

GAO

Report to the Committee on Finance,  
U.S. Senate

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September 2007

# TAX ADMINISTRATION

## The Internal Revenue Service Can Improve Its Management of Paper Case Files



Highlights of [GAO-07-1160](#), a report to the Committee on Finance, U.S. Senate

### Why GAO Did This Study

Proper paper case file management is a significant issue for the Internal Revenue Service (IRS) because its staff investigate and close millions of case files every year. In addition, IRS employees depend heavily on case files when pursuing enforcement actions.

GAO was asked to review IRS's case file storage, tracking, and documentation processes to determine whether IRS has (1) an effective process to ensure that paper case files can be located timely and (2) sufficient data to assess the performance of its paper case file processes. To review these processes, GAO interviewed staff who request case files and case file managers.

### What GAO Recommends

GAO recommends that IRS (1) ensure that paper case files are managed in accordance with Federal Records Act (FRA) and internal control standards, including tracking the number of files that cannot be located or are received untimely and the reasons why, and developing performance measures to determine if improvements are needed and (2) ensure that case file performance is monitored across IRS's compliance programs. GAO also makes other recommendations to improve the case file management process. IRS agreed it needs to review its program and will form a cross-functional group to identify improvements and consider GAO's recommendations. This proposed action is responsive to GAO's recommendations.

To view the full product, including the scope and methodology, click on [GAO-07-1160](#). For more information, contact Michael Brostek at (202) 512-9110 or [brostekm@gao.gov](mailto:brostekm@gao.gov).

## TAX ADMINISTRATION

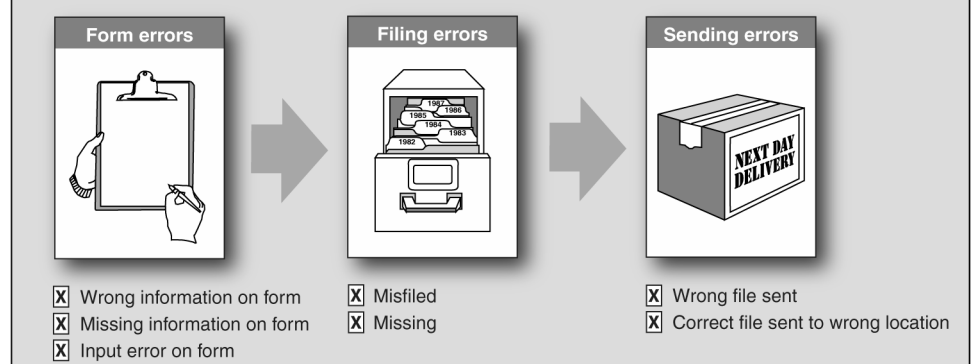
### The Internal Revenue Service Can Improve Its Management of Paper Case Files

#### What GAO Found

IRS does not have an effective process to ensure that paper case files can be located within the requesters' time frames. Missing case files can result in lost revenue, create unnecessary taxpayer burden, and make case files unavailable for other units such as quality review groups or advisory groups. IRS has acknowledged its historic difficulties in locating and retrieving case files. When IRS cannot locate paper case files, it may attempt to re-create them by requesting information from taxpayers, which can result in unnecessary taxpayer burden. Difficulties in locating case files can also hinder congressional oversight. When GAO requested case files in two prior audits, IRS could not locate all of the case files requested.

IRS does not have sufficient data to assess the performance of its paper case file management processes. Having such data would enable IRS to assess whether its case management processes are in accordance with FRA and internal control standards. IRS does not track whether all of the case files it requests are located or received timely, or the reasons why case files cannot be located. If IRS developed this type of data, officials could use this data to identify problems in existing programs, to try to identify the causes of problems, and/or to develop corrective actions. Records management officials have recently instituted some performance measures, but these measures do not specifically address paper case files. IRS program managers also have not developed performance measures or data to determine how well paper case files are managed to achieve performance targets. Program managers do not know who has overall responsibility for case file management so performance information cannot be developed across IRS's compliance programs. GAO identified some potential improvements that IRS can consider, but IRS will need to determine which improvements are the most cost effective.

#### Errors That Can Occur in the Process of Requesting, Locating, and Sending Paper Case Files



Sources: GAO analysis of IRS data; Art Explosion (images).

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## Abbreviations

ACS	Automated Collection System
ARM	Area Records Manager
AWSS	Agency-Wide Shared Services
CCP	Centralized Case Processing
CDP	Collection Due Process
COVERS	Control of Veterans Records System
DLN	Document Locator Number
FRA	Federal Records Act
FRC	Federal Records Center
IDRS	Integrated Data Retrieval System
IRC	Information Resource Coordinator
IRM	<i>Internal Revenue Manual</i>
IRS	Internal Revenue Service
LMSB	Large and Mid-size Business Division
NRP	National Research Project
PWS	Performance Work Statement
SB/SE	Small Business/Self-Employed Division
SPC	Submission Processing Center
TE/GE	Tax-Exempt and Government Entities Division
TFRP	Trust Fund Recovery Penalty
TIGTA	Treasury Inspector General for Tax Administration
VA	Department of Veterans Affairs
W&I	Wage and Investment Division

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United States Government Accountability Office  
Washington, DC 20548

September 28, 2007

The Honorable Max Baucus  
Chairman  
The Honorable Charles E. Grassley  
Ranking Member  
Committee on Finance  
United States Senate

Under the Federal Records Act (FRA) of 1950,<sup>1</sup> the Internal Revenue Service (IRS) is required to maintain an active, continuing program for the economical and efficient management of the records of the agency. The program should provide for effective controls over the creation, maintenance, and use of records in the conduct of current business, including case files.<sup>2</sup> In addition, in accordance with internal control standards, IRS case files should be readily available for examination and properly managed and maintained to ensure that management's directives are carried out.<sup>3</sup> Proper case file management is a particularly significant issue for IRS because its staff investigate and close millions of case files every year. In addition, IRS case files contain sensitive taxpayer information that, by law, must be properly protected from inadvertent disclosure. Moreover, according to collection managers, IRS employees depend heavily on case files when pursuing enforcement actions, such as litigating court cases. Paper case files are also important for internal IRS reviews, such as those performed by its research and quality review groups.

