

# TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



## **A Comprehensive Strategy Is Needed to Address the Significant Backlog of Adjustment Source Documentation Inventory**

June 3, 2024

Report Number: 2024-IE-R013

# HIGHLIGHTS: A Comprehensive Strategy Is Needed to Address the Significant Backlog of Adjustment Source Documentation Inventory

Final Evaluation Report issued on June 3, 2024

Report Number 2024-IE-R013

## Why TIGTA Did This Evaluation

At times business and individual taxpayers require the IRS to adjust their tax accounts. When a tax adjustment is made on a business or individual taxpayer's tax account, the IRS office that makes the adjustment is required to send all documentation supporting the adjustment to one of its Tax Processing Centers located in Austin, Texas; Kansas City, Missouri; or Ogden, Utah. When the adjustment is made, a Form 5147, *Integrated Data Retrieval System Transactions Record*, is printed at the Tax Processing Center and paired with the source documents supporting the tax adjustment transaction.

This evaluation was initiated to determine whether a business justification exists for the continued use of paper source documents to support electronic tax account transactions and if improvements can be made with the adjustment source documentation process.

## Impact on Tax Administration

Effective and efficient processing of adjustment source documentation is necessary to ensure that source documents supporting adjustments to taxpayers' accounts can be timely located in the event they are requested by an IRS functional area or other government officials. If source documents cannot be located timely, taxpayers are burdened with the responsibility of providing tax documents that were previously sent to the IRS.

## What TIGTA Found

The IRS faces challenges in its ability to eliminate the backlog of adjustment source documents to be associated with a corresponding Form 5147. As of November 2023, the IRS reports having over 2.6 million source documents that need to be associated with the corresponding Form 5147. TIGTA also found that the IRS has not developed a comprehensive strategy that outlines actions the IRS plans to take, the resources needed, and the time frame to resolve this backlog.

Our review of IRS adjustment source document inventory reports identified significant inaccuracies in the reporting of these inventories. For example, for the week ending October 27, 2023, the IRS inaccurately reported a closure of over 600,000 adjustment source documents at the Ogden Tax Processing Center. After TIGTA brought this to their attention, IRS management confirmed that the report was inaccurate, noting that the true number of closures was around 96,000. In addition, the inventory reports were not being timely updated to accurately reflect transshipment closures on a weekly basis.

In September 2023, the Ogden Tax Processing Center sent three shipments of adjustment source documentation totaling 341,773 to the Federal Records Center out of numerical order. The IRS's contract with the National Archives and Records Administration requires processed adjustment source documents be placed in numerical order before they are sent to the Federal Records Center.

In addition, the Kansas City Tax Processing Center included various items that did not belong in the adjustment source documentation transshipments to the Ogden Tax Processing Center on four shipping pallets.

## What TIGTA Recommended

TIGTA recommended that the Commissioner, Wage and Investment Division: (1) conduct a comprehensive inventory of its adjustment source documents to update and correct current inventory records; (2) ensure management personnel review the *Miscellaneous Monitoring Report*; (3) finalize and execute the plan to rebalance the adjustment source documentation workload across the Tax Processing Centers; (4) develop a strategy to resolve the adjustment source documentation backlog; (5) coordinate with the Federal Records Center to determine the steps that need to be taken to correct the adjustment source documents already sent out of numerical order; (6) ensure that all adjustment case files sent to the Federal Records Center are in numerical order; and (7) develop policies and procedures to ensure the accuracy of shipments between Tax Processing Centers. The IRS agreed with all the recommendations in this report.



# TREASURY INSPECTOR GENERAL

## for Tax Administration

**DATE:** June 3, 2024

**MEMORANDUM FOR:** COMMISSIONER OF INTERNAL REVENUE

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

**SUBJECT:** Final Evaluation Report – A Comprehensive Strategy Is Needed to Address the Significant Backlog of Adjustment Source Documentation Inventory (Evaluation No.: IE-23-006)

This report presents the results of our review to determine whether a business justification exists for the continued use of paper source documents to support electronic tax account transactions and if improvements can be made with the adjustment source documentation process. This review is part of our Fiscal Year 2024 Annual Program Plan and addresses the major management and performance challenges of *Protection of Taxpayer Data and IRS Resources and Information Technology Modernization*.

