

# TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



## **Improvements Are Needed to Effectively Provide Oversight and Management of the Interagency Agreement With the National Archives and Records Administration**

July 3, 2024

Report Number: 2024-300-029

# HIGHLIGHTS: Improvements Are Needed to Effectively Provide Oversight and Management of the Interagency Agreement With the National Archives and Records Administration

Final Audit Report issued on July 3, 2024

Report Number 2024-300-029

## Why TIGTA Did This Audit

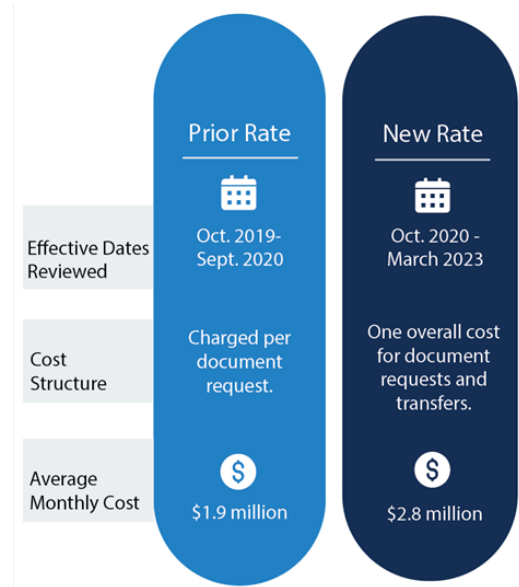
This audit was initiated to assess the efficiency and effectiveness of the IRS's oversight of the interagency agreement for storage, management, and retrieval of taxpayer paper files. The Federal Records Act of 1950 requires that each Federal agency create and preserve agency records designed to furnish the information necessary to protect the legal and financial rights of the Government and of persons directly affected by the agency's activities. In March 2022, TIGTA issued a memorandum to inform the IRS Deputy Commissioners for Services and Enforcement and Operations Support of TIGTA's research of the ongoing concerns with the IRS's ability to locate, retrieve, and control tax records.

## Impact on Tax Administration

The IRS and National Archives and Records Administration (NARA) have an interagency agreement that states NARA will provide records storage, access, and disposition services to the IRS. As of March 2023, the IRS stored approximately 5.8 million cubic feet of paper records at NARA's Federal Records Centers. For Fiscal Years 2016 through 2020, the IRS paid NARA about \$160 million for storage and service fees and is projected to pay \$191 million for Fiscal Years 2021 through 2025. Without proper oversight of the agreement, the IRS is unable to accurately determine the reasonableness of NARA's rates and may not be preparing, processing, executing, and administering the agreement appropriately.

## What TIGTA Found

The IRS lacks oversight of its agreement with NARA for the storage, management, and retrieval of records at Federal Records Centers. From March 2020 to March 2022, the Federal Records Centers were closed or operated at a limited capacity due to the Coronavirus Disease 2019 Pandemic. In October 2020, NARA introduced new rates, which cost the IRS more on average per month in comparison to the prior rates. Contrary to Department of the Treasury guidance, the IRS did not discuss and negotiate the terms and conditions or the cost with NARA and did not conduct any type of cost analysis of the rates to ensure cost reasonableness.



The closure of the Federal Records Centers resulted in a significant backlog of the storage and retrieval of paper records. However, the IRS did not monitor or evaluate the performance of the agreement as required. Although IRS officials stated that they were unaware of any delays in obtaining paper records timely, five of the top six requesters of paper records during Calendar Year 2022 stated that it generally takes between two to eight months to receive requested documents, and all six requesters stated that they do not always receive the documents. Finally, the IRS does not perform the required annual review of the general terms and conditions of the interagency agreement and make amendments, as necessary.

## What TIGTA Recommended

TIGTA recommended that the IRS: (1) perform a cost/price analysis of NARA's rates and negotiate the terms and conditions as well as the costs, as required by the Department of the Treasury guidance; (2) develop a process to monitor and evaluate NARA's performance under the interagency agreement; and (3) review all parts of the interagency agreement with NARA and determine if modifications are necessary and all roles and responsibilities are properly assigned, and document the results of the review and any discussions with NARA. IRS management agreed with all three recommendations and plans to implement corrective actions.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

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

July 3, 2024

**MEMORANDUM FOR:** COMMISSIONER OF INTERNAL REVENUE

A handwritten signature in cursive script, reading "Danny Verneuille".

**FROM:** Danny R. Verneuille  
Acting Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Improvements Are Needed to Effectively Provide Oversight and Management of the Interagency Agreement With the National Archives and Records Administration (Audit No.: 202330016)

This report presents the results of our review to assess the efficiency and effectiveness of the Internal Revenue Service's (IRS) oversight of the interagency agreement for storage, management, and retrieval of taxpayer paper files. This review was part of our Fiscal Year 2023 Annual Audit Plan and addresses the major management and performance challenge of *Modernizing IRS Operations*.