Based on your request, we reviewed IRS's case file storage, tracking, and documentation processes to determine whether (1) IRS has an effective process to ensure that paper case files can be located timely and (2) IRS has sufficient data to assess the performance of its paper case file

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<sup>1</sup>44 U.S.C. § 3102.

<sup>2</sup>Records are evidence of the agency's organization, functions, policies, decisions, procedures, operations, or other activities. Case files are records kept as a unit documenting a specific action, event, person, or project; they present a complete history of a specific transaction. *Internal Revenue Manual* section 1.15.7.1.3.

<sup>3</sup>GAO, *Standards for Internal Control in the Federal Government*, [GAO/AIMD-00-21.3.1](#) (Washington, D.C.: November 1999).

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processes. To make determinations in both areas, we interviewed officials from the following IRS entities or programs: the Office of Agency-Wide Shared Services (AWSS),<sup>4</sup> the Small Business/Self-Employed Division (SB/SE), the Wage and Investment Division (W&I), the Office of Appeals, the Automated Collection System (ACS), and the National Research Program (NRP). We did not interview officials from the Large and Mid-Size Business Division (LMSB) or the Tax-Exempt and Government Entities Division (TE/GE) since only a very small percentage of Appeals' cases that are docketed for Tax Court where paper case files are very important originate from these divisions according to Appeals officials. We also reviewed IRS's policies and procedures. To determine whether IRS has an effective process to ensure that paper case files can be located timely, we compared IRS's process to the requirements of the FRA and our standards for internal control in the federal government. Further, we interviewed officials from other organizations to identify key practices in managing case files. These organizations included the Department of Education, the Department of Veterans Affairs, the Social Security Administration, and the California Franchise Tax Board. We conducted our work from August 2006 through July 2007 in accordance with generally accepted government auditing standards. Detailed information on our scope and methodology appears in appendix I.

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## Results in Brief

IRS does not have an effective process to ensure that paper case files can be located within the requesters' time frames. This can hamper IRS's efforts to pursue taxpayers with delinquent taxes. Missing case files can result in lost revenue, create unnecessary taxpayer burden, and make case files unavailable for other units such as quality review groups or advisory groups.<sup>5</sup> For example, according to advisory group staff, in several District Court cases IRS lost over \$40,000 in revenue in each case because it could not locate the case file. IRS has acknowledged its historic difficulties in locating and retrieving case files and has stated that this can result in a number of motions to extend the time of some Tax Court cases. When IRS cannot locate paper case files, it may attempt to re-create them by

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<sup>4</sup>AWSS plans, develops, promotes, and establishes agencywide policy, standards and procedures, and guidelines on records management.

<sup>5</sup>According to IRS officials, quality review groups review case files to assess whether cases are properly developed, processed, and documented. Advisory groups analyze and develop field collection cases for IRS's Chief Counsel for cases that may be litigated in District Court.

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requesting information from taxpayers, which can result in unnecessary taxpayer burden. Although IRS performs quality reviews on its case files, for some collection cases the number of case files requested is double the number needed to allow for cases that cannot be located. Difficulties in locating case files can also hinder congressional oversight. When we requested case files in two prior GAO audits,<sup>6</sup> IRS could not locate 10 to 14 percent of the case files requested.<sup>7</sup> IRS has also had difficulty providing case files to the Treasury Inspector General for Tax Administration (TIGTA). For example, in one TIGTA audit,<sup>8</sup> TIGTA requested a random sample of tax records, but IRS could not provide about 19 percent of the case files.

IRS does not have sufficient data to assess the performance of its paper case file management processes. Having such data would enable IRS to assess whether its case management processes are in accordance with FRA and internal control standards. IRS does not track whether all of the case files it requests are located or received timely, or the reasons why case files cannot be located. If IRS developed this type of data, officials could use this data to identify problems in existing programs, to try to identify the causes of problems, and/or to develop corrective actions. AWSS has recently instituted some performance measures, but these measures do not specifically address paper case files. IRS program managers also have not developed performance measures or data to determine how well paper case files are managed to achieve performance targets. Program managers do not know who has overall responsibility for case file management so performance information cannot be developed across IRS's compliance programs. We have identified some potential

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<sup>6</sup>GAO, *Capital Gains Tax Gap: Requiring Brokers to Report Securities Cost Basis Would Improve Compliance if Related Challenges Are Addressed*, [GAO-06-603](#) (Washington, D.C.: June 13, 2006), and *Tax Administration: Little Evidence of Procedural Errors in Collection Due Process Appeal Cases but Opportunities Exist to Improve the Program*, [GAO-07-112](#) (Washington, D.C.: Oct. 6, 2006).

<sup>7</sup>Under GAO's financial audit methodology, we generally use a 3 percent materiality threshold to test internal controls for mission-critical activities. We consider the storage and retrieval of paper case files to be mission-critical to IRS. In another GAO audit, GAO, *Tax Administration: Opportunities to Improve Compliance Decisions and Service to Taxpayers through Enhancements to Appeals' Feedback Project*, [GAO-06-396](#) (Washington, D.C.: Mar. 24, 2006), IRS was unable to locate all case files requested but the percentage did not exceed our materiality threshold.

<sup>8</sup>Treasury Inspector General for Tax Administration, *Better Procedures Are Needed to Locate, Retrieve, and Control Tax Records*, TIGTA 2004-10-186 (Washington, D.C.: September 2004).

