

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Sensitive Tax Records Could Not Always Be Located or Timely Provided

August 31, 2020

Reference Number: 2020-10-050

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HIGHLIGHTS: Sensitive Tax Records Could Not Always Be Located or Timely Provided



Final Audit Report issued on August 31, 2020
Reference Number 2020-10-050

Why TIGTA Did This Audit

This audit was initiated because both TIGTA and the Government Accountability Office have previously issued reports highlighting control weaknesses in the IRS's ability to locate, retrieve, and control tax records. Our audit objective was to determine if the IRS has an effective process for timely locating certain paper files.

Impact on Taxpayers

The Federal Government's interest is harmed when the IRS is unable to produce the documents needed to support the IRS's position as part of an examination, appeal, tax court case, *etc.* Furthermore, taxpayers' privacy and financial data are put at risk if records, of which the IRS should have custody, cannot be located. In addition, inaccessible case files can cause taxpayer burden and hinder oversight.

What TIGTA Found

While taxpayers continue to file a large number of paper tax returns voluntarily, the IRS has difficulty locating and timely retrieving some paper tax records. According to the IRS, in Tax Year 2019, taxpayers filed 17.5 million paper tax returns. In addition to tax returns filed on paper, most IRS forms cannot be filed electronically, which results in the IRS processing, storing, and maintaining millions of additional paper records. As a result, the IRS invests significant resources into moving and storing paper tax records.

Based on a statistical sample of examinations and associated tax returns, TIGTA found that the IRS could not locate 12 (6 percent) of 185 examination case files and five (3 percent) of 185 individual tax returns. An additional 43 (23 percent) of 185 examination case files and 19 (10 percent) of 185 individual tax returns were located but not provided timely. Based on the sample, TIGTA estimates that almost 7,000 examination case files and tax returns may not be able to be located. In addition, if requested, TIGTA estimates more than 25,000 examination case files and tax returns may not be able to be provided timely. TIGTA determined that there are multiple reasons paper tax records cannot be located or timely provided, including that the IRS does not have a centralized system to track paper tax records nor does it have a quality review process to ensure that requested tax records are sent to the correct address.

It is critical that the IRS has systems and processes to control, locate, and retrieve tax records because each of the IRS operating divisions has an ongoing need to obtain tax returns and related information.

What TIGTA Recommended

TIGTA made four recommendations, including that the Commissioner, Wage and Investment Division, create a centralized system to track sensitive paper tax records and develop a quality review process to provide reasonable assurance that the correct tax records are being sent to the correct address.

In its response, the IRS agreed with the recommendations and stated that, dependent on funding and competing priorities, the IRS is pursuing improvements to document systems and tracking capabilities via its Integrated Modernization Business Plan. The IRS also plans to implement various quality reviews, identify and address delays in receipt of file requests, and ensure that files shipped due to campus closures are well-tracked, documented, and readily retrievable.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

August 31, 2020

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Sensitive Tax Records Could Not Always Be
Located or Timely Provided (Audit # 201910013)

This report presents the results of our review to determine if the Internal Revenue Service (IRS) has an effective process for timely locating certain paper files. This review is part of our Fiscal Year 2020 Annual Audit Plan and addresses the major management and performance challenge of *Achieving Operational Efficiencies*.

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

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



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Sensitive Tax Records Could Not Always Be Located or Timely Provided

Background

The Federal Records Act of 1950 requires that each Federal agency create and preserve agency records designed to furnish the information necessary to protect the legal and financial rights of the Government and of persons directly affected by the agency's activities.¹ Federal and Internal Revenue Service (IRS) regulations mandate that the IRS locate and retrieve paper tax records when necessary. Specifically, the Code of Federal Regulations states that agencies must ensure that records are available when needed, where needed, and in a usable format to conduct agency business.² The Code of Federal Regulations also states that agencies must create and maintain authentic, reliable, and usable records and ensure that they remain so for the length of their authorized retention period.

A comprehensive records management program provides policies and procedures for ensuring that records are organized and maintained to facilitate their use and ensure integrity throughout their authorized retention periods. The IRS established the Records and Information Management Program (hereafter referred to as the Records Program) to ensure the economical and efficient management of its records. In addition, the Records Program provides guidance and oversees related functions and processes to ensure that IRS records are available when and where they are needed, to whom they are needed, for only as long as they are needed. The Records Program also ensures that records are available to protect interests of the Federal Government and American taxpayers.

According to the Internal Revenue Manual (IRM), the IRS's Files Functions are responsible for the receipt, retrieval, retention, retirement, and destruction of paper tax records located at the IRS's Submission Processing campuses (hereafter referred to as campus) and the Federal Records Centers (FRC).³ The Files Functions' staff activities include, but are not limited to:

- Receiving, filing, and refiling documents.
- Servicing requests for documents, photocopies of documents, and other information maintained by the Files Functions.
- Retiring documents to the FRCs.
- Destroying documents when their retention period has lapsed.⁴

Many types of tax records, including income tax returns, examination case files, and additional tax assessments or abatements, are assigned document locator numbers as a means to identify, locate, and retrieve individual tax records when requested.⁵ Each IRS campus and FRC is assigned, and responsible for, a unique series of document locator numbers, which are used chronologically and sequentially for stored documents. Requests for original tax records or copies originate from IRS and other Federal employees, primarily using an IRS computer system

¹ 44 U.S.C. § 3101. See Appendix V for a glossary of terms.

² Code of Federal Regulations § 1220.32, The Federal Records Act of 1950, as amended, and 44 U.S.C. § 3102.

³ IRM 3.5.61.1 (Jan. 1, 2020). The IRS operates four campuses that receive, process, and store paper taxpayer records. These campuses are located in Fresno, California; Kansas City, Missouri; Austin, Texas; and Ogden, Utah.

⁴ IRM 3.5.61.5.1 (Jan. 1, 2020).

⁵ Some tax records are not given document locator numbers and are stored and retrieved using local IRS field office procedures.