Management's complete response to the draft report is included as Appendix II. If you have any questions, please contact me or Frank O'Connor, Director, Inspections and Evaluations.

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## **Background**

Business and individual taxpayers at times require the Internal Revenue Service (IRS) to adjust their tax accounts. The tax account adjustments are often in response to the IRS's identification of errors on a tax return during processing, taxpayer inquiries, or when the IRS processes claims from taxpayers such as an amended tax return. When a tax adjustment is made on a business or individual tax account, the IRS office that makes the adjustment is required to send all documentation supporting the adjustment to one of the IRS's Tax Processing Centers located in Austin, Texas; Kansas City, Missouri; or Ogden, Utah. The information required to be sent includes documentation that the IRS received from the taxpayer as well as documentation generated by the IRS in support of the tax account adjustment, *i.e.*, adjustment source documentation.

The IRS office initiating the tax account adjustment sends the adjustment source documentation to the same Tax Processing Center where the IRS's tax system prints a Form 5147, *Integrated Data Retrieval System Transactions Record*.<sup>1</sup> The Form 5147 includes a Document Locator Number (DLN),<sup>2</sup> which is assigned to the adjustment file. The DLN enables the IRS's Files Management function to identify and retrieve the adjustment source documentation from storage should a functional area require the information to address a subsequent tax issue involving the taxpayer. The specific Tax Processing Center that receives the supporting documents and prints the Form 5147 is usually based on the geographic location where the taxpayer resides.

Once the adjustment source documentation is received and the Form 5147 is printed, representatives in the IRS's Files Management function associate the adjustment source documentation with the corresponding Forms 5147 to create the adjustment case file. The adjustment case file is stored locally in the IRS's Files Management function for one year, and then ultimately the adjustment case file is sent to a Federal Records Center as required by record retention guidelines. The IRS's record retention policies, as well as the potential need to support tax adjustments, such as in Tax Court, require the IRS to retain the source documentation.

On a weekly basis, the Submission Processing Files Management function updates the *Miscellaneous Inventory Report* at each site that feeds into the *Miscellaneous Monitoring Report* which is used to track the adjustment source documentation inventory at each of the three Tax Processing Centers. The *Miscellaneous Monitoring Report* identifies the beginning balances, receipts, closures, and ending balances of the IRS's adjustment source documentation inventory. Submission Processing management officials use this report to monitor its closure of adjustment source document inventory.

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<sup>1</sup> An Integrated Data Retrieval System Transaction Record is a record of tax account transactions that are posted to the IRS's Master File.

<sup>2</sup> The DLN is a number assigned to every adjustment source document that identifies a taxpayer account. The DLN is used to identify and locate a document.

## **Results of Review**

The IRS faces challenges eliminating the significant backlog of adjustment source documents to be associated with corresponding Forms 5147, with some of this inventory dating back to adjustments made in June 2021. As of November 2023, the IRS reported it had over 2.6 million source documents that needed to be associated with a corresponding Form 5147. This backlog represents an increase of 241 percent in inventory since May 2020.

However, as it relates to the validity of the IRS's reporting of its adjustment source inventory, our evaluation identified that the IRS's inventory reports are inaccurate and unreliable based on our identification of significant inaccuracies in closures being reported. For example, during the week ending October 27, 2023, the IRS reported a closure of over 600,000 adjustment source documents at the Ogden Tax Processing Center. Historically, the Ogden Tax Processing Center's weekly closure rate was under 140,000 cases per week. In response to our alerting management of this questionable spike in closures, IRS management confirmed this figure was inaccurate, noting that the true closure for the week ending October 27, 2023, was around 96,000. We found similar inaccuracies resulting from the IRS not timely updating source document inventory figures to accurately reflect transshipment<sup>3</sup> closures on a weekly basis. As a result, the IRS does not have an accurate reporting of the true extent of its outstanding adjustment source document inventory.

