



*Controls Over Records Storage  
Costs Could Be Improved*

**September 18, 2014**

**Reference Number: 2014-10-074**

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

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## HIGHLIGHTS

### CONTROLS OVER RECORDS STORAGE COSTS COULD BE IMPROVED

## Highlights

**Final Report issued on  
September 18, 2014**

Highlights of Reference Number: 2014-10-074 to the Internal Revenue Service Chief of Agency-Wide Shared Services and Commissioner for the Wage and Investment Division.

### IMPACT ON TAXPAYERS

As of March 2014, the IRS had 5.42 million cubic feet of paper tax records stored at various Federal Records Centers throughout the country. During Fiscal Year 2013, the IRS paid approximately \$33 million for paper tax records storage services. Inefficient management of costs related to records storage reduces the resources the IRS has available to deliver its mission.

### WHY TIGTA DID THE AUDIT

The objective of this review was to determine whether the IRS is managing its paper tax records storage needs in a cost-effective manner.

### WHAT TIGTA FOUND

TIGTA identified two areas in which controls over records storage costs could be improved. Specifically, TIGTA found that, as of June 2013, the IRS had 238,523 cubic feet of records past due for disposal for which it was obligated to pay ongoing monthly storage costs. As a result, unnecessary costs of more than \$700,000 were incurred for those records. During our audit, the IRS took a number of actions to address the volume of records past due for disposal and minimize future costs. The IRS reduced its volume of records past due for disposal from 238,523 cubic feet as of June 2013 to 16,013 cubic feet as of March 2014.

TIGTA also found that the review process and documentation supporting records storage service invoices were not sufficient to

reasonably validate the charges billed for the services. For example, TIGTA's review of the invoice certification process from May 2013 through March 2014 did not identify any evidence that the IRS performed a review of supporting information available from the National Archives and Records Administration or in any way compared the invoiced charges to IRS internal records prior to certifying the invoices for payment. During this period, the IRS paid the National Archives and Records Administration \$30.8 million for storage services. The IRS acknowledged that the approach used to certify these invoices needed improvement and advised TIGTA that it is in the process of addressing this issue by developing additional guidance specifically focused on reviewing and validating invoice charges.

### WHAT TIGTA RECOMMENDED

TIGTA recommended that the Chief, Agency-Wide Shared Services, continue to carefully monitor the volume of records past due for disposal and address any delays in timely destruction of those records. In addition, the Commissioner, Wage and Investment Division, in coordination with the Chief, Agency-Wide Shared Services, should ensure that established procedures to verify invoice charges are adhered to prior to certifying payment and review the validity of all charges TIGTA identified as not supported by required documentation.

In their response, the IRS agreed with two of the three recommendations. The IRS plans to continue to monitor the document disposal process. The IRS also plans to take actions to ensure that established procedures, or approved alternative procedures, are followed when certifying invoiced charges. The IRS disagreed with the recommendation regarding reviewing the validity of all charges identified as not supported by required documentation.

TIGTA believes that the \$30.8 million paid for records storage service charges that were not supported by required documentation represents a material amount warranting further review by the IRS.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

September 18, 2014

**MEMORANDUM FOR** CHIEF, AGENCY-WIDE SHARED SERVICES  
COMMISSIONER, WAGE AND INVESTMENT DIVISION

**FROM:** Michael E. McKenney  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Controls Over Records Storage Costs Could Be Improved (Audit # 201310003)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) is managing its paper records storage needs in a cost-effective manner. This audit is included in our Fiscal Year 2014 Annual Audit Plan and addresses the major management challenge of Achieving Program Efficiencies and Cost Savings.

Management's complete response to the draft report is included as Appendix V.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. If you have any questions, please contact me or Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations).



