



A Strategy Is Needed to Address Hiring Shortages As Efforts Continue to Close Tax Processing Centers

March 11, 2020

Reference Number: 2020-40-019

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HIGHLIGHTS

A STRATEGY IS NEEDED TO ADDRESS HIRING SHORTAGES AS EFFORTS CONTINUE TO CLOSE TAX PROCESSING CENTERS

Highlights

Final Report issued on March 11, 2020

Highlights of Reference Number: 2020-40-019 to the Commissioner of Internal Revenue.

IMPACT ON TAXPAYERS

The IRS Restructuring and Reform Act of 1998 included a goal for the IRS to have at least 80 percent of all tax returns filed electronically by Calendar Year 2007. In response to the continued decreases in paper-filed tax returns, IRS management determined that they could further consolidate tax return processing sites from five to two Tax Processing Centers by the end of Fiscal Year 2024. The IRS projected the five-year cost savings from the continued consolidation to be almost \$266 million and anticipates using these cost savings to focus on taxpayer service, tax enforcement, and information technology.

WHY TIGTA DID THE AUDIT

This is the second TIGTA audit on the IRS's continuing consolidation efforts. This audit evaluated the IRS's efforts to close the Cincinnati Tax Processing Center. In addition, TIGTA assessed the IRS's business case basis supporting the continued planned closure of Tax Processing Centers.

WHAT TIGTA FOUND

As part of its continuing efforts to consolidate Tax Processing Centers, the IRS officially stopped accepting tax returns at the Cincinnati Tax Processing Center on June 17, 2019. The IRS also minimized the impact of the closure on employees. For the 2020 Filing Season, the IRS will begin the redirection of paper tax returns processed at the Fresno Tax Processing Center to the Kansas City and Ogden Tax Processing Centers.

However, the IRS needs a strategic approach to address current and future staffing challenges as consolidation efforts continue. Management has not adequately addressed the increasing risk related to their inability to recruit and retain sufficient Submission Processing function personnel needed to handle the increased workload being transferred to the remaining Tax Processing Centers. With the IRS's continued inability to meet its hiring goals, a long-term strategy is needed that details action to be taken to address this concern.

The IRS estimated savings of \$97.2 million from the closure of the Cincinnati Tax Processing Center. However, TIGTA's review found that revised estimated costs to close the processing center exceeded initial estimates by \$56.5 million, reducing the potential five-year savings estimates to approximately \$40.7 million. Despite this, the IRS has not updated its cost-benefit analysis using actual costs to ensure that the decision to continue consolidating Tax Processing Centers remains cost effective.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the Commissioner, Wage and Investment Division, develop a long-term recruitment strategy to ensure that the end-state Tax Processing Centers are sufficiently staffed, and update its consolidation plan using revised cost-benefit figures from the closing of the Cincinnati Tax Processing Center.

IRS management agreed with both recommendations and plans to take appropriate corrective actions.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 11, 2020

MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE

FROM:

Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – A Strategy Is Needed to Address Hiring Shortages
As Efforts Continue to Close Tax Processing Centers
(Audit # 201940024)

This report presents the results of our review to evaluate the Internal Revenue Service's (IRS) efforts to close the Cincinnati Tax Processing Center and assess the business case basis supporting the IRS's continued planned closure of Tax Processing Centers. This audit is included in our Fiscal Year 2020 Annual Audit Plan and addresses the major management 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 recommendations. If you have any questions, please contact me or Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services).



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Abbreviations

CY	Calendar Year
FY	Fiscal Year
IRS	Internal Revenue Service
TIGTA	Treasury Inspector General for Tax Administration



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Background

The Internal Revenue Service (IRS) Restructuring and Reform Act of 1998¹ included a goal for the IRS to have at least 80 percent of all tax returns electronically filed by Calendar Year (CY) 2007. In response to an anticipated increase in electronic filing, the IRS implemented its Submission Processing Site Consolidation Strategy to consolidate and centralize paper tax return processing from 10 to five Tax Processing Centers in CY 2002. Following this consolidation, the IRS processed paper-filed tax returns at:

- Fresno, California; Kansas City, Missouri; and, Austin, Texas, for individual taxpayers.
- Cincinnati, Ohio; and Ogden, Utah, for business taxpayers.

