



*The Office of Appeals Closed Case Files Are
Overwhelming Onsite Storage Space*

January 15, 2008

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TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY

WASHINGTON, D.C. 20220

January 15, 2008

MEMORANDUM FOR CHIEF, APPEALS

Michael R. Phillips

FROM:

Michael R. Phillips

Deputy Inspector General for Audit

SUBJECT:

Final Audit Report – The Office of Appeals Closed Case Files Are
Overwhelming Onsite Storage Space (Audit # 200610050)

This report presents the results of our review of the Office of Appeals (Appeals) closed case files. The overall objective of this review was to determine whether Appeals has an effective process to efficiently retain closed case information. This audit was performed as a result of information identified during a previous audit and was included in our Fiscal Year 2007 Annual Audit Plan.

Impact on the Taxpayer

Appeals creates an internal file containing copies of documents related to each hearing conducted. However, because it closes more than 100,000 cases a year, Appeals is running out of storage space for these files and has begun shipping them to offsite storage for a fee. Appeals could save the time for creating the files and expense of the offsite storage to improve taxpayer services in support of its mission. The staff time used to create the files could be used to process additional Appeals cases, and the funds used to pay for the offsite storage could be used to fund additional staff positions in Appeals.

Synopsis

The Appeals closed case filing system is rapidly becoming unmanageable and losing the benefit of its original reason for creation. Appeals closed case files are used primarily because Appeals has had difficulty in obtaining administrative files promptly from the Internal Revenue Service (IRS) business units. Because its inventory is consistently more than 100,000 closed cases per year, and some closed case files are retained for up to 10 years, Appeals is faced with difficult decisions about the method it uses to retain these files. Some case files are no longer easily



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accessible to Appeals employees, and Appeals is running out of storage space. In addition, the files contain duplicate information that is available in the administrative files and, in some cases, electronically on the Appeals computer system. Further, Appeals did not know how often its files were used and by whom, what documents were requested, what types of cases were reviewed most often, or how often its files were needed as the cases got older.

Due to space limitations, Appeals has begun to ship some files to a Federal Records Center¹ to store them for a fee.² However, by shipping the files to a third party, Appeals is losing the benefits of creating these files—better control over obtaining the files and the convenience of having the records onsite. We estimated Appeals could spend about \$78,000 over a 10-year period to store its files at the various Federal Records Centers nationwide. We also estimated Appeals is spending at least \$266,000 each year for staff time and supplies to create its files. Given these conditions, we believe Appeals should revise its policies and procedures related to the creation, storage, and retention of Appeals files.

In Calendar Year 2003, Appeals began development of the Paperless Attachment Program to create and store electronic versions of its files. However, the Program was not adequately planned or tested. In Fiscal Year 2007, Appeals suspended the Program to evaluate technical alternatives and to implement a project management approach. We believe Appeals should further assess the storage and technical requirements of the Program and conduct controlled tests before implementing it.

Recommendations

We recommended the Chief, Appeals:

- Conduct an analysis on all types of cases to determine how often and when Appeals files are accessed, including which documents are most often reviewed.
- Based on this analysis, issue new guidelines for retention of Appeals files.
- Destroy or return the existing Appeals files currently stored at the Federal Records Centers and discontinue sending them for storage.
- Conduct further planning, analysis, and testing of the Paperless Attachment Program.

¹ Appendix VI presents a Glossary of Terms used in the report.

² At the time of our fieldwork, only one Appeals location had records stored in its local Federal Records Center. Other Appeals locations were also considering sending files to the local Federal Records Centers.



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Response

IRS management agreed with all of our recommendations. Appeals plans to conduct an analysis of how often and when Appeals files are accessed as well as the reason for access and types of documents involved. Based on results of the analysis of how often and when Appeals files are accessed, Appeals plans to emphasize and/or issue case file retention guidelines. Appeals plans to also perform an analysis to determine if its files for Equivalent Hearings are being kept longer than required by the Appeals Records Control Schedule. Further, Appeals plans to determine which of its files currently stored at a Federal Records Center are duplicates, so they can be returned and destroyed. Appeals plans to revise guidelines to ensure no Appeals files that duplicate information already stored at a Federal Records Center are sent to a Federal Records Center. Finally, Appeals plans to conduct further planning, analysis, and testing before implementing or cancelling the Paperless Attachment Program. Management's complete response to the draft report is included as Appendix VII.

Copies of this report are also being sent to the IRS managers affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Nancy A. Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs), at (202) 622-8500.



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Abbreviations

ACDS	Appeals Centralized Database System
CDP	Collection Due Process
FY	Fiscal Year
IRS	Internal Revenue Service



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Background

Taxpayers who disagree with the Internal Revenue Service (IRS) about their tax liabilities or certain collection actions have the right to ask the Office of Appeals (Appeals) to review their cases. Appeals is an independent function within the IRS whose mission is to settle tax disputes fairly and impartially without litigation.

Before enactment of the IRS Restructuring and Reform Act of 1998,¹ the majority of Appeals cases involved hearings for examinations and penalty assessments or for court-docketed cases. The volume of Appeals cases increased significantly after enactment of the IRS Restructuring and Reform Act of 1998, because the Act established appeal rights for Collection Due Process (CDP),² Offer in Compromise, and Innocent Spouse cases. These types of cases have become a significant portion of Appeals casework. In Fiscal Year (FY) 2006, Appeals closed approximately 102,600 cases. Figure 1 presents the total Appeals cases, by type, closed in FYs 2004 - 2006.

