

**The Internal Revenue Service's Planning
Process Needs Improving to Fully Resolve
All Issues Affecting Tax Return Processing
Activities**

March 2000

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DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

March 28, 2000

MEMORANDUM FOR COMMISSIONER ROSSOTTI

A handwritten signature in black ink that reads "Pamela J. Gardiner".

FROM: Pamela J. Gardiner
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Internal Revenue Service’s Planning
Process Needs Improving to Fully Resolve All Issues Affecting
Tax Return Processing Activities

This report presents the results of our review of the Internal Revenue Service’s (IRS) process for preparing for tax return and payment processing during the Year 2000 filing season. In separate audit reports, the Treasury Inspector General for Tax Administration (TIGTA) provides readiness assessments for other critical filing season activities, including the process the IRS uses for preparing tax forms and publications, and for ensuring quality customer service.

In summary, we found that the IRS process used to plan for tax return processing activities could be improved to ensure all concerns are resolved. We recommended that the IRS prepare more definitive written guidelines for the filing season readiness process. The guidelines should include criteria for placing items on the action list, and define the degree of specificity required for each action item. These guidelines should also emphasize early resolution of issues affecting staffing and other budget items.

We provided the IRS with a draft report on February 7, 2000, with a 30 calendar day response period. Management’s response was not available at the date this report was released.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions, or your staff may call Walter Arrison, Associate Inspector General for Audit (Wage and Investment Income Programs), at (770) 455-2475.

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Executive Summary

The Internal Revenue Service (IRS) faces significant challenges as it prepares to process the 128 million individual tax returns it expects to receive during the Year 2000 filing season.¹ Some of these challenges include recruiting and training employees, changing the computer system it uses to process tax returns, and implementing new tax law changes. To assess the IRS' effectiveness in meeting these challenges, the Treasury Inspector General for Tax Administration (TIGTA) has conducted a series of reviews to evaluate the effectiveness of the IRS' process for preparing for the Year 2000 filing season.

The objective of this review was to assess the adequacy of the IRS' process for preparing for tax return and payment processing during the Year 2000 filing season. In separate audit reports, TIGTA provides readiness assessments for other critical filing season activities, including the process the IRS uses for preparing tax forms and publications, and for ensuring quality customer service.

Results

The IRS has established a loosely controlled process for preparing for tax return and payment processing activities. This process relies heavily on the institutional knowledge of various IRS employees to identify and resolve significant issues. It does not ensure that all problems are sufficiently documented, detailed action lists are prepared, and follow-up analyses are conducted. As a result, the IRS faces a risk that processing activities will be underfunded, equipment used to sort millions of pieces of mail will not operate effectively, and all tax return information will not be input into computerized records.

Additional Guidelines are Needed for the Filing Season Planning Process to Ensure All Concerns Are Resolved

To oversee the preparation for the filing season, the IRS established the Executive Steering Committee for Filing Season Readiness (Readiness Committee). This committee, comprised of high-level IRS employees, is responsible for ensuring that significant issues impacting the filing season are resolved. The IRS also requires offices that process tax returns and payments (referred to as processing centers) to prepare plans outlining specific actions they have taken to prepare for the upcoming filing season.

¹ Source: Statistics of Income Bulletin, Winter 1998/1999, Publication 1136, Rev. 2/99

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The process used by the Readiness Committee and the processing centers is the IRS' major control to ensure that it is prepared for the upcoming filing season. One element of an adequate control system is that clearly written instructions for internal controls are readily available. These written instructions provide a degree of assurance that control objectives are being achieved.

Additional written guidelines describing the planning process used by both the Readiness Committee and the local processing centers are needed to ensure the success of future planning efforts. The process should also ensure that the IRS prepares sufficiently detailed action lists to resolve significant issues. These changes are particularly important since the IRS is implementing an extensive reorganization.

The Readiness Committee Charter identifies general steps to be taken in planning for the upcoming filing season. For example, it provides dates for completing certain activities, such as conducting the first committee meeting and requesting input from stakeholders on significant issues impacting the filing season. However, it does not provide any specific requirements or steps necessary to accomplish these milestones.

Process for Identifying Issues

The Readiness Committee solicits input from various IRS and non-IRS sources on issues that should be resolved during the readiness process. We were advised that IRS employees also review internal reports and new tax law provisions to identify issues impacting the filing season. However, there are no formal guidelines documenting the complete identification process.

