United States General Accounting Office

GAO

Report to the Secretary of the Treasury

July 1987

TAX ADMINISTRATION

Federal Tax Deposit Information Can Be Processed More Efficiently

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GAO
United States
General Accounting Office
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General Government Division

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July 2, 1987

The Honorable James A. Baker, III
Secretary of the Treasury

Dear Mr. Secretary:

This report discusses our review on how to improve the processing of Federal Tax Deposits. It includes a recommendation to you designed to increase the extent to which dollar amounts on Federal Tax Deposit coupons are encoded. Increased encoding would ultimately improve the efficiency of the Optical Character Recognition equipment used to process the coupons and make the equipment available for other uses.

As you know, 31 U.S.C. 720 requires the head of a federal agency to submit a written statement on actions taken on our recommendations to the Senate Committee on Governmental Affairs and the House Committee on Government Operations not later than 60 days after the date of the report and to the House and Senate Committees on Appropriations with the agency's first request for appropriations made more than 60 days after the date of the report.

We are sending copies of this report to the Director, Office of Management and Budget and to interested committees and subcommittees. We will make copies available to others upon request. We appreciate the cooperation and assistance provided us by Financial Management Service and Internal Revenue Service personnel. We look forward to working with you on other tax administration matters in the future.

Sincerely yours,

W.J. Anderson

William J. Anderson
Assistant Comptroller General

Executive Summary

Purpose

During fiscal year 1986 about $620 billion in taxes were paid through the federal tax deposit system. About 15,000 commercial banks, savings and loans, and credit unions authorized to act as federal depositaries in the tax collection process, accepted about 68 million payments from taxpayers—primarily businesses and other employers. The Internal Revenue Service (IRS) acquired optical character recognition equipment to electronically process information from the depositaries and assure that taxpayers are properly credited for making payments.

As part of an ongoing effort to evaluate IRS' use of automated data processing equipment, GAO studied the efficiency of the optical character recognition equipment. Specifically, GAO wanted to determine (1) if the speed and accuracy of processing payment information are enhanced when depositaries use machine readable type to encode dollar amounts instead of using hand written figures, and, if so, (2) whether opportunities exist to increase the use of encoding.

Background

Each federal tax deposit is accompanied by a coupon which is preprinted with the taxpayer's name and address, an employer identification number, and spaces for the taxpayer to indicate the type of tax being paid and the tax period for which the payment applies. The only entry required to be handwritten by the taxpayer is the money amount being deposited. Each day, the depositaries date the coupons, stamp their names on them, and forward them to IRS for processing. In addition, the depositary adds all coupon amounts and reports the total to a district Federal Reserve Bank which uses the figure to transfer payments to the Department of the Treasury. The figure is also reported to IRS, which uses it to verify the depositaries' tabulations.

IRS' 10 service centers process payment coupons received from depositaries to (1) assure that the total amounts reported by the depositaries to the Federal Reserve are accurate, (2) update taxpayers' accounts to reflect the payments made through the depositaries, and (3) assure prompt classification of the revenues for use by Treasury. IRS' objective in acquiring optical character recognition equipment was to reduce the labor cost associated with manual transcription of federal tax deposit information.

Results in Brief

GAO estimates that about 19 percent of the federal tax deposit coupons received by IRS in fiscal year 1986 were encoded by the depositaries. Based on tests performed at two IRS service centers, GAO concluded that

encoding dollar amounts on coupons (1) improves IRS operating efficiency; (2) reduces staff time associated with processing coupons; and (3) reduces time that optical character recognition equipment is needed to process coupons, thus making it available for other processing. In addition, encoding could improve the accuracy with which depositaries tabulate coupons and report total payment amounts to the Federal Reserve. (See pp. 13 to 16.)

Based on interviews with representatives from 48 depositaries in four states, GAO concluded that the use of encoding could be increased. Most representatives interviewed from nonencoding depositaries said that their institutions could encode dollar amounts on federal tax deposit coupons using the same equipment they now use to process checks. (See pp. 16 to 19.)

Principal Findings

Encoding Enhances Coupon Processing and Reduces Required Staff Time at IRS

GAO conducted tests of optical character recognition equipment at two IRS service centers that IRS officials said are representative of all other centers. Those tests demonstrated that encoded coupons are processed more efficiently than nonencoded coupons. GAO found, for example, that coupons with encoded dollar amounts were scanned faster and more accurately than nonencoded coupons. Encoded coupons at one service center were scanned 36 percent faster and 92 percent more accurately, while encoded coupons at the other center were scanned 55 percent faster and 56 percent more accurately. According to IRS officials, the difference between service centers can be attributed to various factors, such as management style, location of the optical character recognition function in the service center organization, or staff abilities. The officials said the processing procedures and equipment used are the same at each center. (See pp. 13 and 14.)

From this analysis, GAO estimates that the two service centers could have saved about 5,556 staff hours in fiscal year 1986 if all coupons received at those centers had been encoded and 1,996 hours if 50 percent were encoded. Because federal tax deposit processing procedures and equipment at the other service centers are similar, according to IRS, GAO believes savings also could have been realized at IRS' other service centers. (See pp. 14 and 15.)

More Depositaries Could Encode

Of the 28 representatives from nonencoding depositaries that GAO interviewed, 23 said that their institutions could encode, and 15 of the 23 said encoding was possible at little or no additional cost. Eight of the representatives of nonencoding banks that GAO interviewed said they would consider encoding immediately. Of the eight, four have since begun to encode coupons, three have yet to evaluate encoding, and one has evaluated it and decided not to encode. (See pp. 16 and 17.)

Efforts by Treasury, IRS, and the Federal Reserve to increase encoding have focused on encouraging depositaries to encode. Of the 10 IRS service centers, for example, 1 sent letters to all depositaries within its jurisdiction on two separate occasions; 2 sent letters on one occasion specifically to promote encoding; 2 sent letters in which encoding was mentioned, but not the main focus; and 5 have done nothing. Representatives of 11 of 13 nonencoding depositaries serviced by the center which sent out two letters said their banks could encode. This suggests that active promotion alone does not ensure encoding by all depositaries with the capability. (See pp. 18 to 20.)

Recommendation

To improve the efficiency with which federal tax deposit coupons are processed and better assure that all depositaries reasonably capable of encoding dollar amounts on those coupons do so, GAO recommends that the Secretary of the Treasury establish the necessary regulations and procedures to

- require federal depositaries to encode dollar amounts on individual federal tax deposit coupons before submitting them to IRS for processing, and
- exempt depositaries that would incur prohibitive costs in complying.

Agency Comments

The Department of the Treasury and the American Bankers Association expressed concerns with our recommendation. Both said that promotional efforts to increase the amount of encoding were preferable to mandatory encoding. Both also expressed the belief that encoding could not be mandated without dealing with the issue of compensating depositaries for the additional costs associated with encoding.

Although GAO would support any promotional or educational program that encourages encoding, IRS' past experiences with promotion indicate that such efforts are less than fully successful. In GAO's opinion, the most effective way to ensure that all banks who can encode do so is to

require it. GAO recognizes, however, that mandatory encoding could result in increased costs for some banks. To the extent those increased costs become prohibitive, GAO's recommendation includes a provision for exemptions.

