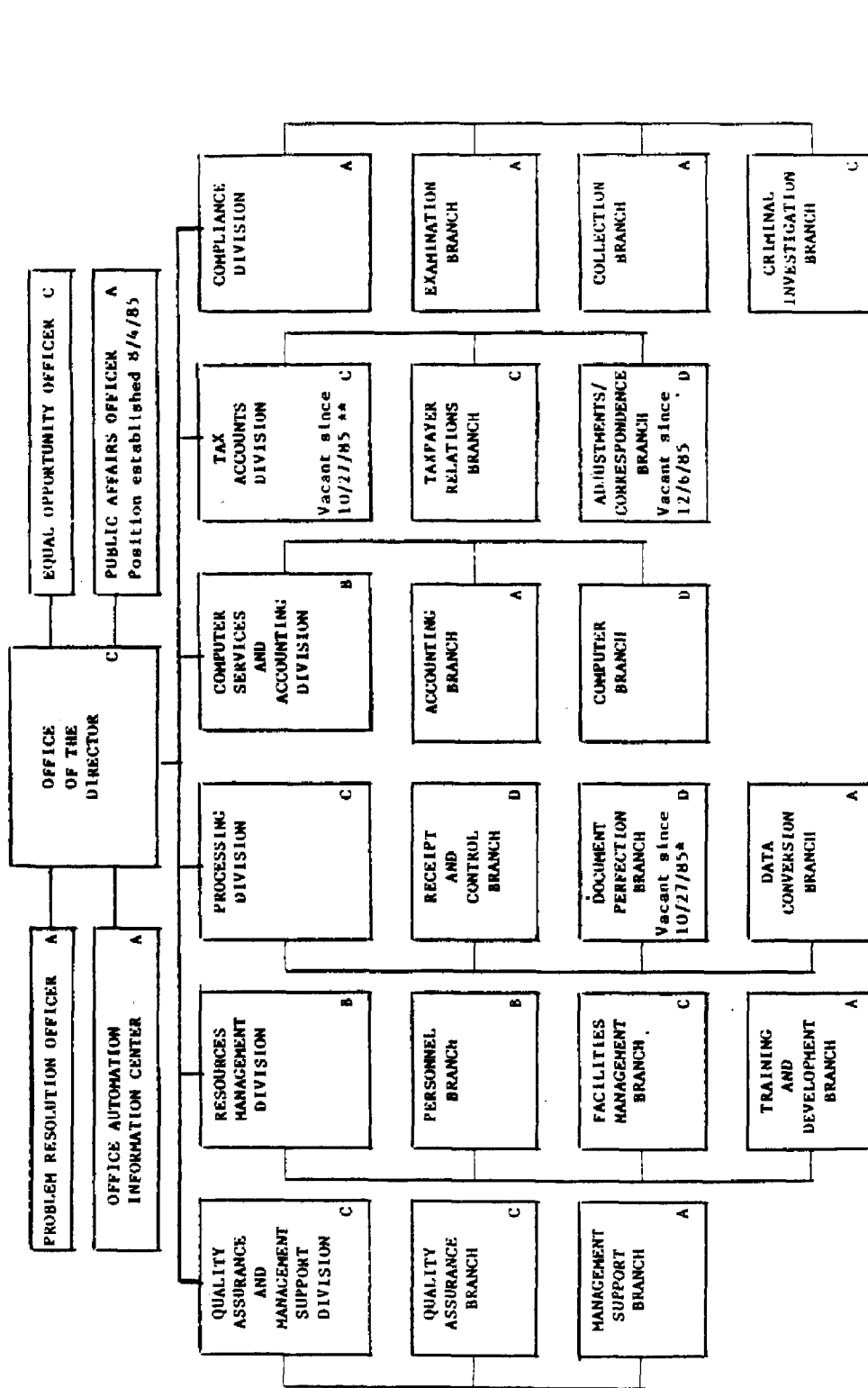
#### RECENT MANAGEMENT CHANGES AT PSC

In assessing PSC's ability to deal with the problems discussed in the preceding pages, one factor that adds an element of uncertainty is the significant turnover among top managers that has occurred at PSC since October 1984. That turnover, which required bringing in managers who were not new to IRS but were new to the responsibilities being assumed, is reflected in the following chart.

As shown in the chart:

- Of six division managers on board at the end of 1985, only one remains unchanged from October 1, 1984.
- Of the Processing Division's three branches, one is headed by a manager who has been in that position since October 1, 1984. The other two branches have each experienced two changes in leadership since that date. The Processing Division is responsible for processing tax returns and other documents.
- The Computer Branch and the Adjustments and Correspondence Branch, both of which experienced considerable workload problems during 1985, have also had more than one manager since October 1, 1984. The branch manager position in the Adjustments and Correspondence Branch has been vacant since December 6, 1985. It is currently being filled by an acting branch manager.

Philadelphia Service Center Organization Chart  
Showing Management Changes From 10/1/84 To 12/31/85



Note: --Vacant Branch manager positions were temporarily filled with interim managers.

--On January 5, 1986, the Computer Branch was split into two branches, an Operations Branch and a Support Branch. Also, on that date, the Office Automation Information Center was moved from the Director's staff to the newly named Computer Services Division and established as the Office Automation Branch.

Legend:

- A No change in manager since 10/1/84.
- B Manager changed once since 10/1/84 due to retirement.
- C Manager changed once since 10/1/84 due to either employee or IHS management decision.
- D Manager changed more than once since 10/1/84 due to either employee or IRS management decisions.
- \* Manager selected from another service center. Official starting date not established as of 1/13/86.
- \*\* Position filled as of 1/19/86.

In commenting on management changes at the service center, the PSC Director told us that he made many of them early enough in the 1985 processing season to give his managers time to gain some experience in their new functions before the 1986 processing season began. He expressed some concern, however, over how well these managers would react when peak processing occurs in 1986.

There were recent management changes in the Mid-Atlantic Regional Office that could also affect PSC because of the region's role in overseeing service center operations. Specifically, the Regional Commissioner and the Assistant Regional Commissioner for Data Processing retired on December 31, 1985, and January 3, 1986, respectively.

#### SERVICE CENTER COMMENTS

On March 12, 1986, the PSC Director provided us with the following comments after reviewing a draft of this document.

"The hardware and software difficulties, data control weaknesses, work processing problems, personnel shortages, managerial and non-managerial lack of experience, and other situations that GAO has identified [in this appendix and appendix II], certainly existed and plagued PSC throughout the 1985 processing year. In a few areas, for example, Adjustments/Correspondence inventories, we are still recovering; in other areas, for instance, recruiting, training, and developing new people, we will be struggling for a couple of years.

"However, many of the conditions or problems cited have not existed, as patterns, for months--e.g., hardware and software is running satisfactorily, processing has been going smoothly. This is not to say that intermittent failures do not occur, they do. But they do not occur with the frequency or severity that cause serious workload backlogs.

"Much time, money and hard work has been and continues to be expended to prevent problems like last year's from recurring.

"Our experience, for the past several months, including the heavy workload periods in January, February, and March 1986, provides evidence that this investment is paying off, and augurs well for the future."

CONCLUSIONS

PSC, like other IRS service centers, experienced many problems during the 1985 processing season. As we have discussed in other products, much of the blame for those problems can be traced to insufficient computer capacity, inefficient computer programs, and staff unfamiliarity with new systems. In our December 16, 1985, testimony before the Subcommittee on Oversight of the House Committee on Ways and Means, we cited several steps IRS had taken in an attempt to ensure that 1985's problems did not recur in 1986 and we concluded that those steps, if properly implemented, should help produce a smoother processing season in 1986. Indeed, as we noted in our March 4, 1986, testimony before the same Subcommittee, the first 2 months of the 1986 processing season were smoother than 1985.

Notwithstanding those improvements, our work identified two areas in particular that we think require close attention by PSC management. The first of those areas involves implementation of adequate procedures and controls to insure timely processing of computer tapes. Management attention is crucial in this area because recent reviews have identified significant control weaknesses and because IRS' National Office has indicated that necessary corrective action will not be fully implemented until July 1986.

Inventory levels are a second area requiring close management attention at PSC. Especially critical, because of its impact on service center resources and its effect on the level of service being provided taxpayers, is the sizeable backlog in the adjustments/correspondence inventory.

Many groups, including internal IRS task forces, Electronic Data Systems Corporation, Sperry/IRS evaluation teams, and Internal Audit have focused attention on IRS' returns processing problems in 1985 and have made many recommendations. We have reviewed those recommendations and have concluded that they, in total, adequately address the issues as we see them. Given that, we are making no recommendations in this report.

PROBLEMS EXPERIENCED BY  
PHILADELPHIA SERVICE CENTER IN 1985

In 1985, IRS' Philadelphia Service Center consisted of the following divisions:

- Computer Services and Accounting
- Processing
- Tax Accounts
- Compliance
- Quality Assurance and Management Support
- Resources Management

The responsibilities of these divisions and the problems they experienced in 1985 are discussed below.

COMPUTER SERVICES AND ACCOUNTING DIVISION

During 1985, the Computer Services and Accounting Division at Philadelphia consisted of the Computer and Accounting Branches.<sup>1</sup> The Computer Branch was responsible for the service center's automated data processing system, including operating the various system components, providing programming services needed to maintain the system, and maintaining a computer tape library. The Accounting Branch was responsible for maintaining the service center's general ledger and subsidiary records, maintaining SCCF, solving unresolved conditions in taxpayer accounts identified by computer analysis, and verifying all IDRS manual refunds initiated by other areas of the service center.

Computer Branch problems

PSC's Computer Branch experienced computer capacity, programming, and equipment problems that affected its ability to process its workload in a timely manner. Specifically, service center officials told us about the following problems.

- At the onset of the 1985 processing year, PSC had one Univac 1100/84 computer to handle the center's workload. Because of capacity problems and inefficient software, the Computer

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<sup>1</sup>Effective January 5, 1986, PSC's Computer Services and Accounting Division was reorganized. The Division is now named the Computer Services Division and consists of an Operations Branch, Support Branch, Office Automation Branch, and Accounting Branch.

Branch was confronted with unprecedented backlogs of unprocessed tax return tapes. Also, the lack of sufficient tape and disk drives in the early part of the processing year contributed to PSC's problems. For example, during the first several months of 1985, weekend updates of the service center's computer files were not completed until late Monday (and sometimes not until Tuesday). As a result, fewer processing hours were available and the Computer Branch fell 9 days behind in processing tax return tapes through the computer system. To alleviate these problems, PSC (1) acquired additional temporary computer processing capability from the State of Pennsylvania in April 1985, (2) installed 8 additional disk drives and 4 additional tape drives by May 31, and (3) received a Univac 1100/82 computer to supplement the 1100/84 computer in September 1985.

