



*Actions Can Be Taken to Proactively
Reduce Unpostable Transactions*

March 25, 2020

Reference Number: 2020-40-020

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

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HIGHLIGHTS

ACTIONS CAN BE TAKEN TO PROACTIVELY REDUCE UNPOSTABLE TRANSACTIONS

Highlights

Final Report issued on March 25, 2020

Highlights of Reference Number: 2020-40-020 to the Commissioner of Internal Revenue.

IMPACT ON TAXPAYERS

The IRS must timely and accurately post transactions relating to taxpayers' returns and payments to their tax accounts. Therefore, the IRS established a series of validity checks that a transaction must pass prior to posting to a taxpayer's account. This process is crucial to maintaining the integrity of the Master File.

WHY TIGTA DID THE AUDIT

This audit was initiated to assess the IRS's policies and procedures to identify and assign unpostable transactions for resolution.

WHAT TIGTA FOUND

The IRS's validity checks identify unpostable transactions and route them to the appropriate functional areas for resolution. However, management should address the volume of avoidable unpostable transactions that some functions frequently create. For example, during Calendar Years 2018 and 2019, one function's systemic process created about 60,000 unpostable transactions that could be avoided. TIGTA identified that these transactions required the IRS to spend \$91,900 in labor costs to resolve the cases.

Inaccurate procedures and a lack of training in one IRS tax processing center resulted in tax examiners erroneously routing 41 unpostable transaction cases to another tax processing center. This can delay processing of the taxpayers' returns, which can create a burden for the taxpayers. For example, taxpayers could lose their tax exempt status if their returns are not posted to their accounts. In addition, the taxpayers could be issued a balance due notice or failure to file a return notice.

TIGTA also identified that clerks in the unpostable unit in one IRS tax processing center closed 30,016 unpostable transaction cases during the 2019 Filing Season without conducting the required research. The incorrect closing of these cases resulted from erroneous procedures in a local job aid used by clerks in the Ogden Tax Processing Center. The job aid used by the clerks was inconsistent with internal guidelines used by unpostable units in the IRS's other tax processing centers that work these types of unpostable transaction cases.

Management took prompt corrective actions during the review to address most of the deficiencies that TIGTA identified. For example, management issued a work stoppage e-mail to the Kansas City Tax Processing Center directing it to retain certain unpostable transaction cases in its current inventory. Management also removed the erroneous procedures from the Ogden job aid and issued an alert to all tax processing centers directing employees to follow the internal procedures when closing unpostable cases.

WHAT TIGTA RECOMMENDED

TIGTA recommended that the IRS: 1) establish procedures in its Post-Processing Section to track and monitor instances of large volumes of repeated unpostable transactions created by functional areas and to coordinate with the functions to reduce the volume of these cases and 2) coordinate with the Ogden Tax Processing Center to provide an Exempt Organization Subject Matter Expert to help train the tax examiners in the Kansas City Business Master File Unpostable Unit.

IRS management agreed with both recommendations and plans to take or has taken corrective actions to establish internal guidance and provide specialized training to tax examiners in the Kansas City Business Master File Unpostable Unit.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 25, 2020

MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE

FROM:

Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – Actions Can Be Taken to Proactively Reduce
Unpostable Transactions (Audit # 201940011)

This report presents the results of our review to assess the IRS's policies and procedures to identify and assign unpostable transactions for resolution. This audit is part of our Fiscal Year 2020 discretionary audit coverage and addresses the major management challenge of Achieving Operational Efficiencies.

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

Copies of this report are also being sent to the IRS managers affected by the report recommendations. If you have any questions, please contact me or Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services).



*Actions Can Be Taken to Proactively
Reduce Unpostable Transactions*

Table of Contents

Background.....Page 1

Results of ReviewPage 3

Management Did Not Address the Avoidable Unpostable
 Transaction Cases That Some Functions Create.....Page 3

Recommendation 1:.....Page 4

Inaccurate Procedures and a Lack of Training Resulted in
 Tax Examiners Erroneously Routing Some Unpostable
 CasesPage 4

Recommendation 2:.....Page 5

Some Unpostable Cases Were Closed Without Required
 Research Being Conducted.....Page 5

Appendices

Appendix I – Detailed Objective, Scope, and MethodologyPage 7

Appendix II – Major Contributors to This Report.....Page 9

Appendix III – Report Distribution ListPage 10

Appendix IV – Outcome MeasurePage 11

Appendix V – Management’s Response to the Draft ReportPage 12



*Actions Can Be Taken to Proactively
Reduce Unpostable Transactions*

Abbreviations

| | |
|-----|--------------------------|
| CY | Calendar Year |
| IRS | Internal Revenue Service |