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*Controls Over Records  
Storage Costs Could Be Improved*

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*Abbreviations*

ARM	Area Records Manager
AWSS	Agency-Wide Shared Services
FRC	Federal Records Center
FY	Fiscal Year
IRS	Internal Revenue Service
NARA	National Archives and Records Administration



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## *Controls Over Records Storage Costs Could Be Improved*

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### *Background*

As of March 2014, the Internal Revenue Service (IRS) had 5.42 million cubic feet of paper tax records stored at Federal Records Centers (FRC) throughout the country. During Fiscal Year (FY)<sup>1</sup> 2013, the IRS paid approximately \$33 million for paper tax records storage and servicing.

The Records and Information Management Program, within the office of the Chief, Agency-Wide Shared Services (AWSS), is responsible for overseeing the management of IRS records. The mission of the Records and Information Management Program is to provide guidance and oversee related functions and processes which ensure that IRS records are available when they are needed, in order to conduct business, adequately document IRS activities, and protect the interests of the Federal Government and taxpayers. Major goals of the Records and Information Management Program include furnishing information when required to manage and operate the organization and providing information and records storage at the lowest possible cost. These goals are accomplished by storing and managing records through the use of local files area storage, IRS-operated records centers, and National Archives and Records Administration (NARA) FRCs.

The IRS Records Officer establishes policies and procedures for all records management within the IRS and also coordinates as required with the NARA. For example, within the Wage and Investment Division, income tax returns filed by individuals, partnerships, and fiduciaries are normally destroyed on or after January 16 of each year, six years after the end of the processing year.<sup>2</sup> The Wage and Investment Division is the largest customer of the records management program, and 93 percent of the total IRS storage holdings at the NARA FRCs are tax records.

Each IRS functional organization is required to designate a business unit information resource coordinator to be responsible for local records activities. In addition, there are 16 area records managers (ARM) nationwide who have overall responsibility for coordinating with the information resource coordinators as necessary. For example, information resource coordinators are required to notify their respective ARMs of any new records that must be scheduled or any changes that must be made to their existing Records Control Schedule.

The IRS uses 18 different FRCs to store nonelectronic (paper) tax and administrative records. These centers are operated by the NARA. The FRCs the IRS uses to store its records generally align with IRS office locations to reduce transportation and commercial shipping costs.

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<sup>1</sup> Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.

<sup>2</sup> IRS, Document 12990 (Rev. 4-2014), Catalog Number 57910D, *Records and Information Management Records Control Schedules*, p. 56 (April 2014). A processing year is the calendar year in which the tax return or document is processed by the IRS.



## Controls Over Records Storage Costs Could Be Improved

Additionally, in 1995, the NARA acquired a lease agreement with one of its private sector landlords for the IRS in Dayton, Ohio, adjacent to its FRC. The Dayton Building 3 has the capacity for storing approximately 1,100,000 cubic feet of IRS Forms 1120, *U.S. Corporation Income Tax Return*.

While the total volume of paper records stored by the IRS has been slowly declining and progress has been made in storing records digitally due to increases in electronic filing, the IRS will continue to require storage for a significant quantity of paper tax records for the foreseeable future. Specifically, between September 2012 and March 2014, the IRS decreased its paper tax records storage needs by approximately 91,204 cubic feet. Future storage needs for tax records are expected to decrease further as additional taxpayers transition to electronic filing. In June 2014, the IRS Electronic Tax Administration Advisory Committee projected that, for the 2014 Filing Season, the IRS improved electronic filing with a 1.3 percent overall increase in electronic filing of all major returns and an overall projected electronic filing rate of 75.4 percent for all major types of tax returns.

The largest barrier to more substantial progress is employment tax returns, which have an overall projected electronic filing rate of only 32.7 percent for the 2014 Filing Season. While progress towards increasing electronic filing has been made, the IRS will continue to require storage for a significant quantity of paper tax records in the future. Figure 1 provides the historical IRS tax records storage costs from FY 2012 to March 2014. At the time of our review, the charge for records storage at NARA sites was \$0.23 per cubic foot per month. Records are destroyed based on the records schedule that identifies the records retention period for each type of record. Records are destroyed by the NARA.

