

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Program and Organizational Changes Are Needed to Address the Continued Inadequate Tax Account Assistance Provided to Taxpayers

March 18, 2022

Report Number: 2022-46-027

HIGHLIGHTS: Program and Organizational Changes Are Needed to Address the Continued Inadequate Tax Account Assistance Provided to Taxpayers

Final Audit Report issued on March 18, 2022

Report Number 2022-46-027

Why TIGTA Did This Audit

This audit was initiated because the backlog of over-aged Accounts Management inventory has been an ongoing challenge for the IRS. The Coronavirus Disease 2019 (COVID-19) pandemic and recent pandemic-related tax law changes have further exacerbated the over-aged inventory. As of November 20, 2021, the IRS reports having 7.8 million cases in its Accounts Management inventory, with 56.8 percent of the inventory being over-aged.

The overall objective of this review was to assess the IRS's efforts to prioritize Accounts Management inventories and reduce consistent over-aged inventories.

Impact on Taxpayers

The Accounts Management function is responsible for assisting individual and business taxpayers with tax law and tax account inquiries, including making adjustments to taxpayer accounts when necessary.

Delays in working correspondence increases burden on taxpayers and cost to the Government. For example, the IRS paid \$166.4 million in interest between August 14, 2020, and August 26, 2021, for some amended tax returns. The time it takes Accounts Management to work the taxpayer's request contributes to the amount of interest paid.

What TIGTA Found

Redirecting tax account correspondence and replies to IRS letters, *etc.*, to Accounts Management Campus Support Sites will improve service to taxpayers. For example, TIGTA found that it took Tax Processing Centers 53 days longer than Campus Support Sites to receive, process, and scan correspondence into the Accounts Management inventory.

Expanding options for taxpayers to correspond with the IRS electronically can also reduce the time it takes for correspondence to reach Accounts Management. The IRS's *Taxpayer Experience Strategy* includes plans to expand services to allow taxpayers to provide documents to the IRS digitally. However, IRS management indicated there is no planned implementation date within Accounts Management.

In addition, many Accounts Management employees split their time between working Accounts Management cases and answering IRS toll-free telephone calls. As call volumes increase, fewer resources are available to work Accounts Management inventory. TIGTA estimates that Accounts Management could close all of the cases in its inventory as of October 1, 2021, in approximately seven months if all of its employees were dedicated to working this inventory. Finally, TIGTA found that Accounts Management inventory reporting among the Accounts Management sites is incomplete and inconsistent.

TIGTA issued eight alerts to IRS management during its review. IRS management took actions to address four of TIGTA's alerts, including providing additional resources to assist with the scanning backlogs at the Tax Processing Centers, increasing staffing at the new Fresno Campus Support Site, implementing processes to ensure timely screening of correspondence, and verifying inventory reporting for all 10 Accounts Management sites to identify inventory reporting inconsistencies and errors.

What TIGTA Recommended

TIGTA made 19 recommendations to the IRS, including that the IRS redirect the receipt of correspondence to Campus Support Sites, prioritize implementation of tools that enable taxpayers to directly upload documents into Accounts Management's inventory, consider establishing a separate program that only works Accounts Management inventory, and modify and improve the reporting of Accounts Management inventories.

The IRS agreed with 16 of the 19 recommendations. IRS management did not believe it would be feasible to obtain the increased staffing necessary to accommodate moving all Accounts Management correspondence to the Campus Support Sites. Management also did not agree to update or obtain new scanning software or implement changes to the Accounts Management Inventory Report.



TREASURY INSUBMISSION
PROCESSING
INSPECTOR GENERAL
FOR TAX ADMINISTRATION

U.S. DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

March 18, 2022

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

FROM: Michael E. McKenney
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Program and Organizational Changes Are Needed to Address the Continued Inadequate Tax Account Assistance Provided to Taxpayers (Audit # 202140630)

This report presents the results of our review to assess the Internal Revenue Service's (IRS) efforts to prioritize Accounts Management inventories and reduce consistent over-aged inventories. This review was part of our Fiscal Year 2021 discretionary audit coverage and addresses the major management and performance challenge of *Responding to the COVID-19 Pandemic* and *Modernizing IRS Operations*.

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).

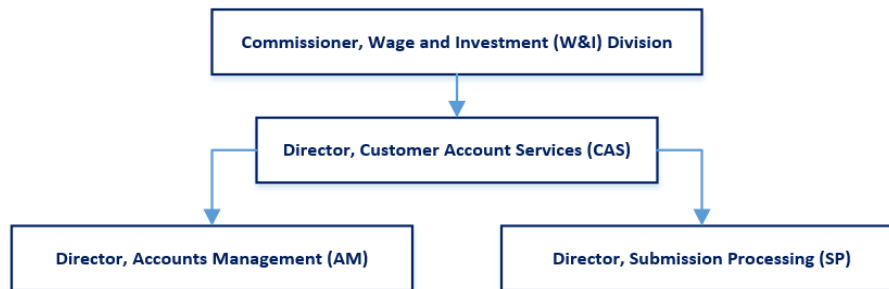
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Background

The Internal Revenue Service (IRS) Accounts Management function is responsible for assisting individual and business taxpayers with tax law and tax account inquiries, including making adjustments to taxpayer accounts when necessary. The Accounts Management function has 10 sites nationwide that work inventory – seven Campus Support Sites¹ and three Tax Processing Centers.² Organizationally, Accounts Management is located within the IRS's Customer Account Services organization,³ which is part of the IRS's Wage and Investment Division⁴ and is a sister function to the Submission Processing function.⁵ Figure 1 shows where Accounts Management is located organizationally.

Figure 1: Accounts Management Organizational Chart



Source: IRS intranet as of May 9, 2021.

As of July 3, 2021, IRS management reports having 18,472 Accounts Management employees. Of these, 13,095 (71 percent) employees are customer service representatives (CSRs), with 8,522 who split their time between answering IRS toll-free telephone lines and working Accounts Management inventory and 4,573 who solely answer telephones. The majority of the remaining 5,377 employees are tax examiners, clerks, analysts, and managers.

The majority of Accounts Management case work is received from taxpayers

Most of the Accounts Management inventory is received from taxpayers via the mail. The Submission Processing function supports Accounts Management at the Tax Processing Centers by receiving, opening, extracting, sorting, and scanning inventory to be worked by Accounts Management. The seven IRS Campus Support Sites are operated by the Accounts Management

¹ Accounts Management Campus Support Sites are located in Fresno, California; Atlanta, Georgia; Andover, Massachusetts; Brookhaven, New York; Cincinnati, Ohio; Philadelphia, Pennsylvania; and Memphis, Tennessee.

² Accounts Management Tax Processing Centers are located in Kansas City, Missouri; Austin, Texas; and Ogden, Utah.

³ The Customer Account Services organization is the largest single entity in the IRS; its mission is to inspire confidence in the tax system by delivering top-quality service through a trouble-free filing experience and efficient resolution of issues.

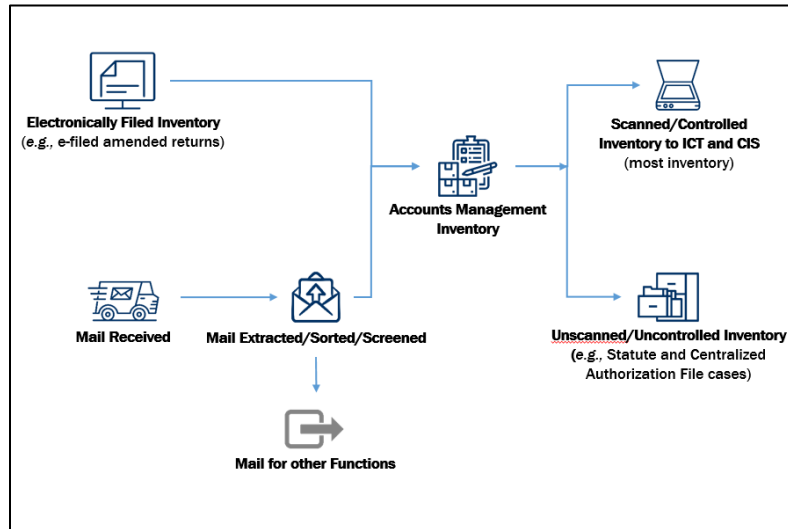
⁴ The Wage and Investment Division is responsible for all tax processing and toll-free customer service for individual and business taxpayers as well as face-to-face assistance and some compliance services for wage taxpayers.

⁵ Submission Processing develops requirements, policies, and procedures for the submission of all paper and electronic tax returns and processes all individual and business returns nationwide.

function and perform the same activities for Accounts Management that Submission Processing performs at the Tax Processing Centers.