GAO considered potential costs to depositaries in arriving at its recommendation. A depositary is paid 50 cents for each coupon processed. In addition, depositaries have use of deposited taxes until Treasury assumes control of the money, which allows banks to invest funds in overnight investment markets and earn interest. (See pp. 20 to 21.)

Contents

Tables

Figures

Abbreviations

ABA	American Bankers Association
FTD	Federal Tax Deposit
GAO	General Accounting Office
IRS	Internal Revenue Service
OCR	Optical Character Recognition

Introduction

According to Internal Revenue Service (IRS) statistics, about $620 billion in tax payments were processed through the Federal Tax Deposit (FTD) system in fiscal year 1986. As part of our ongoing evaluation of IRS' use of automated data processing equipment, we reviewed the use of optical character recognition (OCR) equipment to process FTD payment information.

The FTD System

It is through the FTD system that certain taxpayers (primarily businesses and other employers) send money due the government, such as corporate income tax payments and federal income taxes and social security taxes withheld from employees. Taxpayers are required to submit paper coupons with their FTD payments (see app. II). Each coupon is preprinted with the taxpayer's name and address, an employer identification number, and spaces for the taxpayer to darken to indicate the type of tax being paid and the tax period for which the payment applies. The only entry required to be handwritten by the taxpayer is the amount of money being deposited. The taxpayer gives the money and related coupon to one of the about 15,000 commercial banks, savings and loan institutions, and credit unions (referred to collectively as banks or depositaries) that have been authorized by the Federal Reserve to function as federal depositaries. The depositary dates the coupon, stamps its name on it, and forwards it to IRS for processing. Some banks also use machine readable type to encode the dollar amount on the coupon before sending it to IRS. That encoding can be done with the same equipment the banks use to encode checks.

Banks are not required to participate in the FTD system. Participation enables a bank to provide a service to its customers, particularly commercial clients who pay their withholding taxes through FTDs. To participate in the system, a bank must apply to the Federal Reserve. Once authorized by the Federal Reserve to accept and process FTD payments, a bank is bound by regulations promulgated by the Department of the Treasury's Financial Management Service. Those regulations are documented in the Treasury Financial Manual For Treasury Tax and Loan Depositaries.

Banks are required to post FTD payments to Treasury tax and loan accounts at the end of each banking day and to notify IRS and the Federal Reserve, within one business day, of the total dollar amount and number of FTD payments received. This notification is accomplished through an advice of credit, which the depositary sends daily to a district Federal Reserve Bank and IRS. The copy sent to IRS is accompanied

by the FTD coupons that were used in computing the total on the advice of credit. Depositaries are compensated by Treasury for each coupon forwarded to IRS and have use of the deposited funds until Treasury assumes control of them.

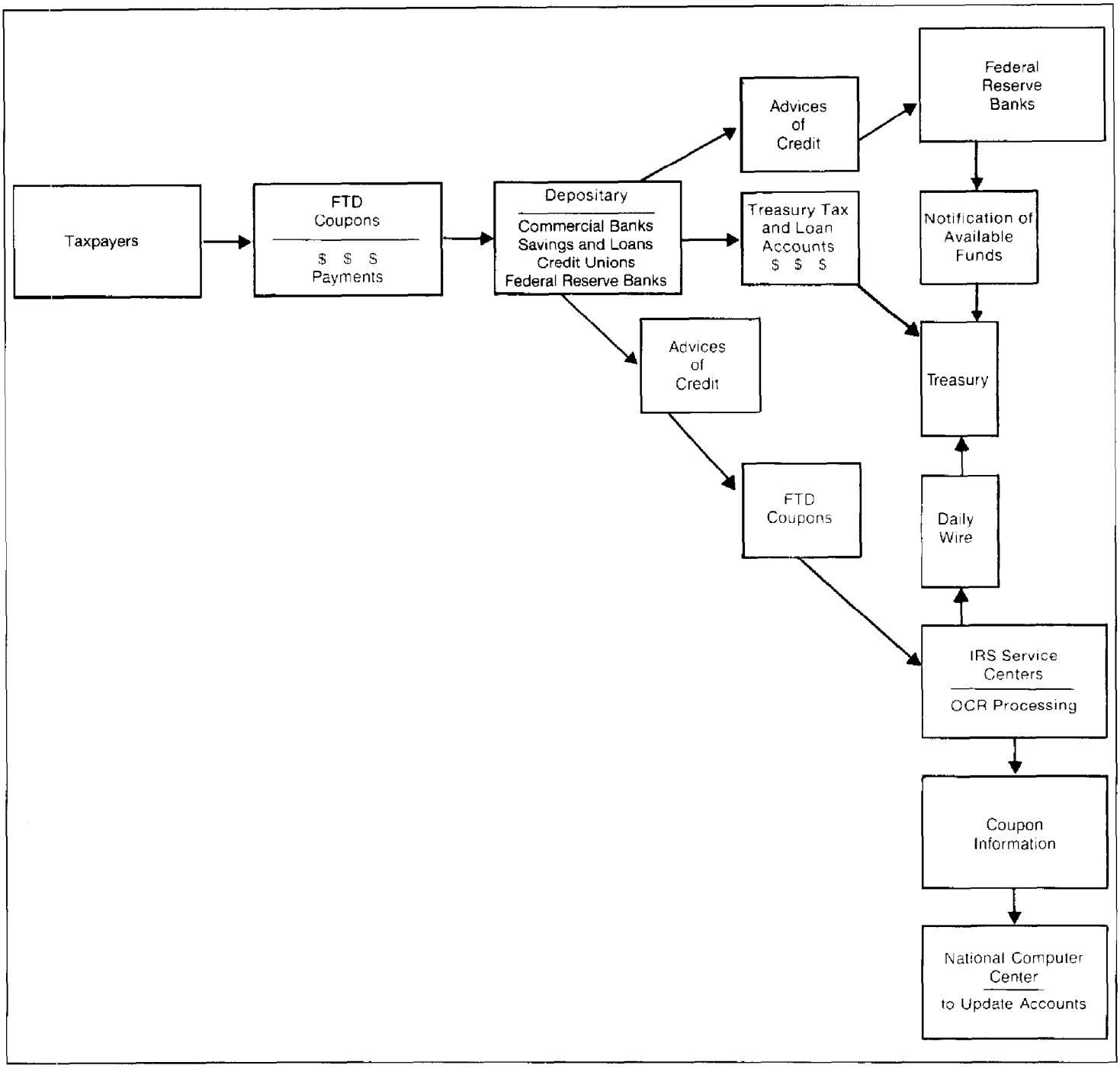
Using information from the advices of credit, the Federal Reserve notifies Treasury of the total amount of deposits posted to tax and loan accounts by the depositaries. Upon such notification, Treasury assumes control of the funds. IRS, using information from the FTD coupons, classifies the payments by tax type and amount and provides that data to Treasury on a daily basis. Treasury then uses IRS' classification to allocate tax revenues to the government's various trust funds, such as the Federal Old Age and Survivors Trust Fund and the Federal Disability Insurance Trust Fund administered by the Social Security Administration. Figure 1.1 illustrates the FTD process.