--According to IRS officials, a computer program which takes a long time to run should have checkpoints built in 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. In 1985, however, computer programs were received that either did not contain workable checkpoint routines or contained no checkpoint routines at all. As a result, programs had to be rerun from the beginning, rather than from the last checkpoint. Although data was not maintained on the amount of computer processing time lost due to this problem, a Branch official estimated that the major returns processing program had to be restarted between 50 and 60 times because the installed checkpoint did not work. According to Branch officials, 1986 programs have sufficient, reliable checkpoints.

--According to a National Office official, PSC experienced extensive computer equipment breakdowns early in 1985. The breakdowns he cited involved, among other things, (1) a tape drive unit; (2) two central processing units; and (3) a transition unit, which partitions the system's memory into one of four input/output units.



In addition to these computer capacity, programming, and equipment problems, the Computer Branch experienced tape processing control, staffing, and other problems. Specifically:

- Tape control problems were experienced because computer tapes were (1) processed out of sequence, (2) not scheduled for processing, or (3) scheduled but inadvertently omitted from processing. For example, tax return tapes were processed through the center's computer system before the related document control records, causing block-out-of-balance conditions. Also, some document control tapes and tax return tapes were not always processed in a timely manner while others were processed twice. In one instance, identified by Internal Audit, a tax return tape affecting an estimated 21,280 returns was not processed for over 3 months. Additionally, tapes containing error records were loaded twice into the Error Resolution System (ERS) and the ERS overflow file (a temporary storage file for records exceeding the system's capacity) was sometimes not loaded into ERS. Computer Branch officials told us that once these control problems were identified, procedures were developed to prevent their recurrence. However, the procedures were not put in writing.
  
- The Computer Branch was inundated with a large number of IDRS diagnostic transcripts, which are generated when an IDRS account contains a pending transaction and the transaction has been pending longer than normal. For example, when the service center processes a taxpayer's tax payment, it puts that transaction in a pending status on the IDRS file until NCC sends the service center a tape showing that the payment has posted to the master file. If, after a period of time, the service center does not receive a tape showing the transaction has posted, the computer generates a diagnostic transcript that Computer Branch employees use to determine what is wrong with the pending transaction and to correct the problem. These diagnostic transcripts are important tools for detecting improperly processed payments and unprocessed payment tapes and helping to prevent the issuance of erroneous notices to taxpayers. According to PSC's IDRS Control

Unit supervisor, the following conditions must exist in order for Computer Branch personnel to take action to prevent the issuance of erroneous notices: (1) the transcripts must be provided on time (Tuesday morning of each week at the latest), (2) the volume of transcripts must be manageable (about 2,000 per week), and (3) sufficient staff and IDRS terminals must be available to enter a code to suspend the affected taxpayers' accounts. However, several times in 1985, PSC's IDRS Control Unit received a voluminous number of transcripts and a backlog of unworked transcripts developed, as was the case, for example, during the week of February 14, 1985, when the IDRS Control Unit received about 59,700 transcripts. According to the supervisor of that Unit, a computer programming change subsequently implemented in February 1985, eliminated the need to enter a code to stop erroneous notices. However, before the program change was made, about 15,000 erroneous notices were issued to taxpayers. These erroneous notices were issued because (1) the transcripts were not received on time (they were received on a Thursday) and (2) the volume was too great for Branch staff to complete inputting the necessary IDRS code to stop generation of erroneous notices.

--According to a National Office report dated August 19, 1985, a service center the size of PSC requires 16 program analysts to properly support a 24-hour, 7-day-a-week computer operation. However, during part of the 1985 processing year, PSC's Computer Branch had only 12 full-time program analysts, which meant that weekend shifts and weekday night shifts could not always be fully staffed. Also, according to Branch officials, a shortage of program analysts meant that it took longer to resolve problems than it otherwise would have. Although three new trainee analysts were hired effective August 4, 1985, it takes, according to the Chief of the Computer Specialist Section, about 2 years to fully train someone for the position. Another analyst was hired effective January 6, 1986, but a more experienced analyst resigned effective November 30, 1985, and another experienced analyst retired effective December 4, 1985. As a

result, the Computer Branch began the 1986 processing year with 2 less resident program analysts than the 16 IRS has indicated are necessary to appropriately staff the Branch. Announcements were issued in January and February to begin the process of filling the two vacancies.

--PSC experienced problems in filling six computer operator positions to operate the computer that IRS' National Office provided to supplement PSC's main computer. In September 1985, PSC asked the Office of Personnel Management for a list of eligible persons. A list, provided in late September 1985, identified six individuals; PSC offered one of those six a position. The remaining five positions were filled internally, but selections were not made until December 13, 1985. A personnel staffing specialist told us that the delay was caused by the untimely submission of applicant evaluations. Because of the delay, operator vacancies at lower grade levels (GS-5 print operators) were not filled for the start of the 1986 processing year when incumbent operators were promoted to their new positions. According to the Division Chief, the effect of having too few GS-5 print operators is that (1) the existing staff has to assume more responsibilities and work longer hours than they should and (2) IRS is incurring additional overtime costs. A PSC personnel staffing specialist expects the print operator vacancies to be filled in March 1986.

--PSC also has had problems filling the Computer Support Section Chief position that was vacated in April 1985. Despite the position being announced throughout IRS, and with all federal agencies located within the local community, PSC was unable to fill the vacancy. In October 1985, the position was advertised to the private sector and 35 candidates applied. The position was filled on December 14, 1985, and the selectee reported for duty on January 6, 1986. After 2 months, however, the new Chief resigned.

Accounting Branch problems

Because of returns processing problems experienced by other areas of the service center, the workload of the Accounting Branch significantly increased. Specifically:

- Branch personnel experienced problems trying to balance remittances in the SCCF to daily deposit totals. Balancing problems occurred because (1) SCCF listings were not provided at the same time each day, making it difficult for the unit manager to schedule people to complete the work; (2) the Computer Branch, due to a decision to process refunds faster, sometimes did not follow the normal procedure of processing one work group per day and instead provided SCCF listings that contained multiple work groups, which made daily balancing impossible because the Accounting Branch was not staffed to handle the additional workload; and (3) staff were unfamiliar with the new Revenue Accounting Control System output used in the balancing process. Daily balancing is important because it facilitates monthly balancing and ensures proper accounting for remittances received at the service center.
- Branch personnel experienced an unusually high volume of "aged" blocks on the SCCF. A block becomes "aged" if, after 6 weeks of being established on the SCCF, no processing activity occurs. At PSC, blocks "aged" primarily because (1) tax return information was not processed expeditiously and (2) tax return tapes were not processed in a timely manner through the service center computer system. Accounting Branch personnel are supposed to research blocks that appear on the SCCF age list and make appropriate adjustments. However, because of other work priorities and the volume of "aged" blocks that resulted during 1985, the Accounting Branch could not make the adjustments in a timely manner. As discussed in appendix I, most of the blocks contained on the SCCF age list were resolved by the SCCF Cleanup Task Force.
- The Accounting Branch's workload was affected by the "dropped" block problem discussed on pages 25 and 26. Specifically, for each

dropped block, Accounting Branch personnel had to prepare an adjustment to establish the block on the SCCF. Through October 1985, the Branch's workload was affected by an estimated 1,000 "dropped" blocks.

- The Accounting Branch's workload also increased because the ERS Unit was unable to resolve certain "duplicate" record conditions encountered in ERS. This problem is discussed on pages 30 and 31.
- In an effort to process as many refund returns as possible prior to the interest-free deadline, emphasis was placed on manually processing refunds. Because of this emphasis, workload increased in the Accounting Branch, which is responsible for verifying these refunds processed initially by other components of the service center. For example, the volume of manually processed refunds increased by about 150 percent (from 9,827 processed in May and June 1984, to 24,564 processed in May and June 1985). The Accounting Branch also accepted additional duties in 1985 by performing certain aspects of the manual refund process that IRS procedures stipulated be done by units in the Document Perfection Branch. According to the Accounting Branch Chief, this was done because employees in those units had not yet been trained to perform the refund process. As a result, the Accounting Branch expended significant resources in overtime, and its work with respect to manually processed refunds adversely affected its ability to perform such other assigned duties as (1) researching complex manually processed refund cases requiring extensive research, (2) refunding photocopy fees for returns which were not available, and (3) writing off erroneous refunds for which collection activity had been exhausted. We understand that employees in the Document Perfection Branch have received the training necessary to handle the manual refund process in 1986.
- The Accounting Branch experienced a 250-percent increase in the number of account maintenance transcripts it received from NCC. Such transcripts may each contain 1 or more of over

20 different types of codes indicative of unresolved conditions in taxpayers' accounts. To release these codes, Accounting Branch staff must research SCCF, obtain the return, and do whatever is necessary to resolve the problem. In general, the increase in transcripts was due to (1) inappropriate or incomplete adjustments or (2) return processing delays. The highest volume of maintenance transcripts involved credit balances. This condition is computer-generated when a return does not post to a taxpayer's account within 16 weeks after a payment has posted to that account. Through October 1985, the Accounting Branch received a total of 53,441 "credit balance" transcripts as compared to only 11,398 received during the same period in 1984. Two factors specifically contributed to the 1985 increase: (1) the original return became an unpostable and was not expeditiously resolved and (2) the original return was inadvertently sent to the Files Unit and was not processed in a timely manner. Another high volume transcript involved a "refund intercept" condition. This transcript results if the refund amount meets a certain review criteria or the refund check was undeliverable. Through October 1985, the Accounting Branch received a total of 21,914 "refund intercept" transcripts as compared to only 8,635 received during the same period in 1984.

#### PROCESSING DIVISION

The Processing Division, which is responsible for processing tax returns and other documents, consists of three branches: Receipt and Control, Document Perfection, and Data Conversion. The Receipt and Control Branch is responsible for receiving mail; extracting documents from the envelopes; sorting, batching, and numbering the documents; and processing taxpayers' checks for deposit. The Document Perfection Branch is responsible for coding, editing, and perfecting tax returns and other documents to facilitate inputting data into the service center's computer system; resolving errors caused by the taxpayers or by service center processing of the returns; and resolving other error conditions detected during NCC processing. The Data Conversion Branch is responsible for inputting data from tax returns and other documents into the computer and for resolving

block-out-of-balance conditions<sup>2</sup> identified by the service center computer.

