

TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION



Additional Actions Are Needed to Reduce Accounts Management Function Inventories to Below Pre-Pandemic Levels

May 10, 2023

Report Number: 2023-46-026

HIGHLIGHTS: Additional Actions Are Needed to Reduce Accounts Management Function Inventories to Below Pre-Pandemic Levels

Final Audit Report issued on May 10, 2023

Report Number 2023-46-026

Why TIGTA Did This Audit

In March 2022, TIGTA reported on the persistent over-aged Accounts Management function inventory and made 19 recommendations for improvements. IRS management agreed with 16 of our recommendations; however, as of December 5, 2022, eight remain unimplemented.

This audit continues our assessment of the IRS's efforts to reduce significant backlogs in the Accounts Management function inventories during Calendar Year 2022, including Forms 1040-X, *Amended U.S. Individual Tax Return*.

Impact on Tax Administration

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.

As of December 31, 2022, the IRS reported that it had 6.2 million cases in its Accounts Management inventory and 445,000 cases in its Form 1040-X inventory. Delays in working these inventories not only increase taxpayer burden but also cost to the Federal Government (*i.e.*, interest paid).

What TIGTA Found

On March 10, 2022, the IRS announced its plans to address the continuing backlog of tax returns and other tax account work during the 2022 Filing Season. These initiatives, referred to as the *Get Healthy Plan*, were intended to return the IRS to healthy inventory levels by the end of Calendar Year 2022. The IRS defines "healthy" inventory levels as pre-pandemic inventory levels.

TIGTA reported previously that the Accounts Management function inventories would not return to pre-pandemic levels by the end of Calendar Year 2022. Although management took actions to address concerns identified during this review, backlogs of inventory remain for the 2023 Filing Season. TIGTA identified the following contributing factors to the remaining backlogs.



Fewer than anticipated Surge Team employees to Accounts Management



Unspecified goals without a clear plan to accomplish the goals



Higher than anticipated incoming Accounts Management Inventory



Lower than anticipated efficiency of Form 1040-X Surge Team members



Delays in automating the processing of Forms 1040-X

While the employees assigned to the Accounts Management function Surge Team contributed to the additional closures of its inventory, there were fewer employees available than anticipated. In addition, the loss of employees from other IRS functions resulted in an estimated \$2.6 billion in potential lost or delayed revenue, due to fewer examination and collection cases being worked.

Furthermore, the Form 1040-X Surge Team's closure rates were less than one-half of the normal employees' closure rates. Automating the processing of these amended returns would reduce the burden on taxpayers waiting for their amended returns to be processed, and the benefits far outweigh the associated costs. For example, TIGTA estimated that the IRS would potentially save more than \$322.2 million in yearly processing costs by automating the processing of Forms 1040-X. This is in addition to any interest saved.

What TIGTA Recommended

TIGTA made 13 recommendations to the IRS, including that management establish goals and a plan for all inventory types to reach pre-pandemic levels, and that they prioritize funding and implementation of automated processing of Forms 1040-X.

The IRS agreed with 10 recommendations. The IRS disagreed with three recommendations, including that management establish goals and a plan for all inventory types to reach pre-pandemic levels.



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

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

May 10, 2023

MEMORANDUM FOR: COMMISSIONER OF INTERNAL REVENUE

Heather Hill

FROM: Heather M. Hill
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – Additional Actions Are Needed to Reduce Accounts Management Function Inventories to Below Pre-Pandemic Levels (Audit # 202240622)

This report represents the results of our review to assess the Internal Revenue Service's efforts to address the backlogged Accounts Management inventory, including Forms 1040-X, *Amended U.S. Individual Income Tax Return* (i.e., amended returns). This review is part of our Fiscal Year 2023 Annual Audit Plan and addresses the major management and performance challenge of *Improving Taxpayer Service*.

Management's complete response to the draft audit report is included as Appendix IV. If you have any questions, please contact me or Diana M. Tengesdal, Acting Assistant Inspector General for Audit (Returns Processing and Account Services).

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**Additional Actions Are Needed to Reduce Accounts
Management Function Inventories to Below Pre-Pandemic Levels**

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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 paper inventory; seven sites are supported by an Accounts Management Campus Support Site, and three sites are supported by a Submission Processing Tax Processing Center.¹

Figure 1 shows that as of November 23, 2022, IRS management reported having 23,483 employees working in the Accounts Management function.

Figure 1: Accounts Management Function Employees as of November 23, 2022

AM Employees Working Cases	AM Employees Working Telephones	Employees Detailed to AM	Employees Detailed From AM to SP	TOTAL
17,125	6,618	658	(918)	23,483

Source: Information from IRS analysts as of November 23, 2022.

AM = Accounts Management; SP = Submission Processing

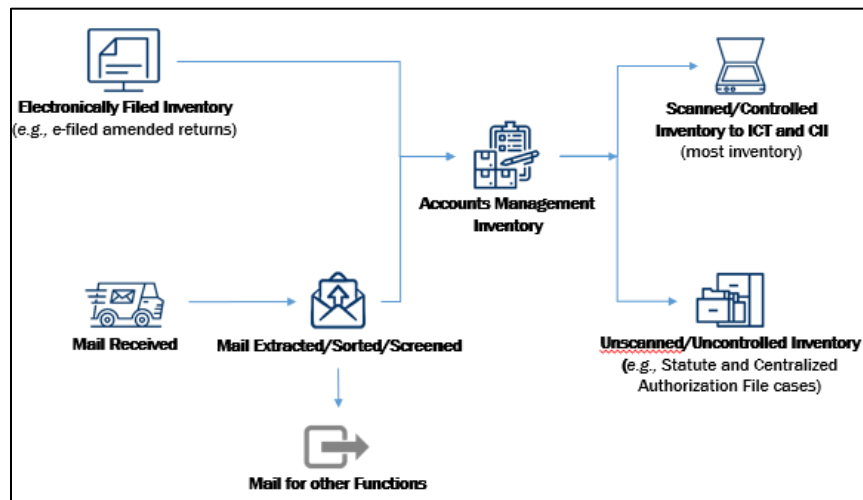
The majority of the Accounts Management function case work is received from taxpayers

Most of the Accounts Management function's inventory is received from taxpayers via the mail. The time it takes for the Accounts Management function to receive and work its taxpayer-initiated inventory affects how timely taxpayers receive a response from the IRS and have their case resolved. It is also directly impacted by the Image Control Team's (ICT) ability to timely scan the inventory into the Correspondence Imaging Inventory (CII), the Accounts Management function's primary inventory management system. IRS management indicates that higher inventory levels, as opposed to timely scanning, are a higher contributing factor to longer wait times for taxpayers to receive case resolution.

The Accounts Management function's goal is to close most of its inventory within 45 calendar days of IRS receipt. At 45 calendar days, it generally classifies the inventory as over-aged. Figure 2 provides an overview of the Accounts Management function's inventory routing from IRS receipt.

¹ See Appendix V for a glossary of terms.

**Figure 2: Overview of the Accounts
Management Function Inventory Routing**



Source: Treasury Inspector General for Tax Administration (TIGTA) graphic based upon Internal Revenue Manuals and walkthroughs of sites.

Accounts Management function inventory

The Accounts Management function's inventory is categorized into three high-level inventory types:

- **Adjustments** – this includes correspondence received from individual and business taxpayers, more complex amended returns that are not worked by the Submission Processing function, and carryback claims. This inventory impacts taxpayers as they are waiting on a response from the IRS or waiting on an adjustment to their tax account, which could result in a refund. Employees who work Adjustments inventory are tax examiners (TE) and customer service representatives (CSR). The CSRs are the same employees who answer telephone calls.
- **Taxpayer Relations** – this includes refund inquiries, technical statutes, and accounts maintenance (*i.e.*, transcripts). A transcript is an internally generated case that indicates IRS action or research needs to take place to correct a condition on a taxpayer's account. Technical statutes and the transcripts inventory have a less immediate impact on taxpayers. For example, technical statutes are where the IRS is determining if time remains on the statute of limitations to assess tax. As a result, this may have an immediate impact on the IRS's ability to make an assessment to protect revenue and avoid barred assessments. Employees who work Taxpayer Relations inventory generally are the TEs.
- **Miscellaneous** – this includes identity theft victim assistance, Centralized Authorization File, and other smaller inventories. The largest inventory is identity theft, which directly impacts taxpayers. These cases are more complex and require specialized training that is only provided to a limited number of Accounts Management function employees.

Individual amended return inventory

Form 1040-X, *Amended U.S. Individual Income Tax Return*, (i.e., amended return) is worked by both the Submission Processing and Accounts Management functions. All inventory is screened by the Submission Processing function, and the more complex cases may be forwarded to the Accounts Management function.

Initiatives taken to help backlogs

In an attempt to address ongoing challenges, on March 10, 2022, the IRS announced its plans to address the continuing backlog of tax returns and other tax account work during the 2022 Filing Season. These initiatives, referred to as the *Get Healthy Plan*, were intended to return the IRS to healthy inventory levels by the end of Calendar Year 2022. The IRS defines “healthy” inventory levels as pre-pandemic inventory levels. Figure 3 provides an overview of the *Get Healthy Plan* initiatives.