IRS' Role in the FTD System

IRS' role in the FTD system is to process FTD coupons received from depositaries. The processing is done at IRS' 10 regional service centers, which, according to IRS statistics, processed about 68 million coupons in fiscal year 1986. The centers (1) assure that the total amounts reported by the depositaries to the Federal Reserve are accurate, (2) update taxpayers' accounts to reflect the payments made through the depositaries, and (3) classify the tax payments for Treasury's use in allocating revenues. The Internal Revenue Manual requires that these tasks be completed within 3 days.

In 1982 and 1983, IRS acquired OCR equipment primarily to scan (electronically read) FTD coupons, transcribe data from the coupons to computer disk and tape, and verify the accuracy of depositary submissions. According to an IRS official the equipment and maintenance agreement cost IRS about $10 million over a 4-year period. One of IRS' reasons for purchasing OCR equipment was to reduce the cost and time to manually transfer data from the paper coupons onto computer tape for processing. In addition, IRS wanted to assure that all FTD coupons received on high volume days, whether the dollar amounts were handwritten or encoded, could be (1) scanned (transcribed) onto computer disk, (2) tabulated and checked against the dollar amount reported to the Federal Reserve on the advice of credit, and (3) transferred onto computer tape—all within 24 hours. The 24-hour goal for this part of the process is intended to allow enough time for IRS to complete its other tasks (crediting taxpayer accounts and classifying revenues) within the 3 days specified in the Internal Revenue Manual.

Figure 1.1: The FTD Process



IRS' first step in processing FTD coupons is electronic reading or scanning. Coupons are loaded into the OCR machine and automatically fed into the machine's scanning area where the taxpayer identification number, dollar amount, tax type, and tax period are electronically read. The scanned data is transcribed electronically to computer disk, at which time any number that the scanner could not read is projected on a video terminal for viewing by the video operator—the second step in the process. If the operator is able to decipher the number from this projection, he or she manually enters it onto the computer disk. If the video operator cannot decipher the number, resolution of the problem is deferred to the third processing step—balancing.

Balancing involves matching the total of the dollar amounts on the individual coupons with the total amount the depositary has reported to the Federal Reserve on the advice of credit. For every submission, a terminal operator keys in the total dollar figure reported by the depositary on the advice of credit. As the information scanned from the coupons is processed through the OCR equipment, the system totals the dollar amounts from the coupons and matches that total to the amount from the advice of credit. The advice of credit amount and coupon total should match. A mismatch generally means that either the depositary erred in tabulating the coupons and preparing the advice of credit or one or more of the coupons were scanned incorrectly or not at all. When the coupons and advice of credit do not match, the operator physically examines the coupons and compares the information on them with what the scanner read, or did not read, in an attempt to reconcile the mismatch. If the mismatch is reconciled, the operator enters necessary information onto the computer disk.

Mismatches that are identified during the balancing process but cannot be reconciled are forwarded to the service center's Accounting Branch. There the staff attempts to identify the exact cause of the error, such as a dollar amount entered on the back of the advice of credit for which no deposit coupon was received (all individual coupon amounts are required to be listed on the back of the advice of credit or on a separate adding machine tape). The staff then attempts one last time to correct the problem, such as by checking the service center's loose card file to determine whether a coupon was lost after receipt at the center. If the mismatch still cannot be reconciled, the Accounting Branch tabulates the coupons that were received at the center and were usable and reports the cause of the error and the correct total to the Federal Reserve.

After balancing and Accounting Branch action on mismatches, all good coupon information is used to update IRS' taxpayer accounts and prepare a report to Treasury classifying the deposits for trust fund allocation. In the case of a mismatch, for example, only the coupon information that IRS used in its tabulation is considered good information and is used to update accounts.

Objectives, Scope, and Methodology

Our objectives were to determine (1) whether the speed and accuracy with which FTD coupons are processed is enhanced by using machine readable type to encode dollar amounts on the coupons, and, if so, (2) whether more depositaries can encode. We performed on-site work at IRS' National Office in Washington, D.C., and service centers in Cincinnati, Ohio, and Brookhaven, New York. We chose these two service centers because Cincinnati receives the largest percent of encoded coupons (around 38 percent), while Brookhaven receives one of the smallest percentages (around 10 percent). IRS officials told us that the results of our analyses at these service centers would be indicative of IRS-wide conditions.

We also collected data on FTD volume by telephone and by mail from officials at each of IRS' other eight service centers. We conducted interviews at Treasury's Financial Management Service in Washington, D.C., and with Federal Reserve officials in St. Louis, Missouri. We interviewed officials from a nonrandom sample of 48 banks (all functioning as federal depositaries authorized to accept FTD payments) in Kentucky, New York, Ohio, and Virginia and coordinated our bank contacts and interviews with the American Bankers Association in Washington, D.C. We selected the 48 banks from a list of all depositaries supplied by IRS. In making our selection, we attempted to obtain a cross section of banks with varying characteristics—encoders and nonencoders with monthly volumes of FTD coupons that ranged from less than 100 to several thousand and with various numbers of branches in both urban and suburban areas. Appendix I contains a detailed explanation of our methodology and analytical approach.

We performed our review from July 1986 to December 1986 in accordance with generally accepted government auditing standards.

Increased Encoding Is Attainable and Would Enhance FTD Processing

We estimated, based on IRS' statistics, that about 19 percent of the approximately 68 million FTD coupons received in fiscal year 1986 contained encoded dollar amounts. Our analysis of IRS' processing of FTD coupons indicated that more encoding of dollar amounts would improve the speed and accuracy with which coupons are processed and thus reduce the staff time and equipment use associated with that processing and make the system more available for other applications, such as Form 1040EZ processing. It appears also that the accuracy of FTD submissions from depositaries would increase as the volume of encoded coupons expands. This in turn would reduce adjustment actions, which generate staff and administrative costs for IRS, the Federal Reserve, and the depositaries.

Our review indicated also that more banks could encode. We believe that would be best achieved if Treasury were to require depositaries to encode, unless they can demonstrate that encoding would be impractical or infeasible.

Encoding Enhances Efficiency of IRS' Processing of FTDs

Tests we conducted over a 2-week period at IRS service centers in Cincinnati, Ohio, and Brookhaven, New York, demonstrated that encoded FTD coupons are processed more efficiently than nonencoded coupons. (App. I contains more detail on how these tests were performed.) According to IRS program officials, FTD processing is repetitive. They said that because coupons are scanned and processed on the OCR equipment identically every day, our test results are representative of what occurs year round.

Based on the tests performed at the two service centers, we calculated that encoded coupons were scanned at rates of about 9,500 an hour at Cincinnati and 10,400 an hour at Brookhaven, while nonencoded coupons were scanned at rates of about 7,000 an hour at Cincinnati and 6,700 at Brookhaven (see app. III). Our analysis of a sample of coupons drawn from those used in the speed tests showed that 100 percent of the encoded dollar amounts were scanned accurately at Cincinnati, while 92 percent were scanned accurately at Brookhaven. On the other hand, 52 percent of the nonencoded dollar amounts were scanned accurately at Cincinnati, while 59 percent were scanned accurately at Brookhaven. These figures illustrate that encoding improves scanning speed and accuracy and therefore, reduces the need for manual entry of unscannable dollar amounts in the video function.