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improvements that IRS can consider, but IRS will need to determine which improvements are the most cost effective.

We recommend that IRS (1) ensure that case files are managed in accordance with FRA and internal control standards, including tracking the number of paper case files that cannot be located or are received untimely and the reasons why, and developing performance measures to monitor the effectiveness of the paper case file process to assist in determining which options for improving paper case file management are the most beneficial for IRS; (2) ensure that case file performance is monitored across IRS's compliance programs by clearly defining responsibility for doing so; (3) establish clearer responsibility for coordinating large samples of case files to provide specific reasons why case files cannot be located; (4) reiterate to staff who the coordinators are for requesting paper case files; and (5) ensure that paper case files are sent to storage areas as soon as cases are closed, document whether case files are sent to storage, and track the number and location of paper case files that have not been sent to storage.

In commenting on a draft of this report, the Acting Commissioner of Internal Revenue agreed that IRS needs to review its Records Management Program. However, instead of commenting on our specific recommendations, the Acting Commissioner stated that IRS will form a cross-functional working group to review the Records Management Program and develop corrective action, taking into account our recommendations. IRS's planned review and development of corrective actions is responsive to our recommendations and we look forward to its consideration of our recommendations in this review as well as to the benefits to taxpayers and IRS of a more effective program.

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## Background

In keeping with the FRA, IRS established a Records Management Program. The program provides for the application of management practices in the creation, maintenance, retrieval, preservation, and disposition of records. Although the mission of the Records Management Program is to document, protect, and efficiently manage all IRS records until final disposition, actual day-to-day management of case files is left to each IRS program. According to an IRS official, program managers establish policies and procedures for the management of paper and electronic case files and have overall responsibility for case file management in their program. In addition, each program develops its own policies and procedures, which are documented in IRS's *Internal Revenue Manual* (IRM).



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Case files can be paper, automated, or a combination of both. For example, when IRS examines a tax return, the documents completed by the examiner can be automated (electronically maintained within their system) or paper (placed in physical case files). Case files may include income tax returns, audits, investigations, or claims. According to W&I and SB/SE officials, in fiscal year 2006 they closed over 13 million and 9 million cases, respectively.<sup>9</sup> When cases are closed, IRS units perform managerial and quality reviews to ensure cases were handled correctly and the case files are complete and meet their quality standards. For example, in fiscal year 2006, the SB/SE field collection quality review group found that over 96 percent of the case files they reviewed were complete.

Paper case files can be stored in the files area of Submission Processing Center (SPC) campuses or field offices which are spread throughout the country.<sup>10</sup> These case files are then transferred to Federal Records Centers (FRC)<sup>11</sup> by filing coordinators located at the SPC or by information resource coordinators in the field. Once the specified retention period has expired at the FRC, the case files are destroyed. The locations of Submission Processing Centers, Area Records Managers, and Federal Records Centers are illustrated in figure 1.

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<sup>9</sup>We were unable to determine how many cases were paper or automated since W&I and SB/SE do not track this information.

<sup>10</sup>The campuses are the data processing arm of IRS. They process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts. Field offices perform tasks such as examining taxpayer records and collecting delinquent taxpayer accounts.

<sup>11</sup>FRCs are located throughout the nation and provide long-term storage for the IRS and other Federal Government agencies.

**Figure 1: Locations of Submission Processing Centers, Area Records Managers, and Federal Records Centers**



Source: GAO analysis of IRS data.

According to an IRS official, the agency is in the process of automating some of its paper case files. IRS is developing scanning capability to convert documents from paper to electronic. However, this official stated that IRS is initially developing this scanning capability for its campuses

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and not its field offices. Furthermore, the agency does not have a plan or time frame for when all of its case files will be automated. As a result, IRS will be relying on paper case files for some years.

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## IRS Does Not Have an Effective Process to Ensure That Paper Case Files Can Be Located Timely

Case files should be readily available for examination. However, IRS does not know whether it locates all of the paper case files it requests. In the absence of data on IRS's success in retrieving paper case files, several sources of anecdotal information give some indication of the potential extent of problems in locating case files. Missing case files can result in lost revenue, create unnecessary taxpayer burden, make cases unavailable for other units such as quality review groups or advisory groups, and hinder congressional oversight.

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## IRS Has Lost Revenue in Court Proceedings

Paper case files are crucial for cases scheduled for Tax Court or District Court. Without complete case files, IRS can lose those cases. For example, advisory staff informed us of several instances where IRS lost revenue in District Court cases because a case file could not be located. In one case, IRS obtained approval to file a nominee lien against a taxpayer because the taxpayer had transferred an asset to another person.<sup>12</sup> IRS pursued collection action, but the taxpayer challenged IRS in District Court asserting that IRS needed to prove that the taxpayer had use and control of the asset that was transferred. IRS was unable to locate the case file for the trial. As a result, IRS lost about \$45,000. In another case, a taxpayer commingled individual assets with corporate assets. IRS levied the funds in the bank account of an individual who controlled the corporation to pay the tax debt owed by the corporation. IRS collected the money owed, but the taxpayer filed a claim that IRS needed to prove the money in the individual account belonged to the corporation. IRS had this information in the case file, but could not locate it. Therefore, IRS had to return the levied money, which amounted to about \$40,000.

IRS has acknowledged its historic difficulties in locating and retrieving case files. In September 2006, the Tax Court proposed a requirement that IRS file answers in all small tax cases (\$50,000 or less). An answer includes admissions, qualifications, and denials by IRS of each material

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<sup>12</sup>In a nominee situation, the transfer is not intended to divest the transferor of any rights to the property. An example of a nominee situation is a conveyance of property to a party with the understanding that the property will be returned to the transferor after the transferor's creditors lose interest in collecting their claims.