Management's complete response to the draft report is included as Appendix II. If you have any questions, please contact me or Frank J. O'Connor, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations).

# Table of Contents

<b><u>Background</u></b> .....	Page 1
--------------------------------	--------

<b><u>Results of Review</u></b> .....	Page 4
---------------------------------------	--------

<a href="#"><u>A Cost Analysis of the Interagency Agreement Is Not Conducted As Required by Department of the Treasury Guidance</u></a> .....	Page 5
---	--------

<a href="#"><u>Recommendation 1:</u></a> .....	Page 7
--	--------

<a href="#"><u>NARA's Performance and Adherence to the Interagency Agreement Is Not Monitored or Evaluated</u></a> .....	Page 7
--	--------

<a href="#"><u>Recommendation 2:</u></a> .....	Page 9
--	--------

<a href="#"><u>The Interagency Agreement With NARA Is Not Reviewed Annually As Required</u></a> .....	Page 9
---	--------

<a href="#"><u>Recommendation 3:</u></a> .....	Page 10
--	---------

## Appendices

<a href="#"><u>Appendix I – Detailed Objective, Scope, and Methodology</u></a> .....	Page 11
--	---------

<a href="#"><u>Appendix II – Management's Response to the Draft Report</u></a> .....	Page 13
--	---------

<a href="#"><u>Appendix III – Abbreviations</u></a> .....	Page 17
---	---------

## **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.<sup>1</sup> Specifically, the Code of Federal Regulations 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.<sup>2</sup>

The National Archives and Records Administration's (NARA) Federal Records Centers (FRC) provide Federal agencies, such as the Internal Revenue Service (IRS), with records storage, access, and disposition services.<sup>3</sup> There are 17 FRCs located throughout the United States that provide document storage and services to the IRS through the use of an interagency agreement. As of March 2023, the IRS stored approximately 5.8 million cubic feet of paper records at the FRCs, which include tax forms, case files, and other administrative files. For Fiscal Years (FY) 2016 through 2020, the IRS paid NARA approximately \$160 million for storage and service fees. The period of performance for the current interagency agreement is from October 2020 through September 2025 (a one-year base year period and four one-year options for FYs 2021 through 2025) and the IRS has paid approximately \$106 million as of September 2023. The total estimated amount of this agreement, if all options are exercised, is approximately \$191 million.



**The IRS has spent  
approximately 56 percent of  
the estimated budget under  
the new interagency  
agreement as of the end of  
FY 2023.**

Statutes such as the Economy Act of 1932, as amended, authorize Federal agencies to purchase directly from other agencies or use the contracts or contracting operations of other agencies when procuring goods or services.<sup>4</sup> The codification of the Economy Act in Title 31 of the U.S. Code (31 U.S.C. § 1535) governs interagency agreements, such as the IRS's agreement with NARA. This code section authorizes the head of an agency or major organizational unit within an agency to place an order with a major organizational unit within the same agency or another agency for goods or services if the following apply:

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<sup>1</sup> 44 U.S.C. § 3101.

<sup>2</sup> 36 CFR § 1220.32.

<sup>3</sup> NARA is considered the Nation's record keeper of all documents created in the course of business conducted by Federal agencies. According to the 36 Code of Federal Regulations § 1220.10, NARA is responsible for overseeing Federal agencies' adequacy of documentation and records disposition programs and practices.

<sup>4</sup> Pub. L. No. 72-212, 47 Stat. 382 (June 30, 1932) (codified at 31 U.S.C. §§ 1535-1537).

## Improvements Are Needed to Effectively Provide Oversight and Management of the Interagency Agreement With the National Archives and Records Administration

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Funding is available.



The order is in the best interest of the Government.



The servicing agency is able to provide the ordered goods or services by Federal staff or by contract.



The goods or services cannot be provided by contract as conveniently or cheaply by a commercial enterprise.

According to the Department of the Treasury's *Interagency Agreement Process* guide, an interagency agreement is a binding agreement between both the requesting and servicing parties.<sup>5</sup> The guide also states that procurement support or a Contracting Officer's (CO) signature is not required to fully execute the agreement.<sup>6</sup>

Interagency agreements may be assisted or non-assisted. An assisted interagency agreement is one where the servicing party provides acquisition activities with a commercial vendor on behalf of the requesting party. In a non-assisted interagency agreement, contracting is incidental to the transaction. In its interagency agreement for records storage, access, and disposition services with the IRS, NARA does not perform any acquisition (or contracting) activity with a commercial vendor on behalf of the IRS; therefore, the agreement between the IRS and NARA is considered a non-assisted interagency agreement.