However, in response to the continued decrease in paper-filed tax returns, IRS management determined that they could further consolidate and reduce paper tax return processing sites from five to two Tax Processing Centers by the end of Fiscal Year (FY)² 2024. We previously reported³ that the IRS established a *Consolidation Team* to coordinate its continued consolidation activities. Initially, the team was tasked to evaluate the consolidation options including which centers are best positioned to continue as Tax Processing Centers and identify a multiyear strategy to close the non-continuing Tax Processing Centers. The IRS identified six factors to consider as part of the consolidation analysis that included:

- Employee Impact – an estimate of the number of employees who may be subject to a reduction in force.⁴
- Real Estate Savings – an estimate of rent that the IRS would no longer pay to the General Services Administration⁵ once a Tax Processing Center is closed.
- Labor Savings – an estimate of savings or costs of processing work at a current Tax Processing Center versus moving the workload to another center.

¹ Pub. L. No. 105-206, 112 Stat. 685.

² 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.

³ Treasury Inspector General for Tax Administration (TIGTA), Ref. No. 2018-40-038, *Further Consolidation of Processing Centers Is Underway in Response to Continued Increases in Electronic Filing* (May 2018).

⁴ A systematic process to decide which employees are retained and which are let go when jobs are abolished in the Federal Government.

⁵ The landlord for the civilian Federal Government acquiring space on behalf of the Federal Government through new construction and leasing, and acting as a caretaker for Federal properties across the country.



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- Condition of Facility – an evaluation of the facility which included whether the building is state of the art, *i.e.*, new, an older building that needs repair, or the building needs to be replaced.
- Lease Conditions – an evaluation of lease conditions, which included whether the building is owned by the Government and the terms of the lease.
- Workload Impact – an assessment of whether special consideration is required to move special program work from one Tax Processing Center to another.

On September 14, 2016, the IRS Commissioner announced plans to further consolidate paper tax return processing to the Kansas City, Missouri, and Ogden, Utah, Tax Processing Centers. These two Tax Processing Centers are end-state sites that will remain open. Figure 1 shows the three Tax Processing Centers scheduled to close and the year that paper tax return processing has or will cease.

Figure 1: Tax Processing Centers Scheduled to Close and Anticipated Year Paper Tax Return Processing Will Cease

Tax Processing Center	Anticipated Year Paper Tax Return Processing Will Cease
Cincinnati, Ohio (located in Covington, Kentucky)	Closed – September 2019
Fresno, California	2021
Austin, Texas	2024

Source: Submission Processing Consolidation, 2018 State Mapping and Progression to End-State in 2025, dated August 7, 2017.

This audit is the second Treasury Inspector General for Tax Administration (TIGTA) audit on the IRS's continuing consolidation efforts. This review was performed at the Tax Processing Centers located in Fresno, California; Covington, Kentucky; Kansas City, Missouri; and, Ogden, Utah, during the period December 2018 through November 2019. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Detailed information on our audit objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



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Results of Review

As part of its continuing efforts to consolidate Tax Processing Centers, the IRS officially stopped accepting tax returns at the Cincinnati Tax Processing Center on June 17, 2019. Tax returns previously processed at the Cincinnati Tax Processing Center are now processed at either the Kansas City or Ogden Tax Processing Centers. The IRS also minimized the impact of the closure on employees located at the Cincinnati Tax Processing Center. For example, the IRS had 1,810 career-conditional⁶ employees when the decision to close this site was announced. As of October 12, 2019, 1,761 (97 percent) of those employees accepted voluntary separations, found another job within the IRS, or separated from the IRS. Further, as of October 12, 2019, the IRS reported that only 49 employees were let go due to a reduction in force.