Figure 3: Overview of the Get Healthy Plan Initiatives



Source: TIGTA analysis of the IRS's Get Healthy Plan. CTC = Child Tax Credit, RRC – Recovery Rebate Credit, TAC – Taxpayer Assistance Center

Results of Review

This report presents the results of our continued assessment of the IRS's efforts to reduce significant backlog of inventories in the Accounts Management function and amended tax returns processed by the Submission Processing function. The results in this report are presented as of the end of December 2022. In December 2022, we reported that the Accounts Management function inventories would not return to pre-pandemic levels by the end of Calendar Year 2022.² We plan to continue to assess the IRS's efforts to reduce these backlogs during the 2023 Filing Season.³

Management Took Actions to Address Concerns Identified During This Review

One of the objectives of our continued assessment of the IRS's efforts to reduce its backlogged inventory is to recommend actions the IRS can take to address challenges that result in inefficient processes, unnecessary increases in workload, and increased burden on taxpayers. As such, we made a number of recommendations to IRS management throughout this review, via what we refer to as an "e-mail alert," in order to expedite the IRS's ability to take corrective action. During this review, we issued the following detailed e-mail alerts to IRS management outlining our concerns and are providing the actions taken by IRS management to address them.

Recommendation 1 (E-Mail Alert): On October 21, 2022, we notified the Directors, Submission Processing and Accounts Management, Wage and Investment Division, of our concern that employees, at least one ICT site, were stamping correspondence with a received date before completing screening, which is intended to ensure that correspondence is either scanned into the CII, routed to another function, or destroyed. In addition, employees at this ICT site were not screening documents from individuals and businesses with the same level of priority. The IRS's internal guidance requires correspondence to be scanned and validated within 10 calendar days of receipt by the ICT. These time frames are tracked and monitored based on the date stamped on the correspondence by the ICT. We recommended that management ensure that all sites understand and begin immediately stamping the ICT received date after correspondence screening is completed, and that individual and business documents are screened with equal importance.

Management's Response to E-Mail Alert: IRS management agreed with the recommendation and sent a reminder to all sites on November 1, 2022, and February 22, 2023.

Recommendation 2 (E-Mail Alert): On October 28, 2022, we notified the Directors, Submission Processing and Accounts Management, Wage and Investment Division, of our concern that at least one IRS Campus Support Site was allowing correspondence screening to be conducted by employees at their homes and in IRS locations not co-located with the mailroom.

² TIGTA Report No. 2023-46-007, *Backlogs of Tax Returns and Other Account Work Will Continue Into the 2023 Filing Season* (Dec. 2022).

³ TIGTA Audit No. 202340610, *Continued Assessment of the IRS's Efforts to Address the Backlogs During the 2023 Filing Season*.

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Management stated that this was done in response to the pandemic and subsequent remodeling of IRS office space. However, our walkthrough confirmed there was adequate space in the IRS building where the mail is received and scanned for corresponding screening to be completed. Management's decision to continue to allow employees to telework unnecessarily increased the risk that documents would either be lost, destroyed, or viewed by unauthorized persons. It also increased the time it took for these documents to be scanned and available to the Accounts Management function. We recommended that the IRS discontinue correspondence screening via telework and ensure at all sites that screening must be conducted in the same IRS facility where documents are being scanned by the ICT.

Management's Response to E-Mail Alert: IRS management agreed with the recommendation and discontinued telework screening on December 7, 2022. Screening work remains in a secure IRS environment, and the IRS has confirmed with the sites that screening is conducted in the same building where space allows.

Recommendation 3 (E-Mail Alert): On November 1, 2022, we notified the Director, Accounts Management, Wage and Investment Division, of our concerns that cases were incorrectly routed to other IRS functions by Accounts Management function employees and of unclear instructions to ensure that other IRS function employees returned cases to the originating Accounts Management function employee. Incorrectly routing work results in unnecessary delays that burden taxpayers and is an inefficient use of IRS resources. Our discussions with IRS employees and our review identified that the internal guidelines for other IRS functions do not instruct employees to return invalid CII cases to the originating Accounts Management function employee. Instead, cases are being returned to the ICT function that then routes the cases back to the originating Accounts Management function employee. We recommended that the IRS identify and address the cause of Accounts Management function employees incorrectly routing cases to other IRS functions and work with other IRS functions to update their Internal Revenue Manuals to make it clear that incorrectly routed documents should be returned to the originating employee.

Management's Response to E-Mail Alert: IRS management agreed with the recommendation. The IRS created a report of all rerouted CII cases and completed its review of CII reroutes. Applicable procedures have been updated and the Internal Revenue Manual sections have been clarified.

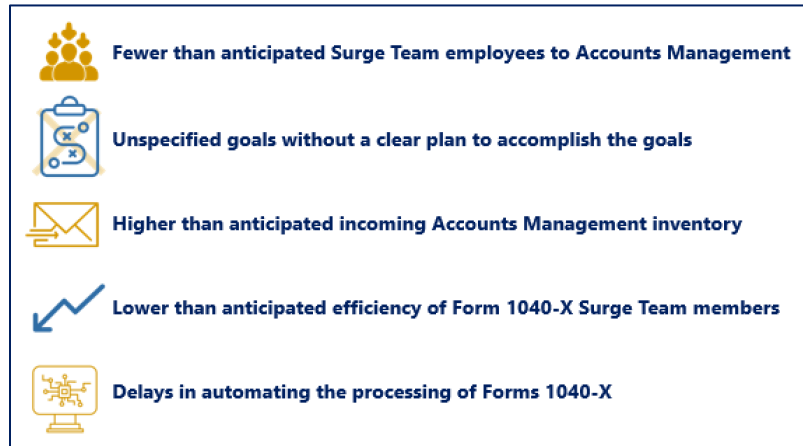
Recommendation 4 (E-Mail Alert): On November 1, 2022, we also notified the Director, Accounts Management, Wage and Investment Division, of our concern that the IRS was not hiring a sufficient number of mail clerks to help with opening and sorting the mail as well as scanning documents into the CII. Hiring additional mail clerks would help reduce the backlogs in the ICT function and result in taxpayers' cases being worked in a timelier manner. We recommended that management take steps to hire as many mail clerks as possible.

Management's Response to E-Mail Alert: IRS management agreed with the recommendation. The IRS analyzed available space at the sites and took action to hire as many clerks as possible, resulting in the hiring of 214 clerks through March 27, 2023.

Additional Actions Are Needed to Reduce Accounts Management Function Inventories to Below Pre-Pandemic Levels

Although management took actions to address several concerns we brought to their attention during this review, Figure 4 provides several other concerns we identified as contributing factors to the remaining backlogs of inventory in the Accounts Management function and the Forms 1040-X inventory that were not addressed adequately.

Figure 4: Factors Contributing to Remaining Inventory Backlogs



Source: TIGTA graphic based upon findings identified during our review.

Moreover, in March 2022, we reported on the persistent over-aged inventory and made 19 recommendations for improvements. IRS management agreed with 16 of our recommendations; however, as of December 5, 2022, eight remain unimplemented.⁴

Surge Team Members Assisted in Reducing Inventories, but This Came at a Significant Cost to the Government

On February 2, 2022, the IRS Commissioner announced an inventory Surge Team to assist the Accounts Management function with its inventories. The Commissioner stated that the IRS had identified employees as having prior Accounts Management function experience who would be a part of the Surge Team, and IRS management subsequently identified about 1,200 employees. Starting on February 28, 2022, the Surge Team members underwent up to four work days of refresher training. The actual number of Surge Team members did not materialize and gradually decreased from as many as 900 on February 28, 2022, to as few as 658 as of November 23, 2022. According to IRS management, the decline of Surge Team members was due to employees who either resigned, were promoted to other IRS functions, or were approved for hardships and therefore did not participate in the Surge Team.

In May 2022, Wage and Investment Division leadership announced that they projected Surge Team members would assist with closing about 600,000 cases by September 30, 2022. Our analysis of closed CII cases as of November 27, 2022, identified that 476 Surge Team members closed 617,494 (4.6 percent) of the 13.3 million CII cases since February 2022. As noted previously, Adjustments is just one of three inventory types and is primarily made up of correspondence from taxpayers and amended returns.

⁴ See Appendix III for the status of the IRS's corrective actions.

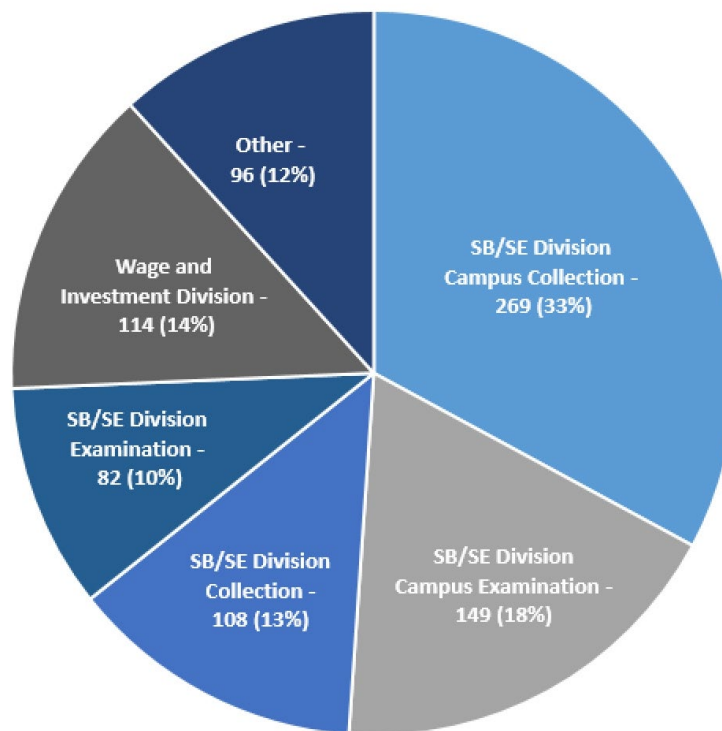
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We also found that the Accounts Management function used Surge Team members in other areas such as answering telephones, processing third-party authorizations, clerical support, *etc.* For example, 189 (23 percent) of the 818 Surge Team members who were detailed to Accounts Management as of July 6, 2023, answered telephone calls and never closed any Accounts Management function inventory. According to IRS management, these employees were not used to work on the backlogged inventory because of agreements with the Union, which stipulated that Surge Team members work in areas in which they had prior experience.