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fact alleged in the Tax Court petition filed by the taxpayer. In preparation of the answer, IRS generally examines and relies on the information in the case file. When IRS responded to this tax court proposal, IRS stated that due to difficulties in locating and retrieving case files, the requirement to answer all small tax case petitions may lead to a number of motions to extend time in which to answer.

Appeals informed us that they are having difficulty obtaining case files that are docketed for Tax Court, and they are working with the Business Units to try and determine the cause. For example, W&I recently made a commitment to send docketed case files to Appeals within 25 days. To assess W&I's performance, W&I requested Appeals to provide them with a report so they could track their progress. Appeals developed a report which showed that out of about 900 docketed cases from W&I campuses, Appeals had been waiting over 25 days for 420, or 46 percent, of the case files. If Appeals cannot obtain a case file prior to the scheduled court date, IRS could lose the case and any revenue owed by the taxpayer.

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### IRS Incurs Cost and Some Taxpayers May Experience Unnecessary Taxpayer Burden to Re-create Case Files

When IRS staff request paper case files, several attempts may be made to locate them. For example, if a request is input into the Integrated Data Retrieval System (IDRS)<sup>13</sup> and the case file is not located, another request may be input into IDRS. IRS may also perform special searches when normal searches are unsuccessful. When the paper case files still cannot be located, IRS may attempt to re-create them. This creates an additional cost and burden to IRS, which must use its scarce resources to perform special searches and re-create case files. To re-create case files, IRS obtains what information it can from its own systems. If IRS needs additional information from the taxpayer, IRS may contact the taxpayer and request this information. This process can result in unnecessary taxpayer burden.

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### Case Files May Be Unavailable for Other Units

Some paper case files should be sent from field offices to campus file areas within a specified number of days after the case is closed. However, campus staff said they have had difficulty receiving the case files in the time specified. If case files are not sent to storage areas promptly, these

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<sup>13</sup>IDRS is a computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

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case files may not be available for other units, such as quality review groups or advisory groups in performing their tasks.

In Collection Field Offices, some types of case files should be sent to the Centralized Case Processing (CCP) Unit as soon as they are closed so that quality review samples can be readily available for selection. CCP has 21 days to obtain the closed case files for review. In a report provided by quality review staff, for the first quarter of fiscal year 2007, CCP was able to obtain only 45 percent of the cases requested for review within the 21-day period. Since collection realizes that CCP will not be able to obtain all of the case files requested, the number of case files requested is double the number needed to allow for cases that cannot be located.

According to Collection officials in one field office, there are several reasons case files are not sent to CCP in a timely manner. For example, for Revenue Officers, sending a case file to CCP is not a top priority, especially when their other priorities include active aged cases.<sup>14</sup> Aged cases take priority because the older the case is, the less likely IRS is to recover the amounts owed. In addition, some Revenue Officers are reluctant to let their cases leave their office. We were also informed by these officials that the number of support staff who assist in sending the case files to CCP has been reduced, and in one instance case files were found in a secretary's desk drawer.

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## Congressional Oversight May Be Hindered

In two recent GAO audits, we asked IRS to pull random samples of paper case files, but IRS was unable to locate all of the case files requested. The portion of case files IRS could not locate ranged from about 10 to 14 percent. For example, in one audit, we requested examination case files from NRP, but IRS was unable to locate about 10 percent of the case files requested.<sup>15</sup> NRP staff were notified that 61 of the case files we requested had been sent to them, but NRP officials said they never received these case files. In a second audit, we requested Collection Due Process (CDP)<sup>16</sup>

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<sup>14</sup>IRS tracks the amount of time a case is in its inventory using aging reports. For example, IRS tracks taxpayer delinquency investigation cases that have been in its inventory less than 6 months as well as those that have been in its inventory for 16 months or more.

<sup>15</sup>We are 95 percent confident that the actual proportion is between 6.2 percent and 16.2 percent.

<sup>16</sup>CDP cases are cases where Appeals performs an independent review of a proposed levy (seizure of a taxpayer's assets to satisfy a tax delinquency) or lien (legal claim filed in accordance with state property law that attaches to property to secure payment of a debt).

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case files where the collection action had been appealed. IRS was unable to locate about 14 percent of these case files.<sup>17</sup> According to IRS staff that assisted us with these requests, they had made several requests to obtain these case files, but IRS was still unable to locate them.

TIGTA has also requested random samples of paper case files in some of its reviews where IRS was unable to provide all of the case files requested. In one TIGTA review, TIGTA was to determine whether IRS had an adequate system to ensure tax records could be located and received timely. According to TIGTA, these records included the following types of case files: individual and business examination cases, Earned Income Tax Credit adjustments, and Trust Fund Recovery Penalty (TFRP) cases.<sup>18</sup> IRS was unable to provide about 19 percent of the case files requested by TIGTA. In the review, TIGTA recommended that IRS:

- Ensure the quality and timeliness of the IRS Records Management Program by developing a method to track specific requests for tax records that will assign accountability, respond to customer problems, and provide management information for the program. According to IRS, it is in the process of modifying IDRS by adding a tracking feature, which will allow IRS to better track requests and provide improved service to requesters. IRS anticipates these modifications will be completed by January 2008.
- Update procedures to include instructions for requesting workpapers for TFRP assessments, including guidance for determining to which local field office a request should be sent. According to IRS, it has finalized procedures that address the retrieval of workpapers for TFRP assessments. In addition, IRS has developed online training for Information Resource Coordinators (IRC)<sup>19</sup> and interactive records management process guides that are available to all IRS employees.
- Ensure the quality and timeliness of the IRS Records Management Program by developing a method to track specific requests for

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<sup>17</sup>We are 95 percent confident that the actual proportion is between 10.9 percent and 18.5 percent.