While the Readiness Committee Charter identifies general steps to be taken, it does not provide guidelines on the types of reports that should be reviewed, examples of the external stakeholders that should be contacted, or actions to take in the absence of a response. Instead, employees rely on the knowledge and expertise of prior participants in the readiness process or documents prepared during the prior years' readiness work to repeat the process each year.

Process for Recording and Assigning Responsibility for Issues

Readiness Committee members advised that the action list included concerns expressed by more than one processing center or issues having a significant impact on the IRS' ability to process tax returns and payments. The Readiness Committee then assigns action items to IRS officials to resolve. However, there are no written procedures describing the process for recording and assigning responsibility for items on the action list. Also, there are no guidelines defining how detailed the items should be on the action list (e.g., include only a general, high-level topic or more specific concerns about the issue in question).

Through discussions with IRS officials and analysis of IRS reports, we identified issues impacting the processing of tax returns and payments during the Year 2000 filing season.

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We judgmentally chose six significant issues and determined whether they were adequately identified and controlled by the IRS' readiness process. Our analysis showed that three of the six issues were not adequately controlled in the functions, or required significant additional work to ensure they were resolved prior to the filing season. Details follow.

- **Funding for Returns Processing Activities:** With guidance from the National Director, Submission Processing, the processing centers prepare work plans that identify the amount of staff needed to process anticipated tax returns and payments. As of September 2, 1999, work plans showed that the processing centers needed approximately 1,000 staff years (a staff year is equal to 2,088 hours of work) more than the IRS had budgeted for processing tax returns and payments.² The action list for filing season readiness did not include a specific item to address whether sufficient funding was available to accomplish tax return processing activities.

We reported this issue to IRS management during our review. Managers in the National Office had prepared a list of proposals to address the returns processing funding issue. However, at the time of our review, no final decisions had been made on the proposals.

- **The Service Center Automated Mail Processing System (SCAMPS):** The SCAMPS is the new mail sorting system for processing the millions of pieces of incoming and outgoing mail handled by the processing centers.

Officials at three of the five processing centers we visited expressed specific concerns with the SCAMPS that were not shown on the action list. The list included an item for the SCAMPS that stated, "Ensure SCAMPS is ready for the filing season processing." However, specific issues related to the reliability and effectiveness of the system were not shown on the list. Concerns expressed that were not on the list include:

- Poor check detection rates by the SCAMPS—Information from several processing centers showed check detection error rates ranging from 55 to 88 percent.
- Inexperienced vendor technicians—The lack of experience of vendor technicians at two processing centers could delay resolving problems during the filing season.

We reported the SCAMPS issues to IRS management during our review. Discussions with National Office managers and our limited review of information maintained by the National Office function responsible for the SCAMPS showed problems with the

² TIGTA auditors did not verify the calculations in these reports.

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SCAMPS had been identified and an initial plan of action had been developed. The plan identified several issues requiring action, but did not assign responsibilities, set due dates, or establish the expected resolution of the issue. Subsequent to our discussion of the SCAMPS issues with management, employees developed a comprehensive listing of SCAMPS projects assignments that identified issues, assigned the issues to employees, set completion dates, and described expected results. Managers informed us that they were aware of many of these issues and were working with the vendor to resolve them.

- **The Integrated Submission and Remittance Processing (ISRP) System:** The ISRP system is the new system for converting paper tax returns and payments to computerized records in the processing centers.

Officials at two processing centers expressed concerns that were not included on the action list related to problems created when converting paper return information to computerized records. These concerns were also raised in prior TIGTA memoranda. While the readiness action list includes an item pertaining to the implementation of the ISRP system, it does not address the following issues raised by the processing centers or previously reported by TIGTA.

- Ensuring that all tax return data are correctly entered into the IRS computer system—Because of problems resulting from the installation of the ISRP system, IRS employees did not enter all data into IRS computers for all tax returns received for processing. Correcting the problem would require inputting additional information into the IRS computer system for each tax return received. IRS budget allocations did not include resources needed to process this additional information.
- Completing the ISRP system contingency plans for payment processing activities—As of October 4, 1999, the IRS had not completed negotiations with specific commercial banks to ensure that they would process payments for the IRS if significant problems were encountered with the ISRP system.