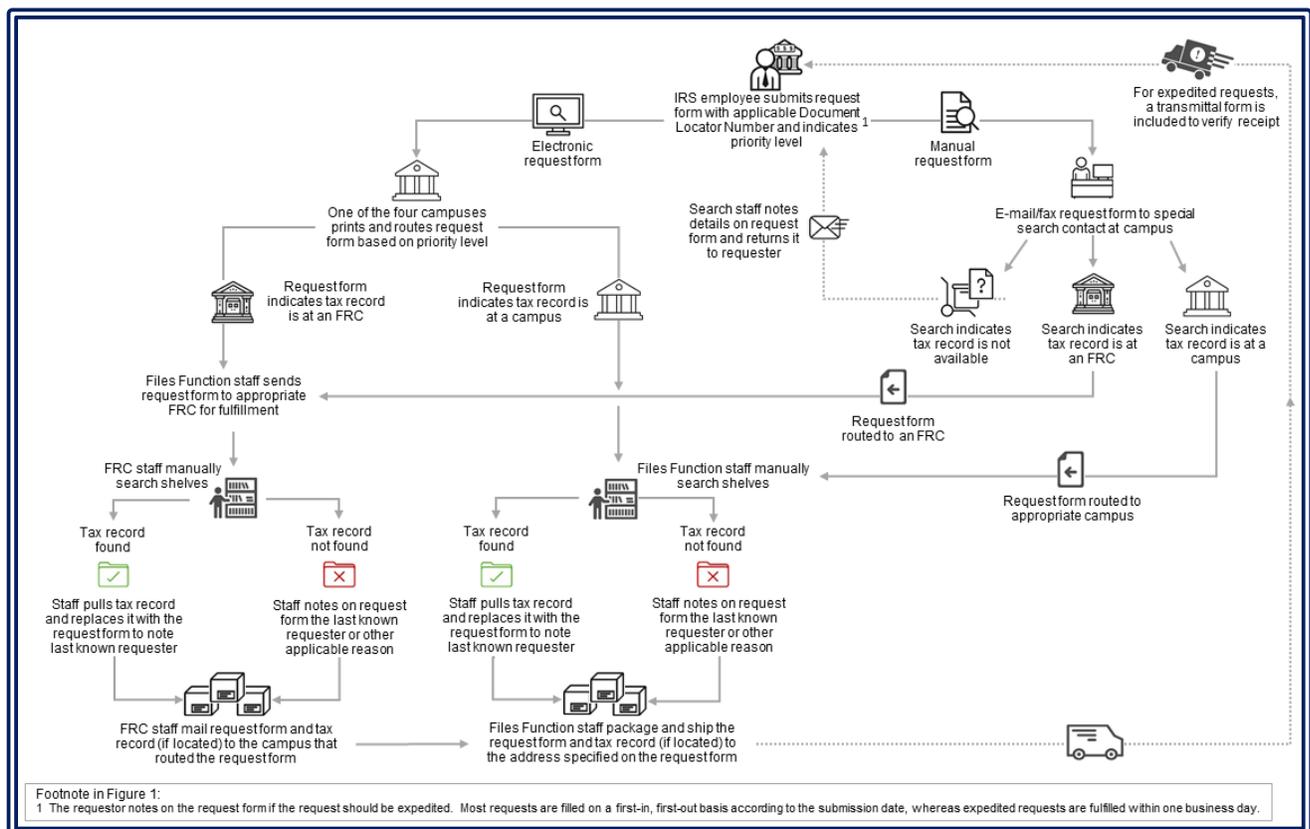


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or submitting a completed request form through e-mail or fax. According to the IRM, when a request for a paper tax record is made using the IRS computer system, the request is printed at the appropriate IRS campus, transferred to the Files Function or the FRC, and processed.⁶ However, if a request for a paper tax record is received at an IRS campus other than where that tax record is stored, the request is forwarded to the Files Function at the appropriate location.

For tax records stored at an IRS campus, Files Functions' staff process the requests by looking on the shelves for the tax record(s), removing it, and replacing it with a copy of the printed request. The copy of the printed request acts as a placeholder for the tax record during transfer and exchange of custody and until the record is returned. A Files Function staff member notates the original request form with initials and date, attaches the affiliated tax record, sorts and batches the fulfilled requests, and then sends the sorted and batched requests to the mailing address on the request forms. However, if Files Functions' staff cannot find the requested tax record, they should indicate this on the original request form by identifying the last known requester or providing a reason the record could not be located.⁷ Requests processed at the FRCs follow the same process, although IRS campuses serve as intermediaries between requesters and the FRCs in routing fulfilled requests. Figure 1 documents the process followed when an IRS employee submits a request form.

Figure 1: Process for Requesting and Retrieving Paper Tax Records



Source: Treasury Inspector General for Tax Administration (TIGTA) depiction of IRM 3.5.61 (Jan. 1, 2020).

⁶ IRM 3.5.61.1.10 (Jan. 1, 2020). A Form 4251, *Return Charge-Out*, is generated from the IRS computer system requests.

⁷ Requests are processed according to IRM 3.5.61.8.2 (Jan. 1, 2020) and IRM 3.5.61.8.3 (Jan. 1, 2020).



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The Files Function operates under variable timeliness requirements when processing tasks; however, if the requester receives no response from the Files Function after 14 business days for requests stored at the IRS campuses or 30 business days for requests stored at the FRCs, the requester can submit a second request. If the requester is still unable to secure the tax record after two requests, the requester completes a request for an expedited search.⁸ If the expedited request does not result in the tax record being located, the IRS may request a copy from the taxpayer.⁹

TIGTA and the Government Accountability Office (GAO) issued reports in Fiscal Years (FY) 2004 and 2007 highlighting weaknesses in the IRS's ability to locate, retrieve, and control tax records.

- In FY 2004, TIGTA found that some requested tax records could not be located or were not retrieved timely. Moreover, the IRS did not track specific requests for tax records stored at IRS campuses or at the FRCs, making it difficult to determine where in the process requests were lost or delays occurred.¹⁰
- In FY 2007, the GAO reviewed the IRS's case file storage, tracking, and documentation processes, finding that the IRS had an ineffective process to ensure that paper case files could be located timely and insufficient data to assess the performance of its paper case file processes. Specifically, the GAO found that the IRS did not track whether all of the case files requested were located or received timely or the reasons why case files could not be located.¹¹

Despite the weaknesses identified by TIGTA and the GAO, more than a decade later, the IRS continues to have challenges retrieving tax records when necessary. For example, in FY 2019, the IRS had difficulties timely providing paper tax records requested for two statutory audits conducted by TIGTA.¹² For one of these audits, TIGTA received documents nearly a year after the initial request was submitted. Furthermore, in FY 2019, IRS employees reported 188 instances in which records were potentially lost.¹³ However, the IRS stated that, if potentially lost records can be reconstructed from other systems of records or convenience copies held by other employees, it is not considered a reportable records loss to the National Archives and Records Administration because the information is recoverable.