In addition, our evaluation identified that, although actions have been taken by IRS management to reduce this backlog, the fact remains that the backlog of this work remains significant. The IRS has no comprehensive strategy that outlines the actions it plans to take, the resources needed, or the time frame for resolving this backlog. Compounding the IRS's ability to resolve this backlog is that the IRS continues to receive new adjustment source documentation inventory resulting from ongoing tax adjustments. Consequently, the IRS must devote resources to both reduce backlog inventory and attempt to stay current with ongoing adjustment correlation that needs to be performed, which further hampers its ability to eliminate the backlog inventory.

Due to the IRS's inability to effectively and efficiently associate adjustment source documents with Forms 5147, documentation supporting taxpayers' accounts cannot be timely located in the event they are requested by an IRS functional area or other government official. For example, if source documents cannot be timely located, taxpayers are burdened with the responsibility of providing tax documents that were previously sent to the IRS. This also results in delays in the functional area's ability to timely work cases as they await duplicate information from the taxpayer.

### **Adjustment Source Document Inventory Reports Are Unreliable**

Our review of IRS's *Miscellaneous Monitoring Report* identified errors and anomalies impacting the accuracy of the IRS's capturing of weekly adjustment source documentation receipts, closures, and overall inventory balances at the three Tax Processing Centers. Of particular

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<sup>3</sup> Transshipment is the shipping of backlogged adjustment source documentation inventory from one tax processing center to another tax processing center.

## A Comprehensive Strategy Is Needed to Address the Significant Backlog of Adjustment Source Documentation Inventory

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concern is IRS management's failure to identify the reporting errors we identified. Here are examples of errors and anomalies identified:

- The Kansas City Tax Processing Center incorrectly recorded a decrease of 762,699 of its adjustment source documentation inventory in the monitoring report dated September 8, 2023. IRS officials initially stated that this decrease represented adjustment source document inventory that was transshipped from the Kansas City Tax Processing Center to the Ogden Tax Processing Center. However, our review of inventory reports found that incoming receipts to the Ogden Tax Processing Center did not reflect the 762,699 in transshipments purported to be sent from Kansas City. After we inquired with IRS officials about the accuracy of the 762,699 in Kansas City's decreased inventory, IRS management stated that the number was inaccurate. The IRS revised the subsequent September 18, 2023, monitoring report to increase the Kansas City adjustment source documentation inventory balance by more than 300,000 to correct the error.
- The Ogden Tax Processing Center incorrectly recorded 603,716 in inventory closures during the week ending October 27, 2023. Our review of monitoring reports for Fiscal Year 2023, identified that the Ogden Tax Processing Center typically closes less than 140,000 each week. Therefore, we identified the weekly closure of 603,716 as an anomaly and potential error in reporting. When we brought our concern to IRS management's attention, IRS officials initially stated that the significant increase in the closure for this week was due to having additional employees working this inventory. It was not until our site visit to the Ogden Tax Processing Center in November 2023, that IRS management acknowledged that the closure figure was incorrect and that the actual closure for the week ending October 27, 2023, was 96,424.
- The Austin Tax Processing Center did not provide an adequate explanation for recording a decrease of 766,886 in its adjustment source documentation inventory in the monitoring report dated November 17, 2023. IRS personnel explained that when the Austin Tax Processing Center personnel conducted an inventory count of its adjustment source documents, there were an estimated 130,000 cases in its adjustment source documentation inventory, and they deducted the 766,886 source documents that were not found in the processing center. The IRS did not provide any further explanation for where the 766,886 in adjustment source documents are now located.
- Ogden Tax Processing Center personnel stated that they shipped an estimated 10,000 adjustment case files to the Federal Records Center. However, this was not reflected in their monitoring report. Management stated that this reduction was not updated in its inventory report because it was only an estimate of what was shipped because they did not have an actual count.