Actions Can Be Taken to Proactively Reduce Unpostable Transactions

Background

The Internal Revenue Service's (IRS) Master File¹ is the system of record that houses tax account information for individual and business taxpayers. As such, the IRS must timely and accurately post transactions to these tax accounts. To ensure the timely and accurate posting of transactions, the IRS established a series of validity checks that a transaction must pass prior to a transaction posting to a taxpayer's account. For example, one check performed ensures that a refund transaction is on a tax account prior to posting a refund reversal transaction. The validity check process is in place to maintain the integrity of the Master File.

In Calendar Year (CY) 2018, there were 850 validity checks (574 for business transactions and 276 for individual transactions) used for the transaction validation process. For transactions that fail one or more validity checks, the IRS deems the transaction unpostable. An unpostable transaction is one that cannot be posted to a taxpayer account on the Master File and must be resolved by the IRS. The IRS has three types of corrective actions to resolve unpostable transactions. These are: 1) resolution by a tax examiner, 2) automatic resolution by the Generalized Unpostable Framework² system, and 3) mass resolution at a Tax Processing Center (whereby a tax examiner or manager uses a batch process to close multiple cases with one input to the Generalized Unpostable Framework system).

Resolution of unpostable transactions

The Generalized Unpostable Framework system assigns unpostable transactions by category to the responsible organizations in the IRS. This system also generates reports to reflect the number and type of cases assigned to the organizations. Internal guidelines direct each organization to the actions that should be taken to resolve the unpostable conditions not automatically resolved by the Generalized Unpostable Framework. Resolution of the unpostable condition may require the tax examiner to reinput, delete, or post the transaction to the correct tax account. Figure 1 provides the volume of unpostable conditions for CYs 2017 through 2019.

¹ The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

² The Generalized Unpostable Framework system establishes an inventory of transactions that could not post to the Master File and provides programming to correct certain transaction types. The Generalized Unpostable Framework system controls, validates, and corrects transactions.



*Actions Can Be Taken to Proactively
Reduce Unpostable Transactions*

Figure 1: Unpostable Transaction Volumes

| Master File | CY 2017 | CY 2018 | CY 2019 |
|------------------------|-------------------|-------------------|-------------------|
| Individual Master File | 8,059,508 | 9,952,820 | 9,172,536 |
| Business Master File | 11,996,582 | 13,612,474 | 11,704,375 |
| Total | 20,056,090 | 23,565,294 | 20,876,911 |

Source: Our analysis of the Business Master File and Individual Master File Unpostables by Reason Code reports. The CY 2019 volume is as of October 31, 2019.

This review was performed at the Tax Processing Centers located in in Kansas City, Missouri, and Ogden, Utah, during the period February 2019 through January 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 objectives. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.



*Actions Can Be Taken to Proactively
Reduce Unpostable Transactions*

Results of Review

Our review determined that the IRS's validity checks identify unpostable transactions and route them to the appropriate functional area(s) for resolution. We reviewed the transactions associated with 20 unpostable conditions³ and found that the transactions were not posted to taxpayers' accounts when the condition was identified by a validity check. However, we identified areas in which management can reduce the volume of some unpostable transactions.

Management Did Not Address the Avoidable Unpostable Transaction Cases That Some Functions Create

Some IRS functional areas frequently create large volumes of unpostable transactions that could be avoided. For example, the Integrity and Verification Operation's⁴ systemic tool used to release processing holds on taxpayers' returns created about 60,000 unpostable transaction cases⁵ during CYs 2018 and 2019. The IRS's validity checks created these unpostable cases and routed them to unpostable units because the return processing holds were already released via other IRS processes. The unpostable units spent \$91,900 in labor costs⁶ resolving these unpostable transactions.

The labor costs spent to resolve the above unpostable transactions could be used to perform other work if Submission Processing management established a proactive process to track the volume of avoidable unpostable transactions that some functions create and coordinate with the functions to reduce the volume. However, management stated that, to track large volumes of unpostable transactions to a specific function, they need information that is not available in the Generalized Unpostable Framework inventory reports. When we asked if they requested this information, Submission Processing management and Information Technology organization officials stated that they have not coordinated with the Generalized Unpostable Framework programmers to assess the feasibility of adding codes or originator numbers to the Generalized Unpostable Framework to identify functions that frequently create avoidable unpostable transactions.

