

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Sensitive Business and Individual Tax Account Information Stored on Microfilm Cannot Be Located

August 8, 2023

Report Number: 2023-IE-R008

HIGHLIGHTS: Sensitive Business and Individual Tax Account Information Stored on Microfilm Cannot Be Located

Final Evaluation Report issued on August 8, 2023

Report Number 2023-IE-R008

Why TIGTA Did This Study

The IRS is required to create and store backups of both business and individual tax records to ensure that these records are available to conduct business, document IRS activities adequately, and protect the interests of the Federal Government and the American taxpayers. The Federal Records Act of 1950, as amended, and pursuant to Title 44, U.S. Code 3102 requires the IRS to backup and store tax records. The IRS uses microfilm cartridges to store photographic records of sensitive business and individual tax information.

This evaluation was conducted to assess the processes and procedures to account for and safeguard microfilm containing sensitive taxpayer information.

Impact on Tax Administration

Significant deficiencies exist in the IRS's accounting for microfilm backup cartridges. Deficiencies result in the inability of the IRS to account for thousands of microfilm cartridges containing millions of sensitive business and individual tax account records.

The sensitive business and individual taxpayer information stored on the unaccounted for cartridges are key information that can be used to commit tax refund fraud identity theft.

What TIGTA Found

Our review identified significant deficiencies in the IRS's safeguarding, accounting for, and physical storage of its microfilm backup cartridges. Our discussions with responsible officials at the current three Tax Processing Centers (Austin, Texas; Kansas City, Missouri; and Ogden, Utah) that house microfilm backup cartridges identified that required annual inventories have not been performed. In fact, management could not provide a time frame of when the last required annual inventory was conducted. The lack of adequate inventory controls also includes no reconciliation of the microfilm backup cartridges noted as being sent from closed Tax Processing Centers to what was physically shipped and received.

In addition, TIGTA found that microfilm cartridges stored at the Ogden Tax Processing Center are not being adequately safeguarded to limit access to this information. Specifically, the microfilm cartridges are being stored on open shelving in the middle of the Files building, a large warehouse. The warehouse is accessible by all Files Function personnel within the facility, and the shelving is not within eyesight of the IRS personnel responsible for overseeing microfilm activities.

The IRS is not in compliance with records management requirements. IRS management stated that 15 large pallets containing microfilm cartridges required to be sent to the Federal Records Center have been stored at the IRS's National Distribution Center since 2018. IRS management noted that efforts are underway to coordinate with the Government Publishing Office to have these 15 pallets of microfilm cartridges shipped to the Federal Records Center. However, as of April 2023, IRS management noted that they have yet to secure a contract to have the microfilm cartridges sent.

Finally, the IRS is not in compliance with microfilm destruction time frames. TIGTA identified individual microfilm cartridges stored at all three Tax Processing Centers that exceed the 30-year storage requirement. Management noted that no process has been established to timely dispose of microfilm backup cartridges.

What TIGTA Recommended

TIGTA made 13 recommendations in this report that included conducting a detailed inventory of all microfilm cartridges on hand, properly maintaining request logs, and securing microfilm cartridges stored at the Ogden Tax Processing Center. In addition, the IRS should have the microfilm stored at the National Distribution Center re-boxed and shipped to the Federal Records Center and dispose of all individual microfilm cartridges in storage with a processing year beyond 30 years. Further, the IRS should ensure that microfilm is properly stored and preserved. The IRS agreed with 11 of the recommendations and disagreed with two recommendations.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20024

August 8, 2023

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Russell P. Martin 
Deputy Inspector General for Inspections and Evaluations

SUBJECT: Final Report – Sensitive Business and Individual Tax Account Information
Stored on Microfilm Cannot Be Located (Evaluation # IE-22-011)

This report presents the results of our review to assess the Internal Revenue Service's (IRS) processes and procedures to account for and safeguard microfilm containing sensitive taxpayer information. This review is part of our Fiscal Year 2023 Annual Program Plan and addresses the major management and performance challenge of *Protecting Taxpayer Data and IRS Resources*. Management's complete response to the draft report is included as Appendix II. If you have any questions, please contact me or James A. Douglas, Director, Inspections and Evaluations.

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Background

The Internal Revenue Service (IRS) is required to create and store backups of both business and individual tax records to ensure that these records are available to conduct business, adequately document IRS activities, and protect the interests of the Federal Government and American taxpayers. For example, IRS employees who work in the various operating division functional areas at times have a need to obtain specific tax account information from the backup microfilm cartridges. The IRS's Files Function at the Tax Processing Centers are responsible for processing these requests.

The Federal Records Act of 1950, as amended, and pursuant to Title 44, U.S. Code 3102 requires the IRS to backup and store these tax records. These backups are part of the *IRS's Records and Information Management Program* whose mission is to ensure the economical and efficient management of IRS records including business and individual tax records until final disposition. The IRS uses microfilm cartridges to store photographic records of business and individual tax information because it is a low-cost, reliable, long-term, standardized image storage medium. The equipment needed to view microfilm images is simple, consisting of light and magnification. IRS's internal guidelines require the IRS to:

- Create and maintain backups of business and individual tax return data for all tax accounts with a \$0 balance and having no transactions posting to the tax account for the last 51 months and tax accounts with a credit balance and no transactions posting to the tax account for 60 months. The backed-up tax data is to include taxpayer name, Social Security Number or Employer Identification Number, and other specific tax account information. The specific tax account information includes tax period, tax module, transaction code, transaction date, and dollar balance.
- Destroy backup cartridges associated with business tax records after 75 years.
- Destroy backup cartridges associated with individual tax returns after 30 years.