Figure 1: Appeals Inventory of Closed Cases

Type of Case	FY 2004	FY 2005	FY 2006
Examination	28,592	30,810	33,182
CDP	32,226	27,888	32,362
Offer in Compromise	17,887	17,850	12,846
Penalty Appeals	14,647	14,066	12,392
Innocent Spouse	4,713	5,169	4,564
Industry	670	664	856
Coordinated Industry	653	610	639
Other	4,558	5,540	5,718
Totals	103,946	102,597	102,559

Source: Appeals Strategic Planning/Measures Analysis, Commissioner's Monthly Report dated September 2006.

When Appeals assigns a taxpayer's case for consideration, the hearing officer reviews the administrative file to learn the history of the taxpayer's account. After Appeals makes a decision on the taxpayer's case, it adds key documents such as the Appeals Case Memorandum and

¹ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

² Appendix VI presents a Glossary of Terms used in the report.



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determination letter to the administrative file. Appeals then returns the administrative file to the appropriate business unit.³

In addition, an Appeals employee makes copies of pertinent documentation from the taxpayer's appeal to create an Appeals Closed Office File (Appeals file). Appeals management advised us that Appeals has had difficulty obtaining the administrative files from other IRS functions. The Appeals files allow the Office greater control in obtaining copies of taxpayer information so it can more promptly answer questions from taxpayers or other IRS functions. Occasionally, a taxpayer will return to Appeals to discuss a different tax period. The Appeals file provides the hearing officer with perspective about a taxpayer's case if there is not enough time to wait for the administrative file to be located and delivered. See Appendix V for a complete list of documents typically maintained in the Appeals files.

Appeals also stores an electronic version of the Case Activity Record on the Appeals Centralized Database System (ACDS). As a result, there are two potential sources of records in addition to the Appeals files: the administrative files stored with the business units or campuses and electronic records stored on the ACDS. The ACDS can provide quick access to major decisions from the Appeals hearing. The administrative file contains all relevant paper documents.

We performed this review at the Appeals offices in Holtsville, New York; Denver, Colorado; Fresno, California; and Memphis, Tennessee, during the period September 2006 through July 2007. 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. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

³ Administrative files for open cases are stored with the business units or campuses. Administrative files for closed cases are sent to the Cincinnati Campus for processing.



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Results of Review

The Appeals closed case filing system is rapidly becoming unmanageable and losing the benefit of its original reason for creation. Because its inventory is consistently more than 100,000 cases per year, and some closed case files are retained for up to 10 years, Appeals is faced with difficult decisions about the method it uses to retain these files. Some case files are no longer easily accessible to Appeals employees, and Appeals is running out of storage space. In addition, the Appeals files contain duplicate information that is available in the administrative files and, in some cases, electronically on the ACDS.

Due to space limitations, Appeals has begun to ship some CDP files to a Federal Records Center to store them for a fee. However, by shipping the files to a third party, Appeals is losing the benefits of creating these files—better control over obtaining the files and the convenience of having the records onsite. In addition, Appeals must pay for this storage. We estimated Appeals could spend about \$78,000 over a 10-year period to store CDP Appeals files at the various Federal Records Centers nationwide. We also estimated Appeals is spending at least \$266,000 each year for staff time and supplies to create its files. Given these conditions, we believe Appeals should revise its policies and procedures related to the creation, storage, and retention of Appeals files.

In 2003, Appeals began development of the Paperless Attachment Program to create and store electronic versions of the Appeals files. However, the Program was not adequately planned or tested. For example, after nearly 4 years in development, Appeals had not adequately tested the Program or identified its storage and technical requirements. In FY 2007, Appeals suspended the Program to evaluate alternatives to scanning documents into the ACDS and to implement a project management approach. We believe Appeals should further assess the storage and technical requirements of the Program and conduct controlled tests before implementing it.

Problems With and Costs of Storing Appeals Closed Case Files May Exceed the Benefits

Appeals creates and maintains Appeals files primarily because it had difficulty in promptly obtaining administrative files from the business units, and because Appeals management had determined these files were more convenient than the administrative files for many of their needs. We reviewed the uses of the Appeals files, and the costs to create and store them, to determine whether Appeals' policy for maintaining closed files was effective and efficient. Sound management practices include a consideration of the costs and benefits before implementing new policies.



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Appeals officials stated the administrative files for cases closed in the campuses handling Appeals cases are sent to the Cincinnati Campus in Covington, Kentucky. However, Appeals officials advised us the Cincinnati Campus has had difficulty in storing administrative files due to staff shortages and layoffs, resulting in boxes of files being stored on pallets. Consequently, if a taxpayer returns to Appeals, it may take 3 months to 4 months to retrieve an administrative file from the Cincinnati Campus. The problem of accessing administrative files also affects other business units that need to review the records to work on taxpayers' accounts.

Appeals did not know how often its files were needed

While reviewing Appeals files may be more convenient for its employees than waiting for receipt of administrative files, Appeals had not conducted any studies to determine how often its files were needed. Further, because Appeals files may not contain complete records, Appeals employees may still need to request administrative files to obtain all necessary information. For example, an administrative file may include correspondence between the IRS and the taxpayer, IRS system printouts, or original tax returns that are not duplicated for the Appeals file.