The IRS uses the weekly *Miscellaneous Monitoring Report* to evaluate its progress in closing adjustment source documentation cases to reduce its significant and continued backlog of this inventory. When we asked IRS managers why they did not identify the reporting errors, they stated that they did not review the monitoring reports for accuracy as required. Internal guidelines require managers to review the *Miscellaneous Monitoring Report* to ensure the accuracy of the inventory updates recorded in these weekly monitoring reports.

## A Comprehensive Strategy Is Needed to Address the Significant Backlog of Adjustment Source Documentation Inventory

The Commissioner, Wage and Investment Division, should:

**Recommendation 1:** Conduct an inventory to update and correct current inventory levels of adjustment source documents.

**Management's Response:** The IRS agreed with this recommendation and plans to conduct an inventory to update and correct current inventory levels of adjustment source documents.

**Recommendation 2:** Ensure managers are performing reviews of the *Miscellaneous Inventory Report* to ensure the accuracy of the reporting of receipts, transshipments, and closures as required.

**Management's Response:** The IRS agreed with this recommendation and will remind management at each campus of the requirement to review and validate the Miscellaneous Inventory Report to ensure the accuracy of reported receipts, transshipments, and closures. Additionally, the IRS will develop a procedure that mandates final approval of the report by the Planning and Analysis Manager at each campus before sending the report to Headquarters.

### A Significant Backlog of Adjustment Source Documents Remains Since Tax Processing Centers Closed in Response to the Coronavirus Disease 2019 Pandemic

The IRS has not developed a comprehensive strategy to outline the actions it plans to take, the resources needed, and the time frame to resolve this backlog. Actions taken to date have been sporadic and have not adequately addressed eliminating this backlog. In May 2022, the backlog increased to more than 3.8 million. By November 2023, after 18 months, the IRS was still reporting a backlog that exceeded 2.6 million.

**Figure 1: Adjustment Source Documentation Backlog at the Tax Processing Centers**



Source: Photos taken by the Treasury Inspector General of Tax Administration (TIGTA) in May, July, and November 2023 at the Tax Processing Centers in Kansas City, Ogden, and Austin.

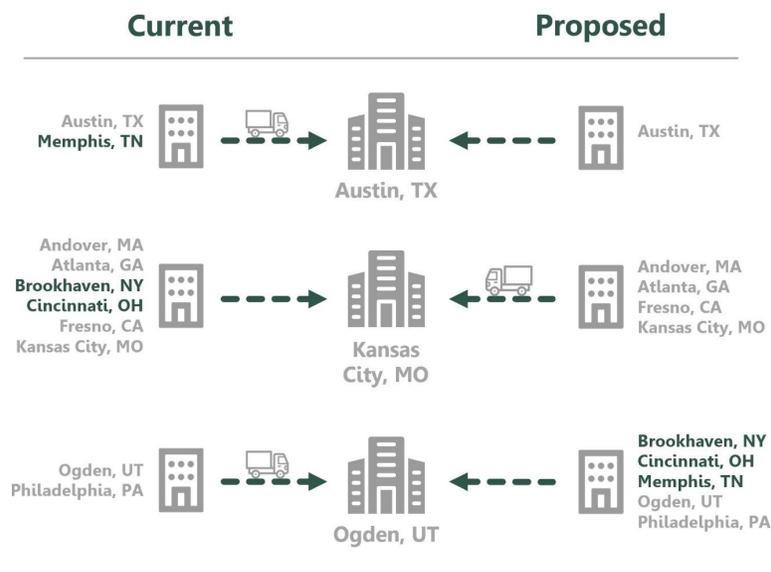
## A Comprehensive Strategy Is Needed to Address the Significant Backlog of Adjustment Source Documentation Inventory

In response to the Coronavirus Disease 2019 Pandemic, the IRS took unprecedented and drastic actions to protect the health and safety of its employees. One such action was closing its Tax Processing Centers in March 2020. Since that time, a significant backlog of adjustment source documents remains. In addition to the closure of the Tax Processing Centers, Files Management staff stated that exacerbating the inability to resolve its backlog, is the imbalance in the number of IRS locations that send adjustment source documents to the Kansas City Tax Processing Center compared to the Austin and Ogden Tax Processing Centers. For example, the Kansas City Tax Processing Center receives adjustment source documentation from six IRS sites that process adjustments, while the Ogden and Austin Tax Processing Centers receive adjustment source documentation from two sites each.