The IRS is responsible for arranging the pickup of the cartridges stored in the File Functions to be destroyed as well as supervising and certifying the destruction of these backup cartridges.

Process to create required business and individual tax record backups

The IRS's Office of Media and Publications is responsible for coordinating the creation of backup cartridges, and Customer Account Services in the Wage and Investment Division is responsible for ensuring that the microfilm cartridges retained at the Tax Processing Centers are properly safeguarded and accounted for. The IRS uses the service of a vendor to create the microfilm backups. Once a year, in January, the IRS's Office of Media and Publications provides this vendor with the tax information required to be backed up. The vendor is responsible for creating the microfilm backup cartridges and providing the Tax Processing Center a listing of microfilm cartridges that were created and shipped. These listings detail whether the cartridges contain business or individual tax records, the tax cycle, district number, and number of cartridges created for a specific district.¹ Each of the cartridges is labeled by the vendor and

¹ An IRS district represents one of the major divisions of a region, usually a State.

includes the removal year, district office number, Taxpayer Identification Number sequence, and cartridge number.²

The vendor is responsible for creating two sets of these backup cartridges. The vendor sends one set of backup cartridges to the Federal Records Center in Lee's Summit, Missouri.³ The vendor sends the other set of backup cartridges to one of the three Tax Processing Centers located in Austin, Texas; Kansas City, Missouri; and Ogden, Utah, where these cartridges are held for use in filling IRS personnel requests for information.⁴ The vendor sends the backup cartridges to the specific Tax Processing Center based on the taxpayer's geographic location (*i.e.*, district IRS assigns). Each of the districts are assigned to one of the three Tax Processing Centers in Austin, Kansas City, and Ogden, which stores their microfilm cartridges. In addition to storing microfilm at the three Tax Processing Centers, the IRS currently stores microfilm in its Bloomington, Illinois, National Distribution Center (NDC).

In our discussions with the vendor, they noted that each microfilm cartridge can hold up to 2,000 photographic images. Documentation we obtained from the IRS's Office of Information Technology show an average of 42 million business tax records were stored on microfilm in Fiscal Years (FY) 2021 and 2022 with an average of 190 million individual tax records stored during this same period.

Microfilm is relocated for continued storage when a Tax Processing Center is closed

In response to the continued decrease in paper-filed tax returns, the IRS has closed Tax Processing Centers. When the IRS closes a Tax Processing Center, it relocates the storage of the Tax Processing Center microfilm backup cartridges to a Tax Processing Center that is remaining open. For example, in September 2021, the IRS announced its pending closure of its Tax Processing Center located in Fresno, California. IRS management noted that the microfilm backup cartridges housed at the Fresno Tax Processing Center were sent to the Kansas City Tax Processing Center for storage in February 2022. Management stated that a total of 188 boxes on two pallets were shipped from the Fresno Tax Processing Center to the Kansas City Tax Processing Center.

Results of Review

Our review identified significant deficiencies in the IRS's safeguarding, accounting for, and physical storage of its microfilm backup cartridges. For example, our physical inspection found empty boxes labeled as including microfilm backup cartridges with no explanation as to the location of the missing cartridges. In addition, our discussions with responsible officials at the current three Tax Processing Centers that house microfilm backup cartridges identified that required annual inventories have not been performed.

The lack of adequate inventory controls also includes no reconciliation of the microfilm backup cartridges noted as being sent from closed Tax Processing Centers to what was physically

² Cartridge numbers represent the sequential number of microfilm cartridges for a district in a given fiscal year.

³ The Federal Records Center is a National Archives and Records Administration facility.

⁴ Data that has been aged off of the Business and Individual Master Files and stored on microfilm cartridges are occasionally needed for research and requested from various functional areas within the IRS.

shipped and received. For example, the IRS was unable to locate any of the FY 2010 microfilm cartridges that should have been sent from the Fresno Tax Processing Center to the Kansas City Tax Processing Center. As a result of the lack of adequate inventory controls, the IRS cannot account for thousands of microfilm cartridges containing millions of sensitive business and individual tax account records. The personal taxpayer and tax information included on these backup cartridges is key information that can be used to commit tax refund fraud identity theft.⁵

In addition, the IRS is not in compliance with records management requirements. IRS management stated that 15 large pallets containing microfilm cartridges required to be sent to the Federal Records Center have been stored at the IRS's NDC since 2018.⁶ IRS management noted that efforts are underway to coordinate with the Government Publishing Office to have these 15 pallets of microfilm cartridges shipped to the Federal Records Center. However, as of April 2023, IRS management noted that they have yet to secure a contract to have the microfilm cartridges sent.

Finally, we found that the IRS is not in compliance with microfilm destruction time frames. Specifically, we identified individual microfilm cartridges stored at all three Tax Processing Centers that exceeded the 30-year storage requirement. Discussions with key personnel identified that no standard process has been established to timely dispose of microfilm backup cartridges.