We reported these ISRP system issues to IRS management during our review. They informed us that they were working on both problems in their day-to-day activities without including them on the action list. The resources needed for entering additional information into IRS computers for each tax return received would increase the deficit of 1,000 staff years discussed above.

Follow-up and Resolution of Identified Issues

The IRS official responsible for resolving the action item provides status briefings during bi-weekly committee meetings. Minutes of these meetings are prepared and provided to appropriate participants. The action list items are updated periodically to reflect the

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status of the item. Near the end of the calendar year, the Readiness Committee requests that the processing centers certify they are prepared for the filing season.

However, there are no guidelines describing the steps to be taken during this part of the planning process. The Readiness Committee Charter provides for requesting the certifications from the processing centers, but does not provide instructions for obtaining feedback on action items or the type of feedback required. Also, the December 10, 1999, due date for the certifications may not allow sufficient time to correct significant, unresolved issues prior to the upcoming filing season.

Because this is an on-going process, IRS managers did not see the need to formally document the steps taken to prepare for the Year 2000 filing season. As stated above, they rely on the knowledge of the Readiness Committee members and others involved in the process to ensure the IRS is prepared for the upcoming filing season.

Without formal guidelines, the IRS cannot be assured that the readiness planning process will be followed in the future or that all aspects of action items are addressed and resolved prior to the filing season. Again, this is particularly important since the IRS is implementing an extensive reorganization.

Summary of Recommendation

The IRS should prepare more definitive written guidelines for the filing season readiness process. The guidelines should include criteria for including items on the action list, and define the degree of specificity required for each action item. These guidelines should also emphasize early resolution of issues affecting staffing and other budget items.

Management's Response: We provided the IRS with a draft report on February 7, 2000, with a 30 calendar day response period. However, as of the date of this report, IRS management had not provided a response to the draft report.

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Objective and Scope

We evaluated the adequacy of the process used by the IRS to prepare for processing tax returns and payments during the Year 2000 filing season.

The overall objective of this review was to assess the adequacy of the Internal Revenue Service's (IRS) process for preparing for processing tax returns and payments during the Year 2000 filing season (i.e., readiness activities). We conducted the review as part of the annual plan for the Treasury Inspector General for Tax Administration (TIGTA).

We discussed the IRS' readiness process with IRS managers and analyzed documentation relating to returns processing activities. We also identified major issues that could affect the processing of tax returns and payments through discussions with processing center managers and other IRS officials, and through analysis of IRS reports. We judgmentally selected a sample of six of the most significant issues and determined whether the IRS' readiness process adequately ensured that the issues would be fully resolved before the filing season begins.

We conducted our review between August 10, 1999, and October 20, 1999, in the National Office and the Office of the Executive Officer for Service Center Operations (EOSCO). The EOSCO has oversight responsibility for the IRS offices that process tax returns. We also visited the Andover, Atlanta, Austin, Kansas City, and Fresno Submission Processing Centers. These five centers are designated to process an estimated 90 million Wage and Investment Program tax returns after the IRS' reorganization. This audit was performed in accordance with *Government Auditing Standards*.

Details of our audit objective, scope, and methodology are presented in Appendix I. Major contributors to this report are listed in Appendix II.

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Background

Each year, the IRS must plan to process tax returns that will be filed in the following year. During the Year 2000, the IRS expects to receive approximately 214 million tax returns—128 million of these will be individual income tax returns. Projections indicate that 32 of the 128 million returns will be filed electronically, with the remaining 96 million filed as paper returns.¹

The IRS has years of experience in processing tax returns. Procedures have evolved over the years so that the overall processing operations do not require reinvention each year. Nevertheless, the IRS must ensure that any changes impacting the operation (e.g., tax law changes, workforce availability, equipment changes, etc.) are implemented prior to the beginning of the next filing season.

The Chief Operations Officer, with support from other Chief Officers, has overall responsibility for processing tax returns. To provide oversight for the planning process, the Chief Operations Officer established an Executive Steering Committee for Filing Season Readiness (Readiness Committee). This committee, consisting of high-level employees (referred to as executives) from different operating functions in the IRS, is responsible for developing readiness action lists, addressing troublesome areas, and reporting on the processing centers' state of readiness. This process consists of:

- Identifying issues that affect the filing season.
- Recording the issues on an action list and assigning the issues to appropriate officials responsible for their resolution.