### Receipt and Control Branch problems

PSC's Receipt and Control Branch encountered problems in 1985 dealing with (1) payments being temporarily lost on the Remittance Processing System (RPS), (2) taxpayer remittances not being removed from envelopes, (3) a high turnover rate among extraction staff, (4) blocks of tax returns being improperly numbered, and (5) a shortage of metal batch carts. In one way or another, these problems delayed the processing of payments or tax returns.

#### RPS payments temporarily lost

During the 1985 filing period, numerous payment blocks entered through RPS terminals were dropped and not included on one of two daily deposit computer tapes generated in the RPS Unit.<sup>3</sup> For example, from January 4 to January 15, 1985, Receipt and Control Branch personnel identified about 600 entered blocks that "dropped" from the system. The RPS Unit supervisor told us that blocks "dropped" from the system because (1) operators depressed the mode key at the wrong time (generally before the terminal unit completed "end-of-block" processing), (2) the RPS system malfunctioned at the same time a terminal was undergoing "end of block" processing, and (3) operators key verified a block at the same time a deposit computer tape was being created. As a result, computer-generated payment counts did not balance with actual payments entered by RPS operators. Also, payments related to such "dropped" blocks would not be credited to taxpayers' accounts. To resolve the imbalance, Receipt and Control Branch personnel had to use manual counts of payment blocks entered by RPS operators to prepare the deposit ticket for the Federal Reserve Bank and later reconcile differences. Also, for each "dropped" block, additional SCCF adjustment work was created for the Accounting Branch, and the Distributed Input System (DIS) Unit had to re-enter the block to ensure the payments posted to the taxpayers' accounts.

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<sup>2</sup>A block-out-of-balance occurs, for example, when (1) the sum of money amounts from each document within a block does not match the money total in the block control document or (2) the actual count of documents within the block is different from the total in the control document.

<sup>3</sup>At the start of the 1985 processing year, the RPS Unit was under the Receipt and Control Branch. Effective mid-March 1985, the RPS Unit was transferred to the Data Conversion Branch.

To reduce the extent of this problem, RPS operators were cautioned in a February 26, 1985, memo, to "not press any keys after a block of work has been completed because some time is needed for that block of work to reach the computer without interruption." Also, beginning late February 1985, the RPS Unit supervisor made announcements to operators to complete key verification of work in progress whenever a deposit tape was about to be created. Also, in late February 1985, local procedures were developed whereby RPS Unit personnel would periodically inquire into the system to determine which of the entered payment blocks had "dropped." Blocks suspected to have "dropped" were annotated on a control sheet and the control sheets were provided to appropriate Branch personnel to help them reconcile resulting differences. Additionally, the National Office issued a program change, dated August 22, 1985, which provides for a flashing warning message to appear on the RPS terminal screen whenever the mode key is depressed. Then, to resume data entry, the RPS operator must either depress the mode key a second time or depress a correction reset key.

Remittances not removed  
from envelopes

PSC management and Regional Inspection personnel, on April 26, 1985, 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 1040ES (Estimated Tax for Individuals); and 49 miscellaneous documents. Most of the 109 envelopes were classified as "flats" (over-sized envelopes too large to be opened by automated omnisort equipment). The other envelopes were classified as "fats" (normal-sized envelopes stuffed with documents and, therefore, too wide for omnisort equipment). Also, on April 30, 1985, an internal auditor found a normal-sized, brown envelope that contained a check for \$2,500 in a trash barrel.

According to a Branch manager, documents were left inside "fats" and "flats" primarily because verbal instructions to rip apart such envelopes were not followed up by management. Also, the Internal Revenue Manual did not contain a requirement to rip apart "fats," "flats," and colored envelopes. As a result of these incidents, local instructions were issued to all Extraction employees to tear open all "fats," "flats," and colored envelopes. The National Office added this same requirement to the Internal Revenue Manual effective August 5, 1985.



### High extraction staff turnover

During 1985, the Receipt and Control Branch experienced an unusually high turnover rate among staff in the Extraction and Sorting Unit (estimated to be in excess of 80 percent as compared to only 25 percent in prior years). A Receipt and Control Branch official cited the following as factors contributing to the high turnover rate.

- To achieve its goal of depositing payments on the same day they are received, PSC changed the start time of the primary extracting shift from 6:00 a.m. to midnight. This change caused many experienced extraction managers and clerks to transfer to other government agencies.
- Some extracting employees filled vacancies announced in other areas of the service center where there was higher promotion potential, better hours, and less emphasis on production.

During visits to PSC in 1985, Regional and National Office representatives emphasized the need for quality in processing remittances and stressed the required 24 hour deposit goal rather than a same day deposit goal. Midway through 1985, PSC management dropped its same day deposit requirement and began following the 24 hour deposit requirement. In December 1985, a Branch official told us that a reorganization plan was being prepared to move the primary extraction shift start time back to 6:00 a.m., keeping the midnight shift for seasonal employees.

### Returns improperly numbered

The Branch's Batching and Numbering Unit experienced problems in the numbering of nonremittance returns. Specifically, the same document locator number (DLN)<sup>4</sup> was assigned to two different blocks of work resulting in block-out-of-balance conditions. The Unit supervisor attributed such errors to

- an unusually high number of inexperienced personnel hired in 1985;

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<sup>4</sup>Each document processed through IRS' tax processing system is assigned its own unique identifying number--a DLN. That number is used as a means of controlling, identifying, and locating a return or document as it is processed through the service center.

- the need for additional lead clerks; and
- the lack of knowledgeable quality review analysts assigned to the Unit.

#### Shortage of batch carts

Due to the inventory backlogs that built-up throughout the service center in 1985, the Receipt and Control Branch experienced a shortage of metal batch carts used to carry blocks of returns. As discussed on page 33, this shortage led to an undeterminable number of unpostables. On October 18, 1985, the Processing Division Chief requested additional batch carts to be used in 1986. In early 1986, the Processing Division received 165 new carts and finished modifying existing carts to provide additional storage space.

#### Document Perfection Branch problems

Problems encountered by the Document Perfection Branch in 1985 dealt with (1) the ERS, which is the new on-line system used to correct errors identified by the service center computer; (2) rejects, which are returns that are unprocessable for numerous reasons, such as missing schedules, many of which require contact with the taxpayers; and (3) unpostables, which are conditions that prevent service center transactions from posting to the master files at NCC.

#### ERS Unit

- Because it took an excessive amount of time to update the service center's files, ERS was not always available to handle the error resolution workload. During 1985, ERS was not available to correct errors for a total of 457.8 hours.
- Because of various hardware and software problems experienced in the early part of 1985, the Computer Branch fell several days behind in processing tapes containing transcribed tax returns. In an attempt to catch up, IRS management, in April 1985, leased a comparable computer system from the State of Pennsylvania. Although this decision resulted in the timely processing of more tax returns, it created a sudden backlog for the ERS Unit--a backlog that they had not been staffed to handle.

- From mid-February through April 1985, the ERS Unit lost 45 tax examiners, 36 of which were experienced, through resignations, voluntary furloughs, reassignments, or terminations. Although the positions were eventually filled with new trainees, this loss of experience, according to the Document Perfection Branch Chief, affected the Unit's ability to reduce its inventory.
  
- National Office guidelines to give priority to large dollar refund returns "hung-up" in various error categories also affected the overall productivity of the ERS Unit because refund returns were not separately batched nor normally identifiable. To comply with the guidelines, PSC and National Office programmers developed a special computer program to identify refund returns contained on unloaded error tapes and, after purging the ERS file of unworkable returns, loaded the refund returns into ERS. Then (1) the blocks had to be brought up on ERS terminal screens, (2) the refund returns had to be pulled from the original blocks in which they were batched, (3) the error had to be corrected systematically or controlled and directed for a manual refund, and (4) the returns had to be refiled in their original blocks. Later, the blocks had to again be brought up on ERS terminals to process the remaining returns that were in error. Additionally, to expedite locating the blocks of returns, a special refiling effort was undertaken to place approximately 40,000 blocks of returns in strict DLN sequence. During the time that certain refunds were given priority, ERS productivity decreased by about 50 percent.
  
- Certain characteristics of ERS contributed to PSC's inability to expeditiously process certain refund returns. Specifically, if too much data was loaded into the ERS workable file, the system sent the data to an overflow file; however, it did this in DLN order with the highest DLNs sent to the overflow file first. Because Foreign Operations District

(FOD)<sup>5</sup> returns were assigned the highest DLNs, ERS examiners could not reach any such returns that were in overflow status until (1) file space was made available in the workable file and (2) the space made available was not filled by other error records that were loaded into the system.

--From mid-February through mid-March 1985, response times on the ERS terminals were unacceptably long, according to IRS National Office analysts. This slow response time occurred because ERS controllers and terminals were sharing a power line with electric calculators whose motors were affecting data transmission, local vendor officials had installed too many terminals per power line, and unused local lines and non-ERS remote lines connected to the service center computer were not being deactivated during the night shift, affecting data transmission for those terminals being used.

--The ERS Unit experienced an unusually high volume of "duplicate" blocks in ERS. This problem affected ERS productivity and occurred because (1) the Computer Branch loaded error tapes twice, (2) DIS entry operators made transcription errors in entering block DLNs, and (3) blocks were assigned DLNs that had previously been used. The first type of error (loading error tapes twice) resulted in wasted effort. According to ERS management officials, the duplicate loading of error tapes occurred several times. The last two types of errors caused productivity losses for both the ERS Unit and the Accounting Branch. Specifically, the ERS Unit was unable to resolve the block with the incorrect DLN because the pulled block of work (with the true DLN ) did not match the returns appearing on the ERS terminal screens. Furthermore, such unworkable blocks were taking

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<sup>5</sup>The Foreign Operations District administers the internal revenue laws and related statutes applicable to U.S. citizens residing or doing business abroad (including territories and possessions), nonresident aliens, and foreign taxpayers doing business in the U.S. with books and records abroad. Returns filed by such taxpayers are processed by PSC.

up valuable space in the system. Once this situation was identified, the ERS Unit referred the block of returns to the Data Control Unit in the Accounting Branch for research. Through November, the ERS Unit had referred 129 "duplicate" DLN blocks to the Data Control Unit.