Microfilm Cartridges Containing Sensitive Taxpayer Information Are Not Being Adequately Accounted for, Safeguarded, or Controlled

Our review found that required annual inventories of microfilm cartridges maintained at the Austin, Kansas City, and Ogden Tax Processing Centers have not been performed. In fact, management could not provide a time frame of when the last required annual inventory was conducted. Managers in the IRS's Files Function are required to conduct an annual inventory of microfilm backup cartridges stored at each of the Tax Processing Centers. Managers must ensure that an annual reconciliation is completed to verify all microfilm cartridges created by the vendor and detailed in the vendor provided listing of microfilm cartridges are physically in the IRS's possession. If discrepancies are found that cannot be resolved, the Files Function manager must make an immediate written report to the Input Correction Operations Manager.

Recommendation 1 (E-Mail Alert #2): On November 29, 2022, we notified the Director, Submission Processing, Wage and Investment Division, of the need to improve inventory controls over microfilm cartridges that are stored at the Tax Processing Centers. We recommended that the IRS conduct a detailed inventory of all microfilm cartridges on hand to include the beginning microfilm count, microfilm disposed of (or missing), microfilm obtained, and the ending count of microfilm. The inventory records should include the following information: type of register, cycle, number of sets, and number of cartridges per set. In

⁵ Microfilm cartridge readers are available for purchase for as little as \$100 that can be used to access the sensitive taxpayer information stored on the IRS's lost microfilm cartridges.

⁶ Originally, the IRS had 17 pallets of microfilm cartridges stored at the NDC. However, in November 2020, the IRS had two pallets repackaged and sent to the Federal Records Center, leaving 15 pallets remaining at the NDC.

addition, we recommended that the IRS develop and implement a process to ensure timely inventory and reconciliations are performed in the future.

Management’s Response: IRS management agreed with our recommendation and expects to complete a detailed inventory of all microfilm cartridges on hand by October 15, 2023. The detailed inventory will include the beginning microfilm count, microfilm disposed of (or missing), microfilm obtained, and the ending count of microfilm. The IRS will ensure that the inventory records include the information as outlined in internal policies. The campuses will provide a written report showing the inventory reconciliation was performed and report discrepancies to management.

The Commissioner, Wage and Investment Division, should:

Recommendation 2: Ensure that detailed inventories are conducted at all Tax Processing Centers by October 2023 as planned. This should include a full reconciliation matching vendor provided microfilm logs to physical microfilm cartridges as well as reconciling all microfilm cartridges received from closed Tax Processing Centers. Per internal guidelines, discrepancies should be reported to the Input Correction Operations Manager.

Management’s Response: IRS management agreed with our recommendation and expects to complete a detailed inventory of all microfilm, including reconciliations of vendor logs and shipments from closed Tax Processing Centers by October 15, 2023.

Recommendation 3: Ensure that annual physical inventories of microfilm backup cartridges are performed as required with unresolved discrepancies reported to the Input Correction Operations Manager.

Management’s Response: IRS management agreed with our recommendation and will ensure annual inventories are completed and discrepancies are reported to appropriate management officials.

Inconsistent and Incomplete Information Is Captured As it Relates to Processing Functional Area Requests for Tax Account Information Stored on Microfilm Cartridges

IRS employees who work in various operating division functional areas at times have a need to obtain specific tax account information from the microfilm cartridges. When information is needed, a Form 3774, *Request for Research*, is prepared and sent to the applicable Files Management Function responsible for processing these requests.⁷ Our review of request logs maintained for each of the three Tax Processing Centers covering the period April to September 2022, found that the Files Management Function was able to locate the microfilm cartridge and provide the tax account information requested for only 1,094 of the 2,404 requests.

Internal guidelines require IRS employees to notate in the request log the reasons why requests for microfilm information are not available. Our review of these logs found inconsistencies as it

⁷ Requests for tax information stored on microfilm can be requested through mail, telephone, fax, or computer-generated requests.

relates to site adherence to this requirement. For those requests that could not be fulfilled, reasons documented in the request logs included request sent to the wrong location, microfilm damaged, or unable to be located. However, there is inconsistency in the explanations provided as to why the requests could not be fulfilled as well as whether a reason was even captured. For example, the Kansas City Tax Processing Center does not provide a reason in its log as to why a request could not be fulfilled.

Finally, in our discussions with representatives responsible for processing these requests, we found that no actions were taken to conduct research to determine why certain requests were not fulfilled.

Recommendation 4 (E-Mail Alert #4): On January 23, 2023, we notified the Director, Submission Processing, Wage and Investment Division, that inadequate information was being maintained in the microfilm request logs, and appropriate action was not taken to follow up on any unfulfilled requests. We recommended that the IRS take immediate action to properly maintain request logs, which should include all requests received for records stored on microfilm and include reasons for why any information is unavailable. If the reason the information is unavailable is because the cartridge cannot be found, appropriate actions should be taken to locate the cartridge or identify the impact of the lost taxpayer data.

Management’s Response: IRS management agreed with our recommendation, and took appropriate action to send a Service-wide Electronic Research Program Alert on February 6, 2023, to all Campus Files areas as a reminder to follow the internal policy that states “For those requests where the microfilm information is not available or information for the given Employer Identification Number/Taxpayer Identification Number is not shown on the cartridge, *etc.*, notate the reason in the log.” They will also develop a microfilm request log template to be used by all Campus Files areas for consistency.

The Commissioner, Wage and Investment Division, should:

Recommendation 5: Ensure site adherence to documenting requests for tax account information from microfilm backup cartridges. Documentation should include a detailed explanation regarding the reason tax account information requests could not be fulfilled.

Management’s Response: IRS management agreed with our recommendation and will assess the accuracy and completeness of the microfilm request logs as part of the annual program reviews of the Files Functions.