However, the *Interagency Agreement Process* guide recommends that, at a minimum, a Federal Acquisition Certified Contracting Officer Representative (COR) serve as the primary point of contact for all non-assisted agreements.<sup>7</sup> The process guide also outlines several roles and responsibilities for the management of agreements between the requesting and servicing parties. These roles and responsibilities include:



Reviewing the general terms and conditions annually and making amendments as necessary.



Monitoring the performance of the servicing party.



Discussing and negotiating the general terms and conditions as well as the cost with the servicing party.



Ensuring price reasonableness and performing a cost or price analysis.

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<sup>5</sup> *Department of Treasury Interagency Agreement Process* guide (April 2021).

<sup>6</sup> A CO is a person with the authority to enter into, administer, and/or terminate contracts and make related determinations and findings.

<sup>7</sup> A minimum Federal Acquisition Certification COR level 1 is required for assisted acquisitions and recommended for all other interagency agreements. A COR is an individual designated and authorized in writing by the CO to perform specific technical or administrative functions.

The IRS's Internal Revenue Manual (IRM) establishes internal guidance for the IRS's Records and Information Management Program to meet Federal and Departmental requirements.<sup>8</sup> The IRM states that the mission of the IRS Records and Information Management Program is "to provide guidance and oversee related functions and processes which ensure that IRS records are available where and when they are needed, to whom they are needed, for only as long as they are needed, in order to conduct business, adequately document IRS activities, and protect the interests of the federal government and American taxpayer."

The current process to request and retrieve records involves manual processing. Generally, document requests are initiated by a requester electronically and printed on a Form 4251, *Return Charge-Out*, at an IRS Tax Processing Center based on the document locator number.<sup>9</sup> IRS employees in the IRS Campus Files function search for the record and, if located at the IRS Tax Processing Center, send it to the requester. If the employees at the Campus Files function determine that the record is not located at an IRS Tax Processing Center and has been sent to an FRC for retirement, they will batch and forward the document requests to the appropriate FRC. When the records are located at an FRC, they are returned to the IRS Campus Files function, which then ships them to the requester. Once the requester no longer needs the requested records, it is their responsibility to return them to the IRS Campus Files function, which will then determine whether to refile them at the IRS Tax Processing Center or return them to the appropriate FRC. All IRS personnel should use Form 3210, *Document Transmittal*, to account for and control the shipping of sensitive tax information.

In March 2022, the Treasury Inspector General for Tax Administration (TIGTA) issued a memorandum to inform the IRS Deputy Commissioners for Services and Enforcement and Operations Support of TIGTA's research of the ongoing concerns with the IRS's ability to locate, retrieve, and control tax records. TIGTA made three observations for improvement:

- The IRS Procurement office could take the lead in monitoring the agreement, to include developing metrics to track and measure NARA's performance.
- The IRS organizations requesting services under the agreement could periodically reconcile billings from NARA.
- The IRS and NARA could hold regular coordination meetings on performance, staffing, and any other relevant issues.

Due to Coronavirus Disease 2019 Pandemic (Pandemic) restrictions, the FRCs were closed or operated at a limited capacity from March 2020 to March 2022, resulting in a significant backlog of the storage and retrieval of tax records. During this period, the FRCs instructed the IRS not to send any or limit the volume and intervals of records sent for storage and requests for record retrieval. The FRCs were storing records received from the IRS in bulk without the ability to retrieve specific records and the remaining records were being stored onsite or in trailers at the

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<sup>8</sup> IRM 1.15.1.1.1 (Oct. 13, 2023).

<sup>9</sup> A document locator number is a 14-digit number assigned to certain documents received, consisting of a file location code, tax class, document code, Julian date, blocking series, serial number, and tax year. Many types of tax records, including tax returns, examination case files, payments, and additional tax assessments or abatements, are assigned document locator numbers as a means to identify, locate, and retrieve individual tax records when requested. Each IRS Tax Processing Center and FRC is assigned, and responsible for, a unique series of document locator numbers, which are used chronologically and sequentially for stored documents.

Tax Processing Centers. In November 2021, NARA officials told TIGTA that the backlog of document requests at the FRCs could take up to three years to resolve.

In June 2019, the Office of Management and Budget (OMB) and NARA jointly issued OMB/NARA Memorandum M-19-21, *Transition to Electronic Records*, that required all Federal agencies to manage all permanent records in an electronic format and to maintain a robust records management program by December 31, 2022.<sup>10</sup> Due to delays caused by the Pandemic, this requirement was extended to June 30, 2024, in OMB/NARA Memorandum M-23-07, *Update to Transition to Electronic Records*.<sup>11</sup> According to Memorandum M-23-07, the FRCs will no longer accept paper records after June 30, 2024, and will accept only records in the appropriate electronic format. On November 30, 2022, the IRS submitted a request to NARA for an exception to continue to store new paper records at the FRCs until December 31, 2030, which was granted on February 2, 2023.