For the upcoming 2020 Filing Season,⁷ the IRS will begin to redirect the processing of select tax returns at the Fresno Tax Processing Center to the Kansas City or Ogden Tax Processing Centers as part of its consolidation plan. This involves the IRS reducing the number of States for which taxpayers submit paper tax returns to the Fresno Tax Processing Center. Returns to be redirected for the 2020 Filing Season include:

- Form 1040, *U.S. Individual Income Tax Return*.
- Form 4868, *Application for Automatic Extension of Time to File U.S. Individual Income Tax Return*.
- Form 1040X, *Amended U.S. Individual Income Tax Return*.

In addition, Submission Processing function work from five specialized programs, previously only worked in Fresno, will begin to be transitioned to Kansas City or Ogden. These programs are responsible for:

- Processing of Forms 8300, *Report of Cash Payments Over \$10,000 Received in a Trade or Business*.
- Processing of Forms 3949-A, *Information Referral*, received in connection with the IRS Whistleblower program, including authenticating referrals and routing them to the appropriate IRS Whistleblower office.

⁶ A career conditional appointment is generally used to hire permanent employees into the Federal Government. However, a variety of work schedules may be used with a career conditional appointment, including full-time, part-time, and seasonal schedules.

⁷ The period from January through mid-April when most individual income tax returns are filed.



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- Processing of U.S. Department of Agriculture tax return transcript requests for use in determining Federal farm program payments.
- Processing of external bank leads for suspected identity theft.
- Service-wide course development projects for IRS Outside Support Services Organizations.

The IRS expects that all paper-filed tax returns and other tax documents currently processed at the Fresno Tax Processing Center, as well as the work performed as part of specialized programs, will be completely redirected to the Kansas City or Ogden Tax Processing Centers by CY 2021. The IRS also plans to vacate the Fresno Tax Processing Center in CY 2021.

As we reported in our December 2019 Filing Season review,⁸ delays occurred in the hiring of personnel in the Submission Processing function for the 2019 Filing Season. These employees are responsible for sorting mail, transcribing paper tax returns, and resolving errors on the tax returns. As of June 13, 2019, the Submission Processing function had hired 4,099 (50 percent) of the 8,208 employee planned hiring goal for the 2019 Filing Season. IRS management stated that to compensate for being unable to fully hire the necessary Submission Processing function personnel, it relied on various mitigation strategies to ensure timely processing of tax returns and refunds. These strategies included transferring tax returns to other processing centers, rotating employees from other departments, and allowing overtime for employees.

Our review found that the inability to adequately hire personnel needed to process paper-filed tax returns will continue to be of concern to the IRS. In particular, the IRS was unable to adequately address hiring needs in both the Kansas City and Ogden Tax Processing Centers for the 2019 Filing Season, yet it plans to substantially increase the number of tax returns sent for processing at these sites when the Fresno and Austin sites are closed. In addition, management needs to update its cost savings estimates for the consolidation given that a significant portion of the estimated cost savings from the closure of the Cincinnati Tax Processing Center was not realized.

A Strategic Approach Is Needed to Address Current and Future Staffing Challenges As Consolidation Efforts Continue

Management has not adequately addressed the increasing risk related to the inability to recruit and retain sufficient Submission Processing function personnel needed to handle the increased workload being transferred to the remaining Tax Processing Centers. Given the IRS's continued inability to meet its hiring goals, it needs a long-term strategy that details actions to be taken to

⁸ TIGTA, Ref. No. 2020-44-007, *Results of the 2019 Filing Season* (Dec. 2019).