Recommendation 6: Develop a process to periodically review requests that could not be fulfilled to identify actions that can be taken to address issues documented.

Management’s Response: IRS management agreed with our recommendation and will develop and implement a process for conducting periodic reviews of unfulfilled requests to identify actions needed to address the reason(s) for the unfulfillment.

Lack of Adequate Safeguarding of Sensitive Taxpayer Information Stored on Microfilm Cartridges

Onsite visits to the Kansas City and Ogden Tax Processing Centers provide examples of unaccounted for microfilm cartridges:

- *Ogden Tax Processing Center* - We observed seven empty boxes with a note stating, "Sent for Reformat 4-11-13." Each box holds 24 cartridges meaning as many as 168 cartridges may have been sent for reformatting. IRS personnel in Ogden were unaware of the current location of these cartridges. Because the prior microfilm contractor went out of business abruptly in 2018, it is unclear where these microfilm cartridges are located at this time. Figure 1 shows the empty boxes on the shelves in Ogden with a note inside.

Figure 1: Example of Note and Empty Boxes



Source: Photos taken by the Treasury Inspector General for Tax Administration (TIGTA) in October 2022 in the Microfilm Storage Area during a site visit to the Ogden Tax Processing Center.

- *Kansas City Tax Processing Center* - We were informed by IRS personnel during our site visit in Kansas City that when the Fresno facility closed and the microfilm was relocated to Kansas City, the FY 2010 microfilm cartridges were missing from the shipment. However, the Kansas City inventory records did not identify any missing cartridges from the Fresno districts. Figure 2 shows recently received microfilm shipments (some empty and some filled) along the walls of the microfilm storage facility that were not reflected in the Kansas City Tax Processing Center's inventory records.

Figure 2: Examples of Unpacked Microfilm Stacked Against the Walls of the Microfilm Storage Facility in Kansas City



Source: Photos taken by TIGTA in August 2022 in the Microfilm Storage Facility during a site visit to the Kansas City Tax Processing Center.

Microfilm Record Logs provided to the IRS from its vendor shows more than 4,500 FY 2019 microfilm cartridges containing individual tax account information and 4,000 FY 2018 and FY 2019 microfilm cartridges containing business tax account information sent to Kansas City that are unaccounted for.

Microfilm cartridges containing large amounts of taxpayer data are being stored in an area accessible by all Files Function employees at the Ogden Tax Processing Center

Our review identified microfilm cartridges stored at the Ogden Tax Processing Center are not being adequately safeguarded to limit access to this information. Specifically, the microfilm cartridges are being stored on open shelving in the middle of the Files building, a large warehouse. The warehouse is accessible by all Files Function personnel within the facility, and the shelving is not within eyesight of the IRS personnel responsible for overseeing microfilm activities. Figure 3 shows the microfilm storage area in Ogden.

Figure 3: Ogden Microfilm Storage Area



Source: Photo taken by TIGTA in October 2022 in the Microfilm Storage Area during a site visit to the Ogden Tax Processing Center.

The other two Tax Processing Centers (Kansas City and Austin) store the cartridges in a separate secured location with limited employee access. Internal guidelines require media storage, including microfilm, containing sensitive information or within controlled areas be physically controlled and securely stored.

Recommendation 7: The Commissioner, Wage and Investment Division, should take immediate action to properly secure microfilm cartridges stored at its Files Building located at the Ogden Tax Processing Center to limit employee access.

Management’s Response: IRS management did not agree with our recommendation and indicated that the site is restricted, with controlled access to the building with on-site, armed security. Further, access to the facility is limited to employees assigned to the Files Function who have undergone background investigations and are trained on the handling and protection of sensitive taxpayer information or documents.

Office of Inspections and Evaluations Comment: TIGTA agrees with the IRS that this building has controlled access that is restricted to employees assigned to the Files Function. However, TIGTA believes that the IRS should take additional precautions to restrict access to the large volume of tax information stored on microfilm to only those employees working with the microfilm, which is the process taken by the Kansas City and Austin Tax Processing Centers.

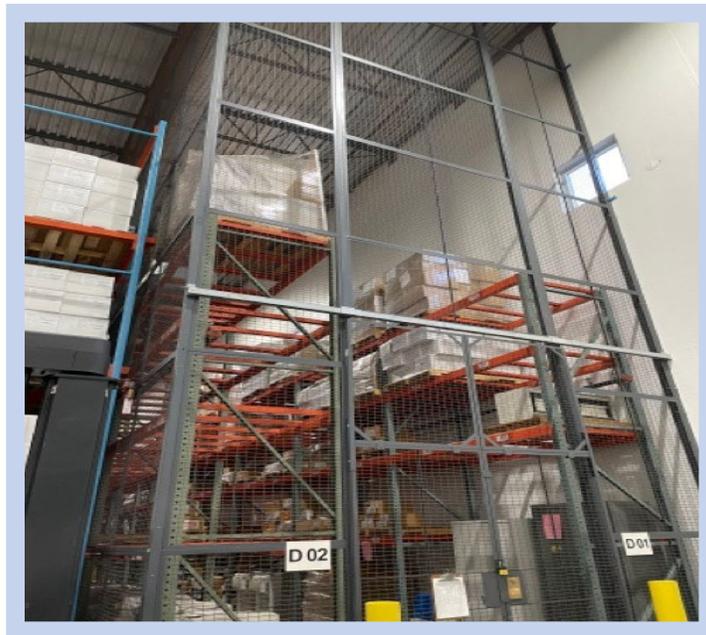
Actions Need to Be Taken to Address Noncompliance With Record Retention and Destruction Requirements