⁸ This request is known as a special search request, which is conducted using Form 2275, *Records Request, Charge and Recharge*.

⁹ A request to the taxpayer is submitted using Letter 418C, *Amended/Original Return Unavailable, Copy Requested*.

¹⁰ TIGTA, Ref. No. 2004-10-186, *Better Procedures Are Needed to Locate, Retrieve, and Control Tax Records* (Sept. 2004).

¹¹ GAO, GAO-07-1160, *The Internal Revenue Service Can Improve Its Management of Paper Case Files* (Sept. 2007).

¹² TIGTA, Ref. No. 2019-30-054, *Fiscal Year 2019 Statutory Audit of Compliance With Notifying Taxpayers of Their Rights When Requested to Extend the Assessment Statute* (Aug. 2019); TIGTA, Ref. No. 2019-10-058, *Review of the Office of Appeals Collection Due Process Program* (Sept. 2019).

¹³ Lost records are reported using Form 15035, *Records Loss Reporting*.

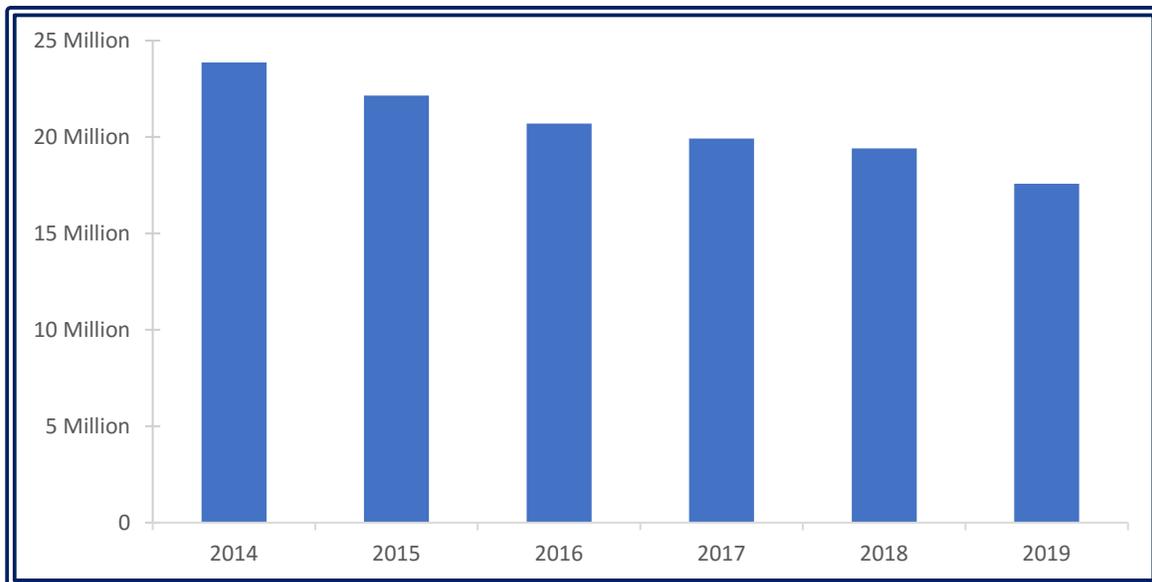


Results of Review

Notwithstanding the Increase in Electronic Tax Returns, Substantial Volumes of Paper Tax Records Are Received and Maintained

Despite the increase of electronic filing, taxpayers continue to file a large number of paper tax returns voluntarily. According to the IRS, in Processing Year 2019, taxpayers filed 17.5 million paper tax returns, representing more than 11 percent of the 155.8 million returns filed. Figure 2 illustrates a decrease in paper tax return filings from Processing Years 2014 through 2019.

Figure 2: Paper Tax Return Filings Processing Years 2014 Through 2019



Source: Data obtained from the IRS filing season statistics website:
<https://www.irs.gov/newsroom/filing-season-statistics-by-year>.¹⁴

In addition, many IRS forms cannot be filed electronically, which results in the IRS processing, storing, and maintaining millions of additional paper records. The IRS has 956 unique forms, 609 (64 percent) of which are only available on paper. The remaining 347 forms are available in an electronic format. Among the forms that can only be filed on paper are the Form 1040-X, *Amended U.S. Individual Income Tax Return*;¹⁵ Form 706, *United States Estate (and Generation-Skipping Transfer) Tax Return*; and Form 709, *United States Gift (and Generation-Skipping Transfer) Tax Return*.

As a result, the IRS must store and manage millions of cubic feet of paper tax records either at its own facilities or the FRCs. Files Functions at IRS campuses collectively have the capacity to store almost 468,000 cubic feet of paper tax records, as illustrated in Figure 3.

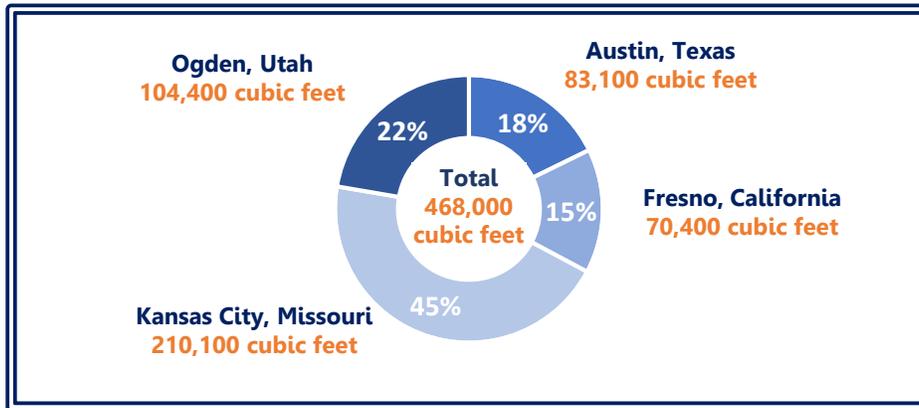
¹⁴ We did not validate these data and are providing this information for perspective on the overall volume of paper and electronic filing.