In response to the imbalance associated with the Kansas City Tax Processing Center, IRS management stated that they plan to rebalance the adjustment source documentation workload among its three Tax Processing Centers. IRS management noted that they plan to change where some sites send their adjustment source documentation to decrease the workload in Kansas City. However, as of December 2023, the IRS had not finalized its plan to rebalance the adjustment source documentation workload. IRS management stated that these changes have not been made because they want to reduce inventory to a healthy level<sup>4</sup> before moving forward with the workload realignment.

Figure 2 shows the IRS Campuses that send their adjustment source documents to each of the three Tax Processing Centers, along with the IRS’s proposed realignment.

**Figure 2: Proposed Realignment of Campuses Producing Adjustment Source Documents**



The IRS **realigned several campuses**, which provide adjustment source documents to different Tax Processing Centers, to reduce backlogs.

*Source: Documentation provided by IRS Files Management personnel.*

Also impacting the IRS’s ability to resolve this backlog is the IRS continues to receive new inventory to be associated resulting from ongoing tax adjustments. Consequently, the IRS must

<sup>4</sup> Healthy level is a term used by the IRS when referring to the pre-pandemic inventory levels.

## **A Comprehensive Strategy Is Needed to Address the Significant Backlog of Adjustment Source Documentation Inventory**

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devote resources to both reduce backlog inventory and attempt to stay current with ongoing adjustment source document correlation that needs to be performed to not further increase backlogs. Delays in implementing its realignment will result in the Kansas City Tax Processing Center's inability to reduce backlog inventory. Further, Kansas City will face challenges addressing its continued receipt of new adjustment source documents from an inequitable number of sites. This will further increase the Kansas City Tax Processing Center's workload and backlog of this workload.

**Recommendation 3:** The Commissioner, Wage and Investment Division, should finalize and execute the plan to rebalance the adjustment source document workload across the Tax Processing Centers.

**Management's Response:** The IRS agreed with this recommendation and will finalize and execute the plan to rebalance the adjustment source document workload across the Tax Processing Centers.

The IRS's inability to timely associate adjustment source documents with Forms 5147 and to properly store the adjustment case file for subsequent retrieval negatively impacts IRS operations and creates unnecessary burden on taxpayers. For example, IRS functional areas that work on tax accounts associated with taxpayers who had prior tax account adjustments may be required to burden taxpayers by asking them to provide the same information previously provided because their information may not be retrievable. This also results in delays in the functional area's ability to timely work cases as they await duplicate information from the taxpayer. The increased burden and delays to functional areas is because source documents have not been correlated with the Forms 5147, so IRS Files Management has no means to locate this information.

**Recommendation 4:** The Commissioner, Wage and Investment Division, should develop a comprehensive strategy that outlines actions the IRS plans to take, the resources needed, and the time frame to resolve its backlog of adjustment source documents.

**Management's Response:** The IRS agreed with this recommendation and will develop an action plan to resolve the backlog of adjustment source documents.

### **Additional Actions Are Needed to Ensure That Retention Processes Are Followed to Allow Adjustment Case File Retrieval**

In our discussions with Files Management personnel at the Ogden Tax Processing Center, we discovered that more than 341,000 adjustment case files were sent in three separate shipments to the Federal Records Center out of numerical DLN order. As a result, the Federal Record Center is unable to store these case files for subsequent retrieval. These shipments were made despite IRS officials being fully aware of the contract with the National Archives and Records Administration that requires adjustment case files be placed in numerical DLN order before they are sent to the Federal Records Center.