The IRS is not ensuring that microfilm backup cartridges are sent to the Federal Records Center for retention as required. As previously noted, the vendor the IRS used to create the microfilm

backup cartridges is required to send a copy of these tapes to the Federal Records Center to comply with record retention requirements.⁸

Since 2018, the IRS has been storing 15 pallets of microfilm backup cartridges containing tax account records from Tax Years 2010 to 2015. These microfilm cartridges are being stored at the IRS's NDC located in Bloomington, Illinois. IRS management explained that a decision to store these cartridges at its NDC was made in 2018, when the contractor that created the microfilm abruptly went out of business. The NDC was one of the few IRS facilities with a secured cage large enough to house the pallets of microfilm that remained at the contractor's facility. The microfilm at the NDC is secured with a lock and is stored in shrink wrapped pallets on the upper shelves in the warehouse to protect the sensitive tax information stored on the microfilm. Figure 4 shows the pallets of microfilm that have been stored in Bloomington since 2018.

Figure 4: NDC Locked Cage Where Microfilm Is Stored



Source: Photo taken by TIGTA in October 2022 in the Microfilm Storage Area during a site visit to the NDC in Bloomington.

In response to why these cartridges were not sent to the Federal Records Center as required, IRS management stated that they have been unable to secure a vendor to re-box and ship the pallets from the NDC to the Federal Records Center.

Recommendation 8 (E-Mail Alert #3): On January 23, 2023, we notified the Director, Submission Processing, Wage and Investment Division, that microfilm cartridges were still being stored at the NDC in Bloomington four years after being received from the contractor. We

⁸ Document 12990 (Rev. 11-2017) Catalog Number 57910D Department of the Treasury Internal Revenue Service, *IRS Records Control Schedule*, requires microfilm records to be retired to the Federal Records Center within five years after the end of the processing year.

recommended that the IRS take action to obtain a new contract to re-box the microfilm cartridges being stored at the NDC and have them shipped to the Federal Records Center.

Management’s Response: IRS management agreed with our recommendation stating that they are working to identify a vendor to review, label, re-box, and repackage the microfilm stored at the NDC. Further, after repackaging the microfilm to meet Federal Records Center requirements, the microfilm will be sent to Federal Records Center.

The Commissioner, Wage and Investment Division, should:

Recommendation 9: Ensure microfilm backup cartridges being stored at the IRS’s NDC in Bloomington, Illinois, are shipped to the Federal Records Center for retention as required.

Management’s Response: IRS management agreed with our recommendation and the microfilm cartridges will be shipped to the Federal Records Center upon being repackaged.

Recommendation 10: Ensure compliance with requirements to timely send microfilm backup cartridges to the Federal Records Center for retention as required.

Management’s Response: IRS management agreed with our recommendation and requested a contract modification through the Government Publishing Office to require the vendor to notify the IRS one month before the microfilm must be shipped to the Federal Records Center. Additionally, the IRS revised its desk procedures to set reminders to prepare microfilm for shipment to the Federal Records Center in a timely manner and will perform quarterly reviews of active microfilm work to ensure shipments are completed in a timely manner.

Processes and Procedures Have Not Been Developed to Identify and Properly Destroy Microfilm Cartridges Within the Required Destruction Time Frames

Our review of microfilm inventory records provided by the IRS identified microfilm cartridges with individual tax account records exceeding the required destruction time frame of 30 years. We observed or obtained documentation showing that microfilm cartridges were of the age requiring destruction:

- *Austin Tax Processing Center* – We physically observed cartridges being stored and labeled with tax account information dated from 1989 to 1991.
- *Kansas City Tax Processing Center* - We physically observed cartridges being stored and labeled from 1970 to 1991.
- *Ogden Tax Processing Center* – Records provided by representatives at the Center showed approximately 2,069 cartridges being stored beyond the retention period.

IRS management indicated that staffing challenges (staff reductions, turnover, retirement, *etc.*) and competing priorities made it difficult for the IRS to follow guidelines and dispose of the microfilm at the appropriate time.

Recommendation 11 (E-Mail Alert #1): On November 29, 2022, we notified the Director, Submission Processing, Wage and Investment Division, that microfilm cartridges, which are

stored at the Tax Processing Centers, are beyond the IRS Records Control retention period. We recommended that the IRS properly dispose of all Individual Master File microfilm cartridges in storage with a processing year beyond 30 years and develop and implement a process to ensure timely disposal of microfilm cartridges in the future.

Management’s Response: IRS management agreed with our recommendation and will identify microfilm cartridges eligible for destruction and will initiate the process for those eligible cartridges.

Recommendation 12: The Commissioner, Wage and Investment Division, should develop processes and procedures to ensure that microfilm cartridges are destroyed in compliance with record destruction time frames.

Management’s Response: IRS management agreed with our recommendation and will identify and destroy cartridges aged beyond the retention period during annual program reviews of the Files Function.

Actions Should Be Taken to Ensure Microfilm Cartridges Are Safely Stored and Preserved

As we mentioned previously, some requests for tax account information could not be fulfilled as a result of the microfilm being damaged. Our discussions with responsible employees found that they were unaware of the specific storage requirements involving microfilm that can preserve the cartridges for their full retention period. As such, none of the three Tax Processing Centers where microfilm is stored could provide documentation as to the actions taken to ensure proper storage of the microfilm.