- The "hung" block problem discussed on page 37 also affected the ERS backlog because tax returns relating to "hung" blocks were left in their original work group and were inadvertently sent to the Files Unit. According to an ERS supervisor, document control problems continued to escalate and finally reached a point where only half of the returns in ERS could be located for correction purposes. In June 1985, National Office officials provided PSC with a program change which permitted ERS examiners to extend the suspense period for unlocatable returns from 25 to 90 days. This change freed valuable file space for workable cases and provided a means to control and concentrate efforts on researching missing documents.
- PSC's batching procedure provided that more than one folder could be used to hold a block of returns. Many of the ERS control unit clerks were new and sometimes did not pull all of the folders containing returns that were needed for error correction thereby slowing the correction process for the returns not pulled. As of August 29, 1985, PSC adopted a new procedure which limits the number of returns in a block to a single folder.
- On more than one occasion, the Computer Branch failed to run the ERS overflow tape into ERS, causing examiners to run out of work before the work day expired.

### Rejects

- A factor affecting the rejects workload in 1985 was that rejects examiners had to fully process tax returns specially coded to be renumbered. These returns were identified to be renumbered primarily because (1) batching/numbering clerks had erroneously batched and numbered 1040EZ returns with 1040A returns or vice

versa, (2) batching/numbering clerks had used the incorrect document code in the DLN, and (3) the taxpayer had used a 1040EZ return but was not entitled to because he/she had other income. In 1984, rejects examiners voided such returns and sent them back to the batching/numbering function to be renumbered. In 1985, however, rejects examiners had to place the correct DLN on the document, update the correct DLN on the returns' data base, and clear the return from the rejects inventory.

--Another factor affecting the rejects workload was the fact that PSC's rejects inventory contained an estimated 4,000 full paid non-business returns, that had been batched with full paid business and farm returns and then coded by code/edit examiners for renumbering by the Rejects Unit. However, according to a lead rejects examiner, those returns should not have been in the rejects inventory because full paid nonbusiness returns do not have to be processed separately from, and thus batched separately from, full paid business and farm returns.

--PSC's reject inventory unnecessarily contained an estimated 650 FOD returns. Specifically, it contained:

- ° FOD returns that had been initially sent to other service centers where the returns were assigned a special reject code and forwarded to PSC for processing. However, such returns were again rejected at PSC because code/edit examiners failed to delete the code that had been written on the returns by staff from the other service centers.
- ° FOD tax returns that were sent directly to PSC where code/edit examiners inadvertently entered the reject code intended for use by other service centers. Thus, such returns were incorrectly rejected at PSC.

A code/edit supervisor told us that the above coding errors occurred because the Internal Revenue Manual did not (1) provide for a PSC procedure to delete the special reject code entered on FOD returns by other service centers or (2) specify that PSC was exempt from using the special FOD reject code.

Unpostables

During the first 10 months of 1985, PSC's monthly ending unpostable inventory averaged about 3.2 times that of 1984. PSC officials cited the following as factors contributing to the higher 1985 levels.

--One of the most common unpostable conditions encountered in 1985 involved tax returns attempting to post to the master file at NCC before the related payments had posted. When this situation occurs, the return will not post and will come back to the service center on an unpostable tape. Through December 28, 1985, this unpostable condition occurred a total of about 117,000 times for individual returns and 84,600 times for business returns. We obtained the following explanations as to why this condition occurred.

° Blocks of returns were released through the processing pipeline based on an erroneous assumption that out-of-balance conditions relating to the payment data had been resolved. Another variation of this problem occurred when the inventory of all tax returns throughout the service center became so large that canvas hampers, instead of carts, were used to carry returns through the processing pipeline. Then, due to the excessive labor required to pull blocks identified as having a payment imbalance condition from these hampers, an "upper management" decision was made to process all the returns in the hampers even though payment data problems still had not been resolved in some of those returns. This problem with the hampers led to an undeterminable number of unpostables.

° Three tapes containing payment data were not sent to NCC due to an oversight by Computer Branch personnel. This error resulted in a total of about 37,600 unpostables.

--Another common unpostable condition involved attempting to post a second return to the taxpayer's account in the master file after a first had posted. As of December 28, 1985, PSC's Unpostable Unit had received about 93,800 unpostable cases resulting from this situation.

- Errors made by DIS operators in transcribing entity information, such as taxpayer names or social security numbers, also accounted for a large number of unpostables. For example, of the 557,700 entity-related unpostable conditions that occurred through August 31, 1985, lead unpostable examiners estimated that 159,400 were attributable to DIS transcription errors. The remaining 398,300 were attributable to (1) the taxpayer using the wrong social security number or employer identification number, (2) the IRS master file not reflecting a change in the taxpayer's name, or (3) PSC code and edit examiners making coding errors.
- Another common unpostable condition in 1985 involved attempts to post payments to modules in the master file that were rejected because the modules indicated that no money was due. This unpostable condition occurred for the following reasons.
- ° If a taxpayer owed an amount for one year and filed for a refund in a later year, the computer would hold part or all of the refund to satisfy the prior year's delinquency. If the taxpayer subsequently made a payment toward his or her delinquency, the payment would not post because the account had already been satisfied.
  - ° A payment was directed to the wrong year or module due to a coding error.
  - ° An assessment that was in progress had not posted to the master file to establish the amount due, but payment had been received from the taxpayer and had tried to post to the master file.
- The lack of consistent IDRS and Generalized Unpostable Framework (GUF)<sup>6</sup> availability also contributed to the backlog of unpostable cases. IDRS is needed for research purposes and GUF is needed to work/close unpostable

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<sup>6</sup>GUF is the realtime computer system used to correct conditions which prevent transactions that have been processed through the service center from posting to the taxpayer accounts at NCC.



cases. During 1985, GUF and IDRS were unavailable a total of 644.7 and 462.5 hours, respectively.

- PSC had an unusually high volume of unpostable cases that were on the pre-GUF paper system and unresolved as of December 31, 1984. This inventory of about 120,000 items was resolved during the period January through August 1985 and greatly affected the Unpostable Unit's ability to keep up with the GUF unpostable inventory. This was primarily because the most experienced examiners were used to resolve the pre-GUF cases and, therefore, could not devote all of their time to the GUF inventory.
- Another factor affecting PSC's ability to reduce its unpostable inventory in 1985 was the relatively high number of new examiners. Of 193 examiners working unpostable cases as of the end of August 1985, about 170 were either newly hired or were detailed from various functions in the service center during 1985. Most of these people were initially trained to resolve only two types of unpostable conditions. As experience was gained, they were assigned expanded responsibilities.
- The Computer Branch did not load NCC unpostable tapes into GUF on a regular basis. This situation occurred because GUF computer runs were taking too long to run causing major scheduling conflicts and because the computer room had insufficient tape drives to run the GUF runs along with other scheduled runs. By not loading NCC unpostable tapes into GUF (1) unpostable cases became aged before GUF examiners were able to work on them, (2) problem resolution program cases included on the unloaded GUF tapes could not be worked, and (3) additional interest accrued on timely-filed returns that were contained on unloaded tapes as of June 14, 1985.
- Sufficient computer terminals were not available to handle the GUF workload. In total, the GUF Unit had 18 terminals during 1985. Other terminals located throughout the service center were also used to handle the GUF backlog that resulted. However, from mid-May to early

August, ERS terminals (120 in total) were generally not available for GUF use during the day shift because of the ERS backlog. GUF examiners were permitted to use ERS terminals for part of the second shift from March 11 through August 26, 1985. Starting August 27, ERS terminals were available for GUF use for 8 hours during the night shift.

#### Data Conversion Branch problems

Problems encountered by the Data Conversion Branch included (1) untimely DIS supervisory training, (2) insufficient key verification, (3) an inability to locate tax returns needed to resolve block-out-of-balance conditions, and (4) a larger than normal block-out-of-balance inventory. PSC and National Office officials provided the following explanation of those problems.

#### Untimely training

DIS supervisory training was not provided in a timely manner. Specifically, it was not provided until the period March 18 through 22, 1985--almost 3 months into the processing year.

#### Certain key verification not performed

Because block header<sup>7</sup> information was not initially key verified in 1985, numerous DLNs that were incorrectly transcribed were not corrected. Such DLN transcription errors resulted in either a block-out-of-balance condition or a duplicate DLN condition in ERS. Further, some of the duplicate DLN conditions could not be resolved by ERS tax examiners and were referred to the Accounting Branch for resolution. The National Office recognized the impact of this problem and, on May 21, 1985, issued a DIS program revision to require key verification of block header information.

Also, the failure to key verify information from the entity section<sup>8</sup> of the return resulted in numerous unpostable conditions. Specifically, of the about 557,700 entity-related unpostable conditions that occurred through August 31, 1985,

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<sup>7</sup>A block header is a document that contains identifying and control data for a block of returns.

<sup>8</sup>The entity section is that section of the return where the name, address, account number, tax period, and other identifying data appear.

lead unpostable examiners estimated that about 159,000 were caused by DIS transcription errors. Effective July 8, 1985, the Data Conversion Branch began key verifying all information from the entity section, as well as certain other tax return-related data elements.

#### Inability to locate returns

Many blocks of returns needed to resolve block-out-of-balance conditions could not be located when needed. Ideally, registers that identify out-of-balance blocks are printed at the end of the day while the returns are still in the Data Conversion Branch and easy to find. However, because of problems associated with updating the computer files, the registers were routinely received 3 to 7 days late and on several occasions were received 11 or more days late. Because the registers were late, control over carts which contained the returns became much more difficult. This was because (1) other units in the service center had a need for some of the returns and (2) the Block-Out-Of-Balance Correction Unit did not have sufficient space to hold the carts while it was awaiting the block-out-of-balance register. Thus, some carts were moved to the Files Unit and were difficult to locate when the register was received. For example, in August 1985, the Block-Out-Of-Balance Correction Unit was unable to locate an estimated 4,600 blocks or 190,000 returns.

A DIS software problem also contributed to the Block-Out-Of-Balance Correction Unit's inability to locate returns. That problem caused certain correctly transcribed blocks of returns to get "hung" in the system. Although supervisory transcribers were aware of the problem and added the "hung" blocks to their next day's computer input, they sometimes failed to place the related blocks of returns in the proper work group. As a result, returns were moved to the Files Unit as though they had cleared the computer system when, in fact, they had not. This action resulted in unlocatable returns, and, without the returns, errors identified during subsequent computer processing could not be resolved in a timely manner.

A Fresno Service Center official who visited PSC in July and August 1985 concluded that communication between Data Conversion and Document Branch managers had been lacking and, as a result, problems, such as unlocatable blocks, continued which otherwise might have been identified and solved. Subsequently, beginning about November 1985, all Processing Division Branch Chiefs began meeting on a daily basis to discuss work-related problems. This practice has continued into 1986.

Large block-out-of-balance inventory

Comparing 1985's block-out-of-balance inventory to the 1984 inventory is one measure of the degree of problems experienced in 1985. Based on available data, for the first 8 months of 1985, PSC's monthly ending block-out-of-balance inventory averaged about 6.2 times that of 1984. In addition to the Branch's inability to locate returns, discussed above, PSC officials cited the following as factors contributing to that large inventory.