Our tests of the balancing function showed that encoded coupons were balanced about 83 percent faster than nonencoded coupons at Brookhaven and 39 percent faster at Cincinnati. Again, those results illustrate the efficiencies associated with encoding.

The differences in rates between service centers, according to IRS officials, could be attributable to differing management styles, location of the OCR units in the service centers' overall organization, or staff abilities. They said the procedures, equipment, and processing scheme are the same for each center.

Based on comments from IRS officials and our own observations, nonencoded coupons are difficult to scan because of the way in which taxpayers write in the dollar amounts. Although every coupon book includes instructions on how to fill in the dollar amount (see app. II), those instructions are not always followed. Some dollar amounts are not clearly written, while others are not written within the scanning boundaries that are clearly delineated on the coupons. Encoded coupons, on the other hand, generally do not present these problems because machine readable type is clear and consistent.

Savings in Staff and Equipment Time Possible

As FTD coupons are processed more quickly and accurately, less staff and equipment time is needed—time that can be used to meet other processing needs.

Using the scanning, accuracy, and balancing rates developed from our tests at Cincinnati and Brookhaven, we calculated the potential staff time savings that each service center could have realized if more encoded coupons were received during fiscal year 1986. Comparing the time needed to process FTD coupons at the estimated fiscal year 1986 levels of encoding (38 percent for Cincinnati and 10 percent for Brookhaven) with the time that would be needed if all coupons were encoded, we determined that Cincinnati and Brookhaven would save about 1,861 and 3,695 staff hours respectively. (App. IV provides more detail on our calculations, including estimates based on 50 percent encoding instead of 100 percent.) Based on IRS' assertion that FTDs are processed similarly at all service centers, it seems that staff time savings would also be realized if encoding were increased at the other eight centers. The extent of those savings would vary from center to center depending on FTD volume and the current level of encoding.

Staff and equipment time saved in processing the current volume of FTD coupons could be used to help IRS process future increases in FTD coupons and meet other processing needs. IRS has projected that the volume of FTD coupons will increase to about 100 million by 1992. In addition, IRS officials told us that although acquisition of the OCR system was aimed at FTDs, other applications, notably the processing of 1040EZ returns, have been added. Besides FTDs and 1040EZs, time and attendance reports and attorney time sheets are also processed on the same OCR equipment, and IRS has tested the use of that equipment to process certain audit results.

As an indication of the need to free up equipment time, the IRS official in charge of an FTD quality improvement project told us that two service centers are reaching their saturation points in terms of processing FTDs and that this could affect Form 1040EZ processing because 1040EZs are processed on the same OCR equipment used to process FTDs. If less time were spent using the OCR equipment for FTDs, then the likelihood of 1040EZ processing backups could be diminished.

Encoding Could Reduce the Number of Adjustments

Adjustments occur when IRS determines during the balancing process that a depositary has inaccurately reported the total dollar amount of FTD payments on an advice of credit. Using IRS' tabulation of the coupons, the Federal Reserve adjusts the depositary's tax and loan account, which had been originally credited using the amount on the advice of credit. The process involves (1) IRS formally notifying the Federal Reserve, through a written form, of the need for an adjustment to a depositary's account; (2) the Federal Reserve notifying the depositary of the adjusted amount and the reason; and (3) the bank responding to the Federal Reserve, particularly if the error can be explained or corrected. Often the mismatch can be corrected by documentation from the bank. For example, a bank might send the Federal Reserve a copy of a missing coupon that should have been attached to the advice of credit. The Federal Reserve will then readjust the depositary's tax and loan account and notify IRS, which will adjust the taxpayer's account as appropriate.

Data gathered during our study indicate that the number of adjustments could be reduced if more FTD coupons were encoded. Because IRS keeps no information on how many adjustments are related to encoded or nonencoded coupons, we asked IRS staff to monitor adjustments for about 1 week in October 1986 at each of the 10 service centers. That

monitoring showed that a high percentage of adjustments at each service center were related to nonencoded coupons. At the Brookhaven Service Center, for example, about 98 percent (50 of 51) of the adjustments monitored during the period were related to nonencoded coupons. At the service center in Ogden, Utah, all of the 192 adjustments monitored were related to nonencoded coupons (complete data is presented in app. V). This information indicates that encoding could reduce adjustments.

That conclusion was supported by many of the representatives we interviewed from 48 depositaries in four states. Of the 28 representatives interviewed at nonencoding banks, 17 said that they thought encoding would improve the accuracy of depositary submissions—a view shared by 15 of the 20 representatives from encoding banks. A reason for this improved accuracy, according to some officials, is that coupon totals are verified using the same process employed during routine check processing. Some officials said this process is inherently more accurate than most other methods used to prepare FTD submissions, such as the use of an adding machine.

IRS initiated about 50,500 adjustment actions in fiscal year 1986. Although we were unable to quantify the potential savings associated with fewer adjustments, it seems apparent that any reduction in the number of adjustments would reduce the administrative and staff costs associated with the FTD process—not just for IRS, but for the Federal Reserve and the depositaries. For example, the FTD coordinator at one service center told us that about 15 staff hours a week are spent trying to resolve discrepancies in FTD submissions that cannot be handled in the OCR balancing function.

More Depositaries Could Encode FTD Coupons

Information received from representatives of 48 depositaries in Kentucky, New York, Ohio, and Virginia indicated that more banks could encode FTD coupons and that cost (for things such as equipment and staff) and timeliness would not be major deterrents to increasing the volume of encoded coupons. Although the cost of encoding equipment is high (from about $20,000 to $70,000 for a new machine), most banks already own and use the equipment for check processing.

According to the bank representatives we interviewed, 4 of the 20 encoding depositaries do so because IRS or Treasury had asked them to and 9 do so because encoding makes FTD processing more efficient and/or easier. Representatives from the other seven encoding banks cited various reasons, such as a belief that encoding was required. Of the 28

representatives from nonencoding banks, 23 said their banks had the capability to encode dollar amounts on coupons. Of the remaining five, two said that their banks could not encode because they did not have the necessary equipment, one said that encoding would result in significant costs, one was not sure about the feasibility at his bank, and one cited the uncertainty of additional costs.

Of the 23 representatives who said their banks could encode, 15 said they could do so at little or no additional cost, 7 said there would be additional costs, and one was not certain. In fact, eight said they would consider encoding immediately. In following up on the eight banks, we learned that four have begun to submit FTD coupons with encoded dollar amounts; three did not evaluate the potential for encoding; and one decided, after evaluation, that it would not encode. Of the 20 representatives from encoding banks, 15 said that encoding did not generate significant, if any, additional processing costs, and 5 did not answer. As mentioned earlier, 9 of the 20 said encoding was either a more efficient or easier method for processing FTD coupons.

Four representatives from nonencoding banks who expressed a willingness to encode referred to slight modifications, such as IRS printing numbers on the coupons that would allow the bank's equipment to separate those documents from other items during bank processing, that needed to be addressed with IRS before they could begin. Officials from three of the largest nonencoding banks, in terms of the number of FTD coupons processed, expressed an interest in exploring ways to submit FTD information on magnetic tape. They said, however, that until a method is perfected, they would encode the coupons if requested to do so by IRS.