In April 2007, Appeals conducted an employee survey that collected general information on how often employees accessed Appeals files. Most of the responses indicated these files were helpful to address subsequent inquiries from taxpayers and IRS employees, such as those in the Taxpayer Advocate Service and the Office of Chief Counsel. Other survey responses included ease of access to documents for Appeals officers reviewing the work performed on the case, Appeals internal quality review, and answering Congressional inquiries. However, Appeals did not track how often its files were used and by whom, what documents were requested, or what types of cases were reviewed most often. Therefore, Appeals could not determine how many of the Appeals files were actually used or what specific documents were used. Further, Appeals did not know how often its files were needed as the cases got older.

Appeals did not have sufficient storage space for the increasing number of files

For most types of cases, Appeals retains its files for 3 years.⁴ However, Appeals stores some types of Appeals files much longer. For example, Freedom of Information Act⁵ Appeals files are retained for 6 years from the year of closure, and CDP Appeals files are retained for 10 years after the cases are closed.⁶

⁴ For FY 2006, Appeals would have had all of the cases closed in FYs 2004 and 2005 files and would have added FY 2006 files as the cases were closed. At the beginning of FY 2007, the closed FY 2004 Appeals files would have been purged.

⁵ 5 U.S.C. § 552 (2007). This Act provides public access to agency records unless they are protected from disclosure by one of the Act's nine exemptions or three exclusions.

⁶ The Appeals files for Freedom of Information Act cases closed in FY 2006 would be purged at the beginning of FY 2013. The Appeals files for CDP cases closed in FY 2006 would be purged at the beginning of FY 2017.



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Appeals procedures require CDP Appeals files to be stored until the latest collection statute has expired. However, the campuses were storing this type of file according to the month and year in which the case was closed rather than the statute expiration date. For Appeals staff to determine which files need to be purged, they needed to review every file to determine if the latest collection statute date had expired. To avoid this labor-intensive process, Appeals decided to store the CDP Appeals files for 10 years after the cases were closed to ensure all collection statute dates had expired. Therefore, some CDP Appeals files were stored for years longer than required, which added to the storage space problem.⁷

The lack of adequate storage space caused problems at the locations that stored Appeals files. During our review, we visited the three campuses that stored Appeals files. Due to lack of space, the campuses stored boxes of these files in cabinets and up against walls. For example:

- In mid-2005, one campus began creating and storing CDP Appeals files in addition to Offer in Compromise and Examination Appeals files. The campus had only two file cabinets available for new Appeals files. Due to lack of space, Appeals officials at this campus were considering storing the files at a Federal Records Center.
- In mid-2005, another campus began creating and storing CDP Appeals files in addition to Examination and Freedom of Information Act Appeals files. Appeals employees were storing the CDP files in their individual file cabinets or on their desks. Subsequent to our visit, the campus sent several boxes of CDP Appeals files to a Federal Records Center. Appeals officials anticipated having to use employee file cabinets again to store new CDP Appeals files. The campus was also running out of storage space for the Examination and Freedom of Information Act Appeals files.
- In Calendar Year 2006, a third campus began creating and storing CDP Appeals files in addition to Offer in Compromise, Penalty Appeals, and Examination Appeals files. This campus was also running out of storage space for new Appeals files.

The campuses we visited did not always store the Appeals files in an organized manner. These files were stored by the month and year in which each case was closed, then by the first letter of the taxpayer's last name. However, the files were not always alphabetized. An employee looking for a particular file would potentially have to search through several boxes to locate the correct file.

By storing Appeals files at a Federal Records Center, Appeals is losing the benefits of creating this type of file

Until September 2006, Appeals offices kept the Appeals files onsite. However, in October 2006, Appeals sent some CDP Appeals files to a Federal Records Center for storage, and Appeals

⁷ Based on the collection statute dates identified in the sample reviewed, the average required storage period was 8 years.



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officials told us they were considering additional shipments. Because Appeals closes approximately 30,000 CDP cases each year, it is likely some of the Federal Records Centers will be used to store these files.⁸ By shipping the files to a third party, Appeals is losing the benefits of creating these files—better control over obtaining the files and the convenience of having the records onsite.

Because the Federal Records Centers are controlled by a third party, Appeals does not have direct control over its files and must order them when needed. This process takes time and is not consistent with the justification used for creating the Appeals files. Once files are archived at the Federal Records Centers, their retrieval and location can be difficult due to the vast numbers and types of files stored there. The Federal Records Centers store records in batches, which can include numerous boxes of files. Although the Federal Records Centers can quickly locate a shipment of boxes, it may be necessary to physically search through all of the boxes to find a particular file if boxes are not appropriately labeled. Further, the information contained in an Appeals file stored at a Federal Records Center is already available in the IRS administrative file, which is also stored at a Federal Records Center in a different box if the case is closed or still with the IRS function if the case is active.

In addition, Appeals must pay for the storage. The Federal Records Centers charge a one-time fee, plus an annual fee, to store records. Appeals could put \$60,570 of funds to better use over 5 years by discontinuing the practice of sending Appeals files to the Federal Records Centers.⁹ At the end of 10 years, 300,000 CDP files could be stored at the Federal Records Centers at a total cost of \$78,133. Figure 2 shows the cumulative storage costs that would be incurred in each of the 10 years for the storage of CDP Appeals files.