The majority of Surge Team members came from the Small Business/Self-Employed (SB/SE) Division

In December 2022, we reported that the IRS took an “all-hands-on-deck” approach to address staffing shortages and the backlog of work at the Tax Processing Centers.⁵ This approach also extended to helping the Accounts Management function with its unprecedented inventory levels. Figure 5 shows the distribution of the 818 employees detailed to the Accounts Management function by other IRS functions, as of July 6, 2022.

**Figure 5: Overview of 818 Employees Detailed to the
Accounts Management Function by Other IRS Functions**



Source: TIGTA graphic created based upon a report provided by Accounts Management function analysts as of July 6, 2022. Other includes Appeals; Chief Financial Officer; Criminal Investigation; Large Business and International Division; Privacy, Governmental Liaison, and Disclosure; Tax Exempt and Government Entities Division; etc.

⁵ TIGTA, Report No. 2023-46-007, *Backlogs of Tax Returns and Other Account Work Will Continue Into the 2023 Filing Season* (Dec. 2022).

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The decision to reassign hundreds of employees to assist with the backlog did not come lightly. After evaluating a full range of options, the IRS documented its decision in a Risk Acceptance Form and Tool approved by leadership of the SB/SE Division in March 2022 and by the Deputy Commissioner for Services and Enforcement in April 2022. The SB/SE Division agreed to transfer the maximum number of employees to assist with the inventory backlogs, noting that the Government would experience lost or delayed revenue because of reduced assessments from examinations and collections. In addition, the SB/SE Division noted that it would also be affected by an increase in over-aged inventories.

Finally, the IRS noted that, based on the urgency of the situation, the negative impact to taxpayers and the severe reputational risk to the IRS outweighed the billions of dollars of potential lost or delayed revenue to the Government by delaying or forgoing certain compliance actions. Figure 6 shows the IRS's estimates of lost or delayed revenue by the various IRS program areas through December 31, 2022.

Figure 6: Accounts Management Function Surge Team's Impact on Other IRS Programs

Function/Office	Number of Employees	Potential Lost Revenue	Potential Lost/Delayed Revenue
SB/SE Division Campus Collection	265	N/A	\$2.1 billion
SB/SE Division Campus Examination	103	\$310 million	N/A
SB/SE Division Field and Specialty Examination	50	\$39 million	N/A
Wage and Investment Division Return Integrity and Compliance Services	48	\$49 million	N/A
SB/SE Division Field Collection	47	N/A	\$59 million
Large Business and International Division	3	\$0.7 million	N/A
Totals	516	\$398.7 million	\$2.2 billion

Source: Estimates provided by IRS management for the respective functions listed in Figure 6.

Note: The number of employees shown in Figure 6 is less than Figure 5 as some employees were support personnel and did not result in lost/delayed revenue. The IRS generally has 10 years to collect on an outstanding balance, thus the collection of revenue may be delayed and not lost due to the backlogs.

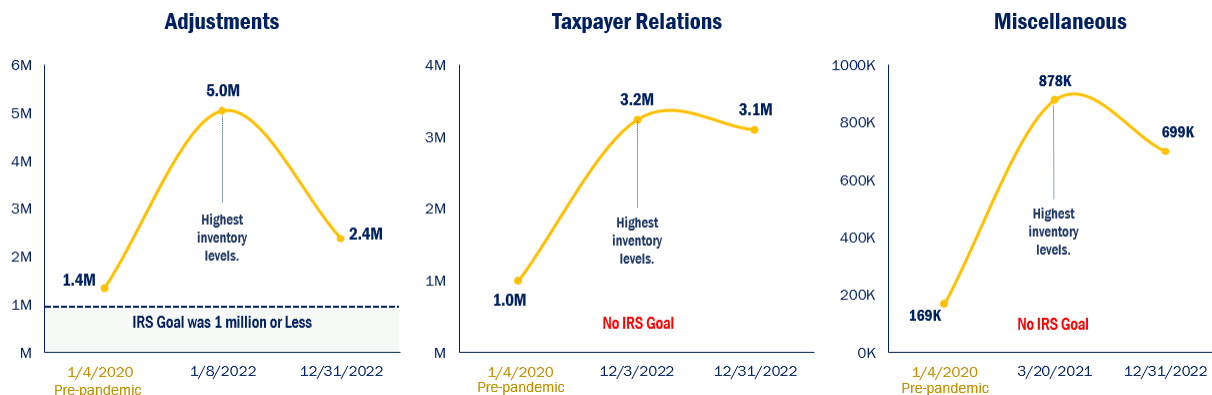
Management Needs to Develop a Plan and Goals to Ensure That Inventories Return to Pre-Pandemic Levels

In December 2022, we reported that the Accounts Management function inventories will not return to pre-pandemic levels by the end of Calendar Year 2022.⁶ As a result, the IRS will once again have a backlog of this work in the 2023 Filing Season. According to IRS management, this was due to higher than anticipated receipts of incoming inventory. However, our review found that a contributing factor was also that while the Accounts Management function established a goal to reduce the Adjustments inventory to 1 million or less by the end of Calendar Year 2022, there were not similar goals set for the Taxpayer Relations and Miscellaneous inventories. As the Accounts Management function worked towards its goal to reduce the Adjustments inventory, the other inventories increased during Calendar Year 2022.

When we asked management why they did not establish a goal for employees to work towards for the other inventory categories, management stated that they focused the majority of their resources on the Adjustments inventory because this could resolve other inventories and had a larger impact to taxpayers. For example, if a taxpayer had an amended return waiting to be processed, once the amended return was processed, this may help resolve a taxpayer's refund inquiry case. Moreover, when we asked IRS management how many TEs they would need to significantly reduce the Taxpayer Relations inventory level, management could not provide an answer.

Figure 7 shows that the Adjustments inventory made more progress towards reaching pre-pandemic levels than the Taxpayer Relations and Miscellaneous inventories.

Figure 7: Accounts Management Function Inventory Changes by Inventory Type



Source: TIGTA graphic created based Accounts Management Inventory Reports from dates shown in Figure 7.

We understand management's logic for directing most of its resources to working the Adjustments inventory; however, if the IRS plans to make significant progress to return all of its paper-based inventories to pre-pandemic levels, it needs to establish a plan that includes goals for its employees to work towards. For example, the Submission Processing function created a

⁶ TIGTA, Report No. 2023-46-007, *Backlogs of Tax Returns and Other Account Work Will Continue Into the 2023 Filing Season* (Dec. 2022).

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spreadsheet for each of its inventories and established a goal for each inventory type, which it then monitored weekly to show progress towards meeting its goals.

On November 1, 2022, we notified IRS management of our concern and recommended that management take steps to ensure that adequate resources were provided to reduce the Taxpayer Relations inventory. IRS management agreed with our concern and stated that they have hired additional TEs for Fiscal Year 2023 and are looking for ways to reduce the inventory. However, as stated previously, IRS management could not tell us how many TEs they needed to reduce the inventory to pre-pandemic levels. It is important that the Accounts Management function establish goals for each inventory type and a plan to meet those goals, which takes into consideration any resource needs.

Recommendation 5: The Commissioner, Wage and Investment Division, should establish goals for each of the Accounts Management function's inventory types and develop a plan for addressing those goals to ensure a timely return to pre-pandemic inventory levels.

Management's Response: IRS management disagreed with the recommendation. Management stated that limited resources and the numerous types of inventory do not allow for goals to be established for each of the inventory categories. The Accounts Management function is balancing trained resources to deliver goals for the toll-free service while addressing paper inventories in a first-in, first-out order as opposed to reaching a set goal by inventory type. The IRS will continue to monitor inventory levels and manage resources to address inventory while moving towards more advanced digitalization to achieve pre-pandemic inventory levels.

Office of Audit Comment: We remain concerned with management's plan to maintain the status quo in hopes that the inventory will return to pre-pandemic inventory levels. When we brought our concern to management's attention during this review, management indicated they hired additional TEs for Fiscal Year 2023 and would look for ways to reduce the inventory. However, management did not know how many TEs were needed to reduce the inventory to pre-pandemic levels. We continue to believe that establishing goals and developing a plan to achieve those goals will help ensure that the other Accounts Management inventories return to pre-pandemic inventory levels in a timely manner.

Form 1040-X, Amended U.S. Individual Income Tax Return, Inventories Will Remain Above Pre-Pandemic Levels Through the 2023 Filing Season

The IRS estimates that the Form 1040-X inventory will not be at pre-pandemic levels until June 2023. As of December 31, 2022, there were 445,000 Forms 1040-X in ending inventory, whereas, as of January 4, 2020, there were 124,000 Forms 1040-X in inventory. Since January 1, 2022, the IRS has significantly reduced the Forms 1040-X inventory by more than 1.9 million. However, as shown in Figure 8, the inventory level remains above pre-pandemic levels.