A few bank representatives mentioned delays in getting advices of credit to the Federal Reserve or IRS as a deterrent to encoding. Of the 28 representatives from nonencoding banks, 3 said that encoding would affect the bank's ability to get their submissions to IRS in a timely manner, 16 said encoding would have no effect on timeliness, 7 expressed no opinion, and 2 said they did not know. According to 11 of the 20 representatives we talked with from encoding banks, timely delivery to IRS and the Federal Reserve is not a problem. The other 9 said nothing about encoding's effect on timeliness.

Attempts to Increase Encoding Have Focused on Promotion

Efforts by Treasury, IRS, and the Federal Reserve to increase encoding have generally focused on promotion—encouraging nonencoding banks to start encoding.

IRS

Of IRS' 10 service centers, 3 have corresponded with depositaries to specifically promote encoding and 2 have sent letters to depositaries in which encoding was mentioned, but was not the main focus. The other five centers have done nothing to promote encoding.

Of the three centers (Austin, Cincinnati, and Kansas City) that corresponded with depositaries to specifically promote encoding, Cincinnati has done the most. Austin sent one letter to all depositaries in its jurisdiction and Kansas City sent a letter to 450 of the largest banks in its jurisdiction. Cincinnati, on the other hand, sent each depositary in its area two letters that highlighted the benefits of encoding to IRS and the banks and that provided a name and telephone number for the banks to call if they had any questions.

The extent of Cincinnati's promotion effort compared to other centers is reflected in the encoding statistics. Monitoring done by IRS on four occasions between June and October 1986 showed that Cincinnati consistently received the highest percentage of encoded coupons—ranging from 37 to 41 percent—among all centers. Based on information obtained during our interviews of bank representatives, however, it appears that Cincinnati's percentage could be even higher.

Of the representatives we interviewed from 13 nonencoding depositaries serviced by Cincinnati, 11 said their banks could encode dollar amounts on coupons. Seven of the 11 said that encoding would not generate additional costs beyond what is already expended in processing FTDs. All 13 representatives told us they were unaware of any IRS effort to promote encoding. That information indicates that promotion of the kind done by Cincinnati does not ensure encoding by all banks with encoding capability.

Federal Reserve

As part of its ongoing work with IRS and Treasury to monitor activities related to Treasury tax and loan accounts, the Federal Reserve conducted an informal nationwide survey in July 1986. Each of the 12 Federal Reserve districts was instructed to send a questionnaire concerning mandatory encoding to a sample of depositaries within its jurisdiction.

The Federal Reserve received information from 11 districts on the results of that effort. Ten districts said that some banks in their jurisdictions were already encoding either for internal processing reasons or because they believed it was a requirement. Seven districts said there were banks that were not encoding, but were willing to start. Some banks responded to the survey by noting that they could not encode because of the lack of equipment or problems with timely processing.

Task Force

The Department of the Treasury has established a permanent task force to study activities relating to the operation of Treasury tax and loan accounts. The task force is comprised of members from IRS, Treasury's Financial Management Service, and the Federal Reserve. Recently, the task force has been examining the FTD encoding issue.

As of January 7, 1987, the task force had no plans to implement any systemic or regulatory changes. According to task force representatives (1) new language is being added to the Treasury Financial Manual for Treasury Tax and Loan Depositaries to encourage the use of encoding and (2) the task force might send a letter promoting the use of encoding to all depositaries. A task force representative told us that because of our study the task force has deferred any decision on mandatory encoding.

Conclusions

Considering the large increase in FTD volumes that IRS has projected by the early 1990s and the other uses for OCR equipment, if available, it is important that IRS' processing of FTD coupons be as efficient as possible. Our analyses showed that processing efficiency could be significantly enhanced if more coupons were submitted to IRS with encoded dollar amounts.

Our analyses also showed that more banks could encode FTD coupons. As indicated by the statistics for IRS' Cincinnati Service Center, some of that increase can be realized through efforts directed at encouraging depositaries to encode. As further demonstrated by our interviews with representatives from encoding banks in Cincinnati's jurisdiction, those promotional efforts are not fully successful. Banks that could encode at no additional cost are still not encoding despite Cincinnati's promotional efforts.

Because encoding is important to the efficient processing of FTDs, we believe that efforts to increase encoding have to go beyond encouragement. We believe that encoding should be required, with exceptions allowed for depositaries that would be adversely affected by such a requirement, such as a bank that would incur prohibitive additional costs.

Recommendation

To improve the efficiency with which FTD coupons are processed and better assure that all depositaries reasonably capable of encoding dollar amounts on FTD coupons do so, we recommend that the Secretary of the Treasury establish the necessary regulations and procedures to

- require federal depositaries to encode dollar amounts on individual FTD coupons before submitting them to IRS for processing, and
- exempt depositaries that would incur prohibitive costs in complying.

Agency Comments and Our Evaluation

We requested comments on a draft of this report from the Department of the Treasury, the Federal Reserve Board, and the American Bankers Association (ABA). Federal Reserve officials notified us that the Board would have no comments. ABA and Treasury provided comments by letters dated March 30, 1987, and April 16, 1987 (see app. VII and VIII). Neither ABA nor Treasury had any concerns regarding the technical accuracy of the report, although ABA expressed some concern over the size of our bank interview sample. Both expressed concerns with our recommendation.

ABA said that a more comprehensive industry study and public comment period must be considered before making any recommendation to Treasury. We believe that our bank interviews provided a sufficient basis to conclude that more depositaries could encode—a conclusion that is supported by the Federal Reserve study discussed in this chapter—and to recommend mandatory encoding with a provision for exemptions. To implement our recommendation, Treasury will have to revise certain regulations. The public comment period associated with the revision process should provide sufficient opportunity for ABA and individual depositaries to air their concerns and to comment on Treasury's proposed criteria for granting exemptions.

Treasury pointed out that an IRS study team had recommended, in January 1987, that the amount of encoding be increased through an "active campaign to enlist financial institutions' voluntary cooperation" and

suggested that we revise our report to support that approach in lieu of mandatory encoding. Likewise, ABA suggested that the efficiencies we are seeking through mandatory encoding could be achieved through educational efforts, which it would support. Although we would support any educational or promotional program that encourages depositaries to voluntarily encode, we believe that IRS' past experiences with promotion demonstrate that such efforts may be less than fully successful. As discussed in this chapter, even in an area of the country where IRS has done the most to promote encoding, there are banks that can encode but do not. In our opinion, the most effective way to ensure that all banks who can encode do so is to require it, while allowing those banks with reasons for not being able to encode the opportunity to apply for an exemption.

Both Treasury and ABA expressed the belief that encoding would increase some depositaries' costs. ABA explained that banks would be required to use their equipment to encode FTD coupons rather than other bank business, add more staff to encode coupons, and reduce their operating efficiency. As such, ABA expressed the belief that "the processing advantages gained by IRS are the result of shifting the burden of encoding to the banks." Accordingly, ABA felt that consideration had to be given to compensating depositaries for those additional costs. We considered potential costs, as well as benefits, in arriving at our recommendation.

As we pointed out in chapter 1 and as Treasury noted in its comments, a depositary is paid 50 cents for each FTD coupon processed. Banks that are already encoding are doing so while receiving the current fee. Several representatives from nonencoding banks said that their banks could encode at no additional cost. Similarly, Treasury and ABA, in suggesting that banks would voluntarily encode in response to a promotional campaign, apparently recognize that there are some banks who are not now encoding who could do so without an increase in compensation.