<sup>18</sup>A TFRP is a penalty assessed against any person determined responsible in a business operation for nonpayment of employment taxes that were withheld from employees' wages or salaries.

<sup>19</sup>IRCs monitor filing operations in their local offices.

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workpapers for TFRP assessments that will assign accountability, respond to customer problems, and provide management information for the program. According to IRS, it modified the Automated Trust Fund Recovery System to provide a standardized procedure for locating, retrieving, and controlling TFRP workpapers.

In another TIGTA review,<sup>20</sup> TIGTA was to determine whether IRS complied with the legal guidelines and procedures for the filing of a notice of lien or a notice of intent to levy and the right of the taxpayer to appeal. However, TIGTA could not determine whether IRS complied with legal guidelines and required procedures because about 8 percent of the case files requested could not be located.

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## Lacking Data, IRS Cannot Assess Case Management Performance and Develop Plans for Improvement

IRS has not developed the data needed to measure the performance of its case file processes, such as whether all of the paper case files it requests are located or received timely. Developing such data can assist IRS in determining how well it is complying with FRA and internal control requirements, where the process may be breaking down, and what process improvements to make.

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## IRS Does Not Track Whether Case Files Are Located or Received Timely

IRS staff request paper case files from IRS campuses and field offices and from FRCs. According to an IRS official, the manner in which case files are requested varies in each program. A filing coordinator told us that when a paper case file such as an examination case file with a Document Locator Number (DLN)<sup>21</sup> has been closed and sent to the files area of a campus for storage and is later requested, the requester enters information about the case file such as the DLN into IDRS. This generates a form which the files area receives and uses to locate the case file. The coordinator also said that when the files area receives the form, files staff will either search for the case file in the files area or request it from the FRC if it has been sent for long-term storage.

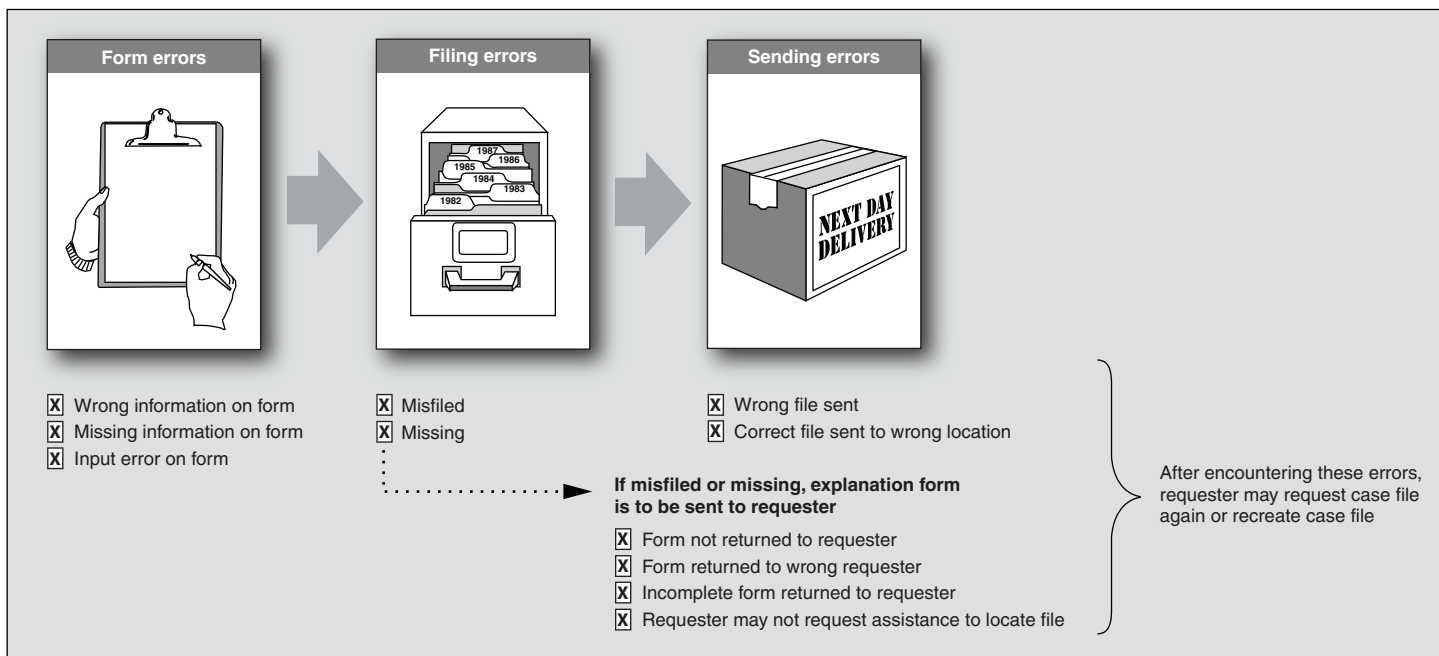
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<sup>20</sup>Treasury Inspector General for Tax Administration, *The Office of Appeals Should Continue to Strengthen and Reinforce Procedures for Collection Due Process Cases*, TIGTA 2006-10-123 (Washington, D.C.: September 2006).

<sup>21</sup>A DLN is a number assigned to a document which is used to identify and locate it.

In contrast, we were told by an Area Records Manager (ARM), when a paper case file such as a collection case file that does not contain a DLN has been closed and sent directly to the FRC is later requested, a form is sent to the ARM which includes the FRC accession number, box number, and location of the case file which is needed by the FRC to locate the record. According to AWSS and W&I officials, regardless of the method used to request the case file, IRS does not track data on whether all of the case files it requests are located or how long it takes to retrieve them. Furthermore, these officials added that IRS does not track the reasons case files cannot be located. When case files are requested by IRS staff, errors can occur in the process of requesting, locating, and sending case files as suggested by IRS officials in figure 2.