³ The 20 unpostable transactions included ones with high volumes, ones that had an impact on taxpayers or tax administration, and ones related to taxpayer payments.

⁴ The Integrity and Verification Operation reviews returns with potentially erroneous income and withholding amounts. This function also releases the processing hold when the income and withholding amounts are verified.

⁵ The IRS does not track the volume of these unpostable transactions but estimated that over 60,000 were created.

⁶ (60,000 unpostable transactions x 5 minutes per case) / 60 minutes per hour = 5,000 hours x \$18.38 = \$91,900.



*Actions Can Be Taken to Proactively
Reduce Unpostable Transactions*

Recommendation

Recommendation 1: The Commissioner, Wage and Investment Division, should establish procedures in the Post-Processing Section to track and monitor instances of large volumes of repeated unpostable transactions created by IRS functional areas and to coordinate with the functions, including the Integrity and Verification Operation, to proactively reduce the volume of cases.

Management's Response: The IRS agreed with this recommendation and plans to establish procedures to track and monitor instances of large volumes of repeated unpostable transactions created by IRS functional areas and sent to the Post-Processing Section for resolution. IRS management also plans to use the data to provide feedback and coordinate with the functions generating such transactions to proactively reduce the volume of cases.

Inaccurate Procedures and a Lack of Training Resulted in Tax Examiners Erroneously Routing Some Unpostable Cases

Our review identified that tax examiners in the Unpostable Unit at the Kansas City Tax Processing Center (in Kansas City, Missouri) erroneously routed 41 unpostable cases, created in Processing Year⁷ 2019, to the Unpostable Unit at the Ogden Tax Processing Center (in Ogden, Utah) for resolution. In addition, at the time we raised concerns to IRS management, tax examiners were preparing to route another 32 cases to Ogden. The incorrect routing of these cases resulted from management not updating internal procedures for resolving these types of business unpostable cases. Specifically, the tax examiners were following outdated procedures. However, the current IRS policy requires the cases to be resolved by the tax examiners in the tax processing center that receives the cases from systemic programming (in this situation, the Kansas City Tax Processing Center).

The unpostable transaction cases we identified are transactions that attempted to post to the Exempt Organization Master File. The erroneous case routing resulted from a lack of training for tax examiners on how to resolve these types of unpostable conditions. Incorrect routing can create a burden for taxpayers whose returns are not timely processed. For example, delays could result in taxpayers losing their tax exempt status if their returns were not posted to their accounts. In addition, the taxpayers may be issued a balance due notice or failure to file return notice due to delays in the IRS processing their returns and payments.

Management agreed that the procedures were not updated and that these cases should not have been routed to the Ogden Tax Processing Center Unpostable Unit. In response to our concerns, management issued a work stoppage e-mail to the Kansas City Tax Processing Center directing it

⁷ The calendar year in which the tax return or document is processed by the IRS.



Actions Can Be Taken to Proactively Reduce Unpostable Transactions

to hold all unpostable cases of this type in its current inventory. Management also issued guidance to all processing sites indicating that all unpostable cases of this type are to be worked by the site to which they are generated.

Recommendation

Recommendation 2: The Commissioner, Wage and Investment Division, should coordinate with the Ogden Tax Processing Center to provide an Exempt Organization Subject Matter Expert to help train the tax examiners in the Kansas City Business Master File Unpostable Unit.

Management's Response: The IRS agreed with this recommendation. In December 2019, a Subject Matter Expert from the Ogden Tax Processing Center provided procedural training to the Kansas City Business Master File Unpostable Unit on Exempt Organization unpostables generated at that center.

Some Unpostable Cases Were Closed Without Required Research Being Conducted

Our review identified that clerks in the unpostable unit in the Ogden Tax Processing Center closed 30,016 unpostable transaction cases during the 2019 Filing Season⁸ without conducting required research.⁹ For example, internal guidelines require clerks to research unpostable transactions that resulted from an employee's attempt to add or update a Centralized Authorization File indicator to the taxpayers' accounts. This indicator is important because it alerts employees throughout the IRS that the taxpayer has an authorized representative to represent the taxpayer in front of the IRS and access the taxpayer's information. Without this indicator, employees and authorized representatives may not be able to help the taxpayers meet their tax obligations. Other unpostable transactions closed without proper research include cases in which employees input transactions to post identity theft markers on taxpayers' accounts and markers to indicate that the taxpayer filed an amended tax return. To properly close these cases, employees are required to perform research such as reviewing the taxpayer's account on the Master File.