⁸ The number of cases in total and for each type of case closed by Appeals fluctuates each year. We believe 30,000 is a conservative estimate of the number of CDP cases closed each year.

⁹ See Appendix IV for details of calculation.



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Figure 2: Costs for Storage of CDP Appeals Files¹⁰

Year	Number of CDP Appeals Files to Be Stored	Number of Boxes to Be Stored	Annual Storage Cost per Box	Total Annual Storage Costs ^a	One-Time Cost per Box ^b	Total One-Time Costs	Total Costs ^c
1	30,000	323	\$2.28	\$736	\$11.65	\$3,763	\$4,499
2	60,000	646	\$2.28	\$1,472	\$11.65	\$3,763	\$5,236
3	90,000	969	\$2.28	\$2,209	\$11.65	\$3,763	\$5,972
4	120,000	1,292	\$2.28	\$2,946	\$11.65	\$3,763	\$6,709
5	150,000	1,615	\$2.28	\$3,682	\$11.65	\$3,763	\$7,445
6	180,000	1,938	\$2.28	\$4,419	\$11.65	\$3,763	\$8,182
7	210,000	2,261	\$2.28	\$5,155	\$11.65	\$3,763	\$8,918
8	240,000	2,584	\$2.28	\$5,892	\$11.65	\$3,763	\$9,654
9	270,000	2,907	\$2.28	\$6,628	\$11.65	\$3,763	\$10,391
10	300,000	3,230	\$2.28	\$7,364	\$11.65	\$3,763	\$11,127
Totals				\$40,504		\$37,630	\$78,133

- a) The Federal Records Centers charge 19 cents per box per month. We estimated 93 CDP Appeals files will fit in each box, so 323 boxes would be needed for 1 year of CDP Appeals files (30,000 files/93 files per box). The annual cost to store 1 box is \$2.28 (\$.19 per month for 12 months).
- b) The 1-time costs per box are \$2.00 for the box, \$1.20 for shipping, \$3.45 for shelving, and \$5.00 for disposition (total of \$11.65). The 1-time fee of \$11.65 applies only to the 30,000 CDP Appeals files added each year rather than to the total number of files in storage each year.
- c) Total for each row may be off by \$1 due to rounding.

Source: Our analysis based on estimates provided by Appeals staff.

If Appeals needs to retrieve an Appeals file that has been sent to a Federal Records Center, additional costs will be incurred because the Centers charge a total of \$6.90 to pull and reshelve a single box. Because boxes are sent in shipments, it is possible a Federal Records Center would have to pull several boxes to locate a particular Appeals file, thus significantly increasing the cost.

Appeals incurred significant costs to create its Appeals files

We estimated that Appeals incurred staff costs of \$252,744 to create Appeals files in FY 2006. Figure 3 shows our estimates of these costs based on information provided by Appeals staff for the grade levels of Appeals Processing Service function staff nationwide and the time needed to copy case documents.

¹⁰ We focused on storage for only the CDP Appeals files because these files are kept significantly longer than other types of Appeals files.



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Figure 3: Staff Costs for Creation of Appeals Files in FY 2006

Type of Case	Total Closures	Average Staff Minutes to Copy Each Case	Average Staff Cost per Minute	Estimated Total Staff Cost
Examination	33,182	10.0	\$0.2458	\$81,562
CDP	32,362	9.7	\$0.2458	\$77,160
Offer in Compromise	12,846	12.6	\$0.2458	\$39,785
Penalty Appeals	12,392	6.4	\$0.2458	\$19,494
Innocent Spouse	4,564	11.3	\$0.2458	\$12,677
Other	5,718	15.7	\$0.2458	\$22,066
Totals	101,064¹¹			\$252,744

Source: Our analysis based on estimates provided by Appeals staff.

The creation of each Appeals file involves staff time, paper, and copier costs.¹² In addition to the employees' time to create the files, Appeals must use its paper supplies to print the documents. Figure 4 shows our estimates of the paper costs incurred in creating Appeals files. The estimates are based on information provided by Appeals staff regarding the cost of paper and information from our statistical analysis of a sample of Appeals cases.

¹¹ The Total Closures number does not include the Industry Cases or Coordinated Industry Cases. We did not include these types of cases because they represent a very small percentage of the total population of closed cases. Additionally, the administrative files for these types of cases can be voluminous, making the Appeals files useful when trying to locate important documents.

¹² Appeals did not track copier use, so we were unable to calculate copier costs for creation of Appeals files.



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Figure 4: Paper Costs for Creation of Appeals Files in FY 2006

Type of Case	Total Closures	Sample Size	Total Pages in Sample	Estimated Total Pages ^a	Paper Cost per Page	Estimated Total Paper Costs
Examination	33,182	200	5,801	962,444	\$0.00544	\$5,236
CDP	32,362	152	3,689	785,417	\$0.00544	\$4,273
Offer in Compromise	12,846	49	1,125	294,934	\$0.00544	\$1,604
Penalty Appeals	12,392	25	221	109,545	\$0.00544	\$596
Innocent Spouse	4,564	25	699	127,609	\$0.00544	\$694
Other	5,718	49	857	100,007	\$0.00544	\$544
Totals	101,064	500	12,392	2,379,956		\$12,947

a) For each type of case, the Estimated Total Pages is calculated by dividing the Total Pages in Sample by the Sample Size and then multiplying by the Total Closures.