**Figure 1: Costs Related to the Use of FRCs for Storage of Paper Tax Records**

Fiscal Year	Storage <sup>3</sup> (millions)	Total Service Costs <sup>4</sup> (millions)	Total (millions)
2012	\$14.45	\$19.25	\$33.70
2013	\$15.36	\$17.71	\$33.07
2014**	\$7.48	\$9.16	\$16.64
Total	\$37.29	\$46.12	\$83.41

Source: The summary information based on NARA invoices for the storage and service of IRS tax records.

\*\* FY 2014 is through March 2014.

<sup>3</sup> Storage is the cost of storing records at the facilities.

<sup>4</sup> Service costs include shelving/reference/disposal costs related to sending IRS records that an IRS employee requested, refiling the records when they are returned to the FRC, and disposing of the records when they reach their disposal date.



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This review was performed at the AWSS field office in Crystal City, Virginia; IRS Campuses<sup>5</sup> in Kansas City, Missouri, and Cincinnati, Ohio; and FRCs in Independence, Missouri, and Dayton, Ohio, during the period June 2013 through May 2014. Our review focused primarily on cost control procedures related to tax records because they comprise 93 percent of all records in storage. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

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<sup>5</sup> The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.





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## *Controls Over Records Storage Costs Could Be Improved*

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### *Results of Review*

Our review identified two areas in which controls over records storage costs could be improved. Specifically, we found unnecessary costs were incurred as a result of storing records past due for destruction. In addition, we determined that the review process and supporting documentation for NARA records storage service invoices were not sufficient to reasonably validate charges. Further, we did not identify any material delays<sup>6</sup> relating to the retrieval and delivery of a random sample of 150 Tax Year<sup>7</sup> 2012 Form 1040, *U.S. Individual Income Tax Return*, paper tax returns that we requested from records storage.

#### ***Unnecessary Costs Were Incurred Storing Records That Should Have Been Destroyed***

We found unnecessary costs were incurred as a result of storing records past due for destruction. As of June 2013, the IRS had 238,523 cubic feet of records past due for disposal on which it was obligated to pay ongoing monthly storage costs. We calculated the excess costs paid from the start of FY 2011 through March 2014 and determined that the IRS had to pay \$701,097 in excess storage costs related to the 238,523 cubic feet of records past due for disposal. While these unnecessary expenditures are not a significant portion of the approximately \$15 million the IRS spends annually on storage costs for tax records, the current IRS budget environment makes it a priority to find any cost savings.

When records stored at an FRC are eligible for destruction, the NARA issues a Form NA-13001, *Notice of Eligibility for Disposal*, at least 90 days before the date the records are scheduled for destruction. For example, individual tax returns (the Form 1040 series) are eligible to be destroyed six years after the end of the processing year. The IRS's procedures place overall responsibility for responding to these notices, including coordinating with appropriate business unit staff, with 16 ARMs nationwide. The ARMs are responsible for verifying the information on the notice of disposal and coordinating the disposal. The appropriate business unit staff approves the notice of disposal and returns it to the ARM for processing. The ARM then forwards the approved notice of disposal to the NARA. The IRS remains responsible for the storage costs associated with any delays in this process.

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<sup>6</sup> Based on our testing, we are 95 percent confident that the error rate associated with the IRS's ability to locate the 2012 population of 18,373,716 Form 1040 paper returns we identified was 1.98 percent or less during our test period. Because we did not sample from all other years and types of tax records in storage, this error rate is not projectable to the broader population of all tax records in storage.

<sup>7</sup> A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.



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The large backlog of disposals in June 2013 was attributable to several causes, including a lack of complete and reliable management information regarding the volume of records past due for disposal, a lack of timely follow-up on the disposition of Forms NA-13001, and inefficient routing of Forms NA-13001. During our audit fieldwork, the IRS took a number of actions to address these issues. Specifically, the IRS requested that the NARA begin sending quarterly reports of all overdue disposals to allow for better tracking and reconciliation of pending Forms NA-13001. Reminders were also sent to all ARMs advising them that approval of Forms NA-13001 must be completed within two weeks, and if no response is received, the ARM is required to escalate the disposition approval to the Headquarters information resource coordinator. The IRS also worked with the NARA to ensure that all Forms NA-13001 are routed timely to the responsible ARM.