¹ Source: Statistics of Income Bulletin, Winter 1998/1999, Publication 1136, Rev. 2/99

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- Following up with appropriate officials to ensure the issues are resolved.

The Readiness Committee deals with issues that affect multiple centers or have significant impact on the IRS being able to process tax returns and payments.

The EOSCO also provides oversight for the planning process. This office is responsible for ensuring that the processing centers timely and efficiently process tax returns and payments. The EOSCO requires that each processing center provide information on the state of readiness activities, and conducts on-site readiness reviews at selected centers. The Readiness Committee requests that the EOSCO certify that the centers are prepared for the filing season.

Results

The IRS has established a process to prepare for Year 2000 tax return and payment processing activities. The Readiness Committee is responsible for identifying and ensuring resolution of significant issues impacting the filing season. The IRS also requires processing centers to prepare plans outlining specific actions they have taken to prepare for the upcoming filing season.

During the initial identification of issues, the Readiness Committee solicits feedback from internal and external sources in an effort to include all issues that may impact the upcoming filing season. The Readiness Committee retains oversight responsibility for the identified issues, but assigns them for resolution to high-level IRS employees in functions where the issues can best be resolved. The Readiness Committee is co-chaired by high-level employees from more than one operating area within the IRS. Thus, the make-up of the committee provides diverse experience to the readiness process.

While this process provides a framework for resolving critical issues, it does not provide adequate assurance that all of these issues are resolved before the filing season begins. The process does not have detailed

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guidelines, does not ensure that sufficiently detailed action lists are prepared for all significant problem areas, and does not include a structured follow-up process to ensure that issues are timely resolved.

Additional Guidelines Are Needed for the Filing Season Planning Process to Ensure All Concerns Are Resolved

From discussions with various IRS officials and reviews of planning documents, we were able to determine the process the IRS used to prepare for the upcoming filing season. However, the IRS does not have formal, written procedures showing the steps that should be followed to prepare for the filing season.

Process for Identifying Issues

Once the filing season Readiness Committee is formed, they identify action items by:

- Soliciting input from various IRS offices and external parties (e.g., the General Accounting Office, TIGTA, etc.).
- Reviewing internal reports and new tax law changes.

No formal guidelines are available to ensure employees unfamiliar with the process could adequately plan for subsequent filing seasons.

The committee's charter (an informal unsigned document) outlines general steps that should be taken to plan for the filing season. However, we found no detailed formal guidelines documenting how this identification process worked. While the Readiness Committee Charter identifies general steps to be taken, it does not provide guidelines on the types of reports that should be reviewed, examples of the external stakeholders that should be contacted, or actions to take in the absence of a response. Employees and managers rely on the knowledge of prior readiness participants or documents prepared during the prior years' readiness work to accomplish specific steps in the process.

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Process for Recording and Assigning Responsibility for Issues

The Readiness Committee and staff analyze the feedback received from internal and external stakeholders. Information obtained from the Readiness Committee members indicated that if a filing season concern is expressed by more than one processing center or has a significant impact on the IRS being able to process tax returns and payments, the issue is included on the action list. Issues are assigned to high-level IRS employees responsible for the area identified. These employees are provided a document that is used to update the status of items on the action list.

Although it is not yet considered the official action list, an action list has been established on the IRS' Intranet. Preliminary analysis of this listing indicated that the process of linking additional documents to the action item provided an excellent research tool and could be used to increase the amount of detail on any issue.

However, there are no written procedures describing this process for recording and assigning responsibility for items on the action list. Also, there are no guidelines defining the extent of detail that should be included for each action item (e.g., include only a general, high-level topic or more specific concerns about the issue in question).

We determined that three of the six issues that we analyzed were controlled on the Readiness Committee's action list. Although the action list did not address specifics on two of the three issues, our follow-up with areas assigned responsibility for the issues identified operational plans or schedules to ensure the issues were being addressed. However, our analyses showed that the following three issues were either not adequately controlled on the action list or in the assigned operational areas, or required significant additional work to ensure they were resolved prior to the filing season.

- Funding for Returns Processing Activities.

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- The Service Center Automated Mail Processing System (SCAMPS).
- The Integrated Submission and Remittance Processing (ISRP) System.

If not addressed, these concerns could have a significant impact on the IRS being able to process tax returns and payments. Details of these concerns are discussed below.