Figure 8: Form 1040-X Inventory

	1/4/2020	1/2/2021	1/1/2022	12/31/2022
Submission Processing Function	20K	1.3M	1.7M	224K
Accounts Management Function	104K	201K	707K	221K
Total	124K	1.5M	2.4M	445K

Source: Consolidated Submission Processing and Accounts Management Form-1040X Report as of dates listed in Figure 8. K = Thousands, M = millions

In May 2022, the Accounts Management function agreed to assist the Submission Processing function with addressing the high volume of Form 1040-X (*i.e.*, amended return) inventory. Leadership from the Accounts Management function agreed to provide a Surge Team consisting of approximately 1,000 employees who were previously responsible for answering telephone calls. Surge Team members received two weeks of classroom training and one week of on-the-job instruction to prepare them for their new job responsibilities.

On average, Surge Team members processed amended returns slower than their counterparts in the Submission Processing function

On average, Surge Team members closed cases at a rate less than one-half the number of cases of the Submission Processing function's Form 1040-X cases. For example, Surge Team members closed an average of 2.8 cases per hour during Calendar Year 2022, whereas Submission Processing function employees closed on average 6.9 cases per hour (from January through June 2022). The IRS reports that since June 2022, the 1,015 Surge Team members closed more than 1.9 million cases.

When we asked IRS management to explain why it was taking Surge Team members longer to close a case, management stated that it was because Surge Team members were trained by the Accounts Management function to perform more thorough reviews than intended by the Submission Processing function. IRS management indicated they offered on-the-job training to employees.

However, the closure rate did not adjust accordingly. Management indicated that despite the closures being slower, they would not bring all the original Submission Processing function Form 1040-X employees back to assist as these employees were needed to help other Submission Processing function areas. As such, this structure remained throughout Calendar Year 2022.

According to IRS management, they plan to reach pre-pandemic inventory levels for Forms 1040-X during the 2023 Filing Season by moving the original employees in the Submission Processing function back to processing Forms 1040-X and hiring an additional 200 employees to work this inventory specifically.

The Benefits of Automating the Processing of Amended Returns Outweigh the Associated Costs

The IRS's plan to automate efforts for Forms 1040-X is not occurring soon enough. TIGTA reported previously that the IRS needs to modernize its processing of Forms 1040-X.⁷ These recommendations have included further automation during processing. In August 2020, the IRS began accepting electronically filed (e-filed) Forms 1040-X, no longer requiring IRS staff to open these Forms 1040-X and manually enter the data from these forms. As of May 16, 2022, the IRS had electronically received nearly 3.5 million Forms 1040-X. Although the IRS now accepts e-filed Forms 1040-X, the forms are still processed manually after they are received electronically. At a high-level, this requires employees to determine if the return meets criteria to be processed or should be routed to the Examination function, complete tax account research to ensure that the original return amounts listed match IRS records, and ensure that the return does not contain any mathematical errors, *etc.*

In June 2022, the Electronic Tax Administration Advisory Committee also encouraged the IRS to continue working on automating processing after intake so that fewer returns will require human intervention.⁸ The Committee noted that these e-filed amended returns also have the benefits of the automated validity, fraud detection, and consistency checks. However, these benefits will only be realized if the IRS fully automates the processing of Forms 1040-X.

Fully automating the processing of Forms 1040-X would also result in cost savings to the IRS and reduce burden on taxpayers by decreasing the time taxpayers wait for their amended return to be processed and their refunds paid. When we asked the IRS to provide us with a cost estimate for a fully automated solution, the IRS stated that it would cost a total of \$20 million through Fiscal Year 2027 to implement. This seems minimal when compared to the costs for IRS employees to manually process the Forms 1040-X. For example, the IRS estimates that it currently costs \$6.64 to process a Form 1040-X in the Submission Processing function and \$109.26 in the Accounts Management function.⁹ In contrast, the IRS can systemically process an e-filed Form 1040 for \$0.28. As such, we estimate that the IRS would potentially save more than \$322.2 million in yearly processing costs by automating the processing of Forms 1040-X.¹⁰ This is in addition to any interest paid to taxpayers as a result of manual processing delays. As interest rates continue to rise, this will result in increased interest paid by the IRS.

The National Taxpayer Advocate recommended that the IRS implement electronic amended return processing to eliminate the delays caused by traditional paper processing, and Congress fully fund the IRS's information technology modernization needs to allow for expedited

⁷ TIGTA, Report No. 2014-40-028, *Amended Tax Return Filing and Processing Needs to Be Modernized to Reduce Erroneous Refunds, Processing Costs, and Taxpayer Burden* (Apr. 2014) and TIGTA, Report No. 2019-40-042, *Actions Have Not Been Taken to Improve Amended Tax Return Review Procedures to Reduce Erroneous and Fraudulent Refunds* (July 2019).

⁸ Publication 3415, *Electronic Tax Administration Advisory Committee Annual Report to Congress* (June 2022).

⁹ On average, during Fiscal Year 2022, 63 percent of the 4.5 million total Forms 1040-X were processed by the Accounts Management function.

¹⁰ Fiscal Year 2022 Submission Processing function closures of $1,660,662 \times \$6.64 = \11 million plus Fiscal Year 2022 Accounts Management function closures of $2,859,969 \times \$109.26 = \312.5 million less total Fiscal Year 2022 closures of $4,520,631 \times \$0.28 = \1.3 million equals \$322.2 million.

processing of original and amended tax returns.¹¹ The Inflation Reduction Act of 2022 subsequently provided the IRS with more than \$7.9 billion to use toward modernizing its information technology environment and improving services to taxpayers.¹² This additional funding will allow the IRS to transform the way it interacts with taxpayers, providing for a more taxpayer friendly and focused organization that offers more digital and streamlined options. IRS management did not comment whether the additional funding would allow the IRS to prioritize the automation of amended returns. However, IRS management stated that they are continuing to develop a plan to show how the IRS will spend the additional funding while ensuring that addressing tax return and correspondence backlogs, including amended returns, remains a top priority.

Recommendation 6: The Commissioner, Wage and Investment, should prioritize funding and implementation of automated processing of Forms 1040-X to increase efficiencies and reduce taxpayer burden.

Management's Response: IRS management agreed with the recommendation, and funding was approved on February 28, 2023. The IRS will evaluate requirements and a solution for automated processing of Form 1040-X based upon the feasibility of the requirements. See Appendix II for management's response to the outcome measure.

Management urged to identify solutions to reduce the backlog of Forms 1040-X to pre-pandemic levels until an automated solution is implemented

The National Taxpayer Advocate also reported that the IRS was not proactively solving the backlog of amended returns, stating that, "the IRS has committed to doing very little to address the processing backlog to ensure taxpayers expeditiously get the refunds to which they are entitled." TIGTA performed on-site walkthroughs at the Tax Processing Centers in Kansas City, Missouri; Austin, Texas; and Ogden, Utah, to observe the work being completed by the staff, discuss any concerns or challenges they have, and identify opportunities for improvement. As it relates to Forms 1040-X, they are not processed like original returns, where refunds are processed first. However, Forms 1040-X are worked in first-in/first-out order. Thus, potentially adding unnecessary delays for taxpayers due a refund and resulting in additional interest paid.

Our analysis of 1.9 million e-filed Forms 1040-X accepted between January 18, 2022, and October 22, 2022, found that 897,088 (47 percent) of the Forms 1040-X accepted by the IRS were refund returns. We identified 309,083 cases in the Accounts Management function's inventory that were still open and could be prioritized by the IRS. On October 21, 2022, we notified IRS management of our concerns that the IRS was not prioritizing amended returns requesting refunds and provided them with the cases we identified. We recommended that they prioritize working these Forms 1040-X and update their internal guidelines to reflect this change. IRS management disagreed with our recommendation stating that working amended returns in a first-in/first-out manner ensures fairness to all taxpayers.

¹¹ National Taxpayer Advocate Annual Report to Congress 2021.

¹² Public Law 117-169. This includes \$3,181,500,000 for Taxpayer Services and \$4,750,700,000 for Business Systems Modernization.

Additional Actions Are Needed to Reduce Accounts Management Function Inventories to Below Pre-Pandemic Levels

Management also stated that taxpayers often make mistakes on the Form 1040-X and could incorrectly show the return as a refund when it is not. In addition, management stated that prioritizing amended returns with refunds could unnecessarily delay the resolution for those taxpayers filing an amended return in response to an examination. Finally, management noted that because amended returns do not have a filing due date, balance due returns would constantly be pushed to the back, thus increasing the risk of a barred assessment or a loss of interest to the Government.

Although management's rationale may support not prioritizing Forms 1040-X with refunds as a long-term solution, we disagree that the reasons provided should prevent management from exploring a short-term solution as they continue to work through their backlogged inventory. The lack of actions to prioritize Forms 1040-X to reduce delays to taxpayers due a refund is a great disservice to taxpayers.

Recommendation 7: The Commissioner, Wage and Investment Division, should implement temporary solutions for the processing of Forms 1040-X to reduce the backlogs, reduce taxpayer burden, and save IRS resources until an automated solution is implemented.