The IRS’s microfilm contractor provided us documentation that included examples of specific storage actions that can be taken to preserve microfilm. These include that microfilm cartridges should be:

- Packed tightly to prevent oxidation.
- Stored in a temperature-controlled environment. Temperature should not exceed 21°C (70°F).
- Stored in an area with moisture control and humidity kept below 50 percent.
- Stored in a dark place with limited exposure to light.

Recommendation 13: The Commissioner, Wage and Investment Division, should assess storage conditions at each Tax Processing Center to ensure that microfilm is properly stored and preserved.

Management’s Response: IRS management did not agree with our recommendation and indicated that microfilm cartridges are stored in dark or dimly lit areas in acid-free boxes provided by the vendor and are kept in air-conditioned spaces. The IRS does not consider additional measures to more precisely control temperature and humidity to be an efficient use of resources because the IRS is working to eliminate the need for the continued production and storage of microfilm.

**Final Report – Sensitive Business and Individual Tax Account
Information Stored on Microfilm Cannot Be Located**

Office of Inspections and Evaluations Comment: Although the IRS plans to eliminate its need to produce and store microfilm, until its plans are completed, the IRS may have to continue storing microfilm for numerous years. Therefore, TIGTA believes that the IRS should complete an assessment of the conditions before making the determination not to consider additional measures.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this evaluation was to assess the processes and procedures to account for and safeguard microfilm containing sensitive taxpayer information. To accomplish our objective, we:

- Determined whether the IRS was properly storing microfilm tapes containing sensitive taxpayer information.
- Conducted walkthroughs of each storage facility and determined how the microfilm tapes were stored in each of the four facilities and if it was consistent.
- Determined whether the IRS was timely and accurately performing annual reconciliations in accordance with internal guidelines.
- Inquired about and documented the inventory and reconciliation control process at each of the four facilities including the actions taken when tapes are lost or missing.
- Requested previous inventory logs and reconciliations for each of the four locations.
- Requested and reviewed listings of microfilm cartridges created and destroyed at each of the four locations.
- Determined whether the IRS was properly handling requests for microfilm tapes containing sensitive taxpayer information in accordance with internal guidelines.
- Inquired with IRS officials and documented the request handling process.
- Reviewed request logs from Austin, Kansas City, and Ogden.
- Determined whether the IRS was properly disposing of microfilm tapes in accordance with both internal and National Archives and Record Administration guidelines.
- Conducted meetings with IRS Office of Information Technology and the microfilm contractor and documented processes and procedures for the creation of microfilm and shipments.
- Compared microfilm listed on packing slips with IRS inventory records.

Performance of This Review

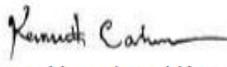
This review was performed at the Kansas City Tax Processing Center in Kansas City, Missouri; NDC in Bloomington, Illinois; Ogden Tax Processing Center in Ogden, Utah; and Austin Tax Processing Center in Austin, Texas, in the Microfilm Processing Facility during the period August through November 2022. Additionally, this review was performed with information obtained from the Submission Processing function within the Wage and Investment Division during the period August 2022 through March 2023. We conducted this evaluation in accordance with the Council of the Inspectors General for Integrity and Efficiency Quality Standards for Inspection and Evaluation.

Major contributors to the report were James Douglas, Director; Brandon Crowder, Supervisory Evaluator; and Andrew Landers, Lead Evaluator.

Validity and Reliability of Data From Computer-Based Systems

We performed tests to assess the reliability of the reports providing summary data of accounts removed from the Business and Individual Master Files. We evaluated the data by scanning for duplicate entries or incomplete data. Additionally, we validated select Uniform Location Codes on the Business and Individual Master File summary data by comparing it to the district office numbers of microfilm listed in the IRS's internal guidelines. We determined that the data were sufficiently reliable for purposes of this report.

Management’s Response to the Draft Report

	<p>DEPARTMENT OF THE TREASURY INTERNAL REVENUE SERVICE ATLANTA, GA 30308</p>
<p>COMMISSIONER WAGE AND INVESTMENT DIVISION</p>	
<p>July 11, 2023</p>	
<p>MEMORANDUM FOR RUSSELL P. MARTIN DEPUTY INSPECTOR GENERAL FOR INSPECTIONS AND EVALUATIONS</p>	
<p>FROM:</p>	<p>Kenneth C. Corbin  Commissioner, Wage and Investment Division</p> <p>Digitally signed by Kenneth C. Corbin Date: 2023.07.11 11:51:00 -04'00'</p>
<p>SUBJECT:</p>	<p>Draft Report – Sensitive Business and Individual Tax Account Information Stored on Microfilm Cannot Be Located (Evaluation # IE-22-011)</p>
<p>Thank you for the opportunity to review and provide comments on the subject draft report. Under the Federal Records Act of 1950, federal records of tax information are required to be preserved for prescribed periods of time. Specifically, tax records pertaining to individuals are retained for 30 years, while business tax records have a 75-year retention period. The use of microfilm as an economical storage medium for archived tax records began in the late 1960s. At the time, hard copy prints of tax modules containing ledger information for specific tax periods meeting eligibility criteria for archiving were converted to microfilm records. As the technology evolved, the data was transferred directly from electronic media to microfilm. After reviewing this process, we are working toward eliminating the need for the continued use of microfilm for archival purposes.</p>	
<p>As we work toward converting the IRS from its reliance on paper-based processing to a fully digital environment, we are similarly in discussion with stakeholders to transition our recordkeeping responsibilities to a digital state as well. Our objective is to ensure that when there is a need to restore archived tax modules to the Master Files, all modules will be recoverable if there is no longer a copy of the data retained on microfilm. Once assured of this possibility, which may be achievable in the near-term, we will be able to discontinue archiving data on microfilm.</p>	
<p>The report highlights the impact of challenges the IRS has experienced over the course of the last decade from the attrition of experienced staff due to reduced funding and, subsequently, the effects of the recent pandemic. As the ranks of experienced staff were reduced, redirection of those employees to higher-ranking priorities affected our ability to maintain desired standards of control for lower-risk programs, including timely</p>	