Funding for Returns Processing Activities—A portion of the IRS budget is allocated to process tax returns. Work plans are developed by the processing centers and approved by IRS managers. These work plans reflect the staffing required to process the expected volumes of tax returns and payments.

Review of management reports summarizing approved work plans as of September 2, 1999, showed that the 10 processing centers would need approximately 15,395 staff years (a staff year represents 2,088 hours of work) to process tax returns and payments for the upcoming filing season. These same documents showed that 14,370 staff years were available for the filing season.² This represents a deficit of 1,025 staff years.

Although this represents possibly the greatest challenge that the IRS faces during the Year 2000 filing season, the action list for filing season readiness did not include a specific item dealing with the deficit of 1,000 staff years. If not resolved prior to the start of the filing season, this issue could result in employees being hired without authorized funds to pay them.

We reported this issue to IRS management during our review. Managers in the National Office prepared a list of proposals to help reduce staffing requirements for processing the tax returns and payments. These proposals included eliminating two items that were being implemented based on tax law changes. The IRS

² TIGTA auditors did not verify the calculations in these reports.

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planned to provide an alternative to a Social Security Number (SSN) as a way to identify any person who is paid to prepare a tax return, and to validate the secondary SSNs on tax returns. The proposals indicate that both programs could be eliminated for Year 2000 processing.

Another proposal allocated the deficit ratably to the 10 processing centers without providing any suggestions for reducing the work required to process the tax returns and payments. We completed our work on this review before final decisions were made on methods to resolve the difference between required staffing and available funds.

The Service Center Automated Mail Processing System (SCAMPS)—The SCAMPS is the new mail sorting system for processing the millions of pieces of incoming and outgoing mail handled by IRS processing centers. For the Year 2000 filing season, the IRS expects to receive approximately 96 million paper individual tax returns for processing. Since the SCAMPS will be the only system for processing mail, it is critical that all concerns with this system are resolved as quickly as possible so that there will be minimal impact on the upcoming filing season. IRS officials at three of the five processing centers we visited expressed the following concerns about this system:

- The SCAMPS accuracy rate for detecting remittances needs improving. Information we obtained showed that the check detection error rates for several processing centers ranged from 55 percent to 88 percent.
- The SCAMPS is having downtime problems. Each processing center has two machines; however, at one center, both machines had been down at the same time.
- The SCAMPS sorting of outgoing mail needs improving. One center reported that the reject rate for outgoing mail was running 30 percent or higher, which required additional staff hours to presort the

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mail. In some cases, the presorted mail had to be sent first class which resulted in additional postage costs. The difference in presorted and first-class mail postage is approximately seven cents per envelope.

Another center reported that because the SCAMPS did not properly capture the weight information for outgoing mail, incorrect sorting could have resulted in additional mail costs of \$1,700. The center made this determination by processing the mail on machines that were being replaced.

- The SCAMPS engineers (vendor technicians) at two processing centers are inexperienced. This lack of experience could result in delays in resolving problems during the filing season.

The Readiness Committee's action list included an item for the SCAMPS that stated, "Ensure SCAMPS is ready for the filing season processing." However, specific issues related to the reliability and effectiveness of the system were not shown on the list.

We reported these issues to IRS management during our review. Discussions with National Office managers, and our limited review of information maintained by the National Office function responsible for the SCAMPS, showed problems had been identified and an initial plan of action had been developed. The plan identified several issues requiring action, but did not assign responsibilities, set due dates, or establish the expected resolution of the issues. Subsequent to our discussions of the issues with management, employees developed a comprehensive listing of SCAMPS project assignments that identified issues, assigned the issues to employees, set completion dates, and described expected results. Managers informed us that they were aware of many of the problems, and were working closely with the vendor to improve check detection rates and increase the skills and training of the technicians working on the SCAMPS.

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Also, two mailing labels have been developed to send to taxpayers to help sort incoming mail. One label will be used for refund returns, and the other label will be used for non-refund returns. The new mailing labels should assist in sorting incoming mail; however, we cannot determine whether taxpayers will use the labels appropriately.

The IRS also developed an Intranet site to address open SCAMPS issues. However, issues listed on the site did not include targeted completion dates or show any issues as being resolved.