As a result of these control enhancements and a focused effort by the IRS, the inventory of the records past due for disposal was reduced and controls over this process were improved. Specifically, our review identified that the IRS reduced its records past due for disposal from 238,523 cubic feet as of June 2013 to 16,013 cubic feet as of March 2014. Although the IRS has made improvements to the records disposal process, it is critical that AWSS management continue to regularly monitor the inventory level of records past due for disposal to avoid unnecessary costs in the future.

Our review also found that as of March 2014, the IRS had an additional 203,381 cubic feet of records past due for disposal that it is required to retain because these records are in frozen status. Frozen records are those records identified as having special circumstances that alter the administrative, legal, or fiscal value of the records. Frozen records, regardless of their age, cannot be disposed until the freeze is lifted. Our review found that the majority of the frozen records past due for disposal are tax records related to tobacco litigation. The litigation freeze was requested by the U.S. Department of Justice.

The NARA advised us that, after we began our fieldwork, it did directly contact the Department of Justice regarding the status of the freeze and was informed that the moratorium on destruction was still active because all items of the litigation had not been resolved. The annual cost of storage for the 203,381 cubic feet of records past due for destruction, but in frozen status, is more than \$550,000. Only the Department of Justice has the authority to lift the litigation freeze.

### ***Recommendation***

The Chief, AWSS, should:

**Recommendation 1:** Continue to carefully monitor the volume of records past due for disposal and address any delays in the timely destruction of those records.

**Management's Response:** The IRS agreed with this recommendation and stated that procedures have been implemented to improve tracking and reconciliation of



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Forms NA-13001 issued to the ARMs for records with upcoming disposal dates. The IRS obtains quarterly reports of all overdue Forms NA-13001 from the NARA and issues reminders to the ARMs advising them of the need for action on the overdue forms within two weeks. An escalation process has also been implemented to address instances when timely approvals of Forms NA-13001 cannot be obtained. These actions have reduced the volume of records past due for disposal by more than 93 percent. The IRS will continue to follow these procedures for monitoring the document disposal process.

### ***The Review Process and Supporting Documentation for Records Storage Service Invoices Were Not Sufficient to Validate Charges***

We found that, during the period May 2013 through March 2014, the IRS did not perform a sufficient review of NARA invoices for \$30.8 million in tax records storage services before certifying them for payment. Specifically, we did not identify any evidence that the IRS performed a review of supporting information available from the NARA or compare the charges to any internal IRS records prior to certifying the invoices for payment during the period May 2013 through March 2014. Instead, the IRS primarily relied on a comparison of the invoice charges to prior cost trends and its overall budgeted amount for records storage.

IRS procedures require careful review of all vendor invoices prior to certification for payment and state that an invoice alone is not sufficient documentation to support receipt and acceptance and that appropriate support documentation should be maintained. IRS policies require that personnel responsible for receipt, inspection, and acceptance of services tendered by a contractor will maintain the evidence of inspection documentation.

The review of NARA invoices is a complicated task involving charges related to actions taken by 18 separate records storage centers, each providing a variety of different records storage, reference, refile, and disposal services. The IRS acknowledged that the approach used to certify NARA invoices requires improvement and advised us that they plan to develop supplemental guidance specifically focused on reviewing and validating storage invoice charges, including a comparison of charges to both NARA supporting reports and internal IRS records. The IRS was still in the process of developing these procedures at the conclusion of our audit fieldwork. Without careful review of vendor invoices prior to certification for payment, the IRS cannot be reasonably assured that it is paying only for goods and services it actually received and that it is paying the correct price for those goods and services.