**Figure 2: Errors That Can Occur in the Process of Requesting, Locating, and Sending Paper Case Files**



Sources: GAO analysis of IRS data; Art Explosion (images).

Although campuses use forms that identify some reasons case files cannot be located, campuses do not track these reasons according to an IRS official. IRS has hired contractors to take over the responsibility of the files areas. Contractors are performing files activities at two campuses and will take over responsibility for the remaining five campuses between August and October 2007. The contractors are required to adhere to a



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Performance Work Statement (PWS) which lists the contractor's duties, as well as IRM policies and procedures that are specified in the PWS. However, neither the PWS nor the IRM require that staff track the reasons paper case files cannot be located. Therefore, the contractors are not performing these tasks.

In the three previously mentioned GAO audits, we asked IRS staff who requested our case files why the case files could not be located. IRS staff said they requested the case files from many campuses. However, there was no one in charge of the requests to track the progress of our file requests and provide specific reasons why the case files could not be located. For example, the ARMs act as liaisons with the FRCs and IRS Business Units and can assist staff in tracking and locating case files from the FRC. However, some staff who requested our case files did not request assistance from their ARM either because the ARM did not handle the case files sent to the FRC and left that up to the campus coordinators, or the staff who requested the case files said they were not aware they had ARMs. In addition, campus coordinators can assist in tracking and locating case files. However, one campus coordinator told us that many IRS staff may not know who their campus coordinators are.

As mentioned previously, IRS staff told us that no one was in charge of our case file requests to provide information on the reasons the case files could not be located. This lack of clear responsibility differs from the way IRS manages document requests during our annual audit of IRS's financial statements. According to an IRS official, IRS uses many designated coordinators and holds meetings to ensure that documents requested for the financial statement audit are received. If IRS had established clearer responsibility for coordinating and tracking our case file requests, such as it did to manage document requests during our financial statement audit, it might have located more of the case files we requested.

IRS staff told us that when case files cannot be located, either the files area or FRC should annotate the request form to show the reason the case could not be located. In our Appeals audit, an Appeals official said the person who had requested the case files had retired so they could not provide a reason why the case files could not be located. For the other two audits, IRS did not always provide the reasons the case files could not be located. In some of our cases IRS staff said:

- No form was provided to identify why the case file could not be located.

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- A form was provided but it was not annotated as to why the case file could not be located.
  - An IDRS Transaction Record was received which does not include reasons why files are not found.

According to a files coordinator, when an examination of a tax return is performed and an assessment is made, an IDRS Transaction Record is generated, which is a printout of the transaction. The files area should receive the transaction record, associate it with the case file, and then file them together in the files area according to their DLN. However, if the case file is not received, the Transaction Record is placed in the file by itself with no indication that the case file was not received. Therefore, when the files area later tries to fill a request for that case file, the files area does not know why the case file is not there. The case file may not be there because it was not received or was misfiled. If documentation were placed with the Transaction Record indicating the case file was not received, the files area could provide that information to the requester.

TIGTA experienced similar problems during one of its reviews mentioned previously.<sup>22</sup> TIGTA requested a statistical sample of tax records which included about 1,000 case files, of which about 190 were not provided. In 64 percent of the cases that were not provided, IRS did not provide a form to identify why the case file could not be located. In 5 percent of the cases, IRS provided an incomplete response. In 26 percent of the cases, the case files were not found because the information in the request did not match the information in the files area of the campus or at the FRC. In 5 percent of the cases, IRS provided the wrong case file.

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## Performance Information Could Assist IRS in Determining How Well Its Case File Management Process Complies with FRA and Internal Control Requirements

IRS could use performance information to assess whether its agencywide case file management meets FRA and internal control standards requiring an economic and efficient management of records and that files be readily available for examination. Managers can use performance information to identify problems in existing programs, to try to identify the causes of problems, and/or to develop corrective actions.

An important part of establishing performance measures is to identify which programs are to be measured (e.g., determining which IRS

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<sup>22</sup>TIGTA 2004-10-186.

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programs create a significant number of paper case files since some programs primarily create automated case files) and which aspects of program performance are the most important to measure (e.g., tracking the reasons paper case files cannot be located). Data collected for performance measures should be complete, accurate, and consistent enough to document performance and support decision making.<sup>23</sup>

The offices that have responsibility for making programs work should be responsible for developing performance measures. A clear connection between performance measures and program offices helps to both reinforce accountability and ensure that, in their day-to-day activities, managers keep in mind the outcomes their organization is striving to achieve.

According to an AWSS official, AWSS has overall responsibility for the Records Management Program, but its focus is on record retention and coordination with FRCs, while case file management is left to the program managers. AWSS has developed some performance measures which have been recently instituted, such as cycle time and the number of records that could not be located at the FRC. However, AWSS is unable to separately track paper case file results.

According to the same official, program managers have day-to-day responsibility for case file management within their programs. However, program managers such as those in W&I have said they have not developed performance information to measure how well the programs are managing their case files. When we asked program managers who had overall responsibility for case file management across IRS's compliance programs, the program managers said they did not know. Without overall responsibility for case file management being clearly defined, IRS may not be able to develop performance information across all of its programs to determine how well paper case files are managed to achieve performance targets and whether its case file management processes are in accordance with FRA and internal control standards.

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<sup>23</sup>GAO, *Executive Guide: Effectively Implementing the Government Performance and Results Act*, [GAO/GGD-96-118](#) (Washington, D.C.: June 1996).

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## IRS Cannot Determine Whether Actions for Improvement Are Needed

IRS has options available that may improve the management of case files. However, IRS does not have data to determine which of the improvements are the most cost effective for IRS. Improving case file management may result in additional costs to IRS once the agency determines which actions to take. Improvements may also result in cost savings by reducing the amount of resources used to locate case files when multiple requests are made or case files need to be re-created.