In August 2023, the IRS announced a paperless processing initiative for the 2024 Filing Season, although taxpayers will still have the option to file using paper forms. The initiative also includes plans to digitize paper records. However, TIGTA reported in September 2023 that the IRS has experienced challenges in transitioning to electronic records.<sup>12</sup> TIGTA recommended that the IRS: 1) create a single Service-wide comprehensive digitalization strategy, and 2) develop processes to require management to track digitalization efforts; compare the results against plans, goals, objectives, *etc.*; and analyze significant deviations. IRS management agreed to both recommendations.

## **Results of Review**

Our review found that the IRS lacks oversight of its agreement with NARA for the storage, management, and retrieval of records. The IRS is also not adhering to Department of the Treasury guidance for the management of interagency agreements. Specifically, we found that the IRS does not conduct any cost analyses to ensure price reasonableness, monitor or evaluate NARA's performance, or review the terms and conditions of the agreement annually as required. As a result, the IRS is unable to accurately determine the reasonableness of NARA's rates and may not be preparing, processing, executing, and administering the agreement appropriately.

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<sup>10</sup> OMB, M-19-21, *Transition to Electronic Records* (June 28, 2019).

<sup>11</sup> OMB, M-23-07, *Update to Transition to Electronic Records* (December 23, 2022).

<sup>12</sup> TIGTA, Report No. 2023-10-050, *The Internal Revenue Service Has Experienced Challenges in Transitioning to Electronic Records* (Sept. 2023).



**Lack of oversight attributable to...**



**No Cost Analysis**



**No monitoring of  
performance**



**No review of terms  
and conditions**

### **A Cost Analysis of the Interagency Agreement Is Not Conducted As Required by Department of the Treasury Guidance**

As previously mentioned, 31 U.S.C. § 1535 authorizes Federal agencies to enter into agreements to obtain supplies or services from another Federal agency as long as the order is in the best interest of the Government and the goods or services cannot be provided by contract as conveniently or cheaply by a commercial enterprise. According to the Department of the Treasury's *Interagency Agreement Process* guide, the IRS has the responsibility to ensure price reasonableness of the agreement and perform a cost analysis. The guide also states that the IRS has the responsibility to discuss and negotiate the terms and conditions of the contract as well as the cost with NARA. However, IRS officials stated that they have not conducted a cost analysis, nor have they negotiated NARA's costs.<sup>13</sup>

Beginning in October 2020, NARA established and implemented a new rate structure for its services to ensure that the FRC storage program could recover its costs, as well as simplify the billing process. Under the prior rate structure, fees were itemized based on the number of document requests worked and included a separate fee for document storage; whereas, under the new rate structure the fees for most standard services including document requests, transfers, and most types of disposition, reference, and refiles were combined into one overall cost in the storage fee. IRS officials explained that the change in NARA's billing was not negotiated, and they accepted it without question.

We analyzed the IRS's paid invoices from NARA from October 2019 to May 2023.<sup>14</sup> Figure 1 provides the average monthly NARA costs paid by the IRS from October 2019 through May 2023.

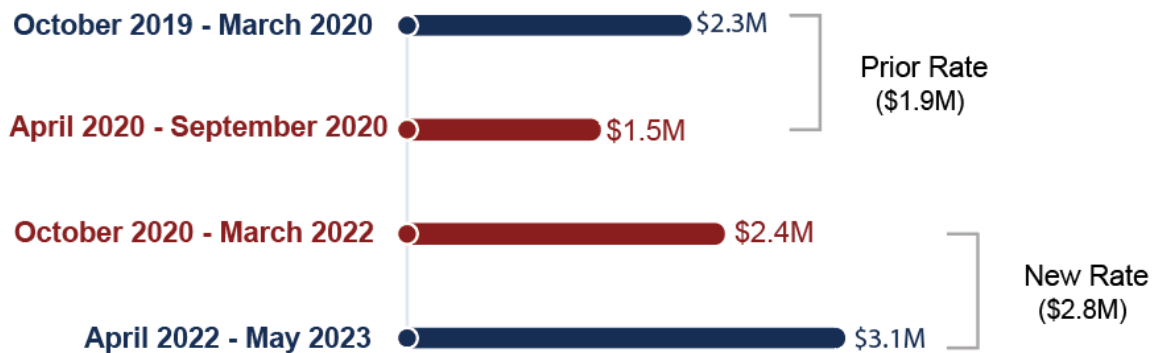
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<sup>13</sup> NARA has fixed fees for the services that they offer. IRS officials explained that these fees are non-negotiable but that the specific services provided or not provided can be negotiated, including how NARA bills the fees for the services rendered.