- The National Office established additional block-out-of-balance criteria for individual tax returns for the 1985 processing year.
- Human errors were made in the numbering of tax returns, which resulted in the same block number being assigned to two different blocks of returns.
- The Data Conversion Branch hired 329 new data transcribers during 1985 compared to only 140 in 1984. According to Branch officials, the inexperience of these new transcribers probably resulted in additional errors, which caused block-out-of-balance conditions.
- The new Distributed Input System required an adjustment period (learning curve) even for experienced transcribers.
- Some block control clerks (temporaries and seasonals) did not know how to correct certain accounting-related block-out-of-balance conditions. Further, staffing in the Block-Out-Of-Balance Correction Unit was not sufficiently increased to keep pace with workload.
- Incorrect processing of computer tapes also caused block-out-of-balance conditions. This happened because tax return tapes were processed out of sequence.

TAX ACCOUNTS DIVISION

The Tax Accounts Division consists of two branches--the Taxpayer Relations Branch and the Adjustments and Correspondence Branch. The Taxpayer Relations Branch's principal responsibilities include handling taxpayer refund inquiries, responding to requests for tax returns, and filing and maintaining processed

tax returns in temporary storage. The Adjustments and Correspondence Branch is responsible for receiving and analyzing taxpayer correspondence and amended tax returns and for preparing adjustment actions and correspondence in response to taxpayer inquiries.

#### Taxpayer Relations Branch problems

The Taxpayer Relations Branch experienced computer-related problems that hampered its ability to handle Branch workload in a timely manner. Service center officials told us of the following problems.

- Computer processing delays resulted in late issuance of the weekly Cycle Proof Listings (CPL) that are used to determine if returns had completed processing and should be stored in the Document Retention Unit's files area. The CPL, which is due on Friday, lists returns processed during the previous 5 days. Returns from the first day of work included on the CPL usually start coming into the files area on Friday, the day the CPL is due. Generally, the CPL was received from 1 to 3 days late throughout the 1985 processing season. On one occasion, it was a week late. Delays in receiving those listings caused control problems for the Branch because the staff had no way of knowing if the returns they had received had actually finished processing.
- During the processing season, a problem arose in that there were blocks of returns on each weekly CPL that could not be found. The problem has decreased over time, but there are still an unknown number of blocks on each CPL that cannot be found. The Taxpayer Relations Branch Chief told us she had no idea where the missing blocks are. She said she has tried unsuccessfully to answer that question many times. She believes that some of the DLNs listed are incorrect and may be for nonexistent blocks. As of March 1986, the Branch was planning to use a microcomputer to list missing blocks. Branch officials plan to provide the list to other groups within the service center to help locate the blocks. If the blocks are nonexistent, the list should expedite the process of determining how they got on the CPL.

Adjustments and Correspondence Branch problems

The following factors contributed to a backlog in the Adjustments and Correspondence Branch's inventory. Statistics on that inventory are shown in appendix IV.

--In April 1984, the Branch's ending inventory went from 67,956 to 112,773<sup>9</sup> in one week as a result of implementation of IRS's Correspondence Study. The Correspondence Study--an effort undertaken by IRS because of its own concern about how correspondence was being handled--determined whether or not sufficient procedural and management emphasis was being placed on timely and responsive replies to taxpayer correspondence. The Tax Accounts Division Chief explained that, in implementing the Correspondence Study in PSC, all correspondence was routed directly to Branch examiners in unsorted batches. In contrast, other service centers apparently sorted the correspondence before routing it to Branch examiners. According to the Division Chief, PSC's approach had a "disastrous" effect because most of the examiners had not been trained to handle the different types of correspondence. For example, a person trained to deal with individuals' correspondence did not know how to deal with the specifics associated with correspondence from businesses. PSC abandoned its approach to implementing the Correspondence Study after that first week.

--Computer unavailability was a factor in PSC's inventory build-up throughout 1984 and periodically during 1985, especially during the first 5 months. Specifically, the computer was un-

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<sup>9</sup>Although specific numbers were not provided, some of this growth, according to PSC's Assistant Director and officials at IRS' National Office, was due to the fact that correspondence that used to be controlled at various places in the service center was, as a result of the Correspondence Study, consolidated in the Adjustments and Correspondence Branch. In other words, the increase from one week to the next does not mean that there was a large influx of correspondence; some of the increase was due to a change in accounting for existing correspondence.

available more than 20 percent of the time during 9 months in 1984, reaching highs of 37 percent in January and 44 percent in November. Unavailability reached a peak of more than 50 percent during January 1985. However, after May 1985, computer availability began to improve significantly.

- PSC had problems processing information on computer tapes that led to the growth of taxpayer correspondence. The Adjustments and Correspondence Branch estimated, for example, that the much publicized problem involving PSC's delay in processing a magnetic tape containing Federal Tax Deposit information (see app. III) led to about 10,000 pieces of correspondence.
- Staffing problems within the Branch contributed to the correspondence inventory backlog. Although the Branch was able to hire enough staff during 1985, that staff lacked experience. The Chief of PSC's Tax Accounts Division told us that it takes a minimum of 1 year to obtain enough experience to deal with the variety of basic situations that are usually encountered in the Adjustments and Correspondence Branch, and about 2 to 3 years to deal with the more complex situations. Of about 290 tax examiners in the Branch, only 70 were considered fully experienced as of September 1985. Most of the others had been in the Branch for less than 1 year.
- Numerous newspaper allegations of tax returns being lost or shredded at PSC contributed to an increase in correspondence.
- From mid-February to early September 1985, the Branch was constantly sending staff to training or to help with various special projects, including projects to (1) correct accounts of taxpayers affected by the previously mentioned FTD tape that was processed 3 months late; (2) review the accuracy of notices; and (3) manually process as many refunds as possible to avoid interest payments. The latter project effectively shut down the Branch from July 8 through 12, 1985.

Actions taken to reduce backlog

In mid-February 1985, the Branch decided to take concerted action to deal with an inventory that had reached a level of 172,909. All cases were controlled and master file transaction histories were requested for all old cases. Duplicate inquiries, which occurred as a result of taxpayers corresponding two or more times in reference to the same problem, were consolidated. In addition, a series of special sorts were performed in order to group types of cases together.

Old cases with one payment in question and a zero balance on the transaction history and cases involving underpayments within tolerance levels were closed immediately. Taxpayers were notified of the action taken. The inventory was reduced to 90,226 by March 30 as a result of the Branch's actions.

The inventory began climbing again, until it reached a high of almost 250,000 on August 2, 1985. At that point, National Office initiatives, consisting of a series of raised tolerance levels, were implemented. Any case falling below the applicable tolerance could be closed immediately and the taxpayer notified of the action taken. These national initiatives helped PSC's Adjustments and Correspondence Branch begin clearing up its backlog.

Also in August, the Branch began doing a more detailed mail sort. Previously, the Branch only sorted mail into individual and business categories. The more detailed sort breaks individual and business categories down by types of cases and identifies those cases that look like they can be closed quickly.

To augment identification of easy cases, a team composed of experienced individual and business tax examiners was established to go through existing inventory, segregating easy to work cases. Copies of master file transaction histories were requested and used as much as possible to help close selected cases.

In addition, each of the Branch's 14 work units, which are composed of an average of 18 employees each, were split into two teams. The teams then divided the work into segments, such as, (1) screening cases to categorize them, (2) obtaining printouts of transaction histories, (3) consolidating duplicate cases, and (4) tracing payments taxpayers claimed to have made. To make the work more interesting, jobs within the teams were rotated periodically. Overtime of up to 4 hours per day was regularly used during most of the weeks after mid-August.



With few exceptions, weekly closures from mid-August through the week ended December 21, 1985, rose and hovered around 40,000. The Acting Branch Chief attributed the increased production to raised tolerance levels, the team concept, and increased overtime, all of which were started in August. Further, during the last quarter of 1985, Examination Branch staff were used to help reduce the inventory backlog.

Other assistance came from four district offices which agreed to help PSC close correspondence cases. District offices received and closed the following number of PSC correspondence cases for the weeks ended July 13 through December 28, 1985.

<u>District office</u>	<u>Number received<sup>a</sup></u>	<u>Number closed</u>
Baltimore	24,908	11,646
Foreign Operations	55,602	18,442
Philadelphia	5,782	1,811
Pittsburgh	<u>614</u>	<u>612</u>
Total	<u>86,906</u>	<u>32,511</u>

<sup>a</sup>Correspondence cases received by the district offices continue to be carried in PSC's inventory until they are closed.

The efforts undertaken since the beginning of August 1985 enabled the Branch to reduce its inventory to a level believed to be less than 100,000 by December 1985. In mid-December PSC's Director, believing he had gained control over the adjustments/correspondence inventory:

- moved about 40 people out of Adjustments/Correspondence to help reduce the unpostables inventory,
- assigned 31 people to concentrate on resolving congressional request and problem resolution cases,
- reassigned Examination Branch employees who had been detailed to the Adjustments and Correspondence Branch back to their own Branch, and

--scheduled the termination of the help received from the four district offices.

Physical inventory showed backlog still existed

By January 1986, the Tax Accounts Division had decided a physical inventory should be taken because the Adjustments and Correspondence Branch had not taken such an inventory during 1985, and it wanted to check the accuracy of the manual perpetual inventory system. Several counts taken in January indicated that the inventory was substantially understated. PSC's Director then asked Internal Audit to help (1) determine the reasons for such understatement, (2) oversee the establishment of an accurate recording and reporting system, and (3) oversee another physical inventory and establish an accurate count.

In mid-January, the Director again mustered some additional resources to deal with a substantial adjustments/correspondence inventory based on preliminary physical counts taken by the Branch. This included:

- assigning about 34 Examination Branch staff to the Adjustments and Correspondence Branch;
- returning the adjustments/correspondence staff from other groups, such as unpostables; and
- getting FOD to continue helping with the workload by processing about 5,000 cases each week.

In addition, the Cincinnati Service Center plans to work between 30,000 and 35,000 correspondence cases for PSC during 1986.

A complete physical inventory, taken February 7 to 9, under Internal Audit's oversight, established an adjustments/correspondence inventory of 198,600 cases at PSC plus about 23,200 PSC cases at FOD as of February 9, 1986. Prior to taking the physical inventory, Internal Audit recommended that PSC design, test, and implement an inventory reporting system with appropriate accounting controls so the same type of problem does not happen again.