Improvements to case file management could include additional training and guidance. For example, IRS could provide training to IRS staff on providing the correct DLN when requesting paper case files. In addition, IRS could provide additional guidance to files coordinators on managing case files as contractors take over responsibility for the campus file areas.

Another option for IRS could be to expand one of its closed case file tracking systems to track more case files and more complete information about their location. IRS managers have said that the agency does not have one centralized system to track paper case files. Instead, IRS uses many systems in its enforcement process to track open case files. However, these systems generally do not contain information on the location of case files at the FRC once they are sent there. Instead, this information is maintained manually throughout IRS. This can make it difficult to quickly locate files. For example, according to an IRS official, when Revenue Agents need a case file from outside their office, they have to determine the state and office the case was worked in and the year it was closed. Once they have identified this information, they have to go through that office to locate the FRC paperwork including the accession number, box number, and location. This information is needed to request the case file from the FRC. IRS does not know whether staff, such as Revenue Agents, are having difficulty obtaining paper case files when they use this process to locate them.

To automate the location of paper case files sent to the FRC, SB/SE Collection officials said they enter FRC information along with other case information into its Junior system. Junior has been designed as a case processing, closed files inventory tracking system for cases that are being sent to the FRC. While IRS officials told us this system has improved IRS's ability to locate paper case files, they provided no data to support this conclusion. In addition, the Junior system is only used by SB/SE Collection for specific types of cases (taxpayer delinquency investigations, taxpayer

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delinquency accounts, and installment agreements<sup>24</sup>). However, an AWSS official suggested that use of Junior by other programs and operating divisions could improve locating closed paper case files.

Using other technologies is another option IRS could consider to assist it in capturing real-time information on the location of paper case files. For example, field and headquarters officials from the Department of Veterans Affairs (VA) provided the following description of how it uses barcoding to track its benefit folders through its Control of Veterans Records System (COVERS). The Veterans Benefits Administration tracks its benefit folders by placing a barcode on each folder. Employees in the benefit office use a barcode scanner and printer. As the folders are moved, they are scanned and the location is automatically changed in VA's record tracking system. VA's tracking system includes information on the claim number, veteran's name, and the current and previous locations of the case. The system not only tracks the location of benefit folders; it also assists in the management of these folders throughout the claims processing cycle. For example, reports can be run, such as aging reports which show how long a VA staff member has had a case. The VA officials also described the following benefits realized in barcoding benefit folders although they have no data to support this conclusion. Benefits of barcoding include the ability to scan the location of a benefit folder into their tracking system instead of entering it manually, which saves time and provides improved folder tracking accuracy. COVERS has also improved the files management activity in two additional ways: first, folder retirement was transformed from the previous manual IBM card-based process to the current automated process; second, the sequence checking of files in cabinets has been expedited while improving accuracy.

An IRS Appeals official told us that Business Units receive listings of cases docketed for Tax Court and it is their responsibility to review the listings and send any docketed cases directly to Appeals. If the Business Units do not send the case files to Appeals and send them to storage areas instead (e.g., Files Area), this can result in long delays in receiving case files and potential Tax Court losses. According to Appeals officials, Appeals and W&I are tracking the number of days Appeals is waiting for docketed cases. This is a good first step in tracking whether case files are received timely. However, an IRS official said that IRS overall does not track the timeliness of case file receipt. Therefore, IRS lacks information that would

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<sup>24</sup>Installment agreements allow taxpayers to pay their tax liabilities over a period of time.

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be useful in determining whether implementing a barcoding system to capture real-time information on the location of case files would be beneficial.

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## Conclusions

IRS does not have an effective process to ensure that paper case files can be located and made readily available for examination. Further, IRS has acknowledged its historic difficulties in locating and retrieving case files. IRS has lost revenue when it could not locate cases for District Court. IRS also could not provide a significant percentage of the cases requested in GAO and TIGTA audits. Failure to locate case files can create unnecessary taxpayer burden and make case files unavailable for other units in performing their tasks.

IRS has not developed performance measures or the data needed to measure the performance of its case file processes, such as whether all of the paper case files it requests are located or received timely. Instituting and monitoring performance measures across all of IRS's compliance programs could assist the agency in (1) determining how well IRS is complying with FRA and internal control requirements, (2) identifying problems and the causes in existing programs, and/or (3) developing corrective actions. To improve IRS's paper case file processes, the agency may incur additional costs once the agency determines which improvements it will make. However, the agency may also realize cost savings by reducing the amount of resources used to locate case files when multiple requests are made or case files need to be re-created. Developing performance measures may take IRS some time. However, IRS has some opportunities to improve case file management that can be performed more expeditiously, such as improving the coordination of large samples of case files, providing information to staff on who to contact when case files cannot be located, and ensuring case files are sent to storage areas as soon as they are closed.

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## Recommendations for Executive Action

We are making recommendations to the Acting Commissioner of Internal Revenue to ensure that paper case files are readily available for examination. Specifically, we recommend that the Acting Commissioner:

- Ensure that case files are managed in accordance with FRA and internal control standards, including:
  - tracking the number of paper case files that cannot be located or are received untimely and the reasons why and

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- developing performance measures to monitor the effectiveness of the paper case file process to assist in determining which options for improving paper case file management are the most beneficial for IRS.
  - Ensure that case file performance is monitored across IRS's compliance programs by clearly defining responsibility for doing so.
  - Establish clearer responsibility for coordinating large samples of case files to provide specific reasons why case files cannot be located.
  - Reiterate to staff who the campus coordinators and Area Records Managers are for requesting paper case files.
  - Ensure that paper case files are sent to storage areas as soon as the cases are closed; include with the IDRS Transaction Record documentation that indicates whether a case file was sent to storage; and track the number and location of paper case files that have not been sent to storage.