updating inventory records of the microfilm cartridges on hand at the Submission Processing Centers (SPCs). Further, the closure of the Fresno, CA SPC in September 2021, which was already underway before the pandemic occurred and could not be postponed, contributed to the inability to account for all microfilm inventory during the period of this review. We continue to work through shipments of records sent to the remaining SPCs by IRS locations nationwide, including those from the Fresno campus. We are confident that as the backlog of non-tax documents is processed, the remaining cartridges will be incorporated into the repository at the Kansas City SPC.

We are taking action on the report recommendations to complete inventories of the microfilm media stored at the SPCs and updating procedures to ensure the inventory records are contemporaneously maintained and reviewed annually. Additionally, microfilm storage will be included in program reviews of the Files functions that are being performed through September 20, 2023, and will be incorporated into future recurring reviews to assess compliance with the procedures. On April 23, 2023, a vendor was identified to complete the work needed to repackage the 15 pallets of microfilm cartridges that had been stored at the National Distribution Center after a previous contractor went out of business before the work was finished. We expect the work to commence in June 2023 and estimate completion by July 2024 with the cartridges being shipped to the Federal Records Center.

Our responses to your specific recommendations are attached. If you have any questions, please contact me, or a member of your staff may contact Dietra D. Grant, Director, Customer Account Services, at 470-639-3504.

Attachment

Recommendations

RECOMMENDATION 1 (E-MAIL ALERT #2)

On November 29, 2022, we notified the Director, Submission Processing, Wage and Investment Division, of the need to improve inventory controls over microfilm cartridges that are stored at the Tax Processing Centers. We recommended that the IRS conduct a detailed inventory of all microfilm cartridges on hand to include the beginning microfilm count, microfilm disposed of (or missing), microfilm obtained, and the ending count of microfilm. The inventory records should include the following information: type of register, cycle, number of sets, and number of cartridges per set. In addition, we recommended that the IRS develop and implement a process to ensure timely inventory and reconciliations are performed in the future.

CORRECTIVE ACTION

We are taking a detailed inventory of all microfilm tapes at our Tax Processing Centers that will include the beginning microfilm count, microfilm disposed, microfilm obtained, and the ending counts. Additionally, the inventory records will include the information as outlined in IRM 3.5.61.8.10.3, *Microfilm Accountability and Disposition*. We will ensure the campus Files functions complete annual reconciliations and report discrepancies to management. To ensure a timely inventory reconciliation is done annually at each location, the campuses will provide a written report showing the inventory reconciliation was performed.

IMPLEMENTATION DATE

October 15, 2023

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 2

Ensure that detailed inventories are conducted at all Tax Processing Centers by September 2023 as planned. This should include a full reconciliation matching vendor provided microfilm logs to physical microfilm cartridges as well as reconciling all microfilm cartridges received from closed Tax Processing Centers. Per internal

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guidelines, discrepancies should be reported to the Input Correction Operations Manager.

CORRECTIVE ACTION

We are completing detailed inventories of the microfilm repositories, including reconciliations of vendor logs and shipments from closed Tax Processing Centers.

IMPLEMENTATION DATE

October 15, 2023

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 3

Ensure that annual physical inventories of microfilm backup cartridges are performed as required with unresolved discrepancies reported to the Input Correction Operations Manager.

CORRECTIVE ACTION

We will ensure the annual inventories are completed and discrepancies reported to the appropriate management officials.

IMPLEMENTATION DATE

December 15, 2024

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

Recommendation

RECOMMENDATION 4 (E-MAIL ALERT #4)

On January 23, 2023, we notified the Director, Submission Processing, Wage and Investment Division, that inadequate information was being maintained in the microfilm request logs, and appropriate action was not taken to follow up on any unfulfilled

requests. We recommended that the IRS take immediate action to properly maintain request logs, which should include all requests received for records stored on microfilm and include reasons for why any information is unavailable. If the reason the information is unavailable is because the cartridge cannot be found, appropriate actions should be taken to locate the cartridge or identify the impact of the lost taxpayer data.

CORRECTIVE ACTION

A Servicewide Electronic Research Program Alert 23U0243 was issued on February 6, 2023, with instructions to document reasons in the log when microfilm was not found. We will develop a microfilm request log template to be used by the campus Files functions for consistency and will be accessible for periodic review. Procedures to be followed when tapes or cartridges cannot be found were added to the IRM 3.5.61.8.10, *Microfilm Tape Requests*, on June 1, 2023.

IMPLEMENTATION DATE

November 15, 2023

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 5

Ensure site adherence to documenting requests for tax account information from microfilm backup cartridges. Documentation should include a detailed explanation regarding the reason tax account information requests could not be fulfilled.