Appendix IV shows how the Adjustments and Correspondence inventory was reported each week at PSC from January 1984 to December 1985.

COMPLIANCE DIVISION

The Compliance Division consists of three branches. The Criminal Investigation Branch reviews tax data to identify possible fraudulent activities and to identify potentially abusive tax shelters and investors. The Examination Branch classifies tax returns, claims, and other tax documents for audit potential and handles those audit issues that may be resolved by correspondence. The Collection Branch controls the accounts of and corresponds with taxpayers who are delinquent in filing their returns or paying their taxes.

Compliance Division problems

Among the problems cited by Compliance Division managers were (1) a staffing problem in the Criminal Investigation Branch, (2) insufficient IDRS availability in the Collection Branch, and (3) an increase in Collection Branch inventories.

Staffing

The Tax Shelter Detection Team had 9 permanent staff members and 1 revenue agent in 1985. According to the Branch Chief, 10 people are not enough. Last year, the team's staff was supplemented with 12 people from the Examination Branch. In 1986, the Branch plans to augment the team with 16 seasonal staff from mid-February to June. The Branch Chief stated that his difficulty in obtaining adequate staff is attributable to the fact that he was working with a new program in 1985 and no one anticipated the quantity of cases it would generate. He stated, in addition, that some informational returns (such as Form 1065, U.S. Partnership Return of Income) require a 100 percent review and their quantity keeps increasing.

Insufficient IDRS availability

During February to March 1985, IDRS was available about 60 to 70 percent of the time. In April and June the Branch Chief estimated availability to be anywhere from 70 to 90 percent. It was not until July/August that IDRS reached 95-percent availability. The Collection Branch needs IDRS to check the status of taxpayers' accounts before responding to taxpayers' claims that they paid their taxes. When problems with IDRS occurred, the Branch put a priority on using IDRS when it was available to suspend issuance of further notices to all taxpayers who wrote IRS in response to a collection notice. Even when IDRS was unavailable 40 percent of the time, the Collection Branch Chief stated there was never a problem in suspending issuance of further notices. All subsequent computer-generated notices were held until IDRS could be used to

research the account and a future course of action could be decided on. Further, the Branch Chief said that the biggest impact of IDRS unavailability was that it slowed the Branch's ability to timely respond to taxpayers and adversely affected the age of the inventory.

#### Increases in collection inventories

We obtained the following quarterly inventory data for balance due accounts, delinquent returns, and Automated Collection System cases for the period June 30, 1984, through December 31, 1985.

<u>Quarter ended</u>	<u>Balance due accounts</u>	<u>Delinquent returns</u>	<u>Automated Collection System cases</u>
06/30/84	20,324	6,568	3,817
09/30/84	5,816	Unavailable	2,028
12/29/84	14,149	372	9,856
03/30/85	12,262	1,097	12,000
06/30/85	6,991	5,246	19,056
09/30/85	15,725	61,264	13,630
12/31/85	34,531	111,608	11,645

According to the Branch Chief, increases in the inventories were the result of a loss of trained personnel; additional reviews of letters, liens, and levies going out to taxpayers; a heavy volume of taxpayer responses to some erroneous notices, such as those caused when FTD payments were not credited to taxpayers' accounts; and increases in the number of individual accounts with various problems, which resulted in computer-generated transcripts to be resolved.

According to the Branch Chief, the increased inventories caused delays in the receipt of revenue, additional work to prevent further notices from being issued to the taxpayer, and delays in the transfer of delinquency accounts to collection call sites or field offices.

#### QUALITY ASSURANCE AND MANAGEMENT SUPPORT DIVISION

PSC's Quality Assurance and Management Support Division consists of two branches. The Quality Assurance (QA) Branch samples the validity of tax data being input to the computer as well as proposed transactions resulting from the work of other service center functions, such as collections and adjustments/correspondence. The Management Support Branch assists the service center's divisions and branches in resolving

problems, keeps management informed on the status of service center activities, and acts as liaison with the National Office, regional and district offices, and other service centers.

#### Quality Assurance Branch problems

QA Branch officials at PSC said they had overall problems with the timeliness of quality reports; specific problems with respect to ERS and DIS; and an overall problem concerning the ability to determine why errors were occurring.

#### Timeliness

--PSC officials said that computer-generated quality assurance reports for DIS and ERS, showing the types of errors made and error rates by service center functions, were not issued expeditiously during the filing season. According to the Acting Chief of the QA Branch, this occurred because QA had a low priority in the computer room. The Acting Division Chief told us that the computer-generated reports are vital because there is no manual review system for DIS and ERS. An untimely report cannot be used because the work to be reviewed has already been processed and sent to the next service center function. Furthermore, incorrect work could go from one system in the process to another, compounding the problem and, in effect, making more work for IRS.

#### ERS

--QA's function is to review ERS printouts showing before and after corrections. The printout also identifies the ERS staff person who made the correction. It is QA's responsibility to assess and report on the correction's accuracy. When the printouts were not timely or when no reviews occurred, management was not given feedback on what needed to be corrected and employees did not have individual feedback on their performance.

#### DIS

--DIS QA involves comparing a listing generated by data entry operators to the original documents, such as tax returns. Branch officials cited the following problems associated with this review in 1985.

1. The listings did not have data field identifiers, making it difficult to understand the data. Templates were created to address this problem but the field identifiers on the templates did not line up data exactly. DIS QA is currently being handled on-line whereby the QA reviewer uses a terminal to call up cases for review. The screen lines up data, enabling the QA reviewer to determine whether an error exists and, if so, to manually record it for supervisory review and employee feedback.
2. Batch numbers were not included on the listing. Without the batch number, QA could not locate the hard copy of the document in the service center. This was resolved in April 1985, by adding the number to the listing.
3. Serial numbers were not included on the listing. Without the serial number, QA could not locate the actual tax document in the block of returns. This was resolved in April 1985, by adding the serial numbers to the listings.

#### Analyzing errors

--In 1985, the Branch did not do any type of analysis to identify systemic problems. Quality assurance at PSC consisted of "checking off" errors and providing the information to the respective units without any analysis as to why the errors occurred. The new Branch Chief (as of September 1985) is aware of this problem and has taken steps to alleviate it. In mid-February 1986, the Branch implemented a computerized error analysis system which currently is doing a 1 percent random sample of ERS work. The new system shows error trends on tax returns, identifies whether the errors were made by taxpayers or by the service center, and enables the Branch to alert service center functions of specific types of errors. The error analysis will eventually be installed in other service center functions, starting with unpostables.

RESOURCES MANAGEMENT DIVISION

The Resources Management Division provides basic administrative support services for the center. It consists of three branches: Personnel, Training and Development, and Facilities Management. In addition, a Disclosure Officer reports directly to the Division Chief. A Budget Officer reported directly to the Division Chief until November 10, 1985, when he was transferred to the Quality Assurance and Management Support Division. His responsibilities include preparation of the service center's annual budget proposal and monitoring actual performance against the approved fiscal year budget. Ongoing responsibilities of the Division are (1) hiring, training, and paying service center personnel; (2) allocating, coordinating, and maintaining service center office and warehouse space; (3) safeguarding service center documents and taxpayer returns and processing taxpayer disclosure requests; and (4) acting as the service center director's and division chiefs' principal advisor on administrative matters.

Personnel Branch problems

Early projections indicated that PSC would need 600 to 700 new employees for the 1985 filing season. Then a series of processing problems and delays resulted in over 1,800 people being hired. The Personnel Branch experienced no major problems in hiring about three times the number of workers originally anticipated. This was primarily because it continually offered employment tests and had a list of potentially eligible employees from which to recruit when increased hiring was needed. Although 70 is the passing score on an employment test, PSC did not offer employment in previous years to anyone with a score of less than 80. Due to the need to hire substantially more people than anticipated during 1985, PSC offered employment to persons with scores in the 70s.

Training and Development Branch problems

All critical training for which PSC's Training and Development Branch was responsible was completed on time. The Training Branch sometimes had to be resourceful in providing training materials. For instance, it had to recycle or photocopy some materials or have them shipped from other service centers. The fact that PSC begins its training sessions later than some other service centers may account for the fact that training and receipt of training materials was not a problem in PSC.

While the Training and Development Branch is generally responsible for overseeing receipt of training materials and coordinating training courses at PSC, DIS training for the 1985 pro-

cessing year was the responsibility of IRS' National Office and was a problem.

- Supervisory training was not provided in a timely manner by the National Office at PSC. Specifically, it was not provided to 8 of the 10 DIS supervisors until March 18 through 22, 1985. The delay in training was caused by the unavailability of slots in DIS training courses given by National Office personnel and resulted in supervisors not having adequate knowledge of DIS until 3 months into the processing year. This meant they were unable to answer certain questions asked by entry operators that, ultimately, led to DIS input errors. The input errors, in turn, resulted in block-out-of-balance conditions.
- The 10 service centers are responsible for updating all service center training materials each year. Each center receives about one-tenth of the total workload for updating. PSC has traditionally been assigned updating responsibilities for about 15 packages encompassing Taxpayer Relations Branch and Field Operations Division training materials. Due to the many processing problems in 1985, PSC was given special permission from the National Office to update only one of its training packages, which dealt with refund certification, for 1986. As a result, according to PSC's Training and Development Branch Chief, some Taxpayer Relations Branch and Field Operations Division training packages being used in 1986 training sessions may be out of date.
- Another problem experienced by the Branch during 1985 was the difficulty it had providing enough training rooms to handle the increase in the number of people that had to be trained. Some new employees had up to 5 or 6 weeks of training while returning seasonal employees often had about 2 to 3 weeks of training. Employees already working had varying amounts of training to familiarize them with new systems.

For 1986, PSC recruited earlier and thus, generally, trained staff earlier than it did for 1985. Also, PSC acquired



additional space outside of its current location to house the Training and Development Branch, as well as other groups. The Training and Development Branch plans to start using the additional space later this year.

#### Facilities Management Branch problems

The Facilities Management Branch experienced problems in 1985 relating to space, an off-site computer facility, and computer-generated security reports.

--Because more people were hired than anticipated and because they stayed on board longer than expected, the Facilities Management Branch experienced problems providing enough space for PSC to do its work efficiently during 1985. To alleviate future space problems and enhance tax processing efficiency by rearranging work units within the service center, PSC is looking for additional space. In that regard, PSC is planning to sign a lease on April 1, 1986, for about 140,000 square feet of space. PSC currently leases 50,000 square feet of warehouse space in a building about 2 miles from the service center. The lease is scheduled to expire in September 1986.