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## Agency Comments

The Acting Commissioner of Internal Revenue provided written comments on a draft of this report in a September 18, 2007, letter, which is reprinted in appendix II. The Acting Commissioner agreed that staff often need paper case files to fulfill mission-critical requirements and that the failure to locate specific case files can affect tax administration and customer service.

The Acting Commissioner agreed that IRS needs to review its Records Management Program. However, instead of commenting on our specific recommendations, the Acting Commissioner stated that IRS will form a cross-functional working group to review the Records Management Program and develop corrective action, taking into account our recommendations. The Acting Commissioner also described some systemic enhancements undertaken by W&I to facilitate requests for tax returns and associated records.

IRS's planned review and development of corrective actions is responsive to our recommendations, and we look forward to its consideration of our recommendations in this review as well as to the benefits to taxpayers and IRS of a more effective program.

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As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its date. At that time, we will send copies of this report to appropriate congressional committees and the Acting Commissioner of Internal Revenue. We also will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have any questions concerning this report, please contact me at (202) 512-9110 or at [brostekm@gao.gov](mailto:brostekm@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix III.



Michael Brostek  
Director, Tax Issues  
Strategic Issues Team



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# Appendix I: Objectives, Scope, and Methodology

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The objectives of this assignment were to review the Internal Revenue Service's (IRS) case file storage, tracking, and documentation process to determine whether IRS has (1) an effective process to ensure that paper case files can be located timely and (2) sufficient data to assess the performance of its paper case file processes.

To make determinations in both areas, we interviewed over 50 program executives, managers, and staff from the Office of Agency-Wide Shared Services, the Small Business/Self-Employed Division, the Wage and Investment Division, the Office of Appeals, the Automated Collection System (ACS), and the National Research Program (NRP) to gain an understanding of the case file storage, tracking, and documentation process. We also visited one campus and one field office to gain an understanding of the processes they use to store, track, and document case files. We observed and inquired into the internal controls used by IRS in these processes. We did not interview officials from the Large and Mid-Size Business Division or the Tax-Exempt and Government Entities Division since only a very small percentage of Appeals' cases that are docketed for Tax Court where paper case files are very important originate from these divisions. We also reviewed IRS's policies and procedures.

To determine whether IRS has an effective process to ensure that paper case files can be located timely, we compared IRS's process to the requirements of the Federal Records Act and our standards for internal control in the federal government. We interviewed officials from Appeals, ACS, and NRP to identify the reasons IRS was unable to locate all of the case files we requested. We also spoke to Treasury Inspector General for Tax Administration (TIGTA) officials and reviewed prior TIGTA reports to determine whether IRS was able to provide all case files requested by TIGTA. Further, we interviewed officials from other organizations to identify key practices in managing case files. These organizations included the Department of Education, the Department of Veterans Affairs, the Social Security Administration, and the California Franchise Tax Board.

We conducted our work in Washington, D.C., and one campus and field office from August 2006 through July 2007 in accordance with generally accepted government auditing standards.

# Appendix II: Comments from the Internal Revenue Service



COMMISSIONER

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
WASHINGTON, D.C. 20224

September 18, 2007

Mr. Michael Brostek  
Director, Tax Issues  
Strategic Issues Team  
U.S. Government Accountability Office  
441 G Street, N.W.  
Washington, DC 20548

Dear Mr. Brostek:

Thank you for the opportunity to respond to your draft report entitled "Tax Administration: The Internal Revenue Service Can Improve Its Management of Paper Case Files," (GAO-07-1160).

We appreciate your report that emphasizes the importance of maintaining an effective process for paper case file management and describes the difficulties we sometimes experience in locating and retrieving paper case files.

The Internal Revenue Services (IRS) is committed to responding to requests for paper case files as efficiently and expeditiously as possible. We agree that the types of paper case files referenced in the report are often needed by staff to fulfill mission critical requirements, and we recognize the impact on tax administration and customer service when we fail to locate specific files.

We agree that the IRS needs to review its Records Management Program, baseline current practices and procedures, and identify changes and improvements. We will form a cross-functional working group to implement this review and develop corrective actions. In doing that, we will take into account all of GAO's recommendations.

As we move forward to improve the Records Management Program, I am pleased to report some systemic enhancements by the Wage and Investment Division that we can already build on to facilitate the requests for tax returns and associated records.

- Changes to the application/program on the IRS computer system IDRS that requires the input of the requester's mailing address has speeded the routing and delivery of tax returns and associated records to the requester.


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- With the opening and subsequent operation of the Consolidated Alpha Site in Independence, MO, campuses are able to hold List Year Records in-house for much longer periods of time so that requests for tax returns are filled quicker and can be serviced locally.
- Tax records for the Ogden and Atlanta campuses were consolidated into one National Archives and Records Administration (NARA) facility, eliminating requests to multiple Federal Record Centers for two of the larger Submission Processing Campuses.
- New procedures were implemented to streamline the routing process for tax records requested by the Examination function, which allowed for more timely receipt of records.

These enhancements, along with future identified changes and improvements, including the expected consolidation of submission processing centers and continued increases in electronic filing, will improve the IRS' ability to locate, retrieve, and control case files in a more efficient manner.

If you have any questions, please contact Floyd Williams, Director, Legislative Affairs, at (202) 622-3720.

Sincerely,



Linda E. Stiff  
Acting Commissioner of Internal Revenue

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# Appendix III: GAO Contact and Staff Acknowledgments

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## GAO Contact

Michael Brostek, (202) 512-9110 or brostekm@gao.gov

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## Acknowledgments

In addition to the contact person named above, Jonda Van Pelt, Assistant Director; Carl Barden; Wilfred Holloway; Laurie King; Donna Miller; Cheryl Peterson; and Sam Scrutchins made key contributions to this report.

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