Source: Our review of a statistically valid sample of cases closed by Appeals in FY 2006.

Assuming the Appeals inventory remains constant, we estimated Appeals spends at least \$266,000 per year in staff and paper costs to create Appeals files.¹³ Over 5 years, the costs would exceed \$1.3 million. Given the cost, duplication, and storage limitations, we believe Appeals should reevaluate its need and processes for creating and retaining Appeals files.

Taxpayer information is available from other sources

Appeals management advised us the Appeals files are necessary because they have had difficulty in promptly retrieving the administrative files when needed, especially when taxpayers petition the Tax Court. Appeals has conducted independent studies of FY 2006 data that showed more than 60 percent of the administrative files were received within 30 calendar days when taxpayers petitioned the Tax Court; however, it took more than 45 calendar days to receive 20 percent of the administrative files for some taxpayers who had petitioned the Tax Court. Both the Government Accountability Office¹⁴ and the Treasury Inspector General for Tax Administration¹⁵ have issued reports related to the difficulty in obtaining administrative files.

Appeals files are made up of copies of original documents maintained in the administrative files. Appeals procedures state the purpose of the Appeals file is to “. . . keep a copy of important Appeals correspondence and documents . . . that may not be a permanent part of the administrative file.” However, as long as Appeals places all necessary original documents from taxpayers’ hearings in the administrative files, or maintains some case-related information electronically on the ACDS, the Appeals files may not be necessary.

¹³ Includes \$252,744 in staff costs and \$12,947 in paper costs.

¹⁴ TAX ADMINISTRATION: *The Internal Revenue Service Can Improve Its Management of Paper Case Files* (GAO-07-1160, dated September 2007).

¹⁵ *Better Procedures Are Needed to Locate, Retrieve, and Control Tax Records* (Reference Number 2004-10-186, dated September 2004).



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Recommendations

Recommendation 1: The Chief, Appeals, should conduct an analysis on all types of cases to determine how often and when Appeals files are accessed. This analysis should include which Appeals file documents are most often reviewed.

Management's Response: IRS management agreed with the recommendation and plans to conduct an analysis on how often and when Appeals files are accessed, including the reason for access and the types of documents involved.

Recommendation 2: Based on the results of the analysis in Recommendation 1, the Chief, Appeals, should issue new guidelines for retention of Appeals files, especially concerning the 10-year retention period for CDP case files, based on how often the files are used and the cost to retain the files. At a minimum, the new guidelines and policies should:

- Consider the cost of creating and storing Appeals files.
- Ensure taxpayer information is adequately protected and secured.
- Ensure files can be stored locally and are easily accessible.
- Ensure CDP files can be timely identified and destroyed.

Management's Response: IRS management agreed with the recommendation and, based on the results of the analysis for Recommendation 1, plans to emphasize and/or issue case file retention guidelines that address each of the recommended areas, except for storing Appeals files locally, because Appeals processes preclude local storage of all closed case files. Appeals plans to also conduct an analysis to determine if its files for Equivalent Hearings are being retained longer than required by the Appeals Records Control Schedule.

Recommendation 3: The Chief, Appeals, should destroy or return the existing Appeals files currently stored at a Federal Records Center and discontinue sending Appeals files in the future.

Management's Response: IRS management agreed with the recommendation and stated they plan to determine which Appeals files currently stored at a Federal Records Center are duplicates, so they can be returned and destroyed. Appeals plans to also revise guidelines to ensure no Appeals files that duplicate information already stored at a Federal Records Center are sent to a Federal Records Center.

The Appeals Paperless Attachment Program May Not Replace Appeals Closed Case Files

In Calendar Year 2003, Appeals began work on the Paperless Attachment Program, which was being designed to use an electronic file attachment option available in the ACDS that was not being used. The main purpose of the Paperless Attachment Program was to enable Appeals to



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store an electronic version of an Appeals file rather than a paper version. This Program would allow employees to research a case on the ACDS and find all Appeals documents rather than locating, and possibly having to ship, the paper file. We reviewed the development of the Program to determine if it was adequately planned, including the performance of a cost/benefit analysis. Sound management practices include adequately planning a new program before it is implemented.

Although Appeals spent nearly 4 years developing it, the Program was not thoroughly researched or tested (e.g., Appeals did not perform any official testing to ensure the Program would work as intended). Although some employees tried the Program, they were not required to provide any formal feedback.

In addition, Appeals did not estimate the storage space required to store the electronic Appeals files. Instead, it relied on assurances from its information technology staff that sufficient electronic storage space was available. However, Appeals did not perform any preimplementation tests to determine how much space the files would occupy on the ACDS. Appeals officials advised us they planned to determine the average space requirement by reviewing the electronic storage space used by 1 office in 1 week after Appeals began to use the Program.

The Paperless Attachment Program could adversely affect performance of the ACDS

Although Appeals planned to store electronic versions of the Appeals files on its main server, the ACDS, management did not conduct an analysis to determine the average size of electronic files to assess the overall storage capacity needed for the Paperless Attachment Program. Instead, Appeals planned to establish a maximum limit of 500 megabytes per Appeals file. This approach provided Appeals with insufficient data to adequately plan for the Program's implementation. Because not all files will be the same size, there is a wide range of possible total storage requirements. However, if some Appeals files reach the limit of 500 megabytes per file, the performance of the ACDS could be adversely affected.