--The Branch's Security Standards and Evaluation Section experienced problems obtaining computer-generated security reports in 1985. Because of PSC's emphasis on processing tax returns, a low priority was placed on producing auxiliary type reports, like those relating to security. Untimely security reports hampered the identification and/or investigation of security breaches. This problem affected daily, weekly, and monthly security reports as follows:

- ° Occasionally, the Daily Security Report was received 1 day late and 23 were not printed during fiscal year 1985. The report shows instances when (1) security personnel located within each unit add new passwords or command codes for which paperwork has not yet been authorized and (2) employees input incorrect passwords three or more times.
- ° A weekly report, the Special Activity Report, was not received at all 3 times and was

received from 1 to 45 days late 22 times during fiscal year 1985. That report identifies employees who have accessed their own account, a spouse's account, or the account of another IRS employee.

- ° The IRS Security Profiles Report is a monthly report, summarized quarterly, that shows whether employees are using only command codes to which they have been authorized access. Of the monthly reports, six were from 4 to 35 days late. Three of the quarterly reports were from 1 to 2 weeks late.

#### PROBLEM RESOLUTION OFFICE

PSC's Problem Resolution Office is responsible for resolving taxpayer problems that, for whatever reason, have not been resolved by the normal IRS processes. Cases come to the Office's attention from two primary sources--some are identified and referred from within the service center, others are identified and referred by the various district offices.

Cases are referred to the Problem Resolution Office if (1) the taxpayer has made two inquiries about a refund and the inquiries are made at least 90 days after the return was filed; (2) the taxpayer inquires about an earlier inquiry and has not received a response within the timeframes IRS has specified; (3) the taxpayer's response to a third or fourth collection notice indicates a lack of service center action to resolve the problem; or (4) the taxpayer indicates that normal channels have not been successful in resolving a problem, or IRS believes it to be in its best interest to have the Office handle the case. Problem Resolution Office cases are actually worked by the particular service center function responsible for resolving the taxpayer's problem.

#### Problem Resolution Office problems

The caseload of the Problem Resolution Office rose from 16,971 in 1984 to 25,655 in 1985. Various factors contributed to that increase including (1) insufficient IDRS availability from October 1984 through the first 5 months of 1985; (2) the untimely processed FTD tape discussed earlier; (3) the delayed refunds resulting from PSC's processing problems in 1985; and (4) a request from the regional Problem Resolution Officer that PSC help resolve the backlog of aged cases in the district offices, which resulted in 333 aged cases being transferred to PSC from district offices in May 1985.

In addition, according to the Problem Resolution Officer, the Office had to handle the increasing workload with an insufficient number of employees. From January 1985, the office was comprised of a management analyst, a control clerk, and a clerk typist, in addition to the Problem Resolution Officer. Another management analyst was selected in November 1985, but did not begin working until January 1986. The Problem Resolution Officer said he would like to add a technician to handle telephone callers and another control clerk.

The Problem Resolution Office's goal is to resolve cases within an average of 15 to 20 days and to close 80 to 85 percent of all cases within 30 days. Although the Problem Resolution Office experienced problems that caused its caseload to increase, it was still able to close cases within an average of 15 to 20 days every month in 1985 except December (when the average was 22.3 days) and May (when the average rose to 33 days). The large increase in May reflects the impact of transferring 333 aged cases from district offices to PSC. As shown below, the PSC goal of closing 80 to 85 percent of problem resolution cases within 30 days was met less than half of the time.

	<u>Cases closed</u>	
	<u>Average number of days to close cases</u>	<u>Percent of cases closed within 30 days</u>
<u>1985</u>		
January	20.2	73.0
February	16.2	84.1
March	15.3	85.6
April	15.6	84.5
May	33.0	66.4
June	18.6	78.4
July	17.1	84.0
August	19.1	76.1
September	19.6	78.2
October	19.4	79.8
November	16.9	85.6
December	22.3	77.3

EXCERPT FROM APRIL 24, 1985, GAO LETTER  
TO CHAIRMAN, SUBCOMMITTEE ON OVERSIGHT,  
HOUSE COMMITTEE ON WAYS AND MEANS

PROCESSING COMPUTER  
TAPES

When the National Computer Center (NCC) cannot process a computer tape received from a service center, it calls the service center to request a replacement. The telephone call serves to expedite the process of creating a replacement tape. Recent problems at PSC showed that a more elaborate control system was needed.

A Federal Tax Deposit (FTD) tape, which was processed timely by PSC, could not be processed by NCC on October 12, 1984 because of a routine technical problem. The defective tape contained records of 28,835 deposits totaling about \$296.9 million from about 26,800 taxpayers. Due to a lack of effective controls, PSC did not supply a replacement tape until December 1984. A subsequent problem with the replacement tape, different from the original problem, further delayed final processing by NCC until January 18, 1985. As a result, most taxpayers received at least one erroneous balance due notice. Some received additional notices depending on either their liability amount or their prior delinquency history. Erroneous levies were issued on five taxpayers, one erroneous lien was filed, and many taxpayers were erroneously assessed penalty and interest. An undetermined number of taxpayers had a portion of their refunds for other tax periods withheld to satisfy the balance due created by the unposted FTD payment.

In an April 22, 1985, report entitled "The Service Needs Controls to Ensure Prompt Replacement of Unprocessable Tapes", IRS' Internal Audit noted that PSC managers and operating personnel, with few exceptions, treated NCC requests for replacement tapes as a routine matter; PSC's new Computer Support Section Chief was inexperienced in computer operations and unaware of the specific requirements for tape replacement; and local written procedures had not been established to ensure timely processing of replacement tapes.

More specifically, Internal Audit noted that:

- "Telephone requests from the National Computer Center were not directed to an accountable position at the Philadelphia Service Center and the requests were not formally documented, logged, controlled, or distributed. Weekly listings of unprocessed tape reels issued by

the National Computer Center were not used to ensure that tapes were timely and successfully replaced. And, retention of input tapes was not based on the successful completion of processing at the National Computer Center.

"An Accountability Acceptance Voucher is generated weekly by the National Computer Center and informally used by the service center to reconcile their record of reels shipped to the National Computer Center. We were informed that the Data Control Unit at the Philadelphia Service Center contacted the National Computer Center when the tape was not processed for two weeks to determine the status of the unprocessed reel which was not contained in this report. The Data Control Unit was advised that the tape was in process; however, no follow-up was made when subsequent weekly reports showed that the tape was not processed.

"With few exceptions, Philadelphia Service Center managers and operating personnel treated the request for the replacement tape as a routine matter. They did not display a sense of urgency in reproducing the tape and returning it to the National Computer Center. Until mid-January 1985, we did not see evidence of any manager at the Branch Chief level or above following through on information they had about the unprocessed tape. These managers did not investigate the need for prompt action to replace the tape or take action to prevent issuance of erroneous balance due notices to taxpayers because they assumed that the problem with the unprocessed tape had been resolved by their subordinates.

"The latest annual program review conducted by the Office of the Assistant Regional Commissioner (Data Processing) on August 15, 1984 noted that 'Computer Branch performance represents a significant present as well as future problem...the apparent primary operational deficiencies stem from ineffective management at the Branch and Section levels.' This report reflected a need for strengthened controls; however, no controls were instituted to correct the deficiencies identified.

"Philadelphia Service Center management also did not ensure that the new Computer Support Section Chief was trained and prepared for the responsibilities of the position. In general, the Service has not developed training courses for Computer Support Section personnel; training has been done on the job. The recently selected Computer Support Section Chief, who was directly responsible for ensuring timely replacement tape processing, was selected without the required experience qualifications. To compensate for the lack of experience, a formal training agreement was established with this employee. The training was designed to provide the Section Chief with the knowledge needed to effectively perform the critical functions of coordinating and controlling Computer Branch activity. The training agreement, however, was not implemented."

To assure timely replacement of tapes which do not initially post at NCC, Internal Audit recommended that certain procedures be implemented.

Corrective actions taken  
on replacement tapes

Philadelphia Service Center

On February 15, 1985, PSC issued new procedures which

- provide a specific telephone number for NCC's use in requesting replacement tapes,
- require controlling all calls for a replacement tape with a sequentially numbered control and a contact memorandum,
- require the retention of input tapes until the tape, or its replacement, successfully posts at NCC,
- require that the NCC cycle input report be used to generate a control for replacing tapes that do not post, and
- establish new Accounting Branch controls that monitor requests for replacement tapes until the replacement tapes are processed at NCC.

In addition, at the request of the Mid-Atlantic Regional Commissioner, PSC implemented additional control procedures on February 27, 1985, to assign specific responsibilities to ensure that requests for replacement tapes are completed, that input tapes are retained until NCC processes them or their replacements, and that the replacement tapes are shipped as soon as possible--within 48 hours of the initial telephonic request from NCC.

We noted that PSC, as of March 22, 1985, had sequentially logged 13 requests for replacement tapes. In this regard, a Mid-Atlantic Regional Office data processing analyst visited PSC on April 5, 1985, and found that the "Computer Branch has adapted [the replacement tape] procedure to cover all instances where replacement tapes are requested, no matter where the requests originate, including those requested by PSC. By recording their requests for replacement tapes to offices/locations outside the Center, PSC is recording items over which PSC has no control except to ask, timely, for replacements."

Further, the analyst said in his visitation report of April 5:

"Discussions with Computer Branch staff indicate that they have made efforts to meet the given 48 hours turnaround goal. However, in three cases this goal was not met. It was explained that 'problems' had prevented the tapes from being replaced in the required time. The staff suggested that this period be extended so that longer recovery run times and other contingencies may be accommodated. . . ."

It does not seem unusual for some tapes to take more than 48 hours in view of data compiled by IRS' national office which shows that the average number of weeks to replace reels in 1984 was:

<u>Replacement period</u>	<u>Number of service centers</u>
less than 1 week	1
1 week to 2 weeks	7
over 2 weeks	2 <sup>a</sup>

<sup>a</sup>Austin averaged 2.2 weeks in replacing 18 reels of tape and Philadelphia averaged 2.4 weeks in replacing 23 reels of tape.

In regard to the 48-hour turnaround period, IRS' Internal Audit has stated that:



"Timing is a critical factor in establishing these controls at the various management levels. It is important that upper level management not be directly involved with the routine processing of replacement tapes; however, it is essential that upper level management be directly involved when adverse impact on taxpayers is imminent. Under the current notice process, first notices are mailed out four weeks after the transaction due date. We have, therefore, progressively elevated controls so that director level management will become aware of the delay no later than two weeks after the initial request. This will allow two weeks to prevent adverse taxpayer impact."