Although the mail operations in the Tax Processing Centers and Campus Support Sites are similar, there are some differences. For example, the volume of mail is much higher in the Tax Processing Centers. As such, they use machines to automatically cut open, count, and perform an initial sort of incoming mail. Most Campus Support Sites manually complete these tasks. Figure 2 provides an overview of Accounts Management inventory routing from IRS receipt.

Figure 2: Overview of Accounts Management Inventory Routing



Source: Treasury Inspector General for Tax Administration (TIGTA's) overview based upon walkthroughs of Tax Processing Centers and Campus Support Sites. Note: CIS = Correspondence Imaging System and ICT = Image Control Team.

Accounts Management controls its inventory using two inventory management systems:

- Correspondence Imaging System (CIS) – CIS is a document imaging and workflow system that houses incoming paper correspondence, notice replies, amended returns, *etc.*⁶ The CIS inventory is comprised of documents received from taxpayers that are scanned by the Image Control Team (ICT).
- Accounts Management Services (AMS) – AMS is a web-based system that provides a consolidated view of taxpayer data and information from various IRS systems. AMS inventory is comprised of systemically generated work. For example, these include tax accounts for which there is an unresolved freeze code⁷ or other condition. Accounts Management refers to the inventory in the AMS as “transcripts.”

Accounts Management inventory in the CIS and AMS is referred to as controlled inventory. Work that is not in CIS or AMS is referred to as uncontrolled inventory. Examples of uncontrolled inventory include tax returns waiting for assessment statute review,

⁶ Not all amended returns are worked by Accounts Management; thus, not all amended returns are scanned into CIS. In addition, some paper-filed amended tax returns are scanned into CIS by the IRS Submission Processing 1040X Unit and worked by that unit.

⁷ A condition that prevents the issuance of refunds or credit offsets and the assessment of accrued interest or penalties.

Centralized Authorization File⁸ inventory, and inventory waiting to be scanned by the ICT. Accounts Management's goal is to close most of its inventory within 45 days of IRS receipt. After 45 days, it generally classifies the inventory as over-aged. The time it takes for Accounts Management to receive and work its inventory affects how timely taxpayer's receive a response from the IRS and have their case resolved.

The closure of Tax Processing Centers in response to the pandemic significantly increased existing Accounts Management inventory backlogs

Accounts Management estimates of work that remained in inventories near the end of Calendar Year 2020 was higher than normal when compared to the end of Calendar Year 2019. In May 2021,⁹ we reported that the IRS had more than 4 million cases in the Accounts Management inventory as of December 31, 2020, and more than 5.1 million cases in inventory as of March 20, 2021. These figures reflect total Accounts Management inventories and include both individual and business work. The inventory remaining dated back to April 13, 2020. As of November 20, 2021, the IRS reports its Accounts Management inventory is 7.8 million cases, which includes both individual and business work, including amended returns. The IRS reports 56.8 percent of the inventory as over-aged.

Results of Review

Over-aged Accounts Management inventory has been an ongoing challenge for the IRS. The Coronavirus Disease 19 (COVID-19) pandemic and recent pandemic-related tax law changes have further exacerbated the over-aged inventory.¹⁰ Unlike other types of entities, correspondence continues to be a primary method for taxpayer communication with the IRS. For example, taxpayers *must* mail-in correspondence to the IRS when addressing certain tax account issues, such as responding to an IRS notice or letter. Although the IRS requires taxpayers to use this as a primary service channel, the IRS has not taken any significant actions to address the continued lack of quality customer service it offers taxpayers corresponding with the IRS. Our review has identified the following factors that contribute to persistent over-aged Accounts Management inventory and remain unaddressed:

- ***Taxpayers are directed to mail correspondence to the IRS Tax Processing Centers.*** The primary mission of IRS Tax Processing Centers is to process tax returns, yet the IRS continues to direct taxpayers to also send correspondence intended for Accounts Management to its Tax Processing Centers.
- ***Lack of dedicated staffing whose sole responsibility is addressing Accounts Management cases.*** Accounts Management CSRs serve a dual role of working Accounts Management cases while also being responsible for answering IRS toll-free telephone calls. As noted earlier, 71 percent of Accounts Management employees are CSRs, many

⁸ A computerized system of records that houses authorization information from both powers of attorney and tax information authorizations. It contains several types of records, among them taxpayers, representatives, tax forms, and authorizations.

⁹ TIGTA, Report No. 2021-40-038, *Interim Results of the 2021 Filing Season* (May 2021).

¹⁰ Families First Coronavirus Response Act (Pub. L. No. 116-127, 134 Stat. 178) and the Coronavirus Aid, Relief, and Economic Security Act (Pub. L. No. 116-136, 134 Stat. 281).

of whom split their time between answering toll-free telephone calls and working Accounts Management inventory. Without dedicated staffing to work Accounts Management's inventory, the inventory and the number of over-aged cases will continue to grow, which directly impacts the service provided to taxpayers.

- ***Lack of consolidated ownership of ICT operations.*** ICT operations are located in all 10 Accounts Management sites. As previously mentioned, three of these sites are operated by Submission Processing, and seven sites are operated by Accounts Management. We found that a lack of single ownership and oversight by one function resulted in inconsistencies in the allocation of ICT staff when compared to the inventory received in each Tax Processing Center and Campus Support Site.

Finally, our review found that Accounts Management inventory reporting changes are needed to accurately reflect the inventory assigned to employees at each site. Currently, the site-specific inventory reports include inventory that is not assigned to an Accounts Management employee (*i.e.*, nationwide unassigned inventory).

We issued eight alerts to IRS management during the period June to September 2021 that detailed deficiencies identified during our review. However, as of January 7, 2022, IRS management has only taken the necessary actions to address four of our alerts.

Redirecting Tax Account Correspondence and Replies to Accounts Management Campus Support Sites Will Improve Service to Taxpayers

Our analysis of CIS data as of September 5, 2021, found that, for Calendar Year 2021, 81 percent of Accounts Management inventory was mailed to a Tax Processing Center. This requires the IRS to use Submission Processing employees whose focus should be on the processing of tax returns to open, extract, sort, and scan this correspondence before it is available to Accounts Management employees. Although IRS management is aware of this conflicting responsibility for Submission Processing, no actions have been taken to evaluate having correspondence intended for Accounts Management sent directly to Campus Support Sites for processing.

Directing taxpayers to mail their correspondence to the IRS Campus Support Sites instead of the Tax Processing Centers could reduce the time it takes for inventory to reach Accounts Management and improve services to taxpayers. For example, our analysis of CIS data as of September 5, 2021, found that, for Calendar Year 2021, it took Tax Processing Centers 53 days¹¹ longer than Campus Support Sites to receive, process, and scan correspondence into CIS. IRS management stated that the need to implement COVID-19 safety protocols, such as social distancing in its facilities, limited the staff available to receive, process, and scan correspondence into CIS during Calendar Year 2021. However, our analysis of CIS data for Tax Years¹² 2018 through 2021 shows that it consistently takes Tax Processing Centers longer than Campus Support Sites to scan correspondence into CIS.

¹¹ The number of days from IRS receipt to scanning the correspondence into CIS includes the screening of correspondence.

¹² A 12-month accounting period for keeping records on income and expenses used as the basis for calculating the annual taxes due.

In addition, redirecting tax account work from Tax Processing Centers to Accounts Management Campus Support Sites would enable Tax Processing Centers to devote more resources to their primary mission of processing tax returns. Many of the same employees responsible for opening, extracting, and sorting Accounts Management correspondence are also responsible for handling tax returns. As of November 20, 2021, the IRS still had more than 14.6 million tax returns remaining to be processed.

Expansion of electronic methods to respond to the IRS will also improve services to taxpayer

In addition to directing correspondence to Campus Support Sites, the IRS should develop tools that enable taxpayers to correspond with the IRS electronically. This could provide taxpayers instant confirmation that the IRS has received their documents and reduce the time it takes for the correspondence to reach Accounts Management. For example, during the COVID-19 crisis, the IRS launched a new tool that allows taxpayers to upload documents requested by the IRS's Automated Questionable Credit program to the IRS rather than mailing them. The IRS's *Taxpayer Experience Strategy*¹³ includes plans to expand services to allow taxpayers to provide documents to the IRS digitally. However, IRS management indicated the *Taxpayer Experience Strategy* is being implemented for IRS enforcement functions first, and as of December 13, 2021, there is no planned date for implementation within Accounts Management.