To determine the potential storage requirements using Appeals' limit of 500 megabytes per file, we calculated the amount of electronic storage space needed to store Appeals files based on the average number of cases closed each year. Appeals closes approximately 100,000 cases annually,¹⁶ (30,000 CDP and 70,000 for all other types of cases¹⁷). Further, Appeals retains its

¹⁶ The number of cases, in total and for each type of case, closed by Appeals fluctuates each year. We believe our estimate of 100,000 closed cases, of which 30,000 are CDP cases, is conservative based on prior year closures.

¹⁷ Non-CDP cases are retained for at least 2 years and up to 3 years. To allow for a conservative estimate, we used the 2-year retention period.



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CDP case files for 10 years and its other types of files for at least 2 years.¹⁸ Figure 5 shows the potential storage space required to store all Appeals files for 10 years.

Figure 5: Potential Storage Space Requirements for Appeals Files Based on the Retention Period for Each File Type

Year	Cumulative Number of CDP Cases to Be Stored ^a	Storage Space Potential for CDP Cases ^b	Number of Non-CDP Cases to Be Stored ^c	Storage Space Potential for Non-CDP Cases ^d	Maximum Storage Space Potential ^e
1	30,000	14,648 GB	70,000	34,180 GB	48,828 GB
2	60,000	29,297 GB	140,000	68,359 GB	97,656 GB
3	90,000	43,945 GB	140,000	68,359 GB	112,305 GB
4	120,000	58,594 GB	140,000	68,359 GB	126,953 GB
5	150,000	73,242 GB	140,000	68,359 GB	141,602 GB
6	180,000	87,891 GB	140,000	68,359 GB	156,250 GB
7	210,000	102,539 GB	140,000	68,359 GB	170,898 GB
8	240,000	117,188 GB	140,000	68,359 GB	185,547 GB
9	270,000	131,836 GB	140,000	68,359 GB	200,195 GB
10	300,000	146,484 GB	140,000	68,359 GB	214,844 GB

GB = Gigabytes

a) Because the CDP files are stored for 10 years, each year 30,000 files will be stored in addition to all those put in storage in the previous years.

b) The Storage Space Potential for CDP Cases is calculated by multiplying the Cumulative Number of CDP Cases to Be Stored by 500 megabytes (the Appeals limit) and then dividing by 1,024 (the number of megabytes in a gigabyte).

c) Because we assumed the Non-CDP files are maintained for 2 years, after Year 2 the Number of Non-CDP Cases to Be Stored will remain constant because as 70,000 files are added each year, the 70,000 files put in storage 2 years previously will be purged.

d) The Storage Space Potential for Non-CDP Cases is calculated by multiplying the Number of Non-CDP Cases to Be Stored by 500 megabytes (the Appeals limit) and then dividing by 1,024 (the number of megabytes in a gigabyte).

e) Total for each row may be off by 1 GB due to rounding.

Source: Our analysis based on estimates provided by Appeals staff.

¹⁸ The files for cases with a Closing Agreement are maintained for 10 years. However, Appeals did not track how many cases are closed with a Closing Agreement, so we could not accurately determine the 10-year retention period or how many cases are affected by it.



The Office of Appeals Closed Case Files Are Overwhelming Onsite Storage Space

At the end of 10 years, the Paperless Attachment Program's storage requirements could be nearly 215,000 gigabytes, with the CDP Appeals files requiring more than 146,000 gigabytes. In contrast, the current size of the ACDS is approximately 25 gigabytes. The upper limit of our calculated potential storage space represents an increase of approximately 859,000 percent over the current size of the ACDS. Expressed in simple terms for comparison, if the current ACDS size were represented as a 1-foot ruler, the highest potential storage requirement for the Paperless Attachment Program could be nearly the height of 6 Empire State Buildings stacked on top of each other.¹⁹ As a practical matter, the highest end of this range would not be feasible given the capacity of the ACDS and demonstrates the need for a better analysis and estimate of the true storage requirements.

Appeals had not analyzed the ability of the ACDS to handle the additional workload of the Paperless Attachment Program. During the beginning stages of the Program's development, an executive over the Program stated the ACDS could not be used to house the electronic Appeals files, because doing so would cause the ACDS to crash. During our discussions with Appeals officials, we were advised they planned to maintain all electronic documents for these files on the ACDS.

However, Appeals had not conducted any testing to determine if the ACDS server could handle the increased workload presented by the Paperless Attachment Program. Appeals management believed actual physical storage space would not be an issue due to their ability to purchase additional hard drives. However, some Appeals staff expressed concern about the server's ability to handle the frequent uploads and downloads that the new Program would require. Appeals had not developed a contingency plan in the event that the server could not handle the added workload.

In addition, the storage space and demands on the server could be detrimental to the efficiency of the ACDS, which is the main system used by most employees in Appeals including hearing officers, their managers, tax computation specialists, and the Appeals Processing Service function staff. The ACDS is used to log in cases, track activity related to the cases, charge time to each case, document employee evaluations, and close cases and for business planning purposes. A decrease in the efficiency of this System could severely affect the overall performance of Appeals. Appeals information technology staff believe it may be possible to compress the data, thereby decreasing the amount of electronic storage space needed, but this has not yet been tested.