CORRECTIVE ACTION

We will assess the accuracy and completeness of the microfilm request logs as part of the annual program reviews of the Files functions.

IMPLEMENTATION DATE

December 15, 2024

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 6

Develop a process to periodically review requests that could not be fulfilled to identify actions that can be taken to address issues documented.

CORRECTIVE ACTION

We will develop and implement a process for conducting periodic reviews of unfilled requests to identify actions needed to address the reason(s) for the unfulfillment.

IMPLEMENTATION DATE

March 15, 2024

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

Recommendations

RECOMMENDATION 7

The Commissioner, Wage and Investment Division, should take immediate action to properly secure microfilm cartridges stored at its Files Building located at the Ogden Tax Processing Center to limit employee access.

CORRECTIVE ACTION

The microfilm cartridges are properly secured at the Ogden Submission Processing Center's Files facility. The site is a restricted, controlled access building with on-site, armed security. After gaining admittance to the facility, entry into the file storage area is further restricted by locked doors that can be opened only by key or authorized badge. Only employees assigned to the Files function are credentialed to access the facility. These employees have undergone background investigations and were trained on the handling and protection of sensitive taxpayer information or documents and are required to complete refresher training each year.

IMPLEMENTATION DATE

N/A

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RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 8 (E-MAIL ALERT #3)

On January 23, 2023, we notified the Director, Submission Processing, Wage and Investment Division, that microfilm cartridges were still being stored at the NDC in Bloomington four years after being received from the contractor. We recommended that the IRS take action to obtain a new contract to re-box the microfilm cartridges being stored at the NDC and have them shipped to the Federal Records Center.

CORRECTIVE ACTION

We are contracting with a vendor to review, label, re-box, and repackage the microfilm stored at the National Distribution Center. After repackaging to meet Federal Records Center (FRC) requirements, the cartridges will be shipped there for archiving.

IMPLEMENTATION DATE

July 15, 2024

RESPONSIBLE OFFICIAL

Director, Publishing, Media and Publications, Customer Assistance, Relationships and Education, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 9

Ensure microfilm backup cartridges being stored at the IRS's NDC in Bloomington, Illinois, are shipped to the Federal Records Center for retention as required.

CORRECTIVE ACTION

The microfilm cartridges will be shipped to the FRC upon being repackaged.

IMPLEMENTATION DATE

July 15, 2024

RESPONSIBLE OFFICIAL

Director, Publishing, Media and Publications, Customer Assistance, Relationships and Education, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 10

Ensure compliance with requirements to timely send microfilm backup cartridges to the Federal Records Center for retention as required.

CORRECTIVE ACTION

We requested a contract modification through the Government Publishing Office (GPO) to require the vendor to notify the IRS one month before the silver masters must be shipped to the FRC. The GPO issued modification 1491S-1 on April 24, 2023, that implements this change with the vendor. Additionally, desk procedures were revised to require the Publishing Specialist to set a notification for eleven months after the last year/data type microfilm shipment has been made to a Submission Processing Center campus. This reminder will coincide with the vendor's alert and allow one month for IRS to prepare that group of microfilm for shipment to the FRC in a timely manner. Further, we will perform quarterly reviews of active microfilm work to ensure shipments are completed in a timely manner.

IMPLEMENTATION DATE

July 15, 2023

RESPONSIBLE OFFICIAL

Director, Publishing, Media and Publications, Customer Assistance, Relationships and Education, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

Recommendations

RECOMMENDATION 11 (E-MAIL ALERT #1)

On November 29, 2022, we notified the Director, Submission Processing, Wage and Investment Division, that microfilm cartridges, which are stored at the Tax Processing Centers, are beyond the IRS Records Control retention period. We recommended that the IRS properly dispose of all Individual Master File microfilm cartridges in storage with a processing year beyond 30 years and develop and implement a process to ensure timely disposal of microfilm cartridges in the future.

CORRECTIVE ACTION

Through the inventory process, we will identify microfilm cartridges eligible for destruction and will initiate the process for those eligible cartridges.

IMPLEMENTATION DATE

June 15, 2024

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 12

The Commissioner, Wage and Investment Division, should develop processes and procedures to ensure that microfilm cartridges are destroyed in compliance with record destruction time frames.

CORRECTIVE ACTION

We will ensure during annual program reviews of the Files function that cartridges aged beyond the retention period are identified and destroyed.

IMPLEMENTATION DATE

December 15, 2024

RESPONSIBLE OFFICIAL

Director, Submission Processing, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 13

The Commissioner, Wage and Investment Division, should assess storage conditions at each Tax Processing Center to ensure that microfilm is properly stored and preserved.

CORRECTIVE ACTION

In addition to securing microfilm cartridges in restricted and dark or dimly lit areas, the cartridges are stored in acid-free boxes provided by the vendor and are kept in air-conditioned spaces. With work being done to eliminate the need for continued

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production and storage of microfilm records, we do not consider additional measures to more precisely control temperature and humidity would be an efficient use of resources.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

Appendix III

Abbreviations

FY	Fiscal Year
IRS	Internal Revenue Service
NDC	National Distribution Center
TIGTA	Treasury Inspector General for Tax Administration



To report fraud, waste, or abuse,

contact our hotline on the web at www.tigta.gov or via e-mail at oi.govreports@tigta.treas.gov.

To make suggestions to improve IRS policies, processes, or systems affecting taxpayers, contact us at www.tigta.gov/form/suggestions.

Information you provide is confidential, and you may remain anonymous.