Recommendation 1 (E-Mail Alert): On September 20, 2021, we notified the Director, Accounts Management, that the Austin site was not requiring Accounts Management screeners to come into the office to perform their duties, resulting in a significant backlog and delays in inventory being routed to Accounts Management to be worked. We recommended that the IRS establish consistent guidance and clarification on when resources can be directed to the office to help with screening inventory, to ensure that sufficient staff is available to screen documents in a timely manner, and establish processes to monitor the progress.

Management Response to Alert: IRS management agreed and has reinforced existing procedures with the Austin Tax Processing Center to ensure adequate staff were recalled to the office to address screening needs. IRS management also plans to continue monitoring the screening volumes at all Campus Support Sites to avoid future staffing shortages.

The Commissioner, Wage and Investment Division, should:

Recommendation 2: Evaluate directing taxpayers to send tax account correspondence and replies intended for Accounts Management directly to Campus Support Sites for processing to reduce backlogs at Tax Processing Centers and improve services to taxpayers.

Management's Response: The IRS disagreed with this recommendation. IRS management stated that, in addition to the needed equipment, space upgrades, *etc.*, it would not be feasible to obtain the increased staffing needed to move all Accounts Management correspondence to the Campus Support Sites. Management stated mail clerk and remittance clerk staffing in the Campus Support Sites range from 42 in the

¹³ The IRS's implementation plan of the Taxpayer First Act, outlined within the Taxpayer First Act Report to Congress (Publication 5426, January 2021).

smallest site to 142 in the largest and noted that they have been unable to hire enough replacements to backfill annual attrition losses.

Office of Audit Comment: Tax Processing Centers are facing similar staffing, space, equipment challenges, *etc.*, as the Campus Support Sites. Yet the IRS continues to use Tax Processing Centers to open, extract, sort, and scan Accounts Management correspondence despite their primary mission being to process tax returns. This is especially concerning because IRS management's response indicates the decision to consolidate mail processing under Submission Processing was made more than a decade ago.

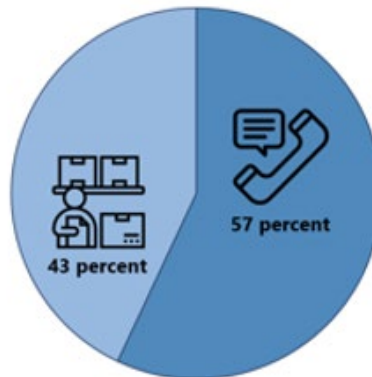
Recommendation 3: Prioritize the development and implementation of tools that will enable taxpayers seeking assistance or responding to Accounts Management to correspond with the IRS electronically, including the ability to directly upload documents into Accounts Management's inventory.

Management's Response: The IRS agreed with this recommendation. The IRS plans to continue following the ongoing modernization efforts and projects, which are designed to ensure that the appropriate infrastructure is in place to support new initiatives as they are introduced throughout the IRS. IRS management stated that, from an enterprise perspective, the IRS has piloted the ability for taxpayers to upload documents within certain compliance functions where the volume is significantly lower than would be expected in Accounts Management. This improves the ability to ensure a successful implementation of the new capabilities and will pave the way for expansion throughout the Service. According to management, as they await further enhancements, they have collaborated with the Online Services function and the Information Technology Enterprise Program Management Office to develop Tax Account Assistance initiatives, such as Integrated Payments and Live Assistance tools, including a voicebot/chatbot application.

Dedicated Staffing to Work Accounts Management Inventory Is Needed

Our review found that many Accounts Management employees split their time between working Accounts Management cases and answering IRS toll-free telephone calls. As previously mentioned, we found that 71 percent of Accounts Management employees are CSRs, and many split their time answering calls and working inventory. However, answering toll-free telephone calls typically takes priority. For example, our analysis of CSR time spent working cases versus answering toll-free telephone calls from the weeks ending January 6, 2018, through May 29, 2021, found that the majority of CSRs' time is spent answering toll-free telephone calls rather than working cases, as shown in Figure 3.

**Figure 3: Allocation of Time Spent by CSRs Answering
Toll-Free Telephone Calls Versus Working Inventory**



Source: TIGTA's analysis of Resource Allocation Reports for the weeks ending January 6, 2018, through May 29, 2021.

As call volumes increase, fewer resources are available to dedicate to working Accounts Management inventory

Demand for IRS toll-free telephone assistance has increased each year since November 2018, which directly correlates with the increase in tax law changes in recent years, including the tax law changes related to the pandemic. As such, the IRS has experienced unprecedented telephone demand. For example, the IRS reports it received 8.6 million calls on March 15, 2021, which is approximately 1,500 calls per second and a 600 percent increase compared to normal call traffic. The IRS Commissioner also stated that the IRS received 246 million calls in the first eight months of Calendar Year 2021 compared to 42 million in Calendar Year 2018 and 44 million in Calendar Year 2019.

As call volumes increase, fewer resources are available to dedicate to working Accounts Management inventory. In addition, tax law changes and the effects of the pandemic also resulted in an increase of receipt of Accounts Management inventory. While Accounts Management has increased overall staffing, it has not been enough to meet the unprecedented demand for both toll-free telephone assistance and correspondence from taxpayers.

IRS management stated that the time needed to work through the existing Accounts Management inventory is dependent upon telephone demand and service goals. For example, IRS management projected that, to meet a 30 percent Level of Service on the telephones for Fiscal Year 2022, only 2,710 employees would be available to work Accounts Management inventory. Alternatively, if all Accounts Management CSRs and tax examiners had the sole responsibility of working inventory, we estimate that the IRS could close all of the cases in the Accounts Management inventory as of October 1, 2021, in approximately seven months (31.9 weeks).¹⁴

¹⁴ This estimate is based on the 8,522 CSRs who split their time between answering toll-free telephone calls and working inventory and all tax examiners as of July 3, 2021.

A lack of dedicated resources to process amended returns increases burden on taxpayers waiting for refunds or pandemic benefits and increases costs to the Federal Government

When individual and business taxpayers make an error or need to change amounts on their originally filed tax returns, they can file an amended tax return. In addition, in response to the pandemic, a number of legislative provisions were passed to provide relief to individual and business taxpayers. Because these provisions were enacted after the filing of taxpayers' original tax returns, this required the filing of an amended tax return to obtain the pandemic benefits. For example:

- The *American Rescue Plan Act of 2021*¹⁵ provides that individuals with modified adjusted gross income of less than \$150,000 can reduce the amount of taxable unemployment compensation by up to \$10,200.¹⁶ Because this provision was enacted on March 11, 2021, the IRS had already received tax returns from many of the taxpayers to whom this provision would apply. The IRS did not require these taxpayers to file a Form 1040-X, *Amended U.S. Individual Income Tax Return*, to adjust their unemployment compensation. However, individuals who are now eligible for a tax credit that was not claimed on their original tax return must file a Form 1040-X to claim the credit.
- The *Coronavirus Aid, Relief, and Economic Security Act* created the Employee Retention Credit for employers who carried on a trade or business during Calendar Year 2020 that fully or partially suspended operations due to orders from an appropriate governmental authority or experienced a 50 percent decline in gross receipts when compared to the same quarter in Calendar Year 2019. The *Consolidated Appropriations Act*¹⁷ extended the Employer Retention Credit to those employers who experienced a 20 percent decline in gross receipts. Therefore, employers who were not previously eligible for the Employee Retention Credit would need to file a Form 941-X, *Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund*.

The lack of dedicated resources continues to result in significant IRS delays in working these amended returns. In turn, this results in significant delays in taxpayers receiving refunds they are entitled to as well as receiving relief benefits included in pandemic legislation. Figure 4 provides a comparison of Form 1040-X and Form 941-X returns that remained to be processed in Calendar Years 2020 and 2021.

¹⁵ Pub. L. No. 117-2, 135 Stat. 122.

¹⁶ If the taxpayer and their spouse both have unemployment income, they could exclude up to \$20,400 of the unemployment compensation.

¹⁷ Pub. L. No. 116-260, 134 Stat. 1182.

Figure 4: Comparison of Forms 1040-X and 941-X

Form	Calendar Year 2020		Calendar Year 2021	
	Total Inventory	Over-Age	Total Inventory	Over-Age
Form 1040-X ¹⁸	190,412	103,292 (54%)	708,251	556,694 (79%)
Form 941-X	9,867	9,749 (99%)	411,610	372,969 (91%)

Source: Accounts Management Form 1040-X Inventory Reports dated December 26, 2020, and November 27, 2021, and Standard Aged Reports for Form 941-X dated January 1, 2021, and November 30, 2021.