There are recurring costs for the Paperless Attachment Program

In addition to the funds already expended, there will be continuing expenses related to use of the Paperless Attachment Program. The major ongoing expense will be staff time to scan and

¹⁹ This analysis is based on the Appeals criterion of 500 megabytes (maximum) per file.



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upload the documents. However, there would also be continuing equipment costs, as scanners need to be replaced and additional electronic storage space needs to be purchased.

Based on the limited testing performed, Appeals estimated it would take 5 minutes per case to scan in the necessary documents. Applying this time to the approximately 100,000 cases closed per year, we determined more than 8,000 hours a year would have to be dedicated to scanning documents. If the Appeals Processing Service function technicians who currently make copies of documents for the paper Appeals files are responsible for scanning documents, the estimated annual staff costs would be \$122,900 to scan documents for Appeals files.²⁰

Appeals plans to reevaluate the Paperless Attachment Program

At the conclusion of our fieldwork, Appeals management informed us they were considering using copiers rather than scanners to upload electronic documents to the ACDS. However, to comply with the national contract the IRS has for its copiers, Appeals must first convert its copier inventory and participate in a certification process. Although the Paperless Attachment Program was scheduled to be implemented in March 2007, it will remain on hold until all machines are certified under the national contract. Appeals' goal is to have all machines under the national contract in early FY 2008.

The Chief, Appeals, recognized that additional planning and cost/benefit analysis were necessary to improve development of the Paperless Attachment Program. As a result, implementation of the Program was delayed, and Appeals began a "second phase" of development to include a cost/benefit analysis and consideration of the additional server space needed and the potential impact on performance of the ACDS. We believe Appeals should assess storage requirements and conduct testing of the ACDS before proceeding with implementation of the Paperless Attachment Program.

Recommendation

Recommendation 4: The Chief, Appeals, should conduct further planning, analysis, and testing, including assessing storage requirements, before implementing the Paperless Attachment Program.

Management's Response: IRS management agreed with the recommendation and plans to conduct further planning, analysis, and testing, including determining storage requirements, before implementing or cancelling the Paperless Attachment Program.

²⁰ The \$122,900 in staff costs is based on FY 2006 salaries.



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Appendix I

Detailed Objective, Scope, and Methodology

The objective of this audit was to determine whether the Office of Appeals (Appeals) has an effective process to efficiently retain closed case information. To accomplish our objective, we:

- I. Reviewed existing regulations, requirements, guidelines, and procedures regarding the production and maintenance of Appeals files.
 - A. Reviewed various Internal Revenue Manual sections regarding the production, use, and maintenance of these files.
 - B. Discussed with Appeals officials the business purpose for these files, the processing of cases, and the retention policies for files.

This review was the extent of our work on internal controls. We did not identify any internal control weaknesses or issues.

- II. Obtained from the ACDS¹ file maintained at the Treasury Inspector General for Tax Administration Data Center Warehouse a computer extract of all cases closed between October 1, 2005, and September 30, 2006. We validated the reliability of the computer extract using information from the Data Center Warehouse, reviewed the appropriateness of data within fields requested, and compared population totals to information obtained from Appeals officials.
- III. Selected statistically valid samples for each of six separate types of cases.² The total sample of 500 cases was selected based on a confidence level of 95 percent and a precision rate of ± 5 percent; it included an additional 100 cases randomly selected to substitute for lost or unobtainable cases. The total sample was obtained from the population of 101,064 cases closed in FY 2006 for the 6 types of cases.

¹ Appendix VI presents a Glossary of Terms used in the report.

² The 6 types of cases and their sample sizes were Examination (200), CDP (152), Offer in Compromise (49), Requests for Penalty Abatement (Penalty Appeals) (25), Innocent Spouse (25), and Other (49), for a total sample size of 500 cases.



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- IV. Obtained and reviewed case files for each of the six samples to determine the number of pages in each reviewed Appeals file. We also estimated the costs to create and store the files and assessed electronic storage requirements.
- V. Conducted site visits and interviews with Appeals officials to determine staff and Paperless Attachment Program costs related to the production of Appeals files. We applied this cost information to the estimated page totals derived from our file reviews.
- VI. Discussed with Appeals officials the development of the Paperless Attachment Program, including the planning process, costs associated with the Program, and plans for its implementation.



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Appendix II

Major Contributors to This Report

Nancy A. Nakamura, Assistant Inspector General for Audit (Headquarters Operations and Exempt Organizations Programs)

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Appendix III

Report Distribution List

Acting Commissioner C
Office of the Commissioner – Attn: Acting Chief of Staff C
Deputy Chief, Appeals AP
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaison: Chief, Appeals AP



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Appendix IV

Outcome Measure

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

Type and Value of Outcome Measure:

- Funds Put to Better Use – Potential; \$60,570 to store CDP¹ Office of Appeals (Appeals) files over 5 years at a Federal Records Center (see page 3).