The incorrect closing of these cases resulted from erroneous procedures in a local job aid used by clerks in the Ogden Tax Processing Center. Specifically, the job aid instructed the clerks to close the unpostable transactions without conducting research. This is inconsistent with the internal guidelines that clerks should follow when working these types of unpostable transaction cases. When we raised our concern to management, they agreed that the procedures in the local job aid

⁸ The period from January through mid-April when most individual income tax returns are filed.

⁹ We analyzed the closed Generalized Unpostable Framework reports for specific codes listed in the local job aid, which instructed the clerks to close the cases without conducting research.



*Actions Can Be Taken to Proactively
Reduce Unpostable Transactions*

are erroneous and inconsistent, and they did not know how long these procedures have been in place.

The Input Correction Operation in the Ogden Tax Processing Center is responsible for ensuring that procedures in local job aids align with Internal Revenue Manual procedures. However, prior to our raising this issue, this office had not assessed the unpostable transaction case resolution procedures in the Ogden job aid and could not explain why it instructs clerks to close the type of cases we identified without conducting research and assessing the effect to taxpayers and the IRS.

We are not making a recommendation because IRS management took corrective actions to address this deficiency in October 2019. Management removed the erroneous procedures from the Ogden job aid and issued a Servicewide Electronic Research Portal¹⁰ alert to all tax processing centers directing employees to follow the Internal Revenue Manual procedures when closing unpostable cases. Finally, management could not review the 30,016 cases that clerks closed without researching because the Generalized Unpostable Framework system does not retain closed case information.

¹⁰ The Servicewide Electronic Research Portal is designed to provide employees from all functions with intranet access to Internal Revenue Manuals and other reference materials and to retrieve frequently referenced documents required to perform their jobs.



*Actions Can Be Taken to Proactively
Reduce Unpostable Transactions*

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to assess the IRS's policies and procedures to identify and assign unpostable transactions for resolution. To accomplish our objective, we:

- I. Evaluated IRS processes for ensuring that unpostable transactions were correctly identified once programming was implemented.
 - A. Identified 20 types of high-risk unpostable transactions that presented the most risk to taxpayers, the IRS, and tax administration.
 - B. Assessed the adequacy of the actions to ensure that the high-risk unpostable transactions were correctly identified once programming was implemented.
- II. Evaluated IRS actions to monitor the activity of unpostable conditions.
 - A. Identified policies and procedures in place for IRS management to review unpostable transaction activity.
 - B. Identified the actions IRS management takes to review and monitor unpostable transaction activity levels.
 - C. Obtained and analyzed the cumulative unpostable transactions reports for Processing Years 2016 through 2018 to identify unusual trends in unpostable transaction volumes from year to year.
- III. Determined if IRS systems routed unpostable transactions to the proper functional areas for timely resolution.
 - A. Reviewed the IRS's policies and procedures for establishing category codes for unpostable transactions.
 - B. Reviewed the Generalized Unpostable Framework 57-40 Closed Unpostable Reports from the 2019 Filing Season for the high-risk unpostable transactions identified above and ensured that the proper category code was assigned by the Generalized Unpostable Framework.
 - C. Ensured that unpostable transactions were routed to the proper function based on location.



*Actions Can Be Taken to Proactively
Reduce Unpostable Transactions*

- D. Evaluated the IRS's uses of mass closures to resolve unpostable transaction cases by identifying employees who used the Integrated Data Retrieval System¹ Command Code UPBAT² during the 2019 Filing Season.

Data validation methodology

During this review, we relied on data the IRS pulled for us from its Generalized Unpostable Framework. Before relying on the data, we ensured that the files contained the data elements we requested and performed analyses to evaluate the validity and reasonableness of the data. Based on the results of this testing, we believe that the data used in our review were reliable.

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: processes and procedures the IRS uses to establish unpostable codes as well as those used to identify and monitor unpostable transactions. We evaluated these controls by reviewing policies and procedures, interviewing employees and management, and analyzing data.

¹ IRS computer system capable of retrieving or updating stored information. It works in conjunction with a taxpayer's account records.

² Command code UPBAT is used to batch close unpostable cases.