The Integrated Submission and Remittance Processing System (ISRP)—During Fiscal Years (FY) 1998 and 1999, the IRS implemented the ISRP system as the computer system used to convert paper tax returns and payments to computerized records. Officials at 2 of the 10 processing centers voiced concerns with the ISRP system after the 1999 filing season. These concerns had also been previously reported by TIGTA. However, as of October 4, 1999, these concerns had not been included on the action list. Since the ISRP system will be the only system for processing tax returns and payments, it is critical that these concerns are resolved before the Year 2000 so that there will be minimal impact on the upcoming filing season. Details of the concerns are discussed below.

- During the 1999 filing season, IRS employees did not always enter tax return data into IRS computers for some tax returns because of changes resulting from the installation of the ISRP system. Correcting this problem would require IRS employees to input additional information to process each tax return to IRS computers.

Discussions with IRS officials indicated that work plans developed to allocate budgeted funds for FY 2000 did not include approximately 22 staff years needed to process the additional information for the expected 96 million paper individual income tax returns projected to be filed in the Year 2000. This shortage of 22 staff years could result in tax

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returns not being processed timely. Also, taxpayer refunds could be delayed, and approximately \$3.3 million in interest could be paid on the late refunds.

The filing season readiness action list dated October 4, 1999, shows the ISRP system as an item on the list; however, the item does not address the specific problem regarding inputting additional information to IRS computers. The action list only deals with the implementation of the ISRP system.

- ISRP system contingency plans (actions to be taken if the primary methods are interrupted) for processing payments had not been finalized. As of October 4, 1999, the IRS had not completed negotiations with commercial banks to ensure that they would be able to provide processing capability for payments in the event of problems with the ISRP system. The IRS has existing contracts with banks to process some types of payments that taxpayers are directed to send to the banks.

Without contingency plans, unexpected problems may not be resolved quickly and result in payments not being processed. Placing this item on the action list would help ensure the IRS is able to process remittances and make deposits timely in case the ISRP system fails.

We reported these ISRP system issues to IRS management during our review. They informed us that they were working on both problems in their day-to-day activities without including them on the action item list. IRS managers were reviewing a proposal from the ISRP system vendor that would help ensure data are processed for all tax returns received. However, at the time of our review, no final decisions had been made on the proposal. They were also working with another agency (Financial Management Services) to finalize contingency plans for processing payments.

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Follow-up and Resolution of Identified Issues

High-level IRS employees that have been assigned action items to resolve must provide periodic information to the filing season Readiness Committee. The Readiness Committee meets bi-weekly to hear presentations from executives on the progress made in resolving the assigned action item. Although not required, the executives are encouraged to provide documents to the staff of the Readiness Committee outlining the status of the items on the list. The Readiness Committee briefings are recorded and the action item list is updated.

The Readiness Committee issues a memorandum near the end of the year requesting that the EOSCO provide a memorandum certifying that the processing centers are prepared for the filing season. To assist the processing centers in getting ready for the filing season, and thus the ability to certify their readiness, the EOSCO provides a guidance memorandum to the processing centers.

This memorandum identifies very specific items that should be addressed in a comprehensive planning document prepared by the centers. The memorandum includes areas such as recruitment plans, critical equipment needs, security, rates of production, and tools used to monitor the filing season. The memorandum also provides for on-site readiness reviews by the EOSCO's staff at specific processing centers. Although this process is very comprehensive, we did not find any guidelines requiring the activities performed by the EOSCO or the Readiness Committee.

The Readiness Committee Charter provides for requesting the certifications from the processing centers, but it does not provide any guidance for obtaining feedback on action items, the type of feedback required, (e.g., oral, written) or methods and timing for making changes to the status of items on the action list.

Also, the due date for the certifications from the processing centers may not allow sufficient time to

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correct unresolved significant issues prior to the upcoming filing season. The Readiness Committee Charter indicated that the certifications should be received by December 10, 1999.

The process used by the Readiness Committee and the EOSCO is the IRS' major control to ensure readiness for the upcoming filing season. The control is necessary to ensure that issues affecting the upcoming filing season are identified and timely resolved. One of the basic elements of an adequate control system is that clearly written instructions for internal controls should be readily available. These written instructions are designed to derive the maximum benefit with minimum effort to achieve efficiency. They also provide a degree of assurance that control objectives are being achieved.

Because this is an on-going process, IRS managers did not see the need to formally document the steps taken to prepare for the Year 2000 filing season. As stated above, they rely on the knowledge of the Readiness Committee members and others involved in the process to ensure the IRS is prepared for the upcoming filing season. Without written guidelines, the IRS cannot be assured that the readiness planning process will be followed in the future, or that all aspects of action items are addressed and resolved prior to the filing season.