Management's Response: IRS management agreed with the recommendation and continues to take actions to reduce all inventory. Management has a Surge Team of employees focused on Forms 1040-X only, and additional employees are moved to process inventory as resources allow.

Improvements Are Needed to Reduce the Taxpayer Relations Inventory

We also identified the following concerns with the Accounts Management function's ability to timely and efficiently work the Taxpayer Relations inventory.

- Manual refund requests are prepared for small dollar amounts. Our review found that when certain conditions are present on a tax account, current procedures require that Accounts Management function employees prepare a request for a manual refund to be released by the Accounting function. According to IRS employees we spoke with during our review, in many instances, these refunds are for small dollar amounts and a taxpayer may not be waiting for a needed refund (*e.g.*, a deceased taxpayer). As of December 3, 2022, the IRS reported it had 24,492 transcripts in its Taxpayer Relations inventory that require a manual refund of under \$100. The IRS reports that it cost \$71 to issue a manual refund. As such, it can cost the IRS more to prepare the manual refund request than the refund amount itself. We notified IRS management of our concern and recommended that management consult with IRS Office of Chief Counsel on the legality of adding a dollar tolerance and not generating transcripts or issuing manual refunds below that dollar threshold. IRS management disagreed stating that all taxpayers are entitled to their refund when it was greater than \$1 and that manual refunds are currently necessary due to programming limitations. We agree with the IRS's assertion; however, allowing a temporary deviation from its policy would help the IRS work through its backlogged inventory more efficiently.
- Paperwork associated with barred statutes takes time to complete and is taking away resources that could be assigned to work other cases. During a walkthrough, Accounts Management function employees indicated that they are still required to complete

paperwork for barred statutes, even though most of the barred statute cases are the result of the backlogs and not an IRS employee's inaction. Internal guidelines require the Accounts Management function employee to document the total net loss to the Government, the reason for the statute expiration, the corrective action that will be taken to prevent a recurrence, *etc.* The paperwork must then be reviewed by the unit manager, department manager, operations manager, and the Campus Director, which is time consuming. We notified IRS management of our concern and recommended that management reduce or limit paperwork employees are required to complete, so they can focus on eliminating the backlogged inventory that would in turn prevent future barred statutes. IRS management agreed stating that they were exploring options to reduce some of the paperwork and acknowledgement requirements. However, as of January 10, 2023, IRS management has not made a decision or changed the policy and could not provide a date when a decision would be made.

- Inventory can be worked more efficiently if all types of work were in one consolidated inventory system. During our walkthroughs, Accounts Management function employees indicated that being able to work other Taxpayer Relations cases in the same inventory management system, the CII, as other Accounts Management function inventory would be helpful and allow inventory to be worked faster and more efficiently. We notified IRS management of our concern and recommended that management coordinate with the Information Technology organization to explore the possibility of adding Taxpayer Relations inventories into the same inventory management system. IRS management partially agreed. Management stated that this was explored previously and adding the Taxpayer Relations inventory into the CII would lose many current benefits, such as systemically closing transcripts that have been resolved without additional action needed, *etc.* As an alternative, management stated that they are discussing other inventory management options with programmers but have not provided any additional details on these options.

The Commissioner, Wage and Investment Division, should:

Recommendation 8: Coordinate with the Information Technology organization to prevent generating transcripts for manual refunds less than \$100 and adjust the frequency that some transcripts are generated to help management get through the inventory more efficiently.

Management's Response: IRS management agreed with the recommendation. Management has requested programming changes for potential implementation in January 2025 that will allow systemic issuance of decedent refunds when the appropriate personal representative information has been updated within the account.

Recommendation 9: Temporarily relieve employees in the Accounts Management function from having to complete paperwork for barred statutes, so they can focus on eliminating the backlogged inventory and prevent future barred statutes.

Management's Response: IRS management agreed with the recommendation. Management is developing a plan that balances streamlining the barred statutes paperwork process with accountability responsibilities to reduce the backlog of aged, barred statute cases.

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Recommendation 10: Coordinate with the Information Technology organization to explore adding Taxpayer Relations inventories into the CII, so that all Accounts Management inventory is located in the same inventory management system.

Management's Response: IRS management agreed with the recommendation. Management is working with the Information Technology organization Accounts Management Services programmers to create a universal unassigned inventory, similar to the CII system, which will streamline the work distribution process.

Improvements Are Needed to Ensure Timely Receipt of the Accounts Management Function's Inventory

Our review continues to find that improvements are needed to ensure the timely receipt of the Accounts Management function's inventory. Our analysis of cases received between January 1, 2022, and November 27, 2022, found that it was taking, on average, 30 calendar days to process documents once received by the ICT. This is significantly longer than what is allowed according to the IRS's internal guidance, which states that all cases must be prepped, scanned, and validated within 10 calendar days of ICT receipt or 20 calendar days of IRS received date. The following concerns contributed to the delays in receipts of the Accounts Management inventory.

- There are no timeliness standards for screening. IRS management has not established any goals to measure the time it takes to screen correspondence. As such, IRS management cannot accurately determine if the screening process is resulting in delays in meeting the requirement that documents be prepped, scanned, and validated within 20 calendar days, as outlined in the internal guidance. On October 21, 2022, we notified IRS management regarding the lack of timeliness standards and recommended that they establish time frames for correspondence screening and a process to measure timeliness. IRS management disagreed stating that the screening process is designed to be completed daily, and there were no delays pre-pandemic. Management also stated that adding an additional date stamp could slow down the process and would not help the backlog. However, management provided us no support for their statements. Management agreed to revisit the recommendation as they catch up, if they determine the screening process is contributing to the delays in the ICT. We disagree that management will know that the screening process is contributing to delays without a timeliness standard documented and without processes to track the timeliness in which it is completed at each site.

Recommendation 11: The Commissioner, Wage and Investment Division, should establish time frames for and a process to measure correspondence screening timeliness at each site.

Management's Response: IRS management disagreed with the recommendation. Management stated that prior to the campus closures associated with the Coronavirus Disease 2019 pandemic, there was no significant delay in the screening of correspondence. The current backlog in ICT operations is due to the increased workload attributed to the pandemic relief provisions that have driven an increased number of amended return filings, and not due to

delays in correspondence screening. Any changes made to the process will only create additional burdens to the overall ICT process and require additional programming updates with minimal benefits.

Office of Audit Comment: Management contends that any changes in their processes will create additional burdens; however, management has not provided any documentation to support the basis for this assertion. Without time frames and a process for measuring timeliness, management cannot accurately evaluate what is contributing to delays.

- Management is not using mail clerks to assist with screening documents. IRS management's policy has been to allow only the TEs and the CSRs to screen correspondence. As noted previously, the TEs and the CSRs are responsible for working the Accounts Management function's inventory and answering telephone calls. On October 28, 2022, we notified IRS management of our concern that they were not using mail clerks to perform screening and recommended they rescind their policy and allow all sites to use mail clerks, after providing them with adequate training. IRS management disagreed stating that it is necessary for the TEs and the CSRs to perform correspondence screening because of its technical nature; however, they did not provide any evidence to support their position that mail clerks cannot screen correspondence.

Recommendation 12: The Commissioner, Wage and Investment Division, should rescind the requirement that only the TEs and the CSRs perform correspondence screening and encourage all sites to use mail clerks, after providing them with adequate training.

Management's Response: The IRS disagreed with this recommendation. The IRS stated that the screening process was developed for the TEs and the CSRs due to its technical nature and the necessary training and experience required to properly identify the different types of correspondence work.

Office of Audit Comment: As noted previously, management did not provide any information to support their position that mail clerks would be unable to screen correspondence if they received adequate training.

- Additional high-speed scanners could be helpful. Campus Support Sites assist the Tax Processing Centers with scanning inventory. However, due to differences in the scanner capabilities, how the Tax Processing Center prepares documents for scanning differs from the way this is performed at the Campus Support Sites. This leads to inefficiencies because the Campus Support Sites may have to re-prepare documents received from the Tax Processing Centers before scanning them. If the Campus Support Sites had the same types of high-speed scanners as the Tax Processing Centers, this rework would not be necessary. Moreover, ICT functions at the Campus Support Sites would be able to handle additional inventory, as was recommended in our prior report.¹³ Furthermore, additional scanners have not been added at the Tax Processing Centers despite the IRS's policy decision to scan all Forms 1040-X, which greatly increased the inventory the ICT was required to scan. On November 1, 2022, we recommended that

¹³ TIGTA, Report No. 2022-46-027, *Program and Organizational Changes Are Needed to Address the Continued Inadequate Tax Account Assistance Provided to Taxpayers* p. 5 (Mar. 2022).

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IRS management evaluate the costs of adding high-speed scanners at all Campus Support Sites and additional high-speed scanners at Tax Processing Centers and request the necessary funding to purchase them. IRS management stated they would consider additional scanners as part of an ICT review they are conducting in response to our prior recommendation; however, they did not provide an expected completion date.

Recommendation 13: The Commissioner, Wage and Investment Division, should ensure prompt completion of the ICT review to determine if additional scanners will be purchased.

Management's Response: IRS management agreed with the recommendation and is completing the ICT review. Through March 2023, the IRS has conducted studies of ICT operations at six of the 10 sites and is evaluating the results to determine whether the information thus far collected is sufficient for a determination to buy more scanners.

Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this audit was to assess the IRS's efforts to address the backlogged Accounts Management inventory, including amended returns. To accomplish our objective, we:

- Determined what actions the IRS took in response to our prior audit recommendations.
- Met with IRS management to discuss their plans to prioritize inventories and their goals to get inventories to pre-pandemic levels.
- Determined the impact of Surge Team members assisting Accounts Management and the impact it had on other IRS functions.
- Assessed and monitored ICT, Accounts Management, and amended return inventories during Calendar Year 2022 and compared to pre-pandemic levels and IRS goals.
- Performed site visits and met with site employees and management to identify concerns with working inventories and to identify opportunities to improve the efficiency in which inventory is worked, thus helping to reduce the backlogs of inventory.

Performance of This Review

This review was performed at the IRS's Tax Processing Centers located in Kansas City, Missouri; Austin, Texas; and Ogden, Utah, as well as IRS Campus Support Sites located in Andover, Massachusetts, and Holtsville, New York, during the period February through December 2022. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Major contributors to the report were Diana Tengesdal, Acting Assistant Inspector General for Audit (Returns Processing and Account Services); Linna Hung, Director; Jeffrey Cullum, Audit Manager; Lorenzo Moss, Lead Auditor; and James (Philip) Bailey, Auditor.

Validity and Reliability of Data From Computer-Based Systems

We performed tests to assess the reliability of data extracts from the CII and the Modernized Tax Return Database. We evaluated the data by performing electronic testing of required data elements and reviewing existing information about the data and the system that produced them. 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 source databases. We determined that the data were sufficiently reliable for purposes of this report.

Internal Controls Methodology

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: IRS 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.

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 Privacy and Security – Potential; 60,261 documents received at the Brookhaven Campus Support Site were screened at IRS employee’s telework sites and in IRS locations not co-located with the mailroom, which increased the risk that documents would be lost, destroyed, or viewed by unauthorized individuals (see Recommendation 2).

Methodology Used to Measure the Reported Benefit:

In response to our e-mail alert, IRS management agreed to ensure that screening work remains in a secure IRS environment and to discontinue telework screening. During Fiscal Year 2022, 60,261 correspondence documents were received at the Brookhaven Campus Support Site and screened at telework sites. As a result of our recommendation, these documents will now remain secure and the privacy maintained for the associated taxpayers.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 14,980,000 documents will be processed more timely by the ICT and taxpayers notified sooner that the IRS received their correspondence (see Recommendation 4).

Methodology Used to Measure the Reported Benefit:

In response to our e-mail alert, IRS management hired 214 additional mail clerks. The IRS estimated that each mail clerk is able to process about 70,000 documents in the ICT each calendar year. We multiplied the number of additional employees to be hired times the number of documents they can process to estimate that 14,980,000 (214 x 70,000) documents will be processed more timely and taxpayers notified sooner that their correspondence has been received.

Type and Value of Outcome Measure:

- Inefficient Use of Resources – Potential; \$322,241,232 in potential savings if the IRS were to automate the processing of Forms 1040-X (see Recommendation 6).

Methodology Used to Measure the Reported Benefit:

According to the IRS, it estimates that it would cost a total of \$20 million through Fiscal Year 2027 to implement a fully automated solution to process Forms 1040-X. In addition, the IRS estimates that it currently costs \$6.64 to process a Form 1040-X in the Submission Processing function and \$109.26 in the Accounts Management function. During Fiscal Year 2022, the Submission Processing function processed 1,660,662 Forms 1040-X and the

Additional Actions Are Needed to Reduce Accounts Management Function Inventories to Below Pre-Pandemic Levels

Accounts Management function processed 2,859,969 Forms 1040-X. In contrast, the IRS reports that it can systemically process an e-filed Form 1040 for \$0.28.

We estimate at least \$322,241,232 in annual cost savings if the IRS implemented our recommendation to prioritize the implementation of automating processing of Forms 1040-X.

- Submission Processing function = 1,660,662 Forms 1040-X x \$6.64 = \$11,026,796
- Accounts Management function = 2,859,969 Forms 1040-X x \$109.26 = \$312,480,213
- Estimated automated processing costs = 4,520,631 Forms 1040-X x \$.28 = \$1,265,777

Total Cost = \$11,026,796 + \$312,480,213 – \$1,265,777 = \$322,241,232

Management's Response: Although the IRS agreed that automating the Form 1040-X processing will increase efficiencies and reduce taxpayer burden, they disagreed with this outcome stating that an outcome measure should not be calculated until requirements and a solution have been evaluated with the Information Technology organization. The evaluation process and feasibility study of the automation could take several years due to the complexity associated with Form 1040-X processing that must be done across multiple systems. Management also disagreed with the outcome assuming that all Forms 1040-X will be e-filed.

Office of Audit Comment: Our outcome measure illustrates the potential benefit to the IRS if it were to automate the processing of all Forms 1040-X. The dollar amounts were calculated using estimated costs provided to us by the IRS during our audit. We agree that the actual savings will be realized when management develops the solution.

Type and Value of Outcome Measure:

- Taxpayer Burden – Potential; 309,083 open cases related to Forms 1040-X that indicate a refund and could be prioritized by the IRS to ensure that taxpayers receive refunds sooner (see Recommendation 7).

Methodology Used to Measure the Reported Benefit:

Our analysis of 1.9 million e-filed Forms 1040-X from the Modernized Tax Return Database through October 22, 2022, found that 897,088 returns claimed a refund. Our review of the refund Forms 1040-X identified 309,083 unique open CII cases through November 27, 2022. Because these are electronic cases and remain open, the IRS could prioritize them.

Type and Value of Outcome Measure:

- Inefficient Use of Resources – Potential; \$1,738,932 potentially saved if the IRS prevents the generation of transcripts for refunds less than \$100 (see Recommendation 8).

Methodology Used to Measure the Reported Benefit:

As of December 3, 2022, the IRS reported that it had 24,492 transcripts in its Taxpayer Relations inventory that require a manual refund of under \$100. The IRS reports that it costs about \$71 to issue a manual refund (under \$1 million). We estimate that the IRS could potentially save \$1,738,932 (24,492 x \$71) by implementing our recommendation to prevent the generation of these transcripts.

Appendix III

Prior TIGTA Report Recommendations and Status

Recommendation	Status
Recommendation 1: Establish guidance/clarification on when resources can be directed to the office to help with correspondence screening inventory, ensure that sufficient staff is available to screen in a timely manner, and establish processes to monitor progress.	Agreed – Implemented. The IRS ensured that staff was brought into Austin and the correspondence screening inventory was significantly reduced.
Recommendation 2: Evaluate directing taxpayers to send inventory intended for Accounts Management directly to Campus Support Sites for processing to reduce backlogs at Tax Processing Centers and improve services to taxpayers.	Disagreed – N/A. The IRS states that it does not have enough staffing in Campus Support Sites and that it has had trouble hiring at these sites in the past. The IRS also stated that space would be a concern.
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.	Agreed – Not Implemented. The IRS shows this recommendation as implemented, but TIGTA remains concerned that actions taken to date do not fully address the concerns raised by TIGTA. The IRS has piloted technology uploading documents in other IRS functions. However, Accounts Management is awaiting this functionality following IRS modernization plans.
Recommendation 4: 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.	Agreed – Not Implemented. The IRS now reports an implementation date of September 15, 2023.
Recommendation 5: Assess the availability of Campus Support Sites’ ICT staffing or other resources that could be made available to assist with clearing ICT backlogs at Tax Processing Centers.	Agreed – Implemented. Accounts Management has continued to provide resources to the Submission Processing function to assist with validating ICT inventory.
Recommendation 6: Provide us with plans to address concerns identified with the new Fresno Campus Support Site, including staffing the ICT.	Agreed – Implemented. Staffing was increased through voluntary reassignments and external announcements. All scanners were being used.
Recommendation 7: Complete a review of all 10 ICT sites to determine what contributes to the ICT’s inability to timely scan and validate documents. Develop 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. Ensure that responsibility of ICT operations is consolidated under the appropriate function.	Agreed – Not Implemented. The IRS will perform a Lean Six Sigma assessment to evaluate the potential for efficiency gains within the ICT process by February 15, 2023. 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 or consider shipping inventory to sites with less inventory to be scanned.	Agreed – Implemented. Accounts Management is continuing to assist the Submission Processing function in validations and transshipment of ICT inventory.
Recommendation 9: Develop specific instructions and a common template for all 10 ICT sites to consistently capture ICT inventory information.	Agreed – Implemented. The IRS developed a common mechanism for the Submission Processing and Accounts Management functions to capture ICT inventory information starting in July 2022. A finalized version was used beginning December 2022 and is shared between both the Accounts Management and Submission Processing functions.
Recommendation 10: Update existing scanning software or obtain a new software to address document capacity concerns.	Disagreed. The IRS determined the existing platform is sufficient to handle current and future needs.