¹⁵ The IRS intends to allow for Forms 1040-X, *Amended U.S. Individual Income Tax Return*, to be filed electronically in the summer of 2020.



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Figure 3: Paper Tax Record Capacity at IRS Campuses



Source: Real estate data provided by the IRS. Figures are rounded to the nearest 100 cubic feet.¹⁶

In addition, the FRCs store approximately five million cubic feet of both administrative and tax records on behalf of the IRS. Files Functions destroy or retire to FRCs eligible tax returns and related records according to the IRS’s Records Control Schedules,¹⁷ a document that prescribes how long each type of record should be preserved at IRS and FRC locations, as applicable. These tax records must be stored in a manner in which they are easily accessible, allowing for their use in support of the IRS’s enforcement of tax laws, particularly during legal proceedings.

The IRS invests significant resources into processing and storing paper tax records. As shown in Figure 4, in Calendar Year 2019, real estate costs of Files Function facilities at IRS campuses were nearly \$8.5 million. For FY 2019, salary and benefit costs of Files Functions’ staff were more than \$17 million, and IRS expenditures to the National Archives and Records Administration for storing and processing paper files at the FRCs were nearly \$31.1 million.

Figure 4: IRS Expenses for Processing and Storing Paper Tax Records

| Costs Associated With Storing and Maintaining Paper Tax Records | Year ¹⁸ | |
|---|-----------------------|------------------------------------|
| | 2018 | 2019 |
| Costs of Processing and Storing Tax Records at FRCs | \$33.4 million | \$31.1 million |
| Real Estate Costs of Files Functions | \$8.4 million | \$8.5 million |
| Files Functions’ Staff Salaries | \$14.2 million | \$12.6 million |
| Files Functions’ Staff Benefits | \$5.3 million | \$4.9 million |
| Total | \$61.3 million | \$57.0 million¹⁹ |

Source: TIGTA review of National Archives and Records Administration invoices as well as real estate and financial data provided by the IRS.²⁰ Totals shown are rounded.

¹⁶ We did not validate these data and are providing this information for perspective on the overall volume of paper tax record capacity at IRS campuses.

¹⁷ Document 12990, *Records and Information Management Records Control Schedules*.

¹⁸ IRS real estate costs are for the noted calendar year. Other costs are for the noted fiscal year.

¹⁹ The 2019 expenses do not equal the total shown due to rounding.

²⁰ We did not validate these data and are providing them for perspective on the IRS expenses for processing and storing paper tax records.



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Each of the IRS operating divisions²¹ has an ongoing need to obtain tax returns and related information. Although the IRS does not have a centralized system to track requests for paper tax records, in Calendar Year 2018, IRS employees and Federal employees made more than 4.6 million²² requests for paper tax records. Consequently, the IRS systems and processes to control, locate, and retrieve these records are critical to the functioning of the IRS. Moreover, because of taxpayer privacy rights, the IRS should maintain an adequate record of the chain of custody for any tax records in the custody of IRS employees in the performance of their duties.

Some Sensitive Tax Records Could Not Be Located or Timely Provided

Despite the need to provide timely access to and custody over sensitive tax records, our review of a statistical sample of 185 examinations closed in FY 2018 found that the IRS could not always locate or timely retrieve paper tax records.²³ We used an IRS computer system to request 185 examination case files and their affiliated paper tax returns, replicating how an IRS employee would make such a request. If we did not receive a file or tax return in response to the first request, we requested it a second and third time, as necessary, based on the policies and procedures in the IRM.

The IRS could not locate 12 (6 percent) of the 185 examination case files and five (3 percent) of the 185 related individual tax returns. An additional 43 (23 percent) of the 185 examination case files and 19 (10 percent) of the 185 individual tax returns were located but not provided timely. Based on the sample, we estimate that almost 7,000 of the 76,086 examination case files and related tax returns may not be located (for examinations closed in FY 2018 with an assessment and for which the taxpayer filed a paper tax return). In addition, if requested, we estimate that more than 25,000 examination case files and related tax returns may not be located timely from the same population of 76,086 examinations. Figures 5 and 6 provide additional information on the number of tax records not located or located untimely, respectively.

Figure 5: Tax Records Not Located

| Document Type | Documents Requested | Documents Not Located | Percentage of Documents Not Located | Estimated Documents That Cannot Be Located |
|------------------------|---------------------|-----------------------|-------------------------------------|--|
| Examination Case Files | 185 | 12 | 6% | 4,935 ²⁴ |
| Tax Returns | 185 | 5 | 3% | 2,056 ²⁵ |
| Totals | 370 | 17 | 5% | 6,991 |

Source: TIGTA's review of a statistical sample of 185 examinations closed in FY 2018.

²¹ Large Business and International, Small Business/Self-Employed, Tax Exempt and Government Entities, and Wage and Investment Divisions.

²² We did not validate these data and are providing this information for perspective on the overall number of requested paper tax records.

²³ See Appendix I for details on our sampling methodology.

²⁴ Our sample was selected using a 95 percent confidence interval, 20 percent error rate, and ± 6 percent precision factor. When projecting the results of our statistical sample, we are 95 percent confident that the actual total number is between 2,587 and 8,408 examination case files.

²⁵ When projecting the results of our statistical sample, we are 95 percent confident that the actual total number is between 674 and 4,709 tax returns.



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Figure 6: Tax Records Not Provided Timely

| Document Type | Documents Requested | Documents Not Provided Timely | Percentage of Documents Provided Untimely | Estimated Documents Not Provided Timely |
|------------------------|---------------------|-------------------------------|---|---|
| Examination Case Files | 185 | 43 | 23% | 17,685 ²⁶ |
| Tax Returns | 185 | 19 | 10% | 7,814 ²⁷ |
| Totals | 370 | 62 | 17% | 25,499 |

Source: TIGTA's review of a statistical sample of 185 examinations closed in FY 2018.