In addition to the significant burden on taxpayers, the Federal Government is paying significant amounts of interest due to the delays in processing these amended returns. The law generally allows the IRS 45 days for processing returns before interest is required to be paid. Interest is generally paid on refunds that are not processed within 45 days of the return due date, the return received date, or the date the return was received and able to be processed (whichever is later). Figure 5 provides the amount of interest paid to individuals and businesses filing Forms 1040-X and Forms 941-X that were processed by the IRS from August 14, 2020, to August 26, 2021.

Figure 5: Interest Paid for Forms 1040-X and 941-X¹⁹

Form	Tax Accounts	Interest Paid
Form 1040-X	526,980	\$110.9 Million
Form 941-X	450,390	\$55.5 Million
Total	977,370	\$166.4 Million

Source: TIGTA analysis of CIS, Individual Master File (IMF),²⁰ and Business Master File²¹ data for August 14, 2020, through August 26, 2021.

We anticipate that the IRS will pay significantly more interest on Forms 1040-X and 941-X claims given the number of returns remaining to be processed.

¹⁸ Includes Forms 1040-X in Accounts Management inventory and not Forms 1040-X in Submission Processing inventory.

¹⁹ Figures may include interest that are not specific to processing delays. IRS management indicated that the IRS is required to pay interest from the return due date to the received date of the amended return. In addition, IRS management stated that amended returns with Railroad Retirement claims, based upon a court ruling, may be significantly aged with large interest amounts paid.

²⁰ The IRS database that maintains transactions or records of individual tax accounts.

²¹ The IRS database that consists of Federal tax-related transactions and accounts for businesses.

The Taxpayer First Act²² provides an opportunity for the IRS to reorganize and allocate dedicated staffing to both toll-free telephones and Account Management inventory

The Taxpayer First Act was enacted in July 2019 in part to allow the IRS to reimagine and enhance the way it serves taxpayers. Specifically, § 1302 mandated the IRS to develop an organizational redesign strategy that prioritizes the taxpayer experience to ensure that taxpayers can easily and readily receive the help they need. The Act gives the IRS the flexibility to determine what type of organizational structure would best serve taxpayers.

While the IRS submitted its high-level reorganization plan to Congress in January 2021, much of the details are still to be determined. As such, this provides the IRS with a unique opportunity to reorganize and provide dedicated, adequate staffing to both essential functions of answering toll-free telephone calls and working Accounts Management cases to improve service to taxpayers.

Recommendation 4: The Chief Taxpayer Experience Officer, in conjunction with the Director, IRS NEXT Office, should evaluate establishing two distinct IRS programs as part of the IRS reorganization under the Taxpayer First Act – one dedicated to answering toll-free telephone calls and one dedicated to working Accounts Management inventory – with adequate staffing to provide appropriate service to taxpayers using each channel.

Management's Response: The IRS agreed with this recommendation. IRS management, with input from the Taxpayer Experience Office and IRS NEXT, plans to continue evaluating the telephone and paper correspondence demand for services, including the appropriate resources and staffing allocation.

Consolidated Oversight of the Imaging Control Team Operations Is Needed

Currently, the IRS assigns responsibility for the 10 ICT sites to both Submission Processing and Accounts Management. We identified and alerted management to the following concerns as it relates to multiple functional area oversight of the ICT program:

- ***Realigning ICT resources and inventory among ICT sites to more efficiently work the backlogged ICT inventory.*** Our analysis of total ICT inventory as of June 26, 2021, found that the Ogden Tax Processing Center had 35 percent of the total ICT inventory but only 21 percent of the total ICT employees. We notified IRS management of this concern on July 27, 2021, and they agreed to perform a strategic review to determine what contributes to the ICT's inability to timely scan and validate documents. IRS management stated that they expected to complete the review by the end of Calendar Year 2021. However, as of January 7, 2022, this has not been completed. IRS management stated that the efforts are ongoing and they have no expected completion date at this time.
- ***Cross-training additional mail clerks to work ICT inventory.*** Our review found that there were clerks at Campus Support Sites who could be available to assist ICT once they processed the incoming mail for the day. We notified IRS management of this concern on July 23, 2021, and they agreed to cross-train additional mail clerks, if needed, after

²² Pub. L. No. 116-25, 133 Stat. 981.

completing the strategic review they are performing. As noted above, IRS management had not completed the strategic review as of January 7, 2022, and they have no expected completion date.

- ***Ensuring consistency in ICT reporting between Submission Processing and Accounts Management sites.*** Submission Processing had a template that each Tax Processing Center completed each week to report its inventory to Headquarters. However, Accounts Management did not have such a template or reporting processes. We notified IRS management of this concern on July 12, 2021, and they agreed to develop specific instructions and a common template for all 10 ICT sites to consistently capture ICT inventory information. However, as of December 16, 2021, this has not been completed. IRS management stated that it expects to complete this by March 31, 2022.
- ***Updating existing scanning software or obtaining new scanning software with a higher document capacity.*** Our review found that the existing scanning software limits the number of documents that can be held in the ICT program at any given time. Once this limit is hit, scanning must be stopped and ICT employees must work to clear documents from the ICT program by ensuring that the documents were successfully scanned and a case is created in CIS. We notified IRS management of this concern on July 27, 2021, and they agreed to make a decision about updating or replacing existing scanning software used by the ICT by the end of Calendar Year 2021. However, as of January 7, 2022, this has not been decided. IRS management stated that the efforts are ongoing and they have no expected completion date at this time.
- ***Automating processes in the ICT function.*** Our review identified that the ICT has the functionality to receive some documents from taxpayers that are transmitted via electronic fax (e.g., Form 14039, *Identity Theft Affidavit*). However, although these documents are received via an electronic format, the IRS does not have the capability to systemically upload these documents into CIS.²³ Instead, these documents were printed and then scanned by ICT or manually transferred into CIS. We also identified that the IRS did not have a strategy for identifying and increasing the types of information that could be sent via electronic fax. We notified IRS management of these concerns on September 2, 2021, and they agreed to consider the potential for submitting a request to the Information Technology organization to systemically convert electronic documents received via fax into a CIS image, identify high-volume responses intended for CIS, and assess the need for electronic fax numbers. According to IRS management, the request to Information Technology was made on October 7, 2021. However, as of January 7, 2022, the technology has not been implemented.
- ***Maximizing the use of existing ICT scanners.*** Our review found that the Fresno Tax Processing Center was scheduled for closure on August 2, 2021, and that not all of the four high-capacity scanners were being used during the ramp down. We notified IRS management of the fact that ICT scanners were not being used to capacity on July 23, 2021, and recommended that they *immediately* ship at least two scanners to Tax Processing Centers to assist with the ICT backlog. In response, IRS management sent two high-capacity scanners to the Austin and Kansas City Tax Processing Centers, with

²³ According to the IRS, as of October 2020, taxpayers who use the IdentityTheft.gov application to file Form 14039 can upload their documents directly into CIS.

the remaining two sent to its newly stood-up Fresno Campus Support Site. However, this was not done in a timely fashion, with the last scanner shipped on August 24, 2021, which resulted in scanners not being effectively used to decrease the ICT backlog.

- **Updating Centralized Authorization File rejection processes.** Our review found that mail clerks at Campus Support Sites manually process and mail rejection letters to taxpayers who submit forms that cannot be processed (*i.e.*, forms are missing one of the five essential elements such as name, address, signature, *etc.*). As such, the resources expended to mail these rejection letters took away from resources that could be used to reduce backlogs of ICT work. We notified IRS management of these concerns on August 11, 2021, and they agreed to update programming to systemically reject electronic submissions of Forms 2848, *Power of Attorney and Declaration of Representative*, and 8821, *Tax Information Authorization*, when the forms are missing one of the five essential elements, with an electronic notice transmitted to the submitter. Management also noted that they plan to update the rejection letter to include language that a revised form can be submitted electronically, as the current letter did not explain this electronic option. However, IRS management stated that the Information Technology organization is not expected to begin testing until May 2022, and rejection letters will continue to be manually processed in the meantime. IRS management also stated that they initiated a request to update the rejection letter. However, as of December 16, 2021, this has not been completed.

The Taxpayer First Act Report to Congress²⁴ cites the IRS's plans to consolidate oversight of all ICT operations under Submission Processing

The concerns raised during our review and the actions management plans to take will not alone ensure the efficient use of ICT resources in the future. This is because many of the concerns we identified and elevated to IRS management are the direct result of a lack of consolidated ICT oversight by one IRS function. According to the Report to Congress, the IRS plans to consolidate oversight of all ICT operations under Submission Processing as part of the IRS reorganization. However, IRS management told us there is currently no planned date for when oversight will be consolidated. In addition, this will not ensure that Accounts Management has more control over the work it receives and continues to place responsibilities on Tax Processing Centers that are outside of their core mission of processing tax returns.