Recommendation

To help ensure that the IRS continues to have successful filing seasons, we recommended that the Chief Operations Officer:

1. Develop comprehensive written guidelines for the readiness planning processes used by the Readiness Committee and the EOSCO. At a minimum, the guidelines should include criteria for including items on the action list, define the degree of detail required for the items on the action list, clearly document actions to be taken by the EOSCO, and emphasize

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early resolution of issues affecting staffing and other budget items.

Management's Response: Management's response to the draft report was not available at the date this report was released.

Conclusion

The IRS has established a loosely controlled process for preparing for tax return and payment processing activities. This process relies heavily on the institutional knowledge of various IRS employees to identify and resolve significant issues. It does not ensure that all problems are sufficiently documented, detailed action lists are prepared, and follow-up analyses are conducted. As a result, the IRS faces a risk that processing activities will be underfunded, equipment used to sort millions of pieces of mail will not operate effectively, and all tax return information will not be input into computerized records.

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Appendix I

Detailed Objective, Scope, and Methodology

The overall objective of this review was to assess the adequacy of the Internal Revenue Service's (IRS) process for preparing for processing tax returns and payments during the Year 2000 filing season (i.e., readiness activities). This review only addressed those areas that affect processing tax returns and payments at the IRS processing centers.

We performed the following audit tests to accomplish our objective.

- I. Determined the process the IRS used to prepare for filing season activities by:
 - A. Conducting conferences with IRS officials and their staffs at the National Office.
 - B. Discussing readiness concerns related to processing tax returns and payments with the heads of office and relevant staff members at five processing centers.
 - C. Reviewing documentation such as action lists, meeting minutes, and status reports.
 - D. Reviewing IRS documents showing the analyses of tax law changes and the assessment of their impact on the processing of tax returns and payments.
- II. Identified major issues that could affect the filing season by:
 - A. Conducting conferences with IRS officials and their staffs at the National Office.
 - B. Discussing readiness concerns related to processing tax returns and payments with the heads of office and relevant staff members at five processing centers.
 - C. Analyzing IRS management reports and oversight reports prepared by the General Accounting Office and the Treasury Inspector General for Tax Administration.
- III. Summarized information obtained in Step II above, and prepared a matrix to compare and prioritize the major issues that could affect the filing season.
- IV. Judgmentally selected six of the most significant major issues identified in Step II. The six major issues selected and a brief explanation of each are listed below.
 - The Integrated Submission and Remittance Processing (ISRP) System—The ISRP system is a new computer system used by the IRS to convert paper information on tax returns and payments to computer data. The Year 2000

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filing season will be the first year this system is used by all 10 processing centers to process payments.

- The Service Center Automated Mail Processing System (SCAMPS)—The SCAMPS is a new computer system used by the IRS to process incoming and outgoing mail. The Year 2000 filing season will be the first year this system is used by all 10 processing centers to sort, count, and open envelopes for incoming mail, and to sort and count outgoing mail.
- On-line Notice Review—This is a new automated system to review IRS notices for clarity and correctness prior to sending them to taxpayers.
- Employee Recruiting—The ability to recruit and maintain staffing is a recurring concern for the processing centers.
- Electronic Tax Administration—The IRS is centralizing the receiving operation for electronic tax returns. The Year 2000 filing season will be the first year under the new system.
- Funding for returns processing activities—Work plans developed by processing centers show the staffing requirements based on historical data and projected changes for the upcoming filing season. These requirements must be reconciled to the funds budgeted for processing tax returns and payments.

- V. Determined whether the process the IRS used to prepare for filing season activities identified and controlled the six major issues for resolution by:
- A. Reviewing the Filing Season 2000 Readiness Action list, work plans, and projected changes for local readiness activities.
 - B. Discussing contingency plans for continued operations if the computerized systems identified in Objective IV are not ready for implementation as scheduled.
 - C. Reviewing processes used by IRS employees to develop work plans.
 - D. Discussing the six selected major issues with employees responsible for developing work schedules.
 - E. Calculating the impact on the work plans of not including requirements for inputting additional data into IRS computer systems for each tax return received.

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Appendix II

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All Issues Affecting Tax Return Processing Activities**

Appendix III

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Appendix IV

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 the Congress.