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address this concern. Figure 2 shows the number of employees hired compared to the goal for the last three fiscal years at the IRS’s end-state sites.⁹

**Figure 2: IRS Filing Season Hiring Goals for
the Kansas City and Ogden Tax Processing Centers
(FYs 2017 Through 2019)**

Tax Processing Center	FY 2017			FY 2018			FY 2019		
	Goal	Hired	Percentage of Goal	Goal	Hired	Percentage of Goal	Goal	Hired	Percentage of Goal
Kansas City	2,162	1,217	56%	2,196	1,331	61%	2,663	1,034	39%
Ogden	375	329	88%	853	626	73%	1,420	1,024	72%
Totals	2,537	1,546	61%	3,049	1,957	64%	4,083	2,058	50%

Source: IRS Human Capital Office, Employment-Talent and Security Recruitment Report. FY 2017 data as of June 8, 2017, FY 2018 as of August 3, 2018, and FY 2019 data as of June 13, 2019.

As we previously noted, a mitigation strategy the IRS used for the 2019 Filing Season was to transfer Forms 1040 between Tax Processing Centers in an effort to meet its goals of timely processing paper-filed tax returns. The IRS also transfers paper-filed tax returns¹⁰ to balance workload among the Tax Processing Centers. For example, the Kansas City Tax Processing Center transshipped almost 2.7 million tax returns, of which more than 1.1 million¹¹ were sent to Tax Processing Centers that will no longer process returns after the consolidation concludes. This strategy will be limited in the future because there will be only one alternative processing site available.

While the IRS estimates that the total number of paper tax returns processed will continue to decrease through CY 2025, the number of returns processed by the Kansas City and Ogden Tax Processing Centers will increase due to the consolidation. For example, the IRS estimates that the total volume of paper tax returns processed by the IRS at all Tax Processing Centers will decrease by more than 2.8 million returns (5.7 percent) during the 2020 Filing Season in comparison to the 2019 Filing Season. However, the number of paper tax returns processed at the Kansas City Tax Processing Center is estimated to increase by more than 4.8 million (43.1 percent), and the Ogden Tax Processing Center is expected to receive almost 1 million additional tax returns (5.7 percent) during the same period. This is due to the Kansas City and Ogden Tax Processing Centers processing paper tax returns previously worked at the Fresno and Cincinnati Tax Processing Centers. Figure 3 shows the increase in estimated tax return volumes

⁹ The IRS experienced delays in hiring due to the partial Government shutdown from December 22, 2018, to January 25, 2019.

¹⁰ This included: Forms 1040; Forms 1040X, *Amended U.S. Individual Income Tax Return*, and Forms 1065, *U.S. Return of Partnership Income*; Information Returns Processing (such as Schedule K-1, *Partner’s Share of Income, Deductions, Credits, etc.*), and Return and Income Verification Services transcripts.

¹¹ This included 76,763 Forms 1040.



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that will be processed at the Kansas City and Ogden Tax Processing Centers for CYs 2020 through 2025.

Figure 3: Total Projected Paper Return Volumes for the Kansas City and Ogden Tax Processing Centers (CYs 2020 Through 2025)

Processing Center	Tax Returns					
	CY 2020	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025
Kansas City	15,971,400	16,982,400	16,846,900	17,168,900	17,806,700	19,473,600
Ogden	17,109,700	17,512,100	18,306,500	17,252,300	16,656,900	15,989,600
Totals	33,081,100	34,494,500	35,153,400	34,421,200	34,463,600	35,463,200

Source: TIGTA analysis of Publication 6186, Calendar Year Projections for the United States and IRS Campuses: 2019 - 2026, updated November 2019.

A process was recently developed to determine personnel resources needed to handle increased workloads

To assist in making resource decisions related to the consolidation of Tax Processing Centers, the IRS developed a model to identify tax return processing capacity and workstations. However, the model did not identify one of the most important attributes the IRS needs as it continues its efforts to consolidate: the number of personnel that will be needed to handle the increased workloads at remaining sites. In fact, the IRS’s own Risk Acceptance document dated June 12, 2018, noted that, “the exact numbers for staffing are not available as there are other factors, such as employee attrition, that impact hiring needs.” In response to our concerns, IRS management stated on October 25, 2019, they had enhanced their capacity model to estimate peak staffing needs¹² each year throughout the IRS’s consolidation at the Kansas City and Ogden Tax Processing Centers.