Recommendation 5 (E-Mail Alert): On June 9, 2021, we notified the Director, Customer Account Services, that Submission Processing requested resources from Accounts Management to assist with clearing the ICT backlog and was told by Campus Support management that no resources could be made available to assist with reducing the ICT backlog. We recommended that the IRS assess the availability of Campus Support's ICT staffing or other resources that could be made available to assist with clearing the ICT backlogs at Tax Processing Centers.

Management Response to Alert: IRS management agreed and assigned up to 52 Campus Support employees to assist Tax Processing Centers with their ICT validation efforts. IRS management plans to continue providing additional validation support when the Campus Support work is complete. We estimate that our recommendation resulted

²⁴ Publication 5426 (1-2021), Catalog Number 74637F.

in more than 1.5 million additional documents being validated sooner from July 1 through September 30, 2021, thereby reducing burden on taxpayers.

Recommendation 6 (E-Mail Alert): On September 3, 2021, we notified the Director, Accounts Management, of concerns relating to the newly stood-up Fresno Campus Support Site, including scanners not being used to the full extent possible. We recommended that IRS management provide us with its plans to address our concerns identified with the new Fresno Campus Support Site, including additional staffing to assist ICT.

Management Response to Alert: IRS management agreed and has increased staffing through voluntary reassignments and external announcements to fill vacancies. IRS management also ensured that all scanners are being used.

The Commissioner, Wage and Investment Division, should:

Recommendation 7: Complete a strategic review of all 10 ICT sites to determine what contributes to the ICT's inability to timely scan and validate documents. Based on the results of this review, initiate steps to address the concerns identified. This should include the development of an action plan to ensure that the high-capacity ICT scanners and staffing are realigned to the appropriate sites based on actual or expected inventory levels and that responsibility of the ICT operations are consolidated under the appropriate function.

Management's Response: The IRS agreed with this recommendation and plans to perform a Lean Six Sigma assessment to evaluate the potential for efficiency gains within the ICT process. This will address opportunities to improve procedures and the overall operation of the program.

Recommendation 8: Cross-train additional mail clerks at Campus Support Sites to work ICT validations, freeing up additional resources in sites with higher inventories needing to be scanned, or consider shipping inventory to sites with less inventory to be scanned.

Management's Response: The IRS agreed with this recommendation and plans to continue to identify and cross-train additional clerks. The number of clerks varies as the Campus Support workload must be current before validation assistance.

Recommendation 9: Develop specific instructions and a common template for all 10 ICT sites to consistently capture ICT inventory information.

Management's Response: The IRS agreed with this recommendation and plans to develop a common mechanism for Submission Processing and Accounts Management to capture the ICT inventory information.

Recommendation 10: Update existing scanning software or obtain a new scanning software to address document capacity concerns.

Management's Response: The IRS disagreed with this recommendation. IRS management stated they have determined the existing platform is sufficient to handle current and future needs.

Office of Audit Comment: Contrary to IRS management's determination, our review found that the software limitations are not sufficient to meet current

needs. Specifically, the 52 additional employees Accounts Management provided and plans to continue to provide in response to Recommendation 5 above are needed because the Tax Processing Centers had reached the ICT software capacity limit and were unable to scan additional documents until the existing scanned inventory was validated and moved to CIS.

Recommendation 11: Ensure that programming is updated to systemically reject electronic submissions of Forms 2848 and 8821 when missing one of the five essential elements (name, address, signature, *etc.*) without manually mailing a rejection letter.

Management's Response: The IRS agreed with this recommendation and plans to continue to test and implement Optical Character Recognition for processing Forms 2848 and 8821. This capability is critical for the ability to systemically issue rejection letters. Implementation is dependent on programming, which is subject to budgetary constraints, limited resources, and competing priorities. Consequently, an extended time frame for completion is estimated to account for unforeseen delays in obtaining the needed resources.

Recommendation 12: Ensure that the rejection letter used for Forms 2848 and 8821 is updated to include language that a revised form can be submitted electronically via an IRS Tax Pro Account²⁵ or through Taxpayer Digital Communication.²⁶

Management's Response: The IRS agreed with this recommendation and has updated Letter 861C to include the verbiage for electronic submissions through the Tax Pro Account and the Taxpayer Digital Communication application.

Recommendation 13: Develop an action plan to prioritize the continued expansion of documents that can be sent in via electronic fax and converted into a CIS image.

Management's Response: The IRS agreed with this recommendation and plans to perform a Lean Six Sigma assessment to evaluate the overall efficiency of the ICT process. The evaluation will consider expansion of electronic fax services.

Recommendation 14: Identify priority work that needs to be expedited by the ICT and assess the feasibility of creating an electronic fax number to receive this inventory.

Management's Response: The IRS agreed with this recommendation and plans to perform a Lean Six Sigma assessment to evaluate the overall efficiency of the ICT process. The evaluation will consider expansion of electronic fax services for inventory receipt.

²⁵ A service allowing tax professionals to request power of attorney or tax information authorization online.

²⁶ An initiative to enhance communications with taxpayers through digital channels such as secure messaging and chat.

Reporting Changes Are Needed to Accurately Reflect Each Site's Inventory

We identified the following concerns with the reporting of Accounts Management inventory and notified IRS management during our review:

- ***Lack of formalized and consistent procedures for preparing the Accounts Management Inventory Report (AMIR).*** Our review found that, in absence of detailed instructions from Accounts Management, each site created its own instructions to prepare the weekly AMIR. Review of these instructions found the instructions to be outdated and incomplete. This led to inconsistencies and inaccuracies. For example, we found that the Kansas City site overstated its inventory by 113,545 one week. We notified IRS management of this concern on July 12, 2021, and they agreed to perform reconciliations for each site and develop more comprehensive instructions for preparing the AMIR for both controlled and uncontrolled inventory. As of January 7, 2022, reconciliations have been performed all 10 Accounts Management sites. Management stated that they did not plan to develop instructions until they completed the reconciliations for all 10 Accounts Management sites. Although reconciliations have now been completed, management has not provided us with an estimated completion date.
- ***Lack of automation in inventory reporting.*** Our review found that controlled inventory is accessed from reports by each site's Planning and Analysis analyst and then manually compiled for each site. A consolidated AMIR is then prepared by Headquarters staff each week that shows the nationwide Accounts Management inventory. Manual processes increase the risk of human error. We notified IRS management of this concern on July 12, 2021, and recommended that they develop a process to systemically pull all controlled inventory for each site for the AMIR. IRS management agreed to submit a request to create a systemic tool to capture the controlled inventory for the AMIR reporting. However, IRS management stated that this would be considered an enhancement and that it could take up to two years to be implemented and was subject to other competing priorities. As of December 16, 2021, this has not been completed. IRS management stated that enhancement requests are submitted annually and they plan to submit this request by March 31, 2022.
- ***Lack of detailed reporting to show only the inventory that is being worked by each site.*** Our review found that changes to the AMIR are needed to ensure that each site's inventory accurately reflects only the inventory assigned to employees of that site and does not include unassigned inventory (*i.e.*, not yet assigned to an employee at a specific Accounts Management site). For example, the Memphis Campus Support Site's inventory includes unassigned amended return inventory for the nation that may or may not be worked by an employee at the Memphis Campus Support Site. We notified IRS management of this concern on July 12, 2021. On December 16, 2021, IRS management stated that adding this information to the AMIR would require labor-intensive manual intervention to an already complex AMIR process. Management states that this information is available via other reports. However, without these reporting changes, it cannot be determined from the AMIR which types of inventory are currently being worked in each Accounts Management site. As previously stated, the AMIR is the authoritative source of Accounts Management inventory and is used by higher levels of IRS management.

Recommendation 15 (E-Mail Alert): On July 12, 2021, we notified the Director, Accounts Management, of concerns regarding inaccuracies as it related to the compiling and reporting of the AMIR.²⁷ We recommended that the IRS perform a reconciliation of each Accounts Management site's AMIR to the source reports to identify inventory inconsistencies and reporting errors by site.

Management Response to Alert: IRS management agreed and has completed reconciliations for all 10 Accounts Management sites as of January 7, 2022. IRS management identified reporting inconsistencies when completing the reconciliations, with 114,276 cases overreported and 26,462 cases underreported on the AMIR. IRS management stated that the overall accuracy of the reporting was greater than 99 percent.

The Commissioner, Wage and Investment Division, should:

Recommendation 16: Complete the inventory reconciliations for the four remaining Accounts Management site's to identify and correct inventory inaccuracies and inconsistencies and implement processes to provide oversight by periodically performing reconciliations for each site so that any future inconsistencies and errors are identified and corrected in a timely manner.