IRS management stated that these adjustment case files were sent to the Federal Records Center out of numerical DLN order unintentionally. Files Management personnel in Ogden stated that the transshipments from Kansas City were received out of order and needed to be processed and closed to increase available storage space within the Ogden Tax Processing Center.

## **A Comprehensive Strategy Is Needed to Address the Significant Backlog of Adjustment Source Documentation Inventory**

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Additionally, they stated they did not know if the Federal Records Center would be returning the case files to the Ogden Tax Processing Center. As of January 2024, Files Management personnel stated the files remained at the Federal Records Center.

The Commissioner, Wage and Investment Division, should:

**Recommendation 5:** Coordinate with the Federal Records Center to determine what steps need to be taken to correct the out of numerical DLN order for the files incorrectly sent.

**Management's Response:** The IRS agreed with this recommendation and will coordinate with the Federal Records Center to determine the steps needed to correct the out of numerical Document Locator Number order of the adjustment case files.

**Recommendation 6:** Ensure that all adjustment case files sent to the Federal Records Center are in numerical DLN order as required.

**Management's Response:** The IRS agreed with this recommendation and will implement review processes to provide assurance that all adjustment case files are sent to the Federal Records Center in numerical DLN order.

### **Better Use of Resources May Be Achieved Through Improved Accuracy of Transshipments**

Personnel at the Ogden Tax Processing Center informed us that shipments from the Kansas City Tax Processing Center that were to contain adjustment source documents also included other non-related files. This required personnel at the Ogden Tax Processing Center to waste resources identifying these non-related files, and to then waste resources to ship those items back to the Kansas City Tax Processing Center. Files Management personnel in the Ogden Tax Processing Center stated that the Kansas City Tax Processing Center sent eight transshipments of what was supposed to be adjustment source documents from June 2023 through September 2023. However, the transshipments included other miscellaneous items not related. For example, these shipments included:

- 32 boxes of tax returns and related documentation that had been sent to the Kansas City Submission Processing Center to be returned to the files storage area.
- 4 pallets of empty white boxes.
- 8 pallets that included paper-filed, unprocessed Forms 1040, *Individual Income Tax Returns*, as well as unopened mail.

After identification of the unrelated information erroneously shipped to the Ogden Tax Processing Center, it required three shipments to get these items back to the Kansas City Tax Processing Center during October and November 2023 at an estimated shipping cost of \$2,000.

**Recommendation 7:** The Commissioner, Wage and Investment Division, should develop policies and procedures to ensure the accuracy of shipments between Tax Processing Centers.

**Management's Response:** The IRS agreed with this recommendation. The IRS has policies and procedures in place for transshipments between Tax Processing Centers and provided training to Tax Processing Center employees and vendors in February 2024.

## **Appendix I**

### **Detailed Objective, Scope, and Methodology**

The overall objective of this evaluation was to determine whether a business justification exists for the continued use of paper source documents to support electronic tax account transactions and if improvements can be made with the adjustment source documentation process. To accomplish our objective, we:

- Evaluated the IRS's processes for correlating the Form 5147 to the source documents.
- Observed the processes used by the IRS to receive and store adjustment source documentation.
- Evaluated the efforts made by the IRS to decrease the backlog.
- Determined if the IRS had developed and implemented a strategy to eliminate the backlog and stay up to date on processing current adjustment source documentation.
- Evaluated the process related to fulfilling internal requests for adjustment source documentation and determined the impact on taxpayers.

#### **Performance of This Review**

This review was performed at the Tax Processing Centers in Kansas City, Missouri; Austin, Texas; and Ogden, Utah, during the period May through November 2023. Additionally, this review was performed with information obtained from the Submission Processing function within the Wage and Investment Division during the period May through December 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 Frank O'Connor, Director; Brandon Crowder, Supervisory Evaluator; Andrew Landers, Lead Evaluator; and Schiller C. Joseph, Evaluator.