In addition, the Submission Processing function established a Recruitment and Retention Team in July 2019 that is focused on identifying successful recruitment strategies that will address the staffing needs at all the Submission Processing sites, including the changing needs at the end-state sites as a result of consolidating. However, the IRS does not have a long-term recruitment strategy to ensure that the end-state Tax Processing Centers are sufficiently staffed. Figure 4 shows the IRS’s estimated peak staffing needs at the two end-state centers for Filing Seasons 2020 through 2025.

¹² This includes permanent staffing and temporary staffing for peak filing season needs.



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Figure 4: Estimated Peak Staffing Needs at the Kansas City and Ogden Tax Processing Centers (Filing Seasons 2020 Through 2025)

Processing Center	Staffing Needs					
	Filing Season 2020	Filing Season 2021	Filing Season 2022	Filing Season 2023	Filing Season 2024	Filing Season 2025
Kansas City	2,552	3,010	3,131	3,661	4,262	4,805
Ogden	2,402	2,531	2,846	2,846	2,777	2,788
Total	4,954	5,541	5,977	6,507	7,039	7,593

Source: TIGTA analysis of IRS Workstation Capacity Model, updated October 18, 2019.

Figure 4 shows the ongoing increase in personnel that will be needed to address the anticipated workloads at these sites. However, as we noted previously, neither processing center was even able to meet much lower targets in prior years. The inability to recruit and retain sufficient Submission Processing function personnel will continue to present significant challenges for the IRS.

Recommendation

Recommendation 1: The Commissioner, Wage and Investment Division, should develop a long-term recruitment strategy in an effort to ensure that the end-state Tax Processing Centers are sufficiently staffed. This strategy should also include contingency plans to address hiring shortages.

Management's Response: The IRS agreed with this recommendation and established a Recruitment and Retention Team in July 2019 to provide recruitment services to all areas of the IRS. IRS management stated that contingency planning to address hiring shortages is an ongoing effort and will vary by year, depending on internal and external conditions affecting staffing and the overall workforce environment. However, management plans to determine, by October 2020, the adjustments necessary to ensure that its recruitment strategy will address future needs.

Tax Processing Center Consolidation Cost Savings Projections to Date From Tax Processing Center Consolidation Were Not Achieved

In June 2016, the IRS projected that the five-year cost savings from consolidating the Cincinnati, Fresno, and Austin Tax Processing Centers would be almost \$266 million. In addition, the IRS noted that the savings from its consolidation efforts would be used to focus on continuing IRS needs for taxpayer service, tax enforcement, and information technology, *i.e.*, the savings would



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be reinvested in the IRS in other functions. The IRS projected the estimated savings from the closure of the Cincinnati Tax Processing Center to be \$97.2 million. However, our review found that revised estimated costs to close the Cincinnati Tax Processing Center exceeded initial estimates, reducing the five-year savings estimate to approximately \$40.7 million. Despite this, the IRS has not updated its cost-benefit analysis using actual costs to ensure that the decision to continue consolidating remains cost effective. Further, the Office of Management and Budget guidelines, used to assist agencies in making well-informed decisions that promote efficient use of resources,¹³ include verification of costs and benefits through retrospective studies to determine whether anticipated benefits and costs have been realized.

For example, the IRS estimated it would cost \$27.5 million to close the Cincinnati Tax Processing Center; however, based on revised information it could cost almost \$84.1 million, exceeding the estimate by as much as \$56.5 million,¹⁴ as follows:

- Increased cost of \$46.5 million to stand up the Campus Support function.¹⁵
- Increased cost of \$6.7 million because the IRS started the employee separation process earlier to lessen the effect on impacted employees.
- Increased cost of \$3.4 million for closure activities.