In considering depositary compensation, it should also be noted that the 50-cents-per-coupon fee is not the only monetary benefit to banks who participate in the FTD system. As also noted in chapter 1, depositaries have use of the deposited taxes until Treasury assumes control of the money. That use allows the banks to invest the funds in overnight investment markets and earn interest—income that is directly attributable to the bank's participation in the FTD system.

Consider, for example, a bank that processes 134 coupons a month covering about $1.3 million in tax payments—as was the case with one of the smaller banks in our sample. Assuming that (1) only half of the deposits are available for overnight investment (a judgmental assumption to account for the fact that some deposits may not be available for investment because, for example, they are in the form of checks drawn on accounts in other banks); (2) the deposits are invested at a constant 6 percent rate of return, which is a reflection of recent federal fund rates; and (3) costs associated with that investment (such as overhead costs and expenses involved in wiring funds) reduce the effective rate of return to 5 percent, the bank would realize interest income in the average amount of 66 cents a coupon. Under the same assumptions, a bank that processes about 380,000 coupons a year worth about $6 billion, as was the case with one of the larger banks in our sample, would earn about $411,000 a year—an average of $1.08 a coupon. Several bank representatives we talked to acknowledged that their banks invest deposited taxes and that the interest income is significant.

Even so, it is possible that mandatory encoding could result in increased costs in some cases. To the extent those increased costs would be prohibitive, our recommendation accommodates such situations by providing for exemptions.

With respect to exemptions, Treasury expressed a concern for the small financial institutions that "would be forced to perform cost analyses to justify not encoding." Whether or not that is the case would depend on the criteria Treasury established for providing exemptions. Treasury could specify, for example, that a depositary that only processed a certain small number of FTD's a month would be exempt from mandatory encoding—thus precluding the need for those institutions to perform cost analyses.

Sampling Methodology and Statistical Analyses

To determine the effect that encoding dollar amounts has on IRS' processing of FTD coupons, we conducted speed and accuracy tests on the OCR equipment used at the Brookhaven and Cincinnati Service Centers. We performed the tests under normal working conditions using sampled FTD coupons. We used the test results and IRS' estimates of the percentage of encoded coupons received at each service center during fiscal year 1986 to estimate the potential time savings associated with encoding. The potential savings are presented in appendix IV.

We were not able to sample the coupons for the speed and accuracy tests in a way that would allow us to statistically project the test results to the service centers' yearly workload. However, IRS officials told us that because of the repetitive nature of FTD processing, the test results would be indicative of the entire year's FTD processing. In addition, the IRS official responsible for FTD processing said our findings at the Brookhaven and Cincinnati Service Centers would be reflective of conditions at the other eight service centers.

Scanning Speed Tests

To measure the speed with which the OCR equipment scans encoded and nonencoded coupons, we conducted timed scanning tests at the Brookhaven and Cincinnati Service Centers. We used the scanning speed rates to estimate the time and staff needed to scan encoded and nonencoded coupons.

We conducted eight tests of encoded coupons and eight tests of nonencoded coupons at each service center. We tested coupons over 6 days during a 2-week period at the Brookhaven Service Center and over 5 consecutive working days at the Cincinnati Service Center. Before each test, the IRS employee responsible for preparing coupons for scanning placed from about 1,000 to 3,600 encoded coupons and about 1,000 to 4,300 nonencoded coupons in separate trays. The coupons were in groups of about 100 for each advice of credit prepared. The scanner operator successively fed the tray of coupons into the scanner and we timed the scanning process with a stopwatch. In total, we timed 14,397 encoded coupons and 15,843 nonencoded coupons at the Brookhaven Service Center and 22,370 encoded coupons and 24,012 nonencoded coupons at the Cincinnati Service Center.

Table I.1 shows the confidence intervals at the 95 percent level of confidence for the scanning speed of the OCR equipment.

Table I.1: Confidence Intervals for the Scanning Speed

(in coupons per hour)

	Encoded Coupons	Nonencoded Coupons
Brookhaven	9,664 - 11,070	6,276 - 7,025
Cincinnati	9,253 - 9,743	6,692 - 7,323

There is a statistically significant difference between the scanning speeds for encoded and nonencoded coupons at each service center.

Scanning Accuracy Tests

We selected coupons from those used in the scanning speed tests to estimate the accuracy with which the scanner reads encoded and nonencoded dollar amounts. We then used the accuracy rates to estimate the time and staff required for video entry.

We selected 61 encoded coupons and 100 nonencoded coupons at the Brookhaven Service Center and 50 encoded coupons and 100 nonencoded coupons at the Cincinnati Service Center from the lists of coupons used for the first set of scanning speed tests.

We randomly selected a starting point on each list of coupons and then selected coupons at fixed intervals. We stopped selecting coupons from the list when we had enough to perform our analysis. We examined each coupon and compared the dollar amount on the coupon with the dollar amount read by the scanner. The accuracy rate is the percentage of coupons in the sample for which the scanner was able to read all digits of the dollar amount correctly. We used this accuracy rate to estimate the time and staff required for video entry of dollar amounts that could not be scanned.

Table I.2 shows the confidence intervals at the 95 percent level of confidence for the scanning accuracy rate on encoded and nonencoded coupons.

Table I.2: Confidence Intervals for the Scanning Accuracy Rate

(Figures in percents)

	Encoded Coupons	Nonencoded Coupons
Brookhaven	82.3 - 97.1	48.7 - 69.3
Cincinnati	92.6 - 100.0	41.5 - 62.5

There is a statistically significant difference between the scanning accuracy rates for encoded and nonencoded coupons at each service center.

Balancing Speed Tests

We measured the speed with which IRS balances FTD coupons to advices of credit. We used the balancing speed to estimate the time and staff required to balance encoded and nonencoded coupons.

We performed one balancing test per day over 5 consecutive days on encoded and nonencoded coupons at each service center. Before each test, an IRS employee placed about 1,000 to 2,000 encoded and nonencoded coupons in separate trays. As in the scanning speed tests, the coupons were in groups of about 100 for each advice of credit. While the terminal operators balanced the coupons, the OCR system recorded the balancing time. In total, we tested 7,874 encoded coupons and 8,560 nonencoded coupons at the Brookhaven Service Center and 4,406 encoded coupons and 4,021 nonencoded coupons at the Cincinnati Service Center.

Table I.3 shows the confidence intervals at the 95 percent level of confidence for the balancing speed.