#### **Data Validation Methodology**

We performed tests to assess the reliability of the reports providing inventory monitoring data of Integrated Data Retrieval System association mail at the Tax Processing Centers. We evaluated the data by interviewing knowledgeable agency officials and observing Integrated Data Retrieval System association mail inventory at the three Tax Processing Center sites. Additionally, we performed some data testing on key information in the reports including reviewing the data for obvious invalid values, determining expected ranges, and inquiring about any negative numbers. We concluded that the reliability of the numbers contained in the inventory monitoring reports related to the adjustment source documents are inaccurate and unreliable. The inventory numbers contained in this report are provided for background information and represent the numbers provided by the IRS during this evaluation.

**Management's Response to the Draft Report**



**DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308**

April 5, 2024

MEMORANDUM FOR RUSSELL P. MARTIN  
DEPUTY INSPECTOR GENERAL FOR INSPECTIONS AND  
EVALUATIONS

FROM:

Kenneth C. Corbin  
Commissioner, Wage and Investment Division

Digitally signed by Kenneth  
C. Corbin  
Date: 2024.04.05 11:53:35  
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SUBJECT:

Draft Evaluation Report – A Comprehensive Strategy Is Needed  
to Address the Significant Backlog of Adjustment Source  
Documentation Inventory (Evaluation No.: IE-23-006)

Thank you for the opportunity to review and provide comments on the subject draft report. We appreciate your acknowledgement of the challenges faced and overcome by the IRS in recovering from the closure of our Submission Processing Centers (SPCs) at the onset of the COVID-19 pandemic in early 2020. While the SPCs were closed for three to four months, depending on location, mail containing remittances, tax returns, correspondence, and other administrative materials continued to arrive.

Upon carefully reopening and recalling employees to work in a socially distanced environment limiting numbers of employees in the workspace, there was a tremendous accumulation of mail to process, which eventually transitioned to a substantial volume of tax returns in the processing pipeline and administrative records of other tax-related transactions to be processed. Administrative tax records generally include the supporting source documents for tax transactions, including but not limited to amended tax returns, administrative case files of examination or collection activities, or other internal documents that are the basis for adjustments to tax accounts. Unlike tax returns that are moved directly from the pipeline processing area to the Files Function for immediate shelving, administrative documents may be received from other campuses and field locations nationwide. Each account transaction generates a unique Document Locator Number (DLN) that determines where the related documents will be filed, much like the Dewey Decimal System used by libraries in shelving books.

When a transaction posts to an account, a detailed summary of the transaction, including the DLN, is printed to Form 5147, *IDRS Transaction Record*. Form 5147 serves as the cover page for the document(s) to be filed. Employees must physically

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associate the form with the applicable documents prior to shelving. Once shelved, the documents are easily retrievable because the transaction's DLN identifies their location, either at a SPC or at a Federal Records Center. The association of Form 5147 with source documents is a time-consuming activity and, as a residual effect of the pandemic conditions, we are continuing to process an unusually large inventory of documents.

The backlog of original tax returns to be processed was eliminated in January 2023. At that time, employees were reassigned from front-end processing to the Files Functions, which permitted experienced Files employees to redirect their attention to the backlog of documents to be associated and filed. Increasing the number of employees dedicated to the work was a viable short-term solution for bringing the inventory down to a level where it can be processed timely. In the longer term, we are using additional funding provided through the Inflation Reduction Act of 2022<sup>1</sup> to reduce and, eventually, eliminate paper inventories. For example, the Document Upload Tool permits taxpayers to respond to notices requesting additional information by uploading those documents directly to our systems, where they are processed and stored electronically. We also piloted and are expanding scanning initiatives to convert paper tax returns and other documents to electronic format for both processing and record retention purposes. Eliminating paper inventories will be the key to successfully overcoming the current challenges associated with storing and retrieving hard-copy records of tax administration.