Given that the IRS estimated the cost savings related to the closing of the Fresno Tax Processing Center to be \$62.2 million, an increase in the ramp-down cost and stand up cost of the Campus Support function, as seen with the closure of Cincinnati, could result in reduced cost savings related to the closure of the Fresno site. When we discussed our concern with IRS management on January 7, 2020, they stated that estimates of the staffing costs for the Fresno Campus Support will be less than Cincinnati due to a smaller Campus Support function in Fresno. Further, the IRS advised that the Cincinnati Campus Support function may not be fully staffed at the revised 255 staffing level over the five-year period. For example, management indicated that as of December 7, 2019, staffing of the Cincinnati Campus Support function was at only 75 percent of the estimated employee staffing level resulting in reduced closing costs and increased savings.

The IRS also acknowledges that actual cost savings will be less than its original estimates, but believes cost savings and future cost avoidance will be realized due to the Submission Processing

¹³ Office of Management and Budget Circular A-94, *Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs*.

¹⁴ The sum of the two previously stated dollar amounts and the sum of the dollar amounts in the bullets do not total to \$56.5 million due to rounding.

¹⁵ Our revised estimate includes the salary cost of the employee staffing obtained from the IRS on April 2, 2019, and projected over a five-year period. This does not include any reduction for salary cost due to fluctuations in the actual number of employees hired, changes in the required staffing levels, nor increases in employee salaries due to cost of living adjustments.



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Consolidation efforts. Finally, even with changing cost savings, the IRS indicated that it would not alter the consolidation plan unless there was a significant, unforeseen change.

Recommendation

Recommendation 2: The Commissioner, Wage and Investment Division, should update its consolidation plan using revised cost-benefit figures from the closing of the Cincinnati Tax Processing Center.

Management's Response: The IRS agreed with this recommendation and is currently updating the consolidation plan estimates with actual results from the Cincinnati closing. IRS management plans to continue reviewing the consolidation efforts annually through workload analysis, program goals, and the capacity model to ensure successful filing season delivery and that adequate space and staffing are available for its Submission Processing needs into the future.



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Appendix I

Detailed Objectives, Scope, and Methodology

Our overall objective was to evaluate the IRS's efforts to close the Cincinnati Tax Processing Center. In addition, we assessed the business case basis supporting the IRS's continued planned closure of Tax Processing Centers. To accomplish our objectives, we:

- I. Determined whether the IRS had a process that monitored actions to close the Cincinnati Tax Processing Center, accurately tracked associated costs and cost savings, and measured the effect of closing the Cincinnati site on tax return processing.
 - A. Determined whether the IRS monitored actions to close the Cincinnati Tax Processing Center effectively.
 1. Assessed whether the IRS had taken necessary actions to place employees in other positions or if they were subject to a reduction in force.
 2. Identified the number of employees who had been placed in other positions and assessed whether these positions were new or previously existing positions.
 - B. Determined whether the IRS had a process to capture the costs, *i.e.*, ramp-down, and cost savings associated with the Cincinnati Tax Processing Center closure.
 1. Identified the process the IRS used to track ramp-down and costs savings associated with the Cincinnati Tax Processing Center closure.
 2. Identified the cost savings realized.
- II. Evaluated the IRS workstation capacity model to determine whether projections of future workstation needs at each center were reliable.
 - A. Assessed the IRS's process used to validate the accuracy of the workstation capacity projections.
 1. Determined if the IRS's workstation capacity model incorporates workstations needed to accommodate specialized programs from closed processing centers.
 2. Assessed the accuracy of tax return volume information used in the IRS capacity analysis.
 3. Identified the IRS projection of workstation needs used in support of the consolidation decision for the Kansas City and Ogden Tax Processing Centers for Processing Years 2017, 2018, and 2019.