<sup>14</sup> This period includes six months of invoices prior to the closure of the FRCs (October 2019 through March 2020), 24 months during the closure of the FRCs (April 2020 through March 2022), and 14 months of resuming services after the reopening of the FRCs (April 2022 through May 2023).

**Figure 1: Average Monthly NARA Costs and Operating Status**

Average monthly costs of NARA Services at **Full Capacity** and **Closures** due to the Pandemic.



Under the new rate structure, the cost to the IRS when NARA was closed exceeded the cost at full capacity under the prior rate structure.

Source: TIGTA's analysis of NARA's invoices provided by the IRS.

From October 2019 to September 2020, when the prior rate structure was in effect, the FRCs were operating at full capacity during the first six months and were closed the last six months due to the Pandemic. Under the prior rate structure, the IRS paid an average of \$1.9 million per month for NARA's services. As a result of the closure, the average monthly cost decreased by approximately \$850,000 as the FRCs were not receiving and working IRS document requests. Beginning in October 2020, the new rate structure went into effect. From October 2020 to March 2022, the FRCs were still closed or operating at limited capacity due to the Pandemic and in April 2022, the FRCs began operating at full capacity. Under the new rate structure, the IRS paid an average of approximately \$2.8 million per month for NARA's services. This is approximately \$900,000 more per month compared to the average monthly costs paid under the old rate structure.

Although IRS officials stated that the NARA fees are non-negotiable, the *Interagency Agreement*

**The IRS did not assess whether the increase in average monthly costs were reasonable.**

*Process* guide states that the IRS should discuss and negotiate the terms and conditions and the cost with NARA. Additionally, the NARA Statement of Work states that adjustments in rates will be negotiated and not be imposed unilaterally without such advice. The IRS did not conduct any type of cost analysis or price justification related to the new rate structure. Without conducting a cost analysis, the IRS has no way to know if these costs are reasonable or in the best interest of the Government.

The IRS should have considered negotiating the rate adjustments with NARA, especially given NARA's decreased services provided during the FRC closures.

NARA invoices show the number of document requests worked by FRC personnel. However, IRS officials stated that due to the lack of an inventory system, they are unable to reconcile the number of requests to the invoices. We also attempted to reconcile the requests to the invoices

but were unable to do so because the IRS does not compile this information. Prior to the change in rate structure, when the IRS was being charged per request, there was no way for the IRS to reconcile the number of requests worked by NARA and confirm the accuracy of the costs charged. Because the IRS is unaware of this information, it is unable to accurately determine the reasonableness of the rates for the number of requests.

NARA will no longer accept IRS paper records after December 31, 2030. Because of this, the IRS must seek commercial storage and services for any paper records produced after this date. During FY 2023, the IRS requested bids from third-party storage vendors. However, IRS officials stated additional actions would be delayed until FY 2027, as a result of the approved deadline extension. In addition to obtaining a commercial vendor to store paper records produced in the future, the IRS plans to continue to use NARA for any records currently stored at the FRCs. The IRS has not considered the impact of NARA's rate structure when the IRS begins using commercial vendors and thus reduces its use of NARA's services due to storing fewer records at the FRCs and submitting fewer document requests. Due to the complexities of the evolving situation with the storage of paper records, the IRS should consider consulting with the IRS Procurement office to assist with analyzing future contracts with NARA and commercial vendors.

**Recommendation 1:** The Chief, Taxpayer Services, should perform a cost/price analysis which compares NARA's prior and new rate structures, including the impact of the new rate structure on future agreements, and negotiate the terms and conditions as well as the costs with NARA, as appropriate.

**Management's Response:** IRS management agreed with this recommendation, stating they will compare and analyze NARA's previous and new rate structures, as well as enter negotiations on the services, roles, and responsibilities and type of rate structure in preparation for the 2025 renewal of the interagency agreement.

### **NARA's Performance and Adherence to the Interagency Agreement Is Not Monitored or Evaluated**

The Department of the Treasury's *Interagency Agreement Process* guide states that the IRS and NARA are responsible for monitoring the performance of the agreement. The agreement also explains that both the IRS and NARA are responsible to effectively manage the agreement by conducting evaluations of performance, project status, funds balance, and prompt payment. However, IRS officials noted that the IRS does not conduct any evaluations of performance to ensure NARA's compliance with the general terms and conditions of the agreement. Additionally, the IRS is unaware of any evaluations conducted by NARA.