The IRM states that the IRS seeks to “ensur[e] the proper access, preservation, and timely disposition of all records.” To accomplish this goal, the IRM establishes timeliness requirements when processing tasks and responding to requests for tax records in the Files Function: 14 business days for tax records stored within Files Functions and 30 business days for tax records stored at the FRCs.²⁸ Figure 7 shows the number of days beyond the timeliness requirements that examination case files and tax returns were received.

Figure 7: Analysis of Tax Records That Were Not Received Timely²⁹

| Document Type | Documents Requested | Days Beyond Timeliness Requirement | | | | Total Documents Provided Untimely |
|------------------------|---------------------|------------------------------------|------------|------------|----------|-----------------------------------|
| | | 1-15 Days | 16-30 Days | 31-45 Days | 46+ Days | |
| Examination Case Files | 185 | 11 | 17 | 13 | 2 | 43 |
| Tax Returns | 185 | 5 | 3 | 4 | 7 | 19 |
| Totals | 370 | 16 | 20 | 17 | 9 | 62 |

Source: TIGTA's review of a statistical sample of 185 examinations closed in FY 2018.

The IRS cannot perform its tax administration responsibilities without timely access to tax records. Tax records that are exclusively on paper must be available upon request to make and support decisions. If the IRS cannot locate a paper tax record, the IRS may need to request the tax record from the taxpayer again, which is a burden on the taxpayer. Additionally, paper tax records contain sensitive taxpayer information and must be protected from unauthorized disclosure. The IRS's inability to locate a paper tax record presents a risk that the tax record may have been subject to unauthorized disclosure.

We determined that there are multiple reasons that paper tax records cannot be located or timely provided. They include, but are not limited to, the following:

²⁶ When projecting the results of our statistical sample, we are 95 percent confident that the actual total number is between 13,215 and 22,822 examination case files.

²⁷ When projecting the results of our statistical sample, we are 95 percent confident that the actual total number is between 4,795 and 11,844 tax returns.

²⁸ IRM 3.5.61 (Jan. 1, 2020).

²⁹ The IRS provided four tax records without accompanying documentation stating whether they had come from an FRC or a campus. For the purposes of this table, we have presumed they came from an FRC.



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- The IRS does not have a centralized system to track paper tax records.
- The IRS does not have a quality review process in place to ensure that the correct tax records are sent to the correct address when records are packaged for shipment.
- Files Function timeliness metrics are not designed to measure how long it takes for requestors to obtain paper tax records.
- The closure of the Cincinnati Campus's Files Function caused delays.

The IRS does not have a centralized system to track paper tax records

The IRS does not maintain a centralized system, electronic or otherwise, that describes each tax record's location. Rather, a combination of disconnected and ineffective manual processes is used to track paper tax records. These ineffective processes lead to, or allow for, the inconsistent use of document transmittals and tracking numbers, time-consuming physical searches of facilities for tax records, the placement of tax records inside other tax records, and the delegation of responsibility to the requester to identify the tax record's custodian in order to locate that tax record.

Inconsistent use of document transmittals and tracking numbers

While the Files Functions' staff use a Form 3210, *Document Transmittal*, in addition to the copy of the request to establish a chain of custody for certain packages of paper tax records, it is not used consistently nor stored centrally.³⁰ When an IRS employee sends a package of tax records, he or she may include the transmittal form inside the package. If the transmittal form is included, the requester should sign the transmittal form upon receipt of the package and either mail or e-mail the signed form back to the sender to establish a chain of custody. However, Files Functions' staff are not required to use transmittal forms for all shipments of paper tax records, and the audit team observed that the Files Functions' staff used them inconsistently.³¹

Furthermore, once mailed, the IRS does not systematically record the mail tracking numbers of paper tax records sent to requesters and sends some packages without a tracking number at all. Doing so makes it difficult for the IRS to readily identify the location of packages that may not have reached their intended destination.

Research for tax records is time-consuming and burdensome

Files Functions' staff or FRC staff must physically look for a tax record on their shelves to determine whether they have a requested tax record, whether the tax record is in the custody of another employee, or whether it has been destroyed. Further, if the IRS does not respond timely to a request, there is no system to allow the requester to check on the status of the request. According to the IRM, the requestor must request the file again. Further complicating matters, tax returns are frequently placed inside of examination case files, but their placement there can be inconsistent with stated procedures. Therefore, a requester may need to request multiple tax records associated with one particular tax return to maximize the odds of locating a tax return. Neither the requester nor the IRS knows for certain whether a tax return is inside an examination case file without retrieving and inspecting the examination case file itself.

³⁰ A Form 3210 is completed and included within packages that are considered priority in IRM 3.5.61.1.7.5 (Jan. 1, 2020). See Appendix III for an example of a document transmittal.

³¹ For example, some transmittals did not list the specific tax documents that were being shipped.



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Responsibility for locating paper tax records is delegated to the requester

Finally, the current system places additional and unnecessary burdens on requesters. When a requester asks for a tax record that identifies another IRS employee as the custodian, in some circumstances the Files Functions' staff only provides an IRS computer system's assigned identification number for the IRS employee in custody of the record. The requester must then research the name of the custodian and contact him or her to obtain the record.

The IRS does not have a quality review process in place when packaging tax records for shipment

We observed multiple instances in which the IRS mailed tax records to the incorrect location. The IRS mailed two packages containing 17 tax records to TIGTA's Austin office instead of TIGTA's Washington, D.C., office in response to our requests for documents. TIGTA staff in Austin promptly returned the tax records to the IRS, and then we re-requested the tax records multiple times as instructed by the IRM. However, we only received eight of the 17 tax records that had been misdirected. Additionally, we observed that other tax records requested by IRS staff were erroneously included in packages of tax records sent to us. Based on our sample, we estimate that 6,992 examination case files of the 76,086 total tax records (examination case files for examinations closed in FY 2018 with an assessment and for which the taxpayer filed a paper tax return), if ordered, could potentially be mailed to the wrong location.³²

The IRS attributed these incidents to human error. During a site visit to a campus's Files Function, we observed and the IRS confirmed that the IRS did not review the packages of tax records prior to shipping to ensure that they were addressed correctly and that the shipments' contents were correct. Following the site visit, IRS staff informed us that, as a result of this review, they had implemented a quality control check on some outgoing shipments of paper tax records and had identified and corrected some packages that would have been shipped to an incorrect location.