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## *Controls Over Records Storage Costs Could Be Improved*

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### **Recommendations**

The Commissioner, Wage and Investment Division, in coordination with the Chief, AWSS, should:

**Recommendation 2:** Ensure that established procedures to verify invoice charges are adhered to prior to certifying payment.

**Management's Response:** The IRS agreed with this recommendation and stated that it is taking actions to ensure that established procedures, or approved alternative procedures, are followed when certifying invoiced charges for payment.

**Recommendation 3:** Review the validity of the \$30.8 million paid for records storage service charges that were not supported by required documentation. Actions should be initiated to recover any funds identified as being paid erroneously.

**Management's Response:** The IRS disagreed with the recommendation. IRS management does not believe any potentially erroneous charges subject to recovery would be significant and stated that with continued reduced staffing, it is imperative they apply their efforts and resources to strengthening the review process for current and future charges. The organizations responsible for this process have collaborated to ensure that procedures to be used in validating the charges for record storage services are being addressed. The IRS did not agree to take additional action on this recommendation.

**Office of Audit Comment:** We agree that strengthening the review process for future charges is important for the IRS. However, we continue to believe that a review of the validity of past charges not supported by required documentation should also be completed. The IRS noted that it does not believe any potentially erroneous charges subject to recovery would be significant and disagreed with our outcome measure. Because the actual amount of erroneous charges cannot be reasonably determined, and is likely substantially less than the \$30.8 million of charges, TIGTA is not reporting an outcome measure for this amount.



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## **Appendix I**

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

The overall objective of this review was to determine whether the IRS is managing its paper tax records storage needs in a cost-effective manner.

- I. Determined the policies, procedures, and guidelines applicable to the IRS's paper records storage.
  - A. Obtained and reviewed policies, procedures, and guidelines pertaining to the retention requirements for physical (paper hard copy) tax records.
  - B. Identified the required retention period for the various types of IRS tax records, including tax returns and examination, appeals, and collection case records.
  - C. Analyzed guidelines pertaining to the transfer of tax records to the NARA.
  - D. Obtained and reviewed all policies, procedures, and guidelines for monitoring the status of records sent to the NARA and ensuring their timely disposal.
- II. Assessed the results of the IRS's efforts to reduce paper tax records storage needs and transition to an all-electronic records storage environment.
  - A. Reviewed whether the IRS has developed an overall action plan to guide its efforts to reduce the volume of physical records it stores and transition to an all-electronic records storage environment.
  - B. Evaluated trends in the volume, by type of return, of paper tax returns.
  - C. Identified the total annual cost associated with storing and servicing paper tax returns including handling, packing, shipping, storage, retrieval, refiling, and disposal.
- III. Assessed controls over costs associated with off-site records storage.
  - A. Reviewed controls over the disposal of unneeded tax records (expired statutory disposal date).
  - B. Reviewed controls over the frozen tax records (whose scheduled disposition has been temporarily suspended because of special circumstances that alter the administrative, legal, or fiscal value of the records).
  - C. Reviewed controls over the FRC storage and reference process.
    1. Obtained an extract of individual paper tax returns processed during the 2012 Filing Season.



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2. Selected a random sample of 150 Tax Year<sup>1</sup> 2012 Form 1040, *U.S. Individual Income Tax Return*, paper tax returns and ordered the documents remotely from the appropriate FRC. We selected our sample randomly from 18,373,716 Tax Year 2012 Form 1040 paper returns we identified and extracted from the data stored at the Treasury Inspector General for Tax Administration's Data Center Warehouse. We utilized a random sample because we wanted each item sampled to have an equal chance of being selected. Our sampling methodology was reviewed by our contracted statistician.
  3. Reviewed the sampled documents received and assessed whether the documents were original and complete, including all schedules filed. If documents were not available, we verified there were supporting explanations regarding unavailability.
- D. Reviewed the management information utilized to monitor records storage program costs and program efficiency.