Management's Response: The IRS agreed with this recommendation and has completed the additional reconciliations as stated in response to Recommendation 15. IRS management also plans to perform annual reconciliations for each site and address any issues identified by those reviews.

Recommendation 17: Develop specific and detailed instructions for preparing the AMIR, including how controlled and uncontrolled inventory should be captured.

Management's Response: The IRS agreed with this recommendation and is developing the necessary instructions for preparation of the AMIR. IRS management also plans to meet with the Accounts Management sites to ensure understanding of any updates and to ensure consistency in report preparation.

Recommendation 18: Develop a process to systemically pull all controlled inventory for each Accounts Management site for the AMIR to ensure consistency, reduce human error, and increase efficiencies.

Management's Response: The IRS agreed with this recommendation and is in the process of pursuing systemic changes to pull controlled inventory. However, the requisite programming is subject to budgetary constraints, limited resources, and competing priorities.

Recommendation 19: Modify Accounts Management inventory reporting to report unassigned controlled inventory separately on the nationwide AMIR and limit the site-specific AMIRs to only the inventory assigned to be worked in each site.

²⁷ The AMIR is the official reporting source for all activities in the Accounts Management inventory and provides IRS management with a weekly snapshot of receipts, closures, and ending inventory.

Management's Response: The IRS disagreed with this recommendation. IRS management stated that CIS is the system of record for reporting site-level Accounts Management inventory. The AMIR is the Accounts Management reporting tool for the enterprise inventory and shows the enterprise inventory where it resides. The CIS should be used for site-level information. Implementing this change would result in more complex reporting and it would change the meaning of the AMIR.

Office of Audit Comment: Contrary to IRS management's claim, the AMIR does not correctly report where the enterprise inventory resides (where the work is located, held, assigned, *etc.*). For example, the Memphis Campus Support Site's AMIR inventory includes unassigned amended return inventory for the Nation. This inventory resides in Accounts Management's nationwide queue of unassigned work, not at the Memphis Campus Support Site. As such, the AMIR inventory shown as residing in the Memphis Campus Support Site is overstated.

Appendix I

Detailed Objective, Scope, and Methodology

Our overall objective was to assess the IRS's efforts to prioritize Accounts Management inventories and reduce consistent over-aged inventories. To accomplish our objective, we:

- Determined if the IRS took steps to prioritize Accounts Management inventories that were received by the IRS during Processing Year 2020.
- Determined if the IRS took steps to reduce its consistent over-aged inventories and if the IRS's processes for the reporting of inventories were consistent and accurate.

Performance of This Review

This review was performed at select IRS Wage and Investment Division's Accounts Management and Submission Processing sites located in Fresno, California; Kansas City, Missouri; Memphis, Tennessee; Austin, Texas; and Ogden, Utah, during the period April through November 2021. 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.

Major contributors to the report were Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services); Deann L. Baiza, Director; Jeffrey D. Cullum, Audit Manager; Linda M. Valentine, Lead Auditor; James P. Bailey, Auditor; Alexis E. Gomez, Auditor; and Michael F. Shugrue, Auditor.

Validity and Reliability of Data From Computer-Based Systems

We performed tests to assess the reliability of data extracts received from CIS and the IMF. We evaluated the data by performing electronic testing of required data elements and reviewing existing information about the data. In addition, we selected data from each extract and verified that the data in the extracts were the same as the data captured in the IRS's Integrated Data Retrieval System¹ and CIS. We determined that the data 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: IRS inventory reporting and monitoring processes. We evaluated these controls by reviewing the Internal Revenue Manual, meeting with IRS management, and reviewing relevant documentation provided by the IRS.

¹ IRS computer system capable of retrieving information, which works in conjunction with a taxpayer's account.

Appendix II

Outcome Measures

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

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 1,513,584 documents that were more timely validated by the ICT (see Recommendation 5).

Methodology Used to Measure the Reported Benefit:

In response to our e-mail alert, IRS management provided additional Campus Support employees to assist Tax Processing Centers with validations of their ICT inventories. The number of employees available shifted throughout the year and was provided by IRS management. Per IRS management, employees can validate 69 IMF documents per hour (552 documents per day). We used this times the number of workdays available, times the number of employees, to estimate the number of documents that were more timely validated by the ICT as follows:

- July 1 through August 2, 2021
(34 employees x 22 workdays x 552 documents = 412,896)
- August 3 through September 6, 2021
(52 employees x 24 workdays x 552 documents = 688,896)
- September 7 through 16, 2021
(37 employees x 8 workdays x 552 documents = 163,392)
- September 17 through 30, 2021
(45 employees x 10 workdays x 552 documents = 248,400)

$412,896 + 688,896 + 163,392 + 248,400 = 1,513,584$ documents

Type and Value of Outcome Measure:

- Reliability of Information – Actual; 114,276 cases that were overreported on the AMIR (see Recommendation 15).

Methodology Used to Measure the Reported Benefit:

As of January 7, 2022, the IRS has performed reconciliations of controlled inventory reports to the AMIR for all 10 Accounts Management sites and found that 114,276 cases were

overreported on the AMIR for Kansas City and Ogden. No other Accounts Management sites overreported cases on the AMIR.

Type and Value of Outcome Measure:

- Reliability of Information – Actual; 26,462 cases that were underreported on the AMIR (see Recommendation 15).

Methodology Used to Measure the Reported Benefit:

As of January 7, 2022, the IRS has performed reconciliations of controlled inventory reports to the AMIR for all 10 Accounts Management sites and found 26,462 cases were underreported on the AMIR as follows:

- Andover – 230
- Atlanta – 6,109
- Austin – 6,225
- Brookhaven – 37
- Cincinnati – 2,558
- Fresno – 8,302
- Kansas City – 338
- Memphis – 2,263
- Ogden – 0
- Philadelphia – 400

Appendix III

Accounts Management Inventory as of October 30, 2021

Inventory Type and Description	Total Inventory	Percent of Total Inventory	Over-Aged Inventory Percent
ADJUSTMENTS			
Amended Return & Carryback – Processes individual and business amended returns and forms related to carryback claims (overpayment of tax as a result of a net operating loss, <i>etc.</i>)	2,291,833	32.1%	73.7%
Correspondence – Processes written communication from the taxpayer or responses to notices generated by the IRS.	1,928,952	27.0%	45.6%
Injured Spouse – Processes Form 8379, <i>Injured Spouse Allocation</i> .	16,856	0.2%	55.7%
Exempt Organizations – Processes all inquiries initiated by exempt organization taxpayers and internally generated exempt organization transcripts, such as Form 990, <i>Return of Organization Exempt From Income Tax</i> .	47,399	0.7%	69.9%
Employee Plans – Processes taxpayer-initiated inquiries, internally generated transcripts, and various other types of correspondence for employee benefit plans.	19,886	0.3%	24.3%
Individual Taxpayer Identification Number – Processes inquiries and applications related to Individual Taxpayer Identification Numbers. ¹	9	0.0%	66.7%
Total Adjustments	4,304,935		60.8%
TAXPAYER RELATIONS			
Technical Statute – Processes statute imminent/expired returns and payments.	699,707	9.8%	52.6%
Accounts Maintenance – Processes IMF, Individual Retirement Account ² File, and Business Master File ³ transcripts, notices, and requests to determine cause and nature of freeze conditions. ⁴	723,033	10.1%	38.2%

¹ A nine-digit number assigned by the IRS to taxpayers who are required to have a Taxpayer Identification Number for Federal tax purposes but are not eligible to obtain a Social Security Number.

² An individual account or annuity set up with a financial institution, such as a bank or a mutual fund company.

³ The IRS database that consists of Federal tax-related transactions and accounts for businesses. These include employment taxes, income taxes on businesses, and excise taxes.

⁴ Prevents the issuance of refunds, credit offsets, or the assessment of accrued interest and/or penalties.