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- B. Determined whether the IRS had sufficiently considered its ability to achieve enough staff to meet future workload demand at Tax Processing Centers as sites are closed.
 - 1. Assessed the IRS's ability to maintain sufficient staffing at Tax Processing Centers during times of peak demand, *i.e.*, filing season.
 - 2. Interviewed IRS management to determine the methods used to calculate the staffing requirements for tax processing operations at the Tax Processing Centers and determined how they plan to adjust the methods to accommodate for the ramping down of the centers.
 - 3. Reviewed the IRS's staffing plans for the Tax Processing Centers during the 2017, 2018, and 2019 Filing Seasons and determined if the IRS met its staffing goals. We also determined the actions the IRS employed to mitigate the impact of staffing shortages on the filing season.
 - 4. Identified estimated staffing required at each end site to effectively process future return volumes throughout the consolidation of Tax Processing Centers.
 - 5. Identified and evaluated any IRS strategies to ensure that Tax Processing Centers are adequately staffed to handle the increased processing volumes during future filing seasons.
- III. Evaluated the business case for closing the Fresno Tax Processing Center.
 - A. Assessed the IRS's ability to effectively process workload from the Fresno Tax Processing Center at the Kansas City and Ogden Tax Processing Centers, including any Specialty Programs.
 - 1. Identified whether tax returns or forms were transshipped to Fresno during the 2018 and 2019 Filing Seasons.
 - 2. Assessed the IRS's plans to meet staffing needs at the Kansas City and Ogden Tax Processing Centers as the Fresno Tax Processing Center is ramped down and eventually closed.
 - B. Evaluated the effect of increased anticipated ramp-down costs on the IRS's consolidation decision.

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: 1) processes and procedures used to monitor actions to close the Cincinnati Tax Processing Center and track associated costs



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and costs savings, 2) processes and procedures the IRS used to determine tax return processing capacity and future workstation needs, and 3) processes and procedures used for a business case to close the Fresno Tax Processing Center. We evaluated these controls by interviewing management and analysts, conducting walkthroughs of tax processing operations, evaluating the workstation capacity model, examining IRS Statistics of Income Division tax return projections, obtaining staffing plans for the filing season, identifying real estate costs of Tax Processing Centers, and reviewing action plans to close the Cincinnati Tax Processing Center.



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Appendix II

Major Contributors to This Report

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Taylor C. McDonald, Lead Auditor

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Appendix III

Report Distribution List

Deputy Commissioner for Services and Enforcement
Commissioner, Wage and Investment Division
Director, Customer Account Services, Wage and Investment Division
Director, Submission Processing, Wage and Investment Division
Director, Enterprise Audit Management



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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

FEB 27 2020

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kenneth C. Corbin 
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – A Strategy Is Needed to Address Hiring
Shortages As Efforts Continue to Close Tax Processing Centers
(Audit # 201940024)

Thank you for the opportunity to review and comment on the subject draft report. With each passing year, the volume of tax returns and other documents filed electronically has increased while paper filings have correspondingly decreased. In fiscal year 1997, of almost 121 million individual tax returns filed, slightly more than 19 million, approximately 16 percent, were filed electronically¹. In contrast, during fiscal year 2018, almost 153 million individual returns were filed with 134 million, approximately 88 percent, being filed electronically². The significant increase in electronic filing and its commensurate efficiencies has presented the IRS with opportunities to reduce the footprint of our submission processing operations. By adjusting staffing to more accurately reflect the needs of paper processing and by vacating aging and less efficient physical space, we are able to recognize savings that give direct value to U.S. taxpayers in the form of more efficient use of the tax dollars used to fund ongoing tax administration.

The report contains a discussion of our decision to transship tax returns among the Submission Processing Centers (SPCs) to meet processing goals. It should be noted, for the benefit of third-party readers, that transshipping has historically been used to equalize workloads among the SPCs and ensure resources are being used effectively. This is a common practice with electronic inventory and, when needed, can be used for paper inventory to prevent a bottleneck from occurring in one SPC while others may be close to having excess capacity. This permits timely processing activities to continue without having pockets of idle resources. During the 2019 filing season, one of the

¹ Publication 55-B, *Internal Revenue Service Data Book*, (Rev. November 1998), Tables 7 and 8.