**Additional Actions Are Needed to Reduce Accounts
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Recommendation	Status
Recommendation 11: Ensure that programming is updated to systemically reject electronic submissions of Forms 2848, <i>Power of Attorney and Declaration of Representative</i> , and 8821, <i>Tax Information Authorization</i> , without manually mailing a rejection letter.	Agreed – Not Implemented. The IRS states that Optical Character Recognition capability is critical for the ability to systemically issue rejection letters and does not show implementation until October 2024.
Recommendation 12: Ensure that the rejection letter used for Forms 2848 and 8821 is updated to include language that a revised form can be sent electronically.	Agreed – Implemented. Forms and letters were updated in February 2022 to include the ability to electronically submit authorization requests to a taxpayer's online account or submit Forms 2848 and 8821 online through Tax Pro.
Recommendation 13: Develop an action plan to prioritize the continued expansion of documents that can be sent in via e-fax and converted into a CII image.	Agreed – Not Implemented. The IRS will perform a Lean Six Sigma assessment to evaluate the overall efficiency of the ICT process by February 2023. The evaluation will consider expansion of e-fax services.
Recommendation 14: Identify priority work that needs to be expedited by the ICT and assess the feasibility of creating an e-fax number to receive this inventory.	Agreed – Not Implemented. The IRS will perform a Lean Six Sigma assessment to evaluate the overall efficiency of the ICT process. The evaluation will consider expansion of e-fax services.
Recommendation 15: Perform a reconciliation of each site's Accounts Management Inventory Report (AMIR) to the source reports to identify inventory inconsistencies and reporting errors by site.	Agreed – Implemented. In January 2022, the IRS performed a reconciliation on the AMIRs for each site to identify the inventory inconsistencies and reporting errors by sites. Minor discrepancies were found at each of the sites, but the overall accuracy of the reporting was greater than 99 percent.
Recommendation 16: Implement processes to provide oversight by periodically performing reconciliations for each site.	Agreed – Not Implemented. The IRS will 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.	Agreed – Implemented. The IRS has developed the instructions for preparing the AMIR. In June 2022, Accounts Management met with the sites to ensure consistency and understanding of report preparation.
Recommendation 18: Develop a process to systemically pull all controlled inventory for each site for the AMIR to ensure consistency, reduce human error, and increase efficiencies.	Agreed – Not Implemented. The IRS is pursuing systemic changes to pull controlled inventory. The requisite programming is subject to budgetary constraints, limited resources, and competing priorities. Consequently, an estimated date of October 2024 has been set.
Recommendation 19: Modify 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.	Disagreed. The IRS disagreed and stated that implementing this change would result in more complex reporting and would change the meaning of the AMIR.

Source: TIGTA summary of the Joint Audit Management Enterprise System as of December 5, 2022, for TIGTA Report No. 2022-46-027.

Appendix IV

Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

April 18, 2023

MEMORANDUM FOR HEATHER M. HILL
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

Kenneth C. Corbin 
Commissioner, Wage and Investment Division

Digitally signed by Kenneth C.
Corbin
Date: 2023.04.18 16:12:51 -04'00'

SUBJECT:

Draft Audit Report – Additional Actions Needed to Reduce
Accounts Management Function Inventories to Below Pre-
Pandemic Levels (Audit # 202240622)

Thank you for the opportunity to review and comment on the subject draft audit report. As noted in the report, the IRS has been working to recover from the historic impacts of the COVID pandemic and related tax law changes. Despite these challenges, we have undertaken numerous initiatives to reduce paper inventory levels. Our efforts have resulted in the closure of 23.9 million cases in fiscal year 2022, and 5.2 million cases in fiscal year 2023 through December 31, 2022.

During the 2023 filing season, our primary focus is on providing service through our toll-free telephone lines; however, we continue to address the inventory levels as resources allow. Some of the initiatives we are undertaking during the filing season include enlisting support from the Small Business/Self-Employed Division to assist with answering toll-free calls, continuing additional surge team efforts, and applying all available resources towards inventory before and after telephone hours of operation. After the filing season, we will shift resources from the telephone lines to the paper inventory and continue our work toward reducing inventory levels across all work types.

The report identifies several causes for the sustained higher inventories and indicates a plan is needed to return to pre-pandemic levels. The actions taken during the past year, as well as current and future planned efforts, are set to return the inventory to the lower levels of the pre-pandemic period. The uncontrollable factor with all efforts is the volume of incoming receipts from taxpayers. Had receipts over the past two years remained in line with receipt levels of previous years, and assuming the same rate of closures, all inventory would have been processed. As it happened, with the enactment of pandemic relief provisions contained in legislation passed since 2020, receipts increased to 22.1 million cases in fiscal year 2021 from average annual receipts of 15.9 million over the

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previous three years. The trend continued in fiscal year 2022 with 22.7 million receipts. These unprecedented levels of receipts are unquestionably the primary factor in the elevated inventory levels.

We began accepting electronic filing of Form 1040X, *Amended U.S. Individual Income Tax Return*, in August 2020. As recommended in the report, future planned updates include the automated adjustment of accounts based on the electronic receipt of the Form 1040-X. The process of automating Form 1040-X has been a three-phased approach. The first phase was to initiate the intake of Form 1040-X. The second was the ability to permit taxpayers to elect to receive claimed refunds by direct deposit. The third phase will be the most ambitious and complex. The programming requirements for processing simple returns will be presented to the Information Technology organization to determine if those cases can be treated exclusively by automation. After programming is in place to address simpler cases, requirements will be developed for the more complex returns that now require employee review and action. We have made progress toward an automated solution for processing amended returns. However, it should be noted that the complexity of developing and implementing programming that can interface and work correctly with our current processing systems, some of which are based on platforms more than 60 years old, will not be accomplished easily. True automation of this process will be dependent on the overall modernization plan for the return processing pipeline.

With respect to the scanning of inventory into the Correspondence Imaging Inventory system, we acknowledge the importance of scanning all inventory into the system as quickly as possible and, at an enterprise level, the IRS is moving toward an all-digital environment. The impact of the COVID pandemic on our operations was unprecedented and highlighted the need for our operations to modernize and eliminate paper from our processing streams at the earliest possible opportunity. We are appreciative of the additional funding appropriated by Congress for the IRS to modernize our systems and reduce or eliminate the impact to the taxpaying public should a similar crisis develop in the future.

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

**Additional Actions Are Needed to Reduce Accounts
Management Function Inventories to Below Pre-Pandemic Levels**

Attachment

Recommendations

The Commissioner, W&I Division, should:

RECOMMENDATION 1 (E-Mail Alert)

On October 21, 2022, we notified the Directors, Submission Processing and Accounts Management, Wage and Investment Division, of our concern that employees at, at least one ICT site, were stamping correspondence with a received date before completing screening, which is intended to ensure that correspondence is either scanned into the CII, routed to another function, or destroyed. In addition, employees at this ICT site were not screening documents from individuals and businesses with the same level of priority. The IRS's internal guidance requires correspondence to be scanned and validated within 10 calendar days of receipt by the ICT. These time frames are tracked and monitored based on the date stamped on the correspondence by the ICT. We recommended that management ensure that all sites understand and begin immediately stamping the ICT received date after correspondence screening is completed, and that individual and business documents are screened with equal importance.

CORRECTIVE ACTION

We sent Servicewide Electronic Research Program (SERP) Alert 22A0233 to all sites on November 1, 2022, as a reminder on timeliness instructions. A second reminder was issued via SERP Alert 23A0054 on February 22, 2023.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

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

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 2 (E-Mail Alert)

On October 28, 2022, we notified the Directors, Submission Processing and Accounts Management, Wage and Investment Division, of our concern that at least one IRS Campus Support Site was allowing correspondence screening to be conducted by employees at their homes and in IRS locations not co-located with the mailroom. Management stated that this was done in response to the pandemic and subsequent remodeling of IRS office space. However, our walkthrough confirmed there was adequate space in the IRS building where the mail is received and scanned for corresponding screening to be completed. Management's decision to continue to allow employees to telework unnecessarily increased the risk that documents would either be lost, destroyed, or viewed by unauthorized persons. It also increased the time it took for these documents to be scanned and available to the Accounts Management function.

**Additional Actions Are Needed to Reduce Accounts
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We recommended that the IRS discontinue correspondence screening via telework and ensure at all sites that screening must be conducted in the same IRS facility where documents are being scanned by the ICT.

CORRECTIVE ACTION

Telework screening was discontinued on December 7, 2022. The screening work remains in a secure IRS environment. We confirmed with the sites that screening is conducted in the same IRS building where space allows.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

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

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 3 (E-Mail Alert)

On November 1, 2022, we notified the Director, Accounts Management, Wage and Investment Division, of our concerns that cases were incorrectly routed to other IRS functions by Accounts Management function employees, and of unclear instructions to ensure that other IRS function employees returned cases to the originating Accounts Management function employee. Incorrectly routing work results in unnecessary delays that burden taxpayers and is an inefficient use of IRS resources. Our discussions with IRS employees and our review identified that the internal guidelines for other IRS functions do not instruct employees to return invalid CII cases to the originating Accounts Management function employee. Instead, cases are being returned to the ICT function that then routes the cases back to the originating Accounts Management function employee. We recommended that the IRS identify and address the cause of Accounts Management function employees incorrectly routing cases to other IRS functions and work with other IRS functions to update their Internal Revenue Manuals to make it clear that incorrectly routed documents should be returned to the originating employee.

CORRECTIVE ACTION

We created a report of all rerouted Correspondence Imaging Inventory (CII) cases and completed reviews of CII reroutes initiated by the 11 Accounts Management Directorates, Field Assistance, and Submission Processing. Applicable procedures have been updated and Internal Revenue Manual sections have been clarified.