Table I.3: Confidence Intervals for the Balancing Speed

(in coupons per hour)

	Encoded Coupons	Nonencoded Coupons
Brookhaven	2,101 - 2,576	1,194 - 1,363
Cincinnati	1,997 - 2,373	1,441 - 1,713

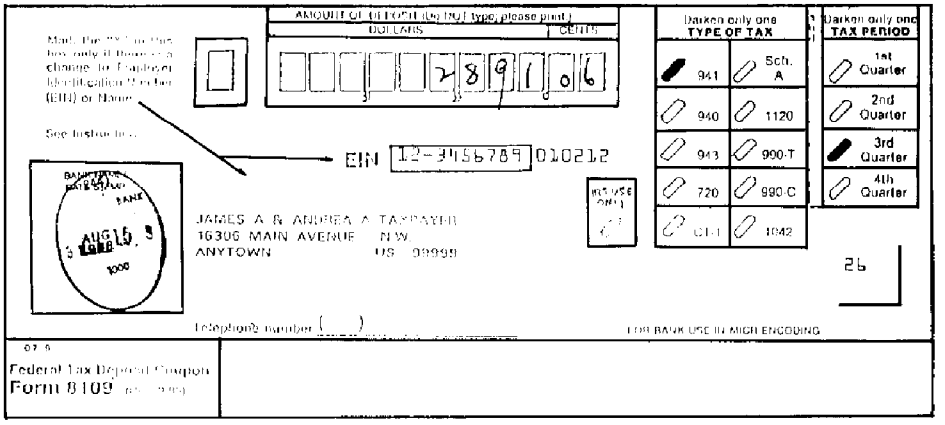
There is a statistically significant difference between the balancing speeds for encoded and nonencoded coupons at each service center.

Bank Sample

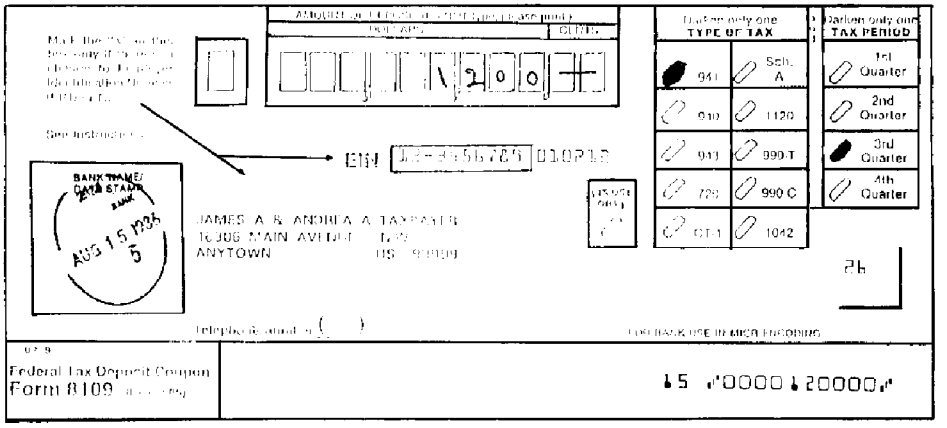
We visited 48 banks functioning as federal depositaries—10 in New York, 11 in Virginia, 17 in Ohio, and 10 in Kentucky. These 48 banks annually process about 1.8 million FTD coupons and collect about $27.6 billion in taxes. We selected the banks from a list of all depositaries supplied by IRS. In making our selection, we tried to obtain a cross section of depositaries with various characteristics. Of the 48 banks, 20 encoded their FTD coupons and 28 did not. The encoding banks' monthly FTD volumes ranged from about 60 to about 6,200 while the volumes at the nonencoding banks ranged from about 40 to about 31,500 (see app. VI for more information on FTD volumes). We also selected banks with varying numbers of branches in both urban and suburban areas. At each bank, we were directed by bank management to the officials most familiar with the bank's FTD process. Those were the officials we interviewed.

We did not select our sample in a way that allowed us to statistically project our results to depositaries other than those visited.

Examples of FTD Coupons and Instructions



Nonencoded coupon for which the scanner could not read the 2 and 9, thus resulting in the need for manual video entry.



Encoded coupon for which the scanner correctly read the encoded dollar amount in the lower right hand corner.

Note: These are examples of coupons that were scanned at an IRS service center. The names and addresses have been changed.

Amount of Deposit.—

Enter the amount of the deposit in the space provided.

DO enter amount legibly, forming the characters as shown below:

1 2 3 4 5 6 7 8 9 0

DO handprint money amounts without using dollar signs, commas, decimal points, or leading zeros. The commas and decimal points are already shown in the entry area.

For example, a deposit of $7,635.22 would be entered like this:

DOLLARS	CENTS
763522	

If the deposit is for whole dollars only, enter "00" in the "CENTS" boxes.

How to ensure your deposit is credited to the correct account.—

(1) Make sure your name and employer identification number are correct;

(2) Prepare only one coupon for each type of tax deposit;

(3) Darken only one box for the type of tax you are depositing; and

(4) Darken only one box for the tax period for which you are making a deposit.

Telephone number.—A space is provided on each deposit coupon and the reorder form for you to enter your telephone number. Our purpose for requesting it is to allow us to contact you if we have difficulty processing your deposit coupon or reorder form.

Miscellaneous.—The six-digit number to the right of your employer identification number is used in our processing to ensure that the deposit is credited to your account. The "IRS USE ONLY" box is also used during our processing to ensure proper crediting to your account. Do not darken this box when making a deposit.

Instructions which appear in every FTD coupon book printed for the taxpayers.

Results of 32 Speed Tests Performed at the Brookhaven and Cincinnati Service Centers

Encoded coupons	Number scanned	Scan rates: Coupons per minute	Scan rates: Coupons per hour
Brookhaven	14,397	172.79	10,367
Cincinnati	22,370	158.30	9,498
Combined	**36,767**		
Nonencoded coupons			
Brookhaven	15,843	110.85	6,651
Cincinnati	24,012	116.78	7,007
Combined	**39,855**		

Note: See appendix I for a more detailed explanation of how tests were performed at each service center.

Potential Annual Savings at the Brookhaven and Cincinnati Service Centers Resulting From More Encoding

	Function			
	Scanning	Video	Balancing	Total
Combined Results				
Hours used at current level of encoding	1,808	2,300	9,288	13,396
Hours needed at 50 percent encoding	1,638	1,650	8,112	11,400
Savings in hours	170	650	1,176	1,996
Hours needed at 100 percent encoding	1,328	289	6,223	7,840
Savings in hours	480	2,011	3,065	5,556
Brookhaven Results				
Hours used at current level of 10 percent encoding	994	1,330	5,432	7,756
Hours needed at 50 percent encoding	846	868	4,400	6,114
Savings in hours	148	462	1,032	1,642
Hours needed at 100 percent encoding	661	289	3,111	4,061
Savings in hours	333	1,041	2,321	3,695
Cincinnati Results				
Hours used at current level of 38 percent encoding	814	970	3,856	5,640
Hours needed at 50 percent encoding	792	782	3,712	5,286
Savings in hours	22	188	144	354
Hours needed at 100 percent encoding	667	0	3,112	3,779
Savings in hours	147	970	744	1,861

Note: Using the total volume of coupons and advices of credit received for fiscal year 1986 at the two centers, we derived "hours used" and "hours needed" by calculating the number of coupons that would be scanned, manually entered in the video function (coupons not scanned accurately), and balanced at three levels of encoding—the level being achieved at the service center in fiscal year 1986 (identified as the current level), a 50 percent level, and a 100 percent level. We then applied the scanning, accuracy, and balancing rates for encoded and nonencoded coupons obtained from the tests conducted at the Brookhaven and Cincinnati Service Centers to each of the three levels to derive the figures for each function.