### **Data Validation Methodology**

During this review, we relied on data stored at the Treasury Inspector General for Tax Administration's Data Center Warehouse to select a sample of Tax Year 2012 Form 1040 paper tax returns. This sample was selected from data extracted in November 2013 from the Return Transaction File<sup>2</sup> (Processing Year<sup>3</sup> 2013). To assess the reliability of computer-processed data, we ensured that the data extract contained the specific data elements we requested and compared the data in the extract with the data on the sample source documents received (Tax Year 2012 Form 1040 tax returns). We determined that the extracted data used in our review were sufficiently reliable for the purpose of our testing. Because the use of this extracted data was limited solely to obtaining a sample of paper tax returns for review of the FRC storage and reference process, we did not perform the testing necessary to fully validate whether the population we identified included all Tax Year 2012 Form 1040 paper tax returns filed.

### **Internal controls methodology**

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: the IRS's policies and procedures for transferring, referencing, and disposing of records and policies governing the

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<sup>1</sup> A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due. For most individual taxpayers, the tax year is synonymous with the calendar year.

<sup>2</sup> This file contains data transcribed from initial input of the original individual tax returns during return processing.

<sup>3</sup> The calendar year in which the tax return or document is processed by the IRS.



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receipt and acceptance process for invoiced charges from the storage contractor. We evaluated these controls by interviewing management, reviewing various forms and data used to support records transfers, referencing records, disposal of records, and the invoiced charges from the service provider (NARA).



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**Appendix II**

*Major Contributors to This Report*

Gregory D. Kutz, Assistant Inspector General for Audit (Management Services and Exempt Organizations)

Alicia P. Mrozowski, Director

Anthony J. Choma, Audit Manager

Kanika Kals, Lead Auditor

Jamelle L. Pruden, Senior Auditor

Michele N. Strong, Senior Auditor





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**Appendix III**

*Report Distribution List*

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
Deputy Commissioner for Operations Support OS  
Deputy Commissioner for Services and Enforcement SE  
Chief Counsel C  
National Taxpayer Advocate TA  
Director, Office of Program Evaluations and Risk Analysis RAS:O  
Director, Office of Legislative Affairs CL:LA  
Office of Internal Control OS:CFO:CPIC:IC  
Audit Liaisons:  
    Chief, Agency-Wide Shared Services OS:A  
    Commissioner, Wage and Investment Division SE:W



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### **Appendix IV**

#### *Outcome Measure*

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on tax administration. This benefit will be incorporated into our Semiannual Report to Congress.

##### **Type and Value of Outcome Measure:**

Cost Savings – Funds Put to Better Use – Potential; \$701,097 in excess storage costs related to the 238,523 cubic feet of records past due for disposal (see page 4).

##### **Methodology Used to Measure the Reported Benefit:**

We found that as of June 2013, the IRS had 238,523 cubic feet of records past due for disposal for which the IRS was still paying storage costs. Although the IRS reduced its volume of records past due for disposal to only 16,013 cubic feet by March 2014, we calculated that for FY 2011 through March 2014, the IRS paid \$701,097 in excess storage costs related to the 238,523 cubic feet of records past due for disposal.

We calculated the months elapsed between the disposition date and the actual date of disposition and applied that to the monthly cost of storage for all of the past due records. We calculated the excess cost paid from the start of FY 2011 through March 2014.



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**Appendix V**

*Management's Response to the Draft Report*



COMMISSIONER  
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

AUG 29 2014

MEMORANDUM FOR MICHAEL E. MCKENNEY  
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Debra Holland *Debra L. Holland*  
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – Controls Over Records Storage Costs Could  
Be Improved (Audit # 201310003)

We appreciate the opportunity to review the subject draft report and provide comments. We are also appreciative of the Treasury Inspector General for Tax Administration's (TIGTA) acknowledgement that actions the IRS has taken to strengthen procedures have resulted in an approximate 92 percent reduction in the volume of records past due for disposal, from 238,000 cubic feet to 16,000 cubic feet. With 5.42 million cubic feet of paper tax records stored at 18 Federal Records Centers throughout the country, proper oversight of our record retention process is a critical activity, and we agree that improvements can be made to ensure charges billed for the storage services received are appropriately reviewed and validated prior to payment.