Due to Pandemic restrictions, the FRCs were either closed or operating at a limited capacity from March 2020 to March 2022. This resulted in a significant backlog in the storage and

retrieval of documents. The IRS attempted to address the backlog by limiting the number of document requests submitted by employees.



These restrictions had a direct impact on IRS employees who needed the documents to conduct their work, such as assisting taxpayers with their tax account or ensuring tax compliance by taxpayers. As of August 2023, the IRS removed all limitations on the submission for document requests.

As mentioned previously, TIGTA issued a memorandum to the IRS in March 2022 explaining the significant delays TIGTA was experiencing with receiving requested documents. During June 2023, we interviewed a judgmental sample of the top requester of paper records from six IRS functions during Calendar Year 2022, and all six requesters reported experiencing significant delays in receiving requested records.<sup>15</sup> Five of the six requesters noted that it generally takes between two to eight months after submitting the request to receive the requested documents. However, all six requesters also stated that they do not always receive the requested documents. One interviewee stated that the requested paper records are received approximately 25 percent of the time, and another interviewee stated that the requested files are rarely received. Further, a third interviewee explained that because of the delays in receiving paper records, their assigned case files are closed without being worked. Despite TIGTA and IRS employees' concerns, IRS officials stated during a May 2023 interview that they were unaware of any issues with employees being unable to obtain paper records timely.

Because the IRS uses a manual process to fulfill document requests and does not have an automated tracking system that provides specific document information, it is difficult for the IRS to determine the current location of records.<sup>16</sup> When a document request is submitted to an FRC and the FRC personnel cannot find the record, they should document the request as "Not in File" and return it to the IRS to notify the requester. However, the IRS does not track or monitor the specific records or the number of instances in which records are unable to be located. During our walkthrough at the Kansas City Tax Processing Center, IRS officials stated that they do not recall ever being unable to locate a record, which contradicts the concerns expressed by

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<sup>15</sup> A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.

<sup>16</sup> The IRS uses Form 4251 and Form 3210 to locate and track records. However, in TIGTA, Report No. 2023-IE-R007, *Sensitive Tax Information Is Not Being Controlled Adequately When Shipping to and From Tax Processing Centers* (Aug. 2023), TIGTA found that the paper Forms 3210 are not always included in shipments of records or not prepared properly. Further, when the Form 4251 is initiated, it is auto populated with the employee number of the person submitting the request for records which may differ from the employee actually requesting the records, such as when an administrative assistant requests records for other IRS personnel.

the IRS employee requesters we interviewed. Although the IRS does not have an automated tracking system, the inability to locate a record not only impacts the IRS's mission but could also risk inadvertent disclosure of taxpayer information or identity theft if unauthorized parties obtain them.

**Recommendation 2:** The Chief, Taxpayer Services, should develop a process to monitor and evaluate NARA's performance under the interagency agreement. This process should be documented and include measurable results that can be reconciled, tracked, and analyzed to identify issues and determine whether corrective action is needed.

**Management's Response:** IRS management agreed with this recommendation, stating they will develop a process to monitor and evaluate NARA's performance under the interagency agreement, including coordinating with NARA when reviewing the interagency agreement to determine if there are any issues and taking corrective actions as necessary.

### **The Interagency Agreement With NARA Is Not Reviewed Annually As Required**

The Department of the Treasury's *Interagency Agreement Process* guide, as well as the interagency agreement's Statement of Work between the IRS and NARA, requires both the requesting and servicing parties to annually review the general terms and conditions of the agreement and make amendments as necessary. The general terms and conditions identify the type of agreement, total value of the agreement, total period of performance, scope, roles and responsibilities, specific clauses, and advanced payment authorization. According to IRS officials, FY 2016 was the only fiscal year in which the IRS conducted and documented a formal review of the agreement. The results of the IRS's review documented only what was being modified in the agreement but did not include any type of reasoning for the modification. IRS officials explained that when the agreement nears the end of the period of performance, they informally review and modify it to ensure that the agreement for the next period of performance reflects the most current information.<sup>17</sup> The COR identifies and makes modifications that are ultimately approved by both parties when they sign the agreement. Despite the guidance stating that the agreement must be reviewed annually by both the requesting and servicing parties, the IRS does not annually review the document. Additionally, both parties should discuss and negotiate the general terms and conditions. The only time the IRS and NARA discussed the general terms and conditions of the agreement was in Calendar Year 2014, when two modifications were made.