**Program and Organizational Changes Are Needed to Address the
Continued Inadequate Tax Account Assistance Provided to Taxpayers**

Inventory Type and Description	Total Inventory	Percent of Total Inventory	Over-Aged Inventory Percent
Refund Inquiries – Processes taxpayer claims of nonreceipt of refund checks, non-claim-related refund check photocopy requests, refund checks returned by the taxpayer, and other refund inquiries.	845,606	11.8%	52.1%
Total Taxpayer Relations	2,268,346		47.8%
MISCELLANEOUS			
Identity Protection and Victim Assistance – Processes all taxpayer-initiated and internally identified identity theft inquiries.	285,443	4.0%	69.1%
Centralized Authorization File – Processes work related to third parties who have been given authority by the taxpayer.	157,580	2.2%	94.3%
IMF Identity Protection Specialized Unit – Processes identity theft cases that meet certain Taxpayer Advocate Service criteria.	72,977	1.0%	94.2%
Employer Identification Number – Processes Employer Identification Number ⁵ applications and correspondence.	19,821	0.3%	0.0%
International – Processes Form 8233, <i>Exemption From Withholding on Compensation for Independent (and Certain Dependent) Personal Services of a Nonresident Alien Individual</i> ; Form 8288, <i>U.S. Withholding Tax Return for Dispositions by Foreign Persons of U.S. Real Property Interests</i> ; and U.S. Residency Certifications.	15,093	0.2%	19.0%
Reporting Agents File – Processes work related to companies that perform payroll services for other businesses.	17,080	0.2%	0.0%
Fraudulent Return Requests – Processes requests for a copy or transcript of the fraudulent return to the victim of identity theft.	3,013	0.04%	91.0%
Return Preparer Misconduct – Processes return preparer misconduct complaints received in the Identity Protection and Victim Assistance function.	669	0.01%	45.3%
Total Miscellaneous	571,676		73.6%

Source: Fiscal Year 2021 AMIR National Detail Report for the week ending October 30, 2021.

⁵ A unique, nine-digit number used to identify a taxpayer's business account.

Appendix IV

Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

February 28, 2022

MEMORANDUM FOR MICHAEL E. MCKENNEY
DEPUTY INSPECTOR GENERAL FOR AUDIT

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

Digitally signed by Kenneth C.
Corbin
Date: 2022.02.28 18:13:37 -05'00'

SUBJECT: Draft Audit Report – Program and Organizational Changes Are
Needed to Address the Continued Inadequate Tax Account
Assistance Provided to Taxpayers (Audit # 202140630)

Thank you for the opportunity to review and comment on the subject draft audit report. As mentioned in the report, Accounts Management inventory was greatly impacted by the Coronavirus Disease 2019 (COVID-19) pandemic and the pandemic-related tax law changes. The impact included a historic demand for taxpayer phone calls and incoming inventory. Paper receipts increased to 22.1 million cases in fiscal year 2021 from average annual receipts of 15.9 million over the previous three years, a 39 percent increase over the average. Despite the dramatic increase in receipts, we still closed 18.3 million cases in fiscal year 2021, which is the highest number of cases closed in the four years from 2018 through 2021. This was accomplished while the demand for telephone service increased by 222 percent over the previous three years, from an average of 37.2 million calls per year to almost 120 million calls in 2021.

Much of the report focuses on issues identified with the scanning process. While it is important to scan all inventory into the system as quickly as possible, an earlier electronic image does not automatically equate to quicker processing times. Inventory processing is a first-in, first-out process. Newly scanned work will reside in queue until a Customer Service Representative (CSR) completes the previously scanned cases already in their inventory. The CSR resources must be shared with the toll-free telephone lines, further inhibiting the inventory processing capability and limiting the impact of more expeditious scanning.

The report recommends that we redirect the taxpayer correspondence to the Campus Support sites and away from the Tax Processing Centers. This recommendation reverses much of our efforts spanning over more than a decade to consolidate the incoming mail processes. The original decision to move the Image Control Team (ICT)

**Program and Organizational Changes Are Needed to Address the
Continued Inadequate Tax Account Assistance Provided to Taxpayers**

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to Submission Processing control considered many impacts, including costing and the future expansion of ICT to other areas. Staffing has been greatly reduced at the Campus Support sites. Reversing the previous movement from these sites would require significant hiring efforts, along with other potential resource expenditures.

The report also indicates that reporting changes are needed to accurately reflect each site's inventory and recommends reviews of the reporting process. We completed a report reconciliation for each site by comparing the Weekly Adjustment Control Inventory List/Case Control Activity report (CCA) to the total inventory reported on the Accounts Management Inventory Report (AMIR). For all sites, we found a discrepancy of 30,399 cases out of 5,070,033 total cases. This reflects an accuracy rate of 99.4 percent. Most of the issues were related to small volumes of specific categories of work. It is important to note that these work types were still assigned to employees for processing. The resolution process was not impacted by how they are reflected in the weekly inventory report.

We would like to again emphasize that this audit came when we were faced with an extraordinary situation. The impacts of COVID-19 on our operations were unprecedented and adversely affected our operations in much the same way as with the operations of other organizations worldwide. The response to the COVID-19 pandemic included the enactment of substantial legislative changes that significantly impacted our operations as we adapted to provide relief to the U.S. taxpayers. All things considered; the Accounts Management function has been successful in maintaining manageable inventory levels despite the challenges of recent times. Our present situation is temporary and making significant changes to the entire Accounts Management structure based on these unparalleled times would not be the best course of action.

With the 2022 filing season now underway, our Accounts Management function is still facing unprecedented inventory levels, which continues to contribute to higher call volumes and related inquiries. Despite steady progress, Accounts Management's current internal resources are not sufficient to overcome this challenge without significant efforts. We are currently working to establish an Inventory Surge Team that will help us address the inventory, recover from this challenge, and improve the overall taxpayer experience.

Our responses to your specific 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

**Program and Organizational Changes Are Needed to Address the
Continued Inadequate Tax Account Assistance Provided to Taxpayers**

Attachment

Recommendations

The Commissioner, W&I Division, should:

RECOMMENDATION 1 (E-Mail Alert)

On September 20, 2021, we notified the Director, Accounts Management, that the Austin site was not requiring Accounts Management screeners to come into the office to perform their duties, resulting in a significant backlog and delays in inventory being routed to Accounts Management to be worked. We recommended that the IRS establish consistent guidance and clarification on when resources can be directed to the office to help with screening inventory, to ensure that sufficient staff is available to screen documents in a timely manner, and establish processes to monitor the progress.

CORRECTIVE ACTION

Existing procedures were reinforced with the Austin Tax Processing Center to ensure adequate staff were recalled to the office to address screening needs. We continue to monitor the screening volumes at all Campus Support sites to avoid future staffing shortages.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

Director, Accounts Management, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

N/A.

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 2

Evaluate directing taxpayers to send tax account correspondence and replies intended for Accounts Management directly to Campus Support Sites for processing to reduce backlogs at Tax Processing Centers and improve services to taxpayers.

CORRECTIVE ACTION

Mail clerk and remittance clerk staffing in the Campus Support operations range from 42 in the smallest site to 142 in the largest. In addition to needed equipment and space upgrades, including securing space for restricted access, following pandemic safety guidelines, etc., we would also be faced with significant challenges in maintaining adequate staffing due to attrition and the difficulty of hiring encountered in certain locations. Our current experience is that we have been unable to hire enough

**Program and Organizational Changes Are Needed to Address the
Continued Inadequate Tax Account Assistance Provided to Taxpayers**

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replacements to backfill annual attrition losses. It would not be feasible to obtain the increased staffing that would be needed to accommodate moving all Accounts Management correspondence to the Campus Support sites.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 3

Prioritize the development and implementation of tools that will enable taxpayers seeking assistance or responding to Accounts Management to correspond with the IRS electronically, including the ability to directly upload documents into Accounts Management's inventory.

CORRECTIVE ACTION

We will continue to follow the ongoing modernization efforts and projects, which are designed to ensure the appropriate infrastructure is in place to support new initiatives as they are introduced throughout the IRS. From an enterprise perspective, the ability for taxpayers to upload documents has been piloted within certain compliance functions where the volume is significantly lower than would be expected in Accounts Management. This improves the ability to ensure a successful implementation of the new capabilities and will pave the way for expansion throughout the Service. As we await further enhancements, we have collaborated with the Online Services function and the Information Technology Enterprise Program Management Office to develop Tax Account Assistance initiatives, such as Integrated Payments and Live Assistance tools, including a voicebot/chatbot application.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

Director, Accounts Management, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

N/A

Recommendation

RECOMMENDATION 4

The Chief Taxpayer Experience Officer, in conjunction with the Director, IRS NEXT Office, should evaluate establishing two distinct IRS programs as part of the IRS reorganization under the Taxpayer First Act – one dedicated to answering toll-free telephone calls and one dedicated to working Accounts Management inventory – with adequate staffing to provide appropriate service to taxpayers using each channel.

CORRECTIVE ACTION

The Wage and Investment Division, with input from the Taxpayer Experience Office and IRS NEXT, will continue to evaluate the telephone and paper correspondence demand for services, including the appropriate resources and staffing allocation.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

Commissioner, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

N/A

Recommendations

RECOMMENDATION 5 (E Mail Alert)

On June 9, 2021, we notified the Director, Customer Account Services, that Submission Processing requested resources from Accounts Management to assist with clearing the ICT backlog and was told by Campus Support management that no resources could be made available to assist with reducing the ICT backlog. We recommended that the IRS assess the availability of Campus Support's ICT staffing or other resources that could be made available to assist with clearing the ICT backlogs at Tax Processing Centers.