We agree with two of the three recommendations contained in the report. Improved policies have been implemented to ensure the appropriate approvals confirming the destruction of records scheduled for disposal are timely submitted to the National Archives and Records Administration. Procedures have also been implemented to ensure overdue and unacknowledged disposal notices are escalated for appropriate follow-up action. Training of personnel and a review of procedures for validating charges for record storage services are also being addressed.

We agree that reliance on comparative analyses for the validation of invoices submitted for payment led to a less rigorous review process; however, we do not believe the amount of any potentially erroneous payments would be significant and we do not consider a comprehensive review of all previously submitted invoices would be a productive use of our limited resources. The TIGTA does not provide an analysis to indicate the comparative analyses used by the IRS caused erroneous charges to be paid. As a result, we disagree with the potential Protection of Resources outcome measure of \$30.8 million. Such a measure suggests that the IRS would have incurred



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no costs for storing approximately 5.42 million cubic feet of paper tax records at 18 Federal Records Center locations, or for the attendant service associated with storage, retrieval, and delivery of those documents. Reporting the full amount of the expense paid for storage as a potential outcome is not reasonable, nor attainable.

Attached are our comments to your recommendations. If you have any questions, please contact me, or a member of your staff may contact Ivy McChesney, Director, Customer Account Services, Wage and Investment Division, at (404) 338-8910.

Attachment



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## *Controls Over Records Storage Costs Could Be Improved*

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Attachment

### **Recommendation**

The Chief, AWSS, should:

#### **RECOMMENDATION 1**

Continue to carefully monitor the volume of records past due for disposal and address any delays in the timely destruction of those records.

#### **CORRECTIVE ACTION**

Procedures have been implemented to improve tracking and reconciliation of Form NA-13001, *Notice of Eligibility for Disposal*, issued to the Area Records Managers (ARMs) for records with upcoming disposal dates. The IRS obtains quarterly reports of all overdue Forms NA-13001 from the National Archives and Records Administration, and issues reminders to the ARMs advising them of the need for action on the overdue forms within two weeks. An escalation process has also been implemented to address instances when timely approvals of Form NA-13001 cannot be obtained. These actions have reduced the volume of records past due for disposal by more than 93 percent. We will continue to follow these procedures for monitoring the document disposal process.

#### **IMPLEMENTATION DATE**

Implemented

#### **RESPONSIBLE OFFICIAL**

Director, Real Estate and Facilities Management, Agency Wide Shared Services

#### **CORRECTIVE ACTION MONITORING PLAN**

N/A

### **Recommendations**

The Commissioner, Wage and Investment Division, in coordination with the Chief, AWSS, should:

#### **RECOMMENDATION 2**

Ensure that established procedures to verify invoice charges are adhered to prior to certifying payment.

#### **CORRECTIVE ACTION**

We are taking actions to ensure established procedures, or approved alternative procedures, are followed when certifying invoiced charges for payment.

#### **IMPLEMENTATION DATE**

March 15, 2015



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**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**

Review the validity of the \$30.8 million paid for records storage service charges that were not supported by required documentation. Actions should be initiated to recover any funds identified as being paid erroneously.

**CORRECTIVE ACTION**

As mentioned above, we disagree with the potential outcome measure of \$30.8 million. We do not believe any potentially erroneous charges subject to recovery would be significant and, with continued reduced staffing, it is imperative we apply our efforts and resources to strengthening the review process for current and future charges. The organizations responsible for this process have collaborated to ensure procedures to be used in validating the charges for record storage services are being addressed. We do not agree to take additional action on this recommendation.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIAL**

N/A

**CORRECTIVE ACTION MONITORING PLAN**

N/A