The rates used in our calculations are as follows:

Brookhaven		
	Scanning -	10,367 coupons an hour for encoded coupons 6,651 coupons an hour for nonencoded coupons
	Accuracy -	92 percent scanning accuracy for encoded coupons 59 percent scanning accuracy for nonencoded coupons
	Balancing -	2,339 coupons an hour for encoded coupons 1,279 coupons an hour for nonencoded coupons
	Volume -	6,856,956 coupons for fiscal year 1986 417,886 advices of credit for fiscal year 1986
Cincinnati	Scanning -	9,498 coupons an hour for encoded coupons 7,007 coupons an hour for nonencoded coupons
	Accuracy -	100 percent scanning accuracy for encoded coupons 52 percent scanning accuracy for nonencoded coupons
	Balancing -	2,185 coupons an hour for encoded coupons 1,577 coupons an hour for nonencoded coupons
	Volume -	6,335,210 coupons for fiscal year 1986 463,463 advices of credit for fiscal year 1986

Percentage of Adjustments Related to Nonencoded Coupons (By Service Center)

Service Center	Percentage of total adjustments that involved nonencoded coupons
Andover	94
Atlanta	96
Austin	56
Brookhaven	98
Cincinnati	65
Fresno	96
Kansas City	100
Memphis	84
Ogden	100
Philadelphia	80

Note: These figures are based on monitoring performed by IRS staff at the respective centers in October 1986. These are not statistically projectable estimates to the total number of adjustments made; rather they are indicators of what occurred.

Coupon Volumes for Banks in Interview Sample

	Number of banks in our sample whose monthly volume of FTD coupons was from			
Type of coupon	**1 to 499**	**500 to 4,999**	**5,000 or more**	**Total**
Encoded	6	10	2	18
Nonencoded	16	3	7	26
Total	**22**	**13**	**9**	**44**

Note: We did not receive volume information from two encoding banks and two nonencoding banks.

Comments From the Department of the Treasury

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

ASSISTANT SECRETARY

DEPARTMENT OF THE TREASURY
WASHINGTON

April 16, 1987

Dear Mr. Anderson:

Thank you for the opportunity to comment on the Draft General Accounting Office Report "Federal Tax Deposit Information Can Be Processed More Efficiently". Because of the volume of collections accomplished via the Federal Tax Deposit (FTD) System, the Department of the Treasury and the Internal Revenue Service (IRS) are continually striving to improve FTD efficiency. Although we are actively pursuing the encoding of FTD deposits, for the reasons outlined below we cannot agree with the study's recommendations.

In January of this year, IRS issued its FTD Quality Improvement Report. This report recognized the desirability of encoding dollar amounts on FTD forms and recommended an active campaign to enlist financial institutions' voluntary cooperation. IRS will place the emphasis of its campaign on those institutions which process the most FTD deposits. The recommendations from the IRS report are attached for your review.

See comment 1.

Our emphasis is on voluntary encoding because of concerns that mandatory requirements will result in demands by financial institutions for new price negotiations and possibly increased compensation. Encoding of dollar amounts was not a requirement when the current FTD price of $ .50 an item was negotiated. A $ .02 per item price increase would raise Treasury's costs by $1.36 million annually. Such an increase in FTD compensation would more than offset potential savings.

An additional area of concern is the burden on the smaller financial institutions that may only process a few FTD deposits a month. These institutions would be forced to perform cost analyses to justify not encoding.

The voluntary compliance approach will increase the number of dollar-encoded FTD forms without increasing the cost of FTD processing or adversely affecting relationships with the

banking community. Therefore, we recommend the final version of your Report support the IRS' approach of increasing voluntary compliance, rather than mandatory encoding of dollar amounts.

Sincerely,

John F. W. Rogers
Assistant Secretary
of the Treasury (Management)

Mr. William J. Anderson
Assistant Comptroller General
U.S. General Accounting Office
Washington, D.C. 20548

Attachment

The following is GAO's comment on the Department of the Treasury letter of April 16, 1987.

GAO Comment

1. The attachment is not included in this appendix.

Comments From the American Bankers Association

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

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March 30, 1987

Mr. William J. Anderson
Assistant Comptroller General
United States
General Accounting Office
Washington, DC 20548

RE: Draft of a Proposed Report;
Federal Tax Deposit Information
Can Be Processed More Efficently

Dear Mr. Anderson:

In response to the notice contained in your draft document dated March 5, 1987, the American Bankers Association is submitting these comments on the General Accounting Office's proposal to require federal depositories to encode dollar amounts on individual federal tax deposit coupons before submitting them to IRS for processing. The membership of our Association includes banks of every size, type, and location. The assets of our members are approximately 95 percent of the industry total.

The American Bankers Association did agree to assist in the identification of banks within the four states that GAO desired to conduct interviews. At that time GAO clearly stated that any recommendation in regard to the encoding of coupons that may arise as a result of those interviews would be strictly on a voluntary basis. Therefore, the ABA regards these interviews as limited data gathering exercises. In addition, the ABA believes that before any recommendation is made to the Treasury a far more comprehensive industry study and public comment period must be considered.

See comment 1.

Page 2
March 30, 1987

Our Association favors the broad concept of a service which improves the efficiency with which federal tax deposit coupons are processed. However, our Association strongly opposes the adoption of such a rule that would mandate depositories to encode federal tax deposit coupons.

The GAO is proposing a rule that would maximize the efficient use of IRS' optical character recognition equipment. The expected results, based upon GAO's report, is that encoding dollar amounts on coupons, (1) improves operating efficiency, (2) reduces staff time associated with processing coupons, and (3) allows the optical character recognition equipment to be used for other processing. We believe that processing advantages gained by IRS are the result of shifting the burden of encoding to the banks.

The banks would be required to (1) utilize their processing equipment to encode FTD coupons rather than encoding other cash items for collection (2) add additional staff to encode coupons (3) reduce their operating efficiency because of the added step of encoding coupons. In addition, the GAO has indicated that there has been no consideration given to compensating the banks for their efforts that would make the IRS more efficient.

Our Association believes that the encoding of coupons by depositories should be regarded as an option. Each depository is unique. Their individual customer base, their individual equipment capabilities, and their individual staffing requirements must be taken into consideration. The comments ABA has received have demonstrated no consistant pattern in regard to encoding. Some bankers felt it would be no problem. Others felt it would require substantial personnel time and disrupt current equipment use and work-flow. Still others indicated that it would be impossible to perform the amount encoding described by the GAO.

Our Association generally favors the concept of the service enhancement, but opposes any requirement to encode coupons for which the banks would not be compensated. We believe that much of the efficiency GAO is seeking to obtain

for the IRS can be accomplished through industry educational efforts which our Association would support.

We appreciate the opportunity the GAO has provided us to comment on this proposal.

Sincerely,

Katharine Needham

Katharine Needham

cc: Bill Miller
Peggy Brown
Walt Leonard

The following is GAO's comment on the American Bankers Association Letter of March 30, 1987.

GAO Comment

1. We believe there was a misunderstanding because ABA apparently believed we had agreed not to recommend mandatory encoding. During initial meetings with ABA officials, they expressed concerns over the negative reaction that member institutions might have if we recommended mandatory encoding. We explained that our study was exploring the feasibility of encoding but did not presuppose that mandatory encoding was the only alternative. We assured ABA officials that our eventual recommendation would be carefully considered.

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