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

Attachment

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<sup>1</sup> Pub. L. 117-169

## A Comprehensive Strategy Is Needed to Address the Significant Backlog of Adjustment Source Documentation Inventory

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Attachment

### **Recommendations**

The Commissioner, Wage and Investment Division, should:

#### **RECOMMENDATION 1**

Conduct an inventory to update and correct current inventory levels of adjustment source documents.

#### **CORRECTIVE ACTION**

We agree. We will conduct an inventory to update and correct current inventory levels of adjustment source documents.

#### **IMPLEMENTATION DATE**

July 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 2**

Ensure managers are performing reviews of the Miscellaneous Inventory Report to ensure the accuracy of the reporting of receipts, transshipments, and closures as required.

#### **CORRECTIVE ACTION**

We agree. We will remind management at each campus of the requirement to review and validate the Miscellaneous Inventory Report (MIR) to ensure the accuracy of reported receipts, transshipments, and closures. Additionally, we are developing a procedure that mandates final approval of the MIR by the Planning and Analysis Manager at each campus before sending the report to Headquarters.

#### **IMPLEMENTATION DATE**

July 15, 2024

#### **RESPONSIBLE OFFICIAL**

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

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### **CORRECTIVE ACTION MONITORING PLAN**

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

### **Recommendations**

#### **RECOMMENDATION 3**

The Commissioner, Wage and Investment Division, should finalize and execute the plan to rebalance the adjustment source document workload across the Tax Processing Centers.

#### **CORRECTIVE ACTION**

We agree. We will finalize and execute our plan to rebalance the adjustment source document workload across the Tax Processing Centers.

#### **IMPLEMENTATION DATE**

February 15, 2025

#### **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 4**

The Commissioner, Wage and Investment Division, should develop a comprehensive strategy that outlines actions the IRS plans to take, the resources needed, and the time frame to resolve its backlog of adjustment source documents.

#### **CORRECTIVE ACTION**

We agree. We will develop an action plan to resolve the backlog of adjustment source documents.

#### **IMPLEMENTATION DATE**

October 15, 2024

#### **RESPONSIBLE OFFICIAL**

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

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**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**

Coordinate with the Federal Records Center to determine what steps need to be taken to correct the out of numerical DLN order for the files incorrectly sent.

**CORRECTIVE ACTION**

We agree. We will coordinate with the Federal Records Center (FRC) to determine the steps taken to correct the out of numerical Document Locator Number (DLN) order of the adjustment case files.

**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 6**

Ensure that all adjustment case files sent to the Federal Records Center are in numerical DLN order as required.

**CORRECTIVE ACTION**

We agree. We will implement review processes to provide assurance that all adjustment case files sent to the Federal Records Center are in numerical DLN order.

**IMPLEMENTATION DATE**

June 15, 2024

**RESPONSIBLE OFFICIAL**

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

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**CORRECTIVE ACTION MONITORING PLAN**

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

**Recommendation**

**RECOMMENDATION 7**

The Commissioner, Wage and Investment Division, should develop policies and procedures to ensure the accuracy of shipments between Tax Processing Centers.

**CORRECTIVE ACTION**

We agree. Policies and procedures for transshipments between the Tax Processing Centers are outlined in IRM 3.10.72.11, *Transshipment Guidelines* and Document 13056, *Employee Toolkit: Shipping for Personally Identifiable Information (PII)*. Transshipment training was provided to the Tax Processing Centers and to vendors on February 21, 2024, and February 29, 2024.

**IMPLEMENTATION DATE**

Implemented

**RESPONSIBLE OFFICIAL**

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

**CORRECTIVE ACTION MONITORING PLAN**

N/A

## **Appendix III**

### **Abbreviations**

DLN	Document Locator Number
IRS	Internal Revenue Service
TIGTA	Treasury Inspector General for Tax Administration



**To report fraud, waste, or abuse,  
contact our hotline on the web at [www.tigta.gov](http://www.tigta.gov) or via e-mail at  
[oi.govreports@tigta.treas.gov](mailto: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](http://www.tigta.gov/form/suggestions).**

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