#### National Computer Center

IRS's Internal Audit found that:

"The NCC Weekly Cycle Input Report is not cumulative; therefore, it does not highlight unprocessed requests to director level management. Also, the report is not distributed to the National Office. A cumulative report that is also distributed to the National Office would alert top level management of a serious delay (minimum two weeks - maximum three weeks). This should ensure that adverse taxpayer impact is prevented."

As a result of this finding, Internal Audit recommended that "The National Computer Center should maintain a file in date order of requests for replacement tapes. If a request is not completed in 10 days, the National Computer Center Division Chief should be notified and a follow-up telephone request should be made to the service center division chief."

In response to this recommendation, the Assistant Commissioner (Returns and Information Processing) said in an April 19, 1985, memo to the Commissioner:

"Effective February 11, 1985, NCC's Production Control Section Chief began sending the Weekly Cycle Input Report via facsimile to all service center directors...the NCC Director receives a Followup Report each Monday (10 days after the cycle cutoff and seven days after the original Weekly Cycle Input

Report). All items appearing on the prior week's Cycle Input Report are normally resolved on this report. If a tape replacement is not received within one week (or if any other problem occurs which causes a tape not to be posted to the Master File within one week of receipt) the Followup Report identifies the tape as an 'outstanding' problem. 'Outstanding' tapes are carried forward on the Followup Report until the problem is resolved. The NCC Director can use the report to contact the appropriate service center director after a one-week delay in tape replacement. He can use the report to contact the Assistant Commissioner (Returns and Information Processing) after an additional week's delay. These responsibilities were added to NCC Standard Operating Procedure No. ADP (3)346-88 on 4-4-85."

#### National Office

IRS' national office has prepared a draft "Handbook of National Tape Management Controls" to standardize local procedures for replacing problem tapes. IRS provided this draft to us, but said it was being reviewed in house and might be changed. As part of its testimony before the Oversight Subcommittee on March 11, 1985, IRS said that top national office officials, including the Commissioner, would meet with field executives involved with service centers to increase their awareness of and sensitivity to the impact that service center actions have on other Service activities and on taxpayers. On April 22, 1985, the Commissioner told us he would be visiting PSC on April 24 and would be visiting the other service centers sometime in the future.

#### Communication of corrective actions to PSC's Accounting and Computer Branches

According to the Acting Division Chief for PSC's Computer Services and Accounting Division, procedural changes involving NCC requests for replacement tapes were communicated, through normal management channels, from the service center director to the division chief, who in turn, advised the Computer Branch and Accounting Branch chiefs. The branch chiefs, in turn, met with their subordinate employees. In addition, the actual PSC procedure entitled "NCC Requests for Replacement Tapes and Reconciliation of NCC Cycle Input Reports" was distributed as follows:

--Forty copies to the Computer Branch.

--Ten copies to the Accounting Branch.

--Ten copies to the National Computer Center.

Documentation maintained by the Computer Branch chief indicated that the replacement tape procedures had been explained and discussed with the three section chiefs in the branch. All section chiefs acknowledged in writing to the branch chief that the procedures had been discussed with their subordinates. Two of the three section chiefs had employees sign their names to attest to the fact that they had read and understood the contents of PSC's tape replacement procedures.

There is some evidence to indicate, however, that the procedures are not being effectively communicated to new employees. In an April 5, 1985, visit to review PSC tape replacement procedures, a Mid-Atlantic Regional Office data processing analyst noted that "At the time of our review, the newly assigned Acting Chief, Support Section [of PSC's Computer Branch], acknowledged that he was not informed of the [tape replacement] procedures."

#### Adequacy of corrective actions

Internal Audit has concluded that the controls established at PSC should ensure the prompt replacement of tapes that cannot be processed at NCC. Based on other work done by Internal Audit, five problems--besides the FTD problem--were recently identified which indicate that further tax payment posting problems (not related to the replacement of tapes) could occur. The five problems, as described by Internal Audit, are discussed below.

1. PSC did not timely process three magnetic tapes containing 2,171 Employer's Quarterly Tax Returns (Forms 941). Two of the tapes, the original and a replacement, included 980 Forms 941 for the quarter ended June 30, 1984. The third tape included 1,191 Forms 941 for the quarter ended September 30, 1984. The information was not processed until January 1985. The tapes were not timely processed because PSC management did not have effective controls over magnetic tapes and did not react to complaints from the reporting agent supplying the tapes. The problem resulted in erroneous delinquency notices to the 980 June 30 filers (IRS was able to prevent issuance of erroneous notices to the September 30 filers).

Internal Audit has indicated that:

- Action to correct the immediate problem was inadequate.
  - Service center management did not ensure that (1) the June 30 replacement tape and the September 30 tape were processed timely, (2) June 30 filers did not receive unwarranted delinquency contacts, and (3) the adverse impact on the districts and the taxpayers was minimized.
  - Management did not strengthen controls over the receipt and processing of tapes from magnetic media filers.<sup>4</sup> Management did not establish written procedures to ensure that districts are provided with information needed to react to taxpayers' complaints.
2. Approximately 30,000 Forms 941 from the second quarter of 1984 were not timely processed because a transaction tape containing data on 11,000 returns was temporarily missing and because systemic problems caused delays in processing 19,000 returns. As a result, 30,000 erroneous delinquency notices were issued. The missing tape was subsequently identified and run and national office analysts have been working to correct the systemically caused delays. Internal Audit has indicated, however, that corrective action taken or planned has not been adequate because there are no assurances that the problems identified will not occur again. Controls to ensure that tapes are processed were not evaluated. Also, PSC did not establish procedures to ensure that districts are provided with information needed to react to taxpayer complaints.
3. During PSC's computer hardware conversion, 13 magnetic tapes created by the Remittance Processing System at PSC between October 25 and November 23, 1984, were not

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<sup>4</sup>This subsequently became a moot issue at PSC. In 1984, there was only one identified reporting agent (magnetic media filer) sending Forms 941 to PSC. That agent subsequently prepared a nationally consolidated tape and filed at IRS' Fresno Service Center.

timely processed. These 13 tapes contained about 116,000 payments totaling about \$93.0 million. Final processing was not completed until mid-January 1985. Although immediate and systemic problems were subsequently corrected, the Service Center did not timely consider the impact of the unprocessed tapes on taxpayers' accounts and did not promptly notify the districts of potential problems resulting from the processing delays. Taxpayers may have received erroneous notices, levies, and liens.

4. In January 1985, PSC implemented a new computer system for processing remittances. With implementation, the Service Center began experiencing missing blocks of payment information. During the first month, 1,111 blocks of data were input but dropped from the system. Internal Audit said that, according to IRS' national office, faulty hardware and software, lack of procedures, and noncompliance with current procedures could be causing the missing data. The missing information is causing delays that may result in erroneous notices or enforced collection, which could adversely affect 29,000 taxpayers. The national office is investigating the problem, which is being experienced in all service centers. PSC has implemented a 100 percent review of all business master file balance due notices to prevent erroneous issuances.
5. PSC has not been promptly depositing unidentified remittance checks in accordance with Internal Revenue Manual procedures. Unidentified remittances are checks or other payments received without all the information needed to properly identify taxpayers' accounts to correctly apply the remittances. A physical inventory on February 8, 1985, identified 2,149 checks, totaling \$2,235,513, which should have been deposited. Taxpayers' accounts have not been timely credited with the amounts of these payments. As a result, erroneous balance due notices may have been issued and unwarranted enforcement actions initiated.

According to Internal Audit, common to these five problems, as well as the FTD tape replacement problem, was the fact that (1) problems were not promptly elevated to management, (2) the impact on district operations and taxpayers was not recognized, and (3) causes of the problem were not being identified.

Internal Audit is continuing to review these five areas and, in total, has plans to do nine nationally coordinated audits of various service center operations.

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

<u>Week</u> <u>of year</u>	<u>1984</u>	<u>1985</u>
1	95,819	153,592
2	100,457	157,525
3	94,872	169,782
4	93,261	164,873
5	86,219	172,388
6	79,445	172,909
7	70,724	163,916
8	70,516	163,409
9	75,972	133,985
10	77,058	119,611
11	76,401	108,710
12	75,679	102,230
13	69,276	90,226
14	72,441	90,726
15	67,956	92,695
16	112,773	94,593
17	117,815	94,782
18	118,045	99,702
19	133,685	114,784
20	142,482	135,620
21	120,478	139,290
22	118,609	149,479
23	129,443	153,632
24	128,866	158,042
25	126,880	180,885
26	124,086	188,552
27	114,274	192,797
28	112,301	208,927
29	111,018	221,787
30	113,578	240,872
31	115,507	249,768
32	116,998	242,299
33	109,411	235,129
34	112,782	223,129
35	111,123	213,713
36	114,875	210,561
37	115,546	201,084
38	115,577	193,836
39	120,276	184,618
40	118,184	177,534
41	120,431	184,093
42	118,184	187,708
43	124,915	191,163
44	131,871	189,841
45	141,591	179,691
46	143,749	173,433
47	143,623	165,390
48	145,101	153,259
49	137,806	152,645
50	137,712	110,536
51	135,876	93,770
52	146,674	93,574

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

PHILADELPHIA SERVICE CENTER  
NUMBER OF PERSONNEL IN WORK STATUS  
AS OF THE END OF FEBRUARY 1985 AND 1986

Organizational Component	Permanent		Temporary	
	1985	1986	1985	1986
Office of Director	17	31	0	0
Quality Assurance and Manage- ment Support Division Chief	3	3	0	0
Quality Assurance Branch	75	78	34	152
Management Support Branch	15	20	0	0
Total	93	101	34	152
Processing Division Chief	4	3	0	0
Receipt and Control Branch	56	55	78	215
Document Perfection Branch	98	86	377	425
Data Conversion Branch	63	63	400	614
Total	221	207	855	1,254
Computer Services and Accounting Division Chief	3	4	0	1
Accounting Branch	134	136	21	58
Computer Branch	103	127	1	4
Total	240	267	22	63
Tax Accounts Division Chief	3	2	0	0
Taxpayer Relations Branch	130	150	73	112
Adjustments and Correspondence Branch	162	223	136	211
Underreporter Branch	-	25	-	39
Total	295	400	209	362
Resources Management Division Chief	5	3	0	0
Personnel Branch	46	54	11	21
Facilities Management Branch	55	59	5	9
Training and Development Branch	10	8	0	0
Total	116	124	16	30
Compliance Division Chief	2	2	0	0
Collection Branch	119	105	30	103
Examination Branch	122	141	118	76
Criminal Investigation Branch	17	21	11	21
Total	260	269	159	200
Total Service Center	1,242	1,399	1,295	2,061

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