² Publication 55-B, *Internal Revenue Service Data Book*, (Rev. May 2019), Tables 3 and 4;
<https://www.irs.gov/pub/irs-pdf/p55b.pdf>



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challenges we anticipated was the learning curve that would be experienced at both the Kansas City, MO and Ogden, UT SPCs. Both centers, having previously been exclusively individual and business processing centers, respectively, were given a mixture of individual and business return work. This was done to expose both centers to the new types of work each would be assuming as the end-state SPCs. As each center enters the second year of their new operations, we anticipate the need for transshipment of paper inventory to decline or be eliminated.

By our estimates, despite the overall decrease of paper tax returns filed, the two end-state SPCs will realize increased levels of paper receipts when the remaining SPC operations are discontinued. This is a condition we will monitor closely. The consolidation process will continue as planned when data indicates it remains a sound business decision to do so; however, the plan can and will be revised if its viability is no longer supported by changing conditions. The ability to achieve adequate staffing is a critical consideration and our practice is to achieve this goal by hiring a combination of seasonal and permanent employees to meet workload needs.

The IRS is affected by the same market forces impacting all employers, especially during times of low unemployment. We suffer or benefit from the prevailing economic conditions affecting national and regional workforce availability. This is an ongoing challenge and one on which we are working to meet anticipated staffing needs. We agree that a long-term strategy should be developed to ensure end-state SPCs are sufficiently staffed. In July 2019, to mitigate the effects of attrition and potentially unsuccessful recruitment results, we established a recruitment and retention team. The purpose of this workgroup is to address our staffing needs. We also enhanced our capacity models and are now estimating peak staffing needs each year.

The report also discusses that our initial cost-saving projections were not realized. However, as the audit team determined, in retrospect, the savings from the Cincinnati closure are still estimated to be \$40.7 million over five years. These savings represent opportunities for reinvestment in other areas of the IRS, thus benefitting U.S. taxpayers through more efficient uses of the funds appropriated for tax administration. It is also important to note that the cost of closing the Cincinnati SPC and the projected cost savings are estimated over a five-year period. As noted in the report, the Cincinnati Campus Support function is staffed at 75 percent of the estimated level and, as such, is translating into additional savings going forward.

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

Attachment



*A Strategy Is Needed to Address Hiring Shortages As Efforts
Continue to Close Tax Processing Centers*

Attachment

Recommendations

RECOMMENDATION 1

The Commissioner, Wage and Investment Division, should develop a long-term recruitment strategy in an effort to ensure that the end-state Tax Processing Centers are sufficiently staffed. This strategy should also include contingency plans to address hiring shortages.

CORRECTIVE ACTION

We agree with this recommendation. The IRS Recruitment and Retention Team was established in July 2019 to support the IRS's Human Capital Office, which provides recruitment services to all areas of the IRS. Contingency planning to address hiring shortages is an ongoing effort and will vary by year, depending on internal and external conditions affecting staffing and the overall workforce environment. However, by October 2020, we will determine the adjustments necessary to ensure our recruitment strategy will sufficiently address future needs.

IMPLEMENTATION DATE

October 15, 2020

RESPONSIBLE OFFICIAL

Director, 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

The Commissioner, Wage and Investment Division, should update its consolidation plan using revised cost-benefit figures from the closing of the Cincinnati Tax Processing Center.

CORRECTIVE ACTION

We agree with this recommendation. We are updating the consolidation plan estimates with actual results from the Cincinnati closing. We will continue to annually review the consolidation efforts through workload analysis, program goals, and the capacity model to ensure we continue successful filing season delivery and that adequate space and staffing is available for our Submission Processing needs into the future.

IMPLEMENTATION DATE

May 15, 2020

RESPONSIBLE OFFICIAL

Director, Customer Account Services, Wage and Investment Division



*A Strategy Is Needed to Address Hiring Shortages As Efforts
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CORRECTIVE ACTION MONITORING PLAN

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