Files Functions' timeliness metrics are not designed to measure how long it takes for requestors to obtain paper tax records

Metrics for the Records Program have been a longstanding challenge for the IRS.³³ Our current audit also found that metrics could use improvement. The IRS gathers statistics on the time it takes for the Files Functions' staff to process and fulfill requests to determine whether they are in compliance with timeliness goals established in the IRM. However, the IRS tracks time starting not from the date that the request was made but rather from the date that the Files Function received the request. As a result, delays that occur between the request and the Files Function staff receiving the printed request are not taken into account.

At one campus, intermittent delays in processing requests for paper tax records persisted for eight months before the Files Function was informed by other IRS employees of the problem.

³² When projecting the results of our statistical sample, we are 95 percent confident that the actual total number is between 4,146 and 10,879 tax records. See Appendix II.

³³ TIGTA, Ref. No. 2004-10-186, *Better Procedures Are Needed to Locate, Retrieve, and Control Tax Records* (Sept. 2004), and GAO, GAO-07-1160, *The Internal Revenue Service Can Improve Its Management of Paper Case Files* (Sept. 2007).



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For example, according to IRS officials, the Ogden Campus print room experienced a reorganization, change of equipment, and staffing shortages that led to eight months of intermittent delays in requests being sent to the campus' Files Function. However, the Files Function timeliness metrics did not reflect these delays in providing tax records to requesters.

The *Standards for Internal Control in the Federal Government* states that "management considers external requirements and internal expectations when defining objectives to enable the design of internal control."³⁴ Timeliness requirements for Files Functions should therefore take into account the entire time needed to fulfill a request to better consider the requirements of the requester.

The closure of the Cincinnati Campus's Files Function caused delays

The Cincinnati Campus's Files Function stopped processing requests for tax records in July 2019 in advance of its closure three months later.³⁵ Cincinnati's Files Function staff sent tax records to the FRCs before the closure; however, according to IRS officials, they did not consistently document to which FRC they sent the tax records. As a result, Files Function staff at the Ogden Campus described a "trial and error" process when seeking tax records that had been at the Cincinnati Campus, asking more than one FRC for the same tax record.³⁶ For example, we requested tax records and initially received responses from an FRC via the Ogden Campus Files Function that it could not locate 18 tax records. When we asked Ogden Files Function staff why the tax records could not be found, they explained that our requests may have been incorrectly routed to them as a result of the shift in responsibilities following the Cincinnati Campus's Files Function closure. We were instructed to re-request the tax records and later obtained shipments from the Kansas City Files Function containing almost all of the requested tax records. However, making multiple requests for the same documents delayed the process.

The Commissioner, Wage and Investment Division, should:

Recommendation 1: Create a centralized system to track sensitive paper tax records.

Management's Response: The IRS agreed with this recommendation. The IRS intends to improve its document systems and tracking capabilities as part of the IRS Integrated Modernization Business Plan. In the interim, the IRS will implement periodic (quarterly) quality reviews of random samples of return blocks to review check-out information and document the findings. In addition, the IRS will issue a memorandum to all business units to educate them on the shared responsibility for the maintenance of tax records and the importance of returning records to the Files operations when the business need is satisfied.

Recommendation 2: Develop and implement a quality review process to provide reasonable and ongoing assurance that the correct tax records are being sent to the correct address.

Management's Response: The IRS agreed with this recommendation. The IRS will implement a quality review process to better ensure that the correct tax records are sent to the correct address.

³⁴ GAO-14-704G (Sept. 10, 2014).

³⁵ The Cincinnati Files Function closed on September 30, 2019.

³⁶ The National Archives and Records Administration charges the IRS for each request made to an FRC.



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Recommendation 3: Amend the timeliness metric calculation to be based on the date of the request rather than the date the Files Function facility received the request.

Management's Response: The IRS agreed with this recommendation. The IRS will identify and address any delays in the receipt of files requests in the Files Functions and will assess amending the timeliness metric calculation.

Office of Audit Comment: In its response, the IRS states it will only assess amending the timeliness metric calculation. We continue to believe that timeliness metrics should be expanded to take into account the entire time needed to fulfill a request to better consider the requirements of the requester. Further, the expansion of timeliness metrics does not prohibit the IRS from continuing to measure the Files Functions' own internal timeliness.

Recommendation 4: Ensure that the IRS documents the location where tax records are being shipped to during future Submission Processing campus closures.

Management's Response: The IRS agreed with this recommendation. When campuses are closed, the IRS will ensure that files are tracked, documented, and readily retrievable. The IRS also will educate Files Function personnel and ensure that National Archives and Records Administration crosswalks are routinely updated and shared with the Files Functions.



Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to determine if the IRS has an effective process for timely locating certain paper files. To accomplish our objective, we:

- Identified the controls and criteria in place to retain and retrieve paper tax records. We identified and reviewed:
 - Applicable Federal laws, executive orders and directives, and regulations establishing the requirements for the retention and retrieval of paper tax records.
 - IRS internal policies and procedures for adherence with Federal requirements.
 - The controls and processes in place to supplement Federal requirements and IRS policies and procedures.
- Interviewed IRS personnel to understand how the IRS retains and retrieves paper tax records.
- Identified the resources (*i.e.*, costs of storage contracts, facility usage, staff resources) the IRS uses to process, retrieve, and store paper tax records.
- Determined whether the IRS could locate and timely retrieve paper tax records.
 - Using the Individual Master File and Audit Information Management System, determined the number of examinations closed in FY 2018 that had an assessment made on a taxpayer's account for which the original tax return was filed on paper (76,086 closed examinations).
 - Selected a statistical sample of 185 examinations from that population of 76,086 closed examinations.¹ We used the Integrated Data Retrieval System to request 185 examination case files and their affiliated paper tax returns, replicating how an IRS employee would make such a request. If we did not receive a file or tax return in response to the first request, we requested it a second and third time, as necessary, based on the policies and procedures in the IRM. The sample was selected using a 95 percent confidence level, a desired precision rate of ± 6 percent, and an expected error rate of 20 percent. A statistical sample was selected to allow us to project our results to the sample population. A contract statistician assisted with developing the sampling plan and reviewing the projections.
 - Based on the sample selected, we determined whether the paper tax records could be located and provided timely.