Further, the FY 2016 review consisted of reviewing only the Statement of Work, which is just one part of the interagency agreement. The IRS has not reviewed the other parts of the agreement, including "Attachment 2 Agreement Between the IRS and NARA" that explains the actual agreement in further detail, including topics such as roles and responsibilities. There are several responsibilities outlined in the agreement and the Statement of Work that are assigned to an IRS CO. For example, only the IRS CO has the authority to negotiate changes to the terms or increase the total obligation of the agreement. The IRS CO is also responsible for the resolution

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<sup>17</sup> The IRS's current agreement with NARA has a period of performance from October 1, 2020, to September 30, 2025 (five fiscal years).

of any disagreements between the NARA program office and the IRS COR. If an equitable settlement cannot be reached at this level, the disagreement should be raised to the IRS's Director, Procurement, for final resolution. However, according to IRS officials, there is no involvement of an IRS CO because the agreement is not handled by the IRS Procurement office. The agreement is currently overseen by an IRS COR; however, the IRS COR for this agreement has numerous other job responsibilities beyond monitoring the agreement. Due to the lack of annual reviews over the agreement, the IRS may not be preparing, processing, executing, and administering the agreement appropriately.

**Recommendation 3:** The Chief, Taxpayer Services, should collaborate with the Chief Financial Officer Organization and the IRS Procurement office to review all parts of the interagency agreement with NARA and determine if modifications are necessary and all roles and responsibilities are properly assigned, and document the results of the review and any discussions with NARA.

**Management's Response:** IRS management agreed with this recommendation, stating they will review all parts of the interagency agreement and determine if modifications are necessary, including that all roles and responsibilities are assigned. They will also share this information with the Chief Financial Officer Organization and IRS Procurement office to request their review and input. Also, they will document the results of the review requests and discussions with NARA.

## **Appendix I**

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

The overall objective of this review was to assess the efficiency and effectiveness of the IRS's oversight of the interagency agreement for storage, management, and retrieval of taxpayer paper files. To accomplish our objective, we:

- Determined the applicable policies, procedures, and controls that are in place for the storage, management, and retrieval of taxpayer paper files.
- Determined how the interagency agreement between the IRS and NARA was managed and if NARA's performance was evaluated using metrics, such as fulfillment and nonfulfillment rates of paper files, invoice comparison, and interviewing key personnel. From a universe of 9,344 active IRS employees who requested 544,878 documents during Calendar Year 2022, we selected a judgmental sample of the top requester from six IRS functions. These six requesters submitted 29,582 (approximately 5 percent) requests of the 544,878 total requests.<sup>1</sup>
- Determined the IRS's plan for adhering to OMB/NARA's deadline in transitioning to electronic records and securing alternative storage at a commercial storage facility.

### **Performance of This Review**

This review was performed at the IRS's Kansas City Tax Processing Center and NARA's Kansas City FRC in Kansas City, Missouri, and with information obtained from the Chief, Taxpayer Services, located in Atlanta, Georgia, during the period November 2022 through March 2024. 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 Matthew Weir, Acting Deputy Inspector General for Audit; Phyllis Heald London, Acting Assistant Inspector General for Audit (Compliance and Enforcement Operations); Robert Jenness, Director; Tina Fitzsimmons, Audit Manager; Kelly Loeffler, Lead Auditor; Daniel O'Keefe, Lead Auditor; Jennifer Ragsdale, Senior Auditor; Charles Gambino, Auditor.

### **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 to assess the oversight of the interagency agreement. We evaluated these controls by

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<sup>1</sup> A judgmental sample is a nonprobability sample, the results of which cannot be used to project to the population.



reviewing and analyzing relevant data, interviewing IRS management and personnel, and reviewing relevant guidance.



## Appendix II

### Management's Response to the Draft Report

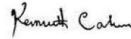


CHIEF  
TAXPAYER SERVICES

DEPARTMENT OF THE TREASURY  
INTERNAL REVENUE SERVICE  
ATLANTA, GA 30308

June 3, 2024

MEMORANDUM FOR MATTHEW A. WEIR  
ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Kenneth C. Corbin   
Chief, Taxpayer Services Division

Digitally signed by Kenneth C.  
Corbin  
Date: 2024.06.03 08:22:56 -0400

SUBJECT: Draft Audit Report – Improvements Are Needed to Effectively  
Provide Oversight and Management of the Interagency  
Agreement With the National Archives and Records  
Administration (Audit No.: 202330016)

Thank you for the opportunity to review and provide comments on the subject draft report. We appreciate its acknowledgement of the challenges that the IRS and National Archives and Records Administration (NARA) faced during the COVID-19 pandemic. Managing the storage and maintenance of approximately 5.8 million cubic feet of paper tax records is a significant undertaking, and our partnership with NARA has been instrumental in this effort. With the use of supplemental funding received through the Inflation Reduction Act of 2022<sup>1</sup>, we are transitioning to eliminate paper documents and, thus, the need to retain and store them, by expanding digital submission channels for use by taxpayers and digitalizing paper documents at the earliest opportunity after receipt. These actions will eliminate the need to store paper documents at the Federal Records Centers (FRCs) and will, over time, reduce the volume of documents stored as their retention periods expire.