IMPLEMENTATION DATE

Implemented

**Additional Actions Are Needed to Reduce Accounts
Management Function Inventories to Below Pre-Pandemic Levels**

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RESPONSIBLE OFFICIAL

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

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 4 (E-Mail Alert)

On November 1, 2022, we also notified the Director, Accounts Management, Wage and Investment Division, of our concern that the IRS was not hiring a sufficient number of mail clerks to help with opening and sorting the mail as well as scanning documents into the CII. Hiring additional mail clerks would help reduce the backlogs in the ICT function and result in taxpayers' cases being worked in a timelier manner. We recommended that management take steps to hire as many mail clerks as possible.

CORRECTIVE ACTION

We analyzed available space at the sites and have taken actions to hire as many clerks as possible. Hiring efforts through March 27, 2023, resulted in the hiring of 214 additional clerks compared to the target of 156.

IMPLEMENTATION DATE

Implemented

RESPONSIBLE OFFICIAL

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

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 5

The Commissioner, Wage and Investment Division, should establish goals for each of the Accounts Management function's inventory types and develop a plan for addressing those goals to ensure a timely return to pre-pandemic inventory levels.

CORRECTIVE ACTION

Limited resources and the numerous types of Accounts Management inventory do not allow for goals to be established for each of the inventory categories. The Accounts Management function is balancing trained resources to deliver goals for the toll-free service while addressing paper inventories in a first-in, first-out order as opposed to reaching a set goal by inventory type. Additionally, different inventory types require specialized training and not all employees have the required skills or experience to address some of the more advanced inventory programs. If goals exist across all

**Additional Actions Are Needed to Reduce Accounts
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inventory types, in addition to goals for the toll-free service, then resources must be traded off among not just telephones and inventory, but also among the various types of inventories. We will continue to monitor inventory levels and manage resources to address inventory while moving towards more advanced digitalization to achieve pre-pandemic inventory levels.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 6

The Commissioner, Wage and Investment, should prioritize funding and implementation of automated processing of Forms 1040-X to increase efficiencies and reduce taxpayer burden.

CORRECTIVE ACTION

The funding was approved per Development, Modernization, and Enhancement Request 863910 on February 28, 2023. We will evaluate requirements and a solution for automated processing of Form 1040-X, *Amended U.S. Individual Income Tax Return*. Once the requirements are determined, automation will be based on the feasibility of those requirements.

We concur that automating the Form 1040-X processing will increase efficiencies and reduce taxpayer burden; however, we do not agree with an outcome measure until the requirements and a solution have been evaluated with the Information Technology organization. The evaluation process and feasibility study of the automation could take several years due to the complexity associated with Form 1040-X processing and processing that must be done across multiple systems. Additionally, the outcome measure calculated appears to assume that all Forms 1040-X will be filed electronically. The measure should only be applied to the segment of Form 1040-X returns that are electronically filed.

IMPLEMENTATION DATE

January 15, 2026.

RESPONSIBLE OFFICIAL

Director, Submission Processing, 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 7

The Commissioner, Wage and Investment Division, should implement temporary solutions for the processing of Forms 1040-X to reduce the backlogs, reduce taxpayer burden, and save IRS resources until an automated solution is implemented.

CORRECTIVE ACTION

We continue to take actions to reduce all inventory, including the Forms 1040-X. As of March 24, 2023, Surge Team actions include 180 employees focused only on Forms 1040-X. Additional employees are moved to process inventory as resources allow. These efforts have helped to reduce the Form 1040-X inventory from 2.8 million as of September 30, 2021, to 445,000 as of December 31, 2022.

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 8

Coordinate with the Information Technology organization to prevent generating transcripts for manual refunds less than \$100 and adjust the frequency that some transcripts are generated to help management get through the inventory more efficiently.

CORRECTIVE ACTION

Many of the manual refunds issued by Accounts Management are related to deceased taxpayer accounts, where the refund cannot be issued in the name of the decedent. Instead, it is issued to a personal representative of the decedent determined to have a rightful claim to the funds. Unlike original return processing, when a personal representative of a decedent is identified and a refund systemically issued to that individual, subsequent refunds paid to a personal representative have heretofore been issued manually due to systemic limitations preventing automated issuance. We have

**Additional Actions Are Needed to Reduce Accounts
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developed programming requirements that will overcome this hurdle and permit the systemic issuance of decedent refunds when the appropriate personal representative information has been updated within the account. Unified Work Request 968619, which is undergoing impact and cost analysis by the Information Technology organization was submitted to request this work for implementation in January 2025. The requested programming is subject to competing priorities.

IMPLEMENTATION DATE

January 15, 2025

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 9

Temporarily relieve employees in the Accounts Management function from having to complete paperwork for barred statutes, so they can focus on eliminating the backlogged inventory and prevent future barred statutes.

CORRECTIVE ACTION

We are developing a plan that balances streamlining the barred statutes paperwork process with accountability responsibilities, to reduce the backlog of aged barred statute cases.

IMPLEMENTATION DATE

October 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 10

Coordinate with the Information Technology organization to explore adding Taxpayer Relations inventories into the CII, so that all Accounts Management inventory is located in the same inventory management system.

CORRECTIVE ACTION

We are working with the Information Technology Accounts Management Services (IT AMS) programmers to create a universal unassigned inventory, similar to that of the Correspondence Imaging Inventory system, which will streamline the work distribution process. The IT AMS programmers are reviewing the issue to determine the scope and feasibility of the request, which will be dependent on prioritization and feasibility.

IMPLEMENTATION DATE

January 15, 2025

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 11

The Commissioner, Wage and Investment Division, should establish time frames for and a process to measure correspondence screening timeliness at each site.

CORRECTIVE ACTION

Prior to the campus closures associated with the COVID pandemic, there was no significant delay in the screening of correspondence. The current backlog in Image Control Team (ICT) operations is due to the increased workload attributed to pandemic relief provisions that have driven an increased number of amended return filings, and not due to delays in correspondence screening. Any changes made to the process will only create additional burdens to the overall ICT process and require additional programming updates with minimal benefits.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 12

The Commissioner, Wage and Investment Division, should rescind the requirement that only the TEs and the CSRs perform correspondence screening and encourage all sites to use mail clerks, after providing them with adequate training.

**Additional Actions Are Needed to Reduce Accounts
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CORRECTIVE ACTION

The screening process was developed for the positions of Tax Examiners (TEs) and Customer Service Representatives (CSRs) due to its technical nature and the necessary training/experience required to properly identify the different types of correspondence work. As referenced in the Program Letter, sites are to schedule training so that CSRs reach the full-scope journeyman level within three years. Correspondence training and certification is part of this process. The TEs and CSRs cannot screen correspondence until completing training and possessing the skills and experience required for the screening process. Without the training and experience obtained from working inventory, the clerks could not efficiently complete this finer sort. The sort would not be as accurate and would inflate the correspondence inventory as fewer cases needing attention from other areas outside Accounts Management would be identified, thus delaying routing to the proper area.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 13

The Commissioner, Wage and Investment Division, should ensure prompt completion of the ICT review to determine if additional scanners will be purchased.

CORRECTIVE ACTION

The review of the ICT is being completed. Through March 2023, we have conducted studies of ICT operations at six of the ten sites. Having now reviewed operations at those six sites, we are consolidating and evaluating the results. We will evaluate the applicability of the findings to all sites, the utility of further reviews, and the benefit of increasing the number of high-speed scanners at the processing centers for use by the ICTs. Based on results of the evaluation, we will determine whether the information thus far collected is sufficient for a determination to buy more scanners.

IMPLEMENTATION DATE

November 15, 2023

RESPONSIBLE OFFICIAL

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

**Additional Actions Are Needed to Reduce Accounts
Management Function Inventories to Below Pre-Pandemic Levels**

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CORRECTIVE ACTION MONITORING PLAN

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

Appendix V

Glossary of Terms

Term	Definition
Campus Support Site	IRS locations that handle incoming and outgoing mail operations where Tax Processing Centers have closed. Campus Support Sites are located in Fresno, California; Chamblee, Georgia; Florence, Kentucky; Andover, Massachusetts; Holtsville, New York; Philadelphia, Pennsylvania; and Memphis, Tennessee.
Centralized Authorization File	The Centralized Authorization File is a computerized system of records, which houses authorization information from both powers of attorney and tax information authorizations.
Correspondence Imaging Inventory	The CII is an inventory system for scanning all Accounts Management receipts into digital images and working the cases from those images.
Image Control Team	The ICT provides services for Accounts Management by scanning their correspondence and forms sent in by taxpayers requesting adjustments to their accounts.
Internal Revenue Manual	The Internal Revenue Manual is the source of instructions to IRS staff, and includes policies, delegated authorities, procedures, instructions, and guidelines related to the operation of the IRS.
Modernized Tax Return Database	The database used to store original e-filed tax return data.
Statute of Limitations	The Internal Revenue Code states the IRS will assess, refund credit, and collect taxes within specific time limits. These limits are known as Statute of Limitations.
Tax Processing Center	The location where the IRS processes paper and electronic submissions, corrects errors, and forwards data to the Computing Centers for analysis and posting to taxpayer accounts. Tax Processing Centers are located in Kansas City, Missouri; Austin, Texas; and Ogden, Utah.

Appendix VI

Abbreviations

AMIR	Accounts Management Inventory Report
CII	Correspondence Imaging Inventory
CSR	Customer Service Representative
e-filed	Electronically Filed
ICT	Image Control Team
IRS	Internal Revenue Service
SB/SE	Small Business and Self-Employed
TE	Tax Examiner
TIGTA	Treasury Inspector General for Tax Administration



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