¹ The sample included 22 examinations that had no paper component. These could not be requested through the IRS computer system. We requested them from the IRS and obtained them timely. According to the IRS, one additional examination had no paper component, although it was not coded as such. Additionally, two tax returns and two examinations could not be evaluated because they were inadvertently returned to the IRS before we could record the date they were received. For the purposes of our review, we considered these documents as timely received. Finally, the IRS was not able to provide five returns. According to the IRS, these returns were destroyed in accordance with IRS policy. For the purposes of our review, we considered these documents as timely received.



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Performance of This Review

This review was performed at the Kansas City Submission Processing Campus in Kansas City, Missouri; the Ogden Submission Processing Campus in Ogden, Utah; and with information obtained from the Wage and Investment Division in Washington, D.C., during the period July 2019 through February 2020. 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.

Major contributors to the report were Heather Hill, Assistant Inspector General for Audit (Management Services and Exempt Organizations); Troy Paterson, Director; Lindsay Steward, Audit Manager; Daniel Burd, Lead Auditor; Meghann Noon-Miller, Senior Auditor; and Julia Woods, Information Technology Specialist (Data Analytics).

Validity and Reliability of Data From Computer-Based Systems

We performed tests to assess the reliability of data from the Individual Master File and the Audit Information Management System. We evaluated the data by (1) performing electronic testing of required data elements and (2) reviewing existing information about the data and the system that produced them. We determined that the data were sufficiently reliable for purposes of this report.

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: IRS policies, procedures, and practices for retaining and retrieving paper tax records. We evaluated these controls by interviewing Files Functions' staff responsible for retaining and retrieving tax records and testing the effectiveness of the Files Functions' processes for retaining and retrieving tax records by requesting tax records.



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Appendix II

Outcome Measure

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

Type and Value of Outcome Measure:

- Taxpayer Privacy and Security – Potential; 6,992 incidents in which examination case files could potentially be mailed to the wrong location (see Recommendation 2).¹

Methodology Used to Measure the Reported Benefit:

We identified 76,086 examinations closed in FY 2018 that had an assessment made on a taxpayer's account and for which the taxpayer filed a paper tax return for the examined tax period. We selected a statistically valid sample of 185 examinations from this population using a 95 percent confidence level, 20 percent expected error rate, and ± 6 percent desired precision rate. For each sample, we requested the examination case files.

We determined that 17 (9.19 percent) of the 185 requested examination case files were sent to the incorrect location. We then multiplied the actual error rate of 9.19 percent by the total population (76,086) to determine our estimate of the number of examination files that, if ordered, could potentially be delivered to the wrong location.

¹ When projecting the results of our statistical sample, we are 95 percent confident that the actual total number is between 4,146 and 10,879 tax records.



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Appendix IV

Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

August 11, 2020

MEMORANDUM FOR MICHAEL E MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kenneth C. Corbin ^{Kenneth C. Corbin}
Commissioner, Wage and Investment Division _{2020.08.11 08:08:50 -04'00'}

SUBJECT: Draft Report – Sensitive Tax Records Could Not Always Be
Located or Timely Provided (Audit # 201910013)

Thank you for the opportunity to review and provide comments on the subject draft report. We agree that it is critical for the IRS to maintain systems and processes to control, locate, and retrieve tax records for IRS operating divisions. Your review reflected that the IRS located 173 out of 185 examination case files and 180 out of 185 associated returns, or 95 percent of the 385 files or documents requested. You estimate that 9.19 percent of the 76,086 examination cases based on paper tax returns that were closed with assessments during fiscal year 2018 may not be routed correctly. We will continue to look for opportunities to improve these rates along with identifying steps to improve the timeliness in providing requested documents.

In substantially all instances, paper documents submitted to the IRS are assigned a unique Document Locator Number (DLN) and then transcribed into our automated systems to convert key data elements to an electronic record. That record is then used by a host of downstream systems and processes to formally record tax assessments and to support compliance activities and other administrative needs. After transcription occurs, almost all documents are routed to the campus Files operations for storage and archiving. When an original document is needed, in lieu of its electronic record, business functions throughout the agency may request its retrieval.

A document may be needed by more than one function; however, it may only be checked out to one area at a time. As documents are pulled from the shelves, they are replaced with a placeholder on which the requestor to whom it is being checked out is recorded. If subsequent requests are submitted for the same document, that requestor is provided with the identifying information of the area to which the document is



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currently checked out, and they may contact that function to request a copy of the document or to have it forwarded to them.

Once the business need for a document is satisfied, it is incumbent on the business function in custody of the original document to return it to the Files operation for refiling. The report indicates this review was initiated in response to difficulties encountered in receiving administrative case files requested during previous audits. In those reviews, administrative files could not be delivered because they had not been returned to the campuses for refiling. There were also some instances where incorrect DLNs had been requested, resulting in non-delivery of the expected documents. Often, when tax examinations cover multiple years, the original tax returns are consolidated with the examination's administrative file and the entire package is filed under one DLN. When the examination function files multiple returns together in this manner, a transaction code is posted to the tax module of the return(s) being consolidated to indicate what has happened and to provide the appropriate cross-reference DLN under which the document may be found. It is the responsibility of the Files operation to pull the DLN requested; however, the correct DLN must be provided.

We recognize that a centralized tracking system would enhance the efficiency of document management. Our current filing and tracking processes have evolved over the course of almost 60 years, since the implementation of the Master File in 1962. During that time, separate stand-alone systems were created to address the case management needs of multiple business operations within the IRS. We believe the path to improving our ability to manage paper documents lies with the digitization of those records and integration into our electronic systems. On July 21, 2020, the IRS announced the creation of the new Enterprise Digitalization and Case Management office, which will focus efforts to identify and move processes into a simplified digital environment. Included in this effort is standing up a consolidated enterprise case management approach to overcome the challenges the IRS currently faces from having case work taking place on more than 60 aging systems, most of which can't talk with one another. As the team continued its work, it became clear that the digitalization of processes as well as paper, including items such as case files, is an integral part of improving overall case management and the mission of the agency.