Finding and recommendation: **Additional guidelines are needed for the filing season planning process to ensure all concerns are resolved.** The planning process used by the Internal Revenue Service (IRS) to prepare for the Year 2000 filing season is not well documented, and does not ensure that all issues are fully resolved. We recommended that the IRS prepare comprehensive written guidelines for the filing season planning process, and include criteria for including items on the action list. Specifics on two concerns that could have significant impact on the filing season had not been included on the list prepared by the Executive Steering Committee for Filing Season Readiness (Readiness Committee) to ensure they were resolved.

- **Funding for returns processing activities**—Approved work plans prepared by the processing centers showed staffing requirements of approximately 1,000 staff years more than the IRS had budgeted for processing tax returns and payments for the upcoming filing season.¹ Although this may represent the biggest challenge the IRS faces during the Year 2000 filing season, the Readiness Committee's action list did not include a specific item to address whether sufficient funding was available to accomplish tax returns processing activities. (page 6 of report)
- **The Integrated Submission and Remittance Processing (ISRP) System**—IRS officials at two processing centers expressed a concern with the ISRP system that was not included on the action list. This concern had also been reported by the Treasury Inspector General for Tax Administration. However, as of October 4, 1999, this concern had not been included on the action list.

During the 1999 filing season, IRS employees did not always enter all tax return data into IRS computers because of changes resulting from the installation of the ISRP system. Correcting this problem would require employees to input additional information to process each tax return to IRS computers. Work plans developed to allocate budgeted funds did not include approximately 22 staff years (a staff year is equal to 2,088 hours of work) that would be needed to process the additional information for the 96 million paper individual income tax returns projected to be

¹ TIGTA auditors did not verify the calculations in these reports.

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filed in the Year 2000.² This shortage of 22 staff years could result in tax returns not being processed timely. Also, taxpayer refunds could be delayed and approximately \$3.3 million of interest paid on the late refunds. (page 9 of report)

FUNDING FOR RETURNS PROCESSING ACTIVITIES

Type of Outcome Measure:

Reliability of Information (Potential)

Value of the Benefit:

Because work plans had been approved, processing centers would hire employees to use the staff years in the plans. The deficit of 1,000 staff years would be realized at that point. Assuming all other plans static, the IRS would spend approximately \$51.6 million dollars that had not been appropriated for tax return processing activities.

Methodology Used to Measure the Reported Benefit:

Based on IRS reports, a staff year for tax return processing activities costs approximately \$51,600. At this rate, the 1,000 staff years would result in costs of approximately \$51.6 million.

THE INTEGRATED SUBMISSION AND REMITTANCE PROCESSING (ISRP) SYSTEM

Type of Outcome Measure:

Funds Put To Better Use (Potential)

Value of the Benefit:

Because additional requirements for transcribing tax returns had not been addressed in the work plans allocating resources, processing centers may be understaffed by approximately 22 staff years. This could result in tax returns not being processed timely and delayed refunds. The government could pay approximately \$3.3 million in interest on refunds not processed in the required time frame.

Methodology Used to Measure the Reported Benefit:

Based on the average keystrokes input per hour and the need to add two keystrokes per return, IRS employees calculated that an additional 22 staff years would be needed to process the 96 million paper individual tax returns expected to be filed in the Year 2000. An IRS publication (Document 6746, Cost Reference Guide FY 97) showed that

² Source: Statistics of Income Bulletin Winter 1998/1999 Publication 1136, Rev.2/99

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123.8 staff hours would be required to process 1,000 individual income tax returns. Thus, the IRS could untimely process 362,778 tax returns because of the shortage of approximately 22 staff years (44,912 staff hours divided by 123.8 multiplied by 1,000). By the end of April 1999, the IRS had received 86 million individual income tax returns (paper returns) with 66.57 percent requesting refunds. Thus, 241,501 tax returns (362,778 times 66.57 percent) would likely be refund returns. During the 1999 filing season, the average refund per return was \$1,550. Each of the 241,501 tax returns could have refunds issued late. The IRS adds interest, for at least 45 days at 7 percent, on refunds that are not issued within 45 days of the return received date. The principal amount of \$374 million (241,501 tax returns multiplied by the average refund of \$1,550) at the interest rate for 45 days (.07 divided by 360 days multiplied by 45 days) would equal approximately \$3.3 million.