We note, regarding the FRC rate structure and the overall increase to the monthly fees paid for NARA's services, under 44 U.S.C. Chapter 29, *Records Management by The Archivist of The United States and by The Administrator of General Services*, Section 2901 Note, *Records Center Revolving Fund*<sup>2</sup>, provides that rates are set to fully return the expenses to the operation. Despite the limited operations during the pandemic, the FRC continued to incur costs associated with the vast volume of stored records. This occurred during a time when the U.S. economy was subjected to inflationary pressure, the likes of which had not been experienced in over 40 years. The IRS, like every other

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

<sup>2</sup> Pub. L. 106-58, title IV, [(a)-(e)], Sept. 29, 1999, 113 Stat. 460, 461, as amended by Pub. L. 108-383, §3, Oct. 30, 2004, 118 Stat. 2218

consumer of goods and services during this period, experienced significant cost increases in all categories. We kept our stakeholders continuously informed about the FRC's operational status and limitations through internal messaging. Additionally, we asked our users to limit their requests for paper documents because we anticipated that some documents may not be locatable, as they were in transition between our campus facilities and the FRCs.

We are improving our oversight and review process for Interagency Agreements (IAA) and contracts. We are now conducting annual reviews of the IAAs with NARA in addition to the monthly reviews of NARA billing statements. We are also engaging in frequent communication with the NARA and our Privacy, Governmental Liaison, and Disclosure office, holding regular bi-weekly meetings with all parties to discuss and immediately respond to questions and concerns as they arise.

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

Attachment

**Recommendations**

**RECOMMENDATION 1**

The Chief, Taxpayer Services, should perform a cost/price analysis which compares NARA's prior and new rate structures, including the impact of the new rate structure on future agreements, and negotiate the terms and conditions as well as the costs with NARA, as appropriate.

**CORRECTIVE ACTION**

We agree. We will compare and analyze the National Archives and Records Administration's (NARA's) previous rate structure and new rate structure. We will enter negotiations on the services, roles, and responsibilities and the type of rate structure with NARA in preparation for the 2025 renewal of the Interagency Agreement.

**IMPLEMENTATION DATE**

January 15, 2025

**RESPONSIBLE OFFICIAL**

Director, Submission Processing, Customer Account Services, Taxpayer Services Division

**CORRECTIVE ACTION MONITORING PLAN**

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

**RECOMMENDATION 2**

The Chief, Taxpayer Services, should develop a process to monitor and evaluate NARA's performance under the interagency agreement. This process should be documented and include measurable results that can be reconciled, tracked, and analyzed to identify issues and determine whether corrective action is needed.

**CORRECTIVE ACTION**

We agree. As part of our renewal negotiations with NARA, we will develop a process to monitor and evaluate NARA's performance under the interagency agreement. We will coordinate with NARA when reviewing the Interagency Agreement to determine if there are issues and will take corrective actions when necessary.

**IMPLEMENTATION DATE**

January 15, 2025

**RESPONSIBLE OFFICIAL**

Director, Submission Processing, Customer Account Services, Taxpayer Services Division

**CORRECTIVE ACTION MONITORING PLAN**

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

**RECOMMENDATION 3**

The Chief, Taxpayer Services, should collaborate with the Chief Financial Officer Organization and the IRS Procurement office to review all parts of the interagency agreement with NARA and determine if modifications are necessary and all roles and responsibilities are properly assigned, and document the results of the review and any discussions with NARA.

**CORRECTIVE ACTION**

We agree. We will review all parts of the Interagency Agreement with NARA and determine if modifications are necessary, including that all roles and responsibilities are properly assigned. We will share this information with the Chief Financial Officer Organization and the IRS Procurement office to request their review and input. We will document the results of the review request and discussions with NARA.

**IMPLEMENTATION DATE**

January 15, 2025

**RESPONSIBLE OFFICIAL**

Director, Submission Processing, Customer Account Services, Taxpayer Services Division

**CORRECTIVE ACTION MONITORING PLAN**

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

## **Appendix III**

### **Abbreviations**

CO	Contracting Officer
COR	Contracting Officer Representative
FRC	Federal Records Center
FY	Fiscal Year
IRM	Internal Revenue Manual
IRS	Internal Revenue Service
NARA	National Archives and Records Administration
OMB	Office of Management and Budget
TIGTA	Treasury Inspector General for Tax Administration



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

**To make suggestions to improve IRS policies, processes, or systems  
affecting taxpayers, contact us at [www.tigta.gov/form/suggestions](http://www.tigta.gov/form/suggestions).**

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