*Actions Can Be Taken to Proactively
Reduce Unpostable Transactions*

Appendix II

Major Contributors to This Report

Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services)

William A. Gray, Director

Levi Dickson, Audit Manager

Van Warmke, Acting Audit Manager

Mark Willoughby, Lead Auditor

Ann Ring, Senior Auditor

Laura Christoffersen, Auditor



*Actions Can Be Taken to Proactively
Reduce Unpostable Transactions*

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, Enterprise Audit Management



*Actions Can Be Taken to Proactively
Reduce Unpostable Transactions*

Appendix IV

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:

Cost Savings – Funds Put to Better Use – Potential; \$91,900 in labor costs to resolve avoidable unpostable cases created by the Integrity and Verification Operation (see page 3).

Methodology Used to Measure the Reported Benefit:

The IRS estimated that 60,000 unpostable transactions¹ resulted from a systemic process in the Integrity and Verification Operation, which input duplicate transactions on taxpayers' accounts starting in March 2018. The transactions were meant to release processing holds² that the IRS placed on the taxpayers' returns. However, the processing holds were previously released. Therefore, the duplicate transactions could not post to the tax accounts.

We interviewed tax examiners responsible for resolving unpostable transaction cases to determine the average time it takes an employee to resolve the above unpostable transaction cases. Based on our discussions, we determined that five minutes to resolve a cases is a conservative estimate. We reviewed the IRS's Cost Estimate Reference for Fiscal Year 2017 and determined that the hourly cost to resolve each case is \$18.38. Based on this information, we used the following formula to calculate the estimate: 60,000 unpostable transactions x 5 minutes per case / 60 minutes per hour = 5,000 hours x \$18.38 = \$91,900.

¹ The IRS does not track the volume of these unpostable transactions but estimated that over 60,000 were created.

² The processing holds that the IRS places on some taxpayers' returns allows the IRS to scrutinize the returns for potential identity theft.



*Actions Can Be Taken to Proactively
Reduce Unpostable Transactions*

Appendix V

Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

MAR 09 2020

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

SUBJECT: Draft Audit Report – Actions Can Be Taken to Proactively
Reduce Unpostable Transactions (Audit # 201940011)

Thank you for the opportunity to review and comment on the subject draft report. The Master File is the official system of record to which assessments documenting the liability of taxpayers are recorded. To ensure the accuracy of the Master File, transactions attempting to post to it are evaluated by an extensive suite of validity tests. Transactions that do not pass validation are rejected and deemed to be unpostable. This is a vital internal control that protects data integrity. Depending on the source and purpose of the unpostable transactions, they are either resolved systemically or referred to employees for review, perfection, and resubmission.

We appreciate the insights this review of unpostable transactions has provided. We agree with the recommendations made in the report, as well as the related Outcome Measure. We do not agree, however, with a statement in the report that processing delays have the potential for causing taxpayers to lose their tax-exempt status. Transactions reflecting returns and payments are recorded as of the date they are received. This is true even if the posting of the transaction is delayed while an unpostable condition is being resolved. An organization's tax-exempt status would not, as a matter of law, be automatically revoked pursuant to Internal Revenue Code § 6033(j) because of this delay.

Attached are our comments and planned corrective 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



*Actions Can Be Taken to Proactively
Reduce Unpostable Transactions*

Attachment

Recommendations

RECOMMENDATION 1

The Commissioner, Wage and Investment Division, should establish procedures in the Post-Processing Section to track and monitor instances of large volumes of repeated unpostable transactions created by IRS functional areas and to coordinate with the functions, including the Integrity and Verification Operation, to proactively reduce the volume of cases.

CORRECTIVE ACTION

We will establish procedures to track and monitor instances of large volumes of repeated unpostable transactions created by IRS functional areas and sent to the Post-Processing Section for resolution. We will use the data to provide feedback and coordinate with the functions generating such transactions to proactively reduce the volume of cases.

IMPLEMENTATION DATE

October 15, 2020

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

The Commissioner, Wage and Investment Division, should coordinate with the Ogden Tax Processing Center to provide an Exempt Organization Subject Matter Expert to help train the tax examiners in the Kansas City Business Master File Unpostable Unit.

CORRECTIVE ACTION

In December 2019, a Subject Matter Expert from the Ogden Processing Center provided procedural training to the Kansas City Business Master File Unpostables Unit on Exempt Organization unpostables generated at that center.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

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



*Actions Can Be Taken to Proactively
Reduce Unpostable Transactions*

2

CORRECTIVE ACTION MONITORING PLAN
N/A