CORRECTIVE ACTION

We assigned up to 52 Campus Support employees to assist with validation and we continue to provide additional validation support when the Campus Support work is complete.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

Director, Accounts Management, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

N/A

Recommendation 6 (E-Mail Alert):

On September 3, 2021, we notified the Director, Accounts Management, of concerns relating to the newly stood-up Fresno Campus Support Site, including scanners not being used to the full extent possible. We recommended that IRS management provide us with its plans to address our concerns identified with the new Fresno Campus Support Site, including additional staffing to assist ICT.

CORRECTIVE ACTION

Staffing was increased through voluntary reassignments and external announcements. All scanners are being used.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

Director, Accounts Management, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

N/A

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 7

Complete a strategic review of all 10 ICT sites to determine what contributes to the ICT's inability to timely scan and validate documents. Based on the results of this review, initiate steps to address the concerns identified. This should include the development of an action plan to ensure that the high-capacity ICT scanners and staffing are realigned to the appropriate sites based on actual or expected inventory levels and that responsibility of the ICT operations are consolidated under the appropriate function.

CORRECTIVE ACTION

We will perform a Lean Six Sigma assessment to evaluate the potential for efficiency gains within the Inventory Control Team (ICT) process. This will address opportunities to improve procedures and the overall operation of the program.

IMPLEMENTATION DATE

February 15, 2023

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 8

Cross-train additional mail clerks at Campus Support Sites to work ICT validations, freeing up additional resources in sites with higher inventories needing to be scanned or consider shipping inventory to sites with less inventory to be scanned.

CORRECTIVE ACTION

We continue to identify and cross-train additional clerks. The number of clerks varies as the Campus Support workload must be current before validation assistance.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

Director, Accounts Management, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 9:

Develop specific instructions and a common template for all 10 ICT sites to consistently capture ICT inventory information.

CORRECTIVE ACTION

We will develop a common mechanism for Submission Processing and Accounts Management to capture the ICT inventory information.

IMPLEMENTATION DATE

June 15, 2022

RESPONSIBLE OFFICIAL

Director, Accounts Management, Customer Account Services, Wage and Investment Division

**Program and Organizational Changes Are Needed to Address the
Continued Inadequate Tax Account Assistance Provided to Taxpayers**

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CORRECTIVE ACTION MONITORING PLAN

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

RECOMMENDATION 10

Update existing scanning software or obtain a new scanning software to address document capacity concerns.

CORRECTIVE ACTION

We have determined the existing platform is sufficient to handle current and future needs.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A.

RECOMMENDATION 11

Ensure that programming is updated to systemically reject electronic submissions of Forms 2848 and 8821 when missing one of the five essential elements (name, address, signature, etc.) without manually mailing a rejection letter.

CORRECTIVE ACTION

We will continue to test and implement Optical Character Recognition (OCR) for processing Form 2848, *Power of Attorney and Declaration of Representative* and Form 8821, *Tax Information Authorization*. The OCR capability is critical for the ability to systemically issue rejection letters. Implementation is dependent on programming, which is subject to budgetary constraints, limited resources, and competing priorities. Consequently, an extended timeframe for completion is estimated to account for unforeseen delays in obtaining the needed resources.

IMPLEMENTATION DATE

October 15, 2024

RESPONSIBLE OFFICIAL

Director, Accounts Management, Customer Account Services, Wage and Investment Division

**Program and Organizational Changes Are Needed to Address the
Continued Inadequate Tax Account Assistance Provided to Taxpayers**

7

CORRECTIVE ACTION MONITORING PLAN

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

RECOMMENDATION 12

Ensure that the rejection letter used for Forms 2848 and 8821 is updated to include language that a revised form can be submitted electronically via an IRS Tax Pro Account or through Taxpayer Digital Communication.

CORRECTIVE ACTION

Letter 861C, *Power of Attorney Tax Information Authorization and/or U.S. Estate Tax Return (Forms 2848, 8821, or 706) Incomplete for Processing*, has been updated to include the verbiage for electronic submissions through the Tax Pro Account and the Taxpayer Digital Communication application.

IMPLEMENTATION DATE

March 15, 2022

RESPONSIBLE OFFICIAL

Director, Accounts Management, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

N/A.

RECOMMENDATION 13

Develop an action plan to prioritize the continued expansion of documents that can be sent in via electronic fax and converted into a CIS image.

CORRECTIVE ACTION

We will perform a Lean Six Sigma assessment to evaluate the overall efficiency of the ICT process. The evaluation will consider expansion of electronic fax services.

IMPLEMENTATION DATE

February 15, 2023

RESPONSIBLE OFFICIAL

Director, Accounts Management, 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 14

Identify priority work that needs to be expedited by the ICT and assess the feasibility of creating an electronic fax number to receive this inventory.

CORRECTIVE ACTION

We will perform a Lean Six Sigma assessment to evaluate the overall efficiency of the ICT process. The evaluation will consider expansion of electronic fax services for inventory receipt.

IMPLEMENTATION DATE

February 15, 2023

RESPONSIBLE OFFICIAL

Director, Accounts Management, 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

RECOMMENDATION 15 (E Mail Alert)

On July 12, 2021, we notified the Director, Accounts Management, of concerns regarding inaccuracies as it related to the compiling and reporting of the Accounts Management Inventory Report (AMIR). We recommended that the IRS perform a reconciliation of each Accounts Management site's AMIR to the source reports to identify inventory inconsistencies and reporting errors by site.

CORRECTIVE ACTION

We completed the reconciliations for all Accounts Management sites. Minor discrepancies were found at each of the sites, but the overall accuracy of the reporting was greater than 99 percent.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

Director, Accounts Management, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

N/A

Recommendations

The Commissioner, Wage and Investment Division, should:

RECOMMENDATION 16

Complete the inventory reconciliations for the four remaining Accounts Management site's to identify and correct inventory inaccuracies and inconsistencies and implement processes to provide oversight by periodically performing reconciliations for each site so that any future inconsistencies and errors are identified and corrected in a timely manner.

CORRECTIVE ACTION

The additional reconciliations were completed as stated in our response to Recommendation 15, above. We will perform annual reconciliations for each site and address any issues identified by those reviews.

IMPLEMENTATION DATE

February 15, 2023

RESPONSIBLE OFFICIAL

Director, Accounts Management, 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 17

Develop specific and detailed instructions for preparing the AMIR, including how controlled and uncontrolled inventory should be captured.

CORRECTIVE ACTION

We are developing the necessary instructions for preparation of the Accounts Management Inventory Report (AMIR) and will meet with the Accounts Management sites to ensure understanding of any updates and to ensure consistency in report preparation.

IMPLEMENTATION DATE

June 15, 2022

RESPONSIBLE OFFICIAL

Director, Accounts Management, Customer Account Services, Wage and Investment Division

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CORRECTIVE ACTION MONITORING PLAN

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

RECOMMENDATION 18

Develop a process to systemically pull all controlled inventory for each Accounts Management site for the AMIR to ensure consistency, reduce human error, and increase efficiencies.

CORRECTIVE ACTION

We are pursuing systemic changes to pull controlled inventory. The requisite programming is subject to budgetary constraints, limited resources, and competing priorities. Consequently, an extended timeframe for completion is estimated to account for unforeseen delays in obtaining the needed resources.

IMPLEMENTATION DATE

October 15, 2024

RESPONSIBLE OFFICIAL

Director, Accounts Management, 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 19

Modify Accounts Management inventory reporting to report unassigned controlled inventory separately on the nationwide AMIR and limit the site specific AMIRs to only the inventory assigned to be worked in each site.

CORRECTIVE ACTION

The Correspondence Imaging System (CIS) is the system of record for reporting site level Accounts Management inventory. The AMIR is the Accounts Management reporting tool for the enterprise inventory and shows the enterprise inventory where it resides. The CIS should be used for site level information. Implementing this change would result in more complex reporting and it would change the meaning of the AMIR.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

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CORRECTIVE ACTION MONITORING PLAN
N/A

Appendix V

Abbreviations

AMIR	Accounts Management Inventory Report
AMS	Accounts Management Services
CIS	Correspondence Imaging System
COVID-19	Coronavirus Disease 2019
CSR	Customer Service Representative
ICT	Image Control Team
IMF	Individual Master File
IRS	Internal Revenue Service
TIGTA	Treasury Inspector General for Tax Administration



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