Attached are our comments and proposed actions to your recommendations. 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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Attachment

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 1

Create a centralized system to track sensitive paper tax records.

CORRECTIVE ACTION

Improvements to our document systems and tracking capabilities are key components of the IRS Integrated Modernization Business Plan, which is underway. Key components of this plan include implementation of an Enterprise Case Management system, as well as data digitization. The success of this effort is dependent on funding and competing priorities for Information Technology resources. In the interim, we will implement periodic (quarterly) quality reviews of random samples of return blocks to review check-out information and document the findings. We will also issue a memorandum to all business units to educate them on the shared responsibility for the maintenance of tax records, and the importance of returning records to the Files operations when the business need is satisfied.

IMPLEMENTATION DATE

March 15, 2021

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

Develop and implement a quality review process to provide reasonable and ongoing assurance that the correct tax records are being sent to the correct address.

CORRECTIVE ACTION

We will implement a quality review process to provide reasonable and ongoing assurance that the correct tax records are being sent to the correct address.

IMPLEMENTATION DATE

March 15, 2021

RESPONSIBLE OFFICIAL

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



Sensitive Tax Records Could Not Always Be Located or Timely Provided

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CORRECTIVE ACTION MONITORING PLAN

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

RECOMMENDATION 3

Amend the timeliness metric calculation to be based on the date of the request rather than the date the Files Function facility received the request.

CORRECTIVE ACTION

We will identify and address any delays in the receipt of files requests in the Files operation and will assess amending the timelines metric calculation by extending the timeframe to the date of the file requests.

IMPLEMENTATION DATE

March 15, 2021

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

Ensure that the IRS documents the location where tax records are being shipped to during future Submission Processing campus closures.

CORRECTIVE ACTION

We will ensure that files shipped due to campus closures are well-tracked, documented, and readily retrievable. We will educate Files personnel and ensure that National Archives and Records Administration provided crosswalks are routinely updated and shared with the Campus Files operations.

IMPLEMENTATION DATE

March 15, 2021

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.



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Appendix V

Glossary of Terms

| Term | Definition |
|---|---|
| Abatement | A reduction in the assessment of tax, penalty, or interest when it is determined the assessment is incorrect or when the taxpayer should be relieved of a liability, <i>e.g.</i> , penalty abatement for reasonable cause. |
| Audit Information Management System | A system used by the Examination function to control returns, input assessments/adjustments to the Master File, and provide management reports. |
| Campus | 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. |
| Document 12990, <i>Records and Information Management Records Control Schedules</i> | Provides mandatory records disposition instructions that specify when eligible records are to be moved to off-site storage, when temporary records must be destroyed or deleted, and when permanent records are to be transferred to the National Archives and Records Administration. |
| Document Locator Number | A 14-digit number assigned to each return or payment received, consisting of a file location code, tax class, document code, Julian date, blocking series, serial number, and tax year. |
| Examination Case File | When conducting an examination, the IRS creates a taxpayer case file, which may consist of certain documents that support the income, credits, or deductions claimed on the tax return, such as receipts, bills, legal papers, loan agreements, medical records, and employment documents. |
| Federal Records Center | The FRCs safeguard and service the Nation's records, including tax returns, to ensure protection and availability for their scheduled life in a high-quality, cost-effective storage by maintaining facilities that are fully compliant with regulations that protect records from fire, theft, pests, water damage, and natural disasters. |
| Fiscal Year | 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. |
| Form 2275 | Form 2275, <i>Records Request, Charge and Recharge</i> , is a manually prepared form used for requesting tax returns. Form 2275 should only be used in "emergency" situations, <i>i.e.</i> , computers are down for an extended period, a return is needed immediately, <i>etc.</i> Routine requests for tax returns should be input electronically using the Integrated Data Retrieval System. |
| Form 3210 | Form 3210, <i>Document Transmittal</i> , is used to control the transfer of custody for official documents between all IRS offices and functions. It is completed when processing priority requests and is included with documents to the requester; however, is not required when processing other types of requests. See Appendix III for an example of a Form 3210. |



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| Form 4251 | Form 4251, <i>Return Charge-Out</i> , is used to locate tax returns in a Files Function or an FRC, to replace the tax record in the file by providing information as to the location of the tax record, to act as a routing sheet, and to exchange custody from one requester to another. |
| Form 15035 | Form 15035, <i>Records Loss Reporting</i> , facilitates reporting of all incidents of Federal record loss due to unauthorized destruction, theft, or removal. |
| Government Accountability Office | An independent, nonpartisan agency that works for Congress. Often called the "congressional watchdog," the GAO examines how taxpayer dollars are spent and provides Congress and Federal agencies with objective, reliable information to help the Federal Government save money and work more efficiently. |
| Incident | An occurrence that actually or potentially jeopardizes the confidentiality, integrity, or availability of an information system or the information the system processes, stores, or transmits. Also, an incident could constitute a violation or imminent threat of violation of security policies, security procedures, or acceptable use policies. |
| Individual Master File | The IRS database that maintains transactions or records of individual tax accounts. |
| Integrated Data Retrieval System | IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records. |
| Internal Revenue Manual | The primary, official source of IRS "instructions to staff" related to the organization, administration, and operation of the IRS. |
| National Archives and Records Administration | An independent agency established in 1934 to identify, protect, preserve, and make publicly available the historically valuable records of all three branches of the Federal Government. |
| Processing Year | The calendar year in which the tax return or document is processed by the IRS. |
| Records | All recorded information, regardless of its form, made or received by an agency as evidence of the decisions, operations, or other activities of the U.S. Government. |
| Records Management | The discipline of management that is responsible for the creation, maintenance and use, and disposition of an organization's records. |



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Appendix VI

Abbreviations

| | |
|-------|---|
| FRC | Federal Records Center |
| FY | Fiscal Year |
| GAO | Government Accountability Office |
| IRM | Internal Revenue Manual |
| IRS | Internal Revenue Service |
| TIGTA | Treasury Inspector General for Tax Administration |