Methodology Used to Measure the Reported Benefit:

If Appeals discontinues sending its files to a Federal Records Center, it will no longer need to pay for the storage and retrieval of these files. We estimated each box of CDP Appeals files sent to a Federal Records Center contains 93 files. We divided the total number of CDP Appeals files for FY 2006 (32,362) by the average number of cases per box (93) to arrive at 348 boxes. One year of storage per box totals \$2.28. We determined the cost of storing 1 fiscal year's CDP Appeals files for 10 years to be \$7,934. The costs per box for the box itself, shipping, shelving, and disposition total \$11.65. We determined the cost of shipping, shelving, and disposing of 1 fiscal year's CDP Appeals files to be \$4,054. The cost per year for processing would be \$126 (the 3 campus locations that store CDP Appeals files would have to send files, and each submission has a processing fee of \$42). Therefore, we determined the total cost of processing and storing 1 fiscal year's CDP Appeals files for 10 years to be \$12,114. We projected this potential annual savings over 5 fiscal years of CDP Appeals files.

¹ Appendix VI presents a Glossary of Terms used in the report.



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Appendix V

Contents of Appeals Closed Office Files

Office of Appeals (Appeals) procedures state that, if the following documents have been prepared, a copy should be maintained in the Appeals file:

- Case Activity Record.¹
- Appeals Transmittal and Case Memo (Form 5402).
- Appeals Case Memorandum.
- Audit Statement.
- Agreement.
- Appeals Closing Record (Form 5403).
- Appeals Short Closings (Form 5570).
- Appeals Transmittal Memorandum and Supporting Statement-Penalty (Form 9120).
- Request for Adjustment (Form 3870).
- Concurrent Determinations of Deficiencies (*Increases in Tax*) and Overassessments (*Decreases in Tax*) in Cases Involving Restricted Interest Provisions of the Internal Revenue Code (Form 2285).
- Closing Agreement.
- Closing Letter.
- Notice of Termination of Special Consent to Extend the Time to Assess Tax (Form 872-T).
- Audit Statement (Form 3610).
- Statement - Income Tax Changes (Form 5278).
- Tax Court Decisions.
- Installment Agreement.
- Prior and/or related supporting statements, if applicable.

¹ Appendix VI presents a Glossary of Terms used in the report.



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- Copy of the revenue agent's report for the flowthrough entity or U.S. Individual Income Tax Return (Form 1040) Profit or Loss From Business (Schedule C) promotion for tax shelter cases.
- Copy of Notice of Deficiency.
- Copy of determination letter.

Other documents that may be in the Appeals file, although not required, include:

- Closing Agreement on Final Determination Covering Specific Matters (Form 906) or Agreement as to Final Determination of Tax Liability (Form 866).
- Counsel Settlement Memorandum.
- Fast Track Settlement Report (if applicable).
- Operations Assistance Request (OAR) (Form 12412).
- Waiver of Statutory Notification of Claim Disallowance (Form 2297).
- Notice of Determination of Worker Classification.

For CDP cases, Appeals also maintains the following documents:

- CDP Notice (Final Notice – Notice of Intent to Levy and Notice of Your Right to a Hearing (Letter 1058), Notice of Federal Tax Lien Filing and Your Rights to a Hearing Under IRC 6320 (Letter 3172), et al.).
- Cases Activity Record and Automated Timekeeping System Case History.
- ACDS Case Summary Card.
- Request for a Collection Due Process Hearing (Form 12153) or Written Request.
- Envelope (Postmark).
- Determination/Decision Letter and Attachment.
- Summary Notice of Determination, Waiver of Right to Judicial Review of a Collection Due Process Determination and Waiver of Suspension of Levy Action (Form 12257).
- Form 3210 (Document Transmittal).
- Appeals Case Memo (if applicable).
- Court Decision (if applicable).
- Offer in Compromise (if applicable).
- Form 3870 (if applicable).
- Form 9120 (if applicable).



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Appendix VI

Glossary of Terms

Administrative File	A file containing one or more examined tax returns; the examination report; and all papers, correspondence, and other documents relative to the taxpayer's liability for the year or years involved. It is the official IRS record of the case.
Appeals Case Memorandum	A report prepared by the hearing officer to adequately explain and support the basis on which a work unit is disposed.
Appeals Centralized Database System (ACDS)	A web-based application used by all Office of Appeals (Appeals) employees; it incorporates functionality for various employee occupations, including executives, Headquarters analysts, Appeals Processing Service function employees, Appeals managers, and hearing officers.
Appeals Processing Service Function	The function that provides technical assistance and support for controlling and processing all Appeals and Office of Chief Counsel tax cases. It is the final processing point in the Appeals office and performs the full range of interim and closing actions. This includes adjustments, assessments, manual refunds, abatements, installment agreements, and offers in compromise for all types of tax cases.
Campus	The data processing arm of the IRS. The campuses process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.
Case Activity Record	The record that tracks the amount of time a hearing officer worked on a particular case; it includes notes by the hearing officer regarding actions taken and decisions made related to the case.
Case Activity Record and Automated Timekeeping System	A subsystem within the ACDS used by hearing officers to record their case time, prepare their timesheets, and record case activity.



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Collection Due Process (CDP)	The process through which a taxpayer may appeal the first time a Federal Tax Lien is filed on a tax period and before the IRS levies against his or her property. This type of case is referred to as a CDP case.
Coordinated Industry Case Program	The program that involves taxpayers liable for one or more different types of excise taxes. Cases involve those in which the taxpayer and its effectively controlled entities warrant the application of team examination procedures.
Determination Letter	A letter sent to the taxpayer informing him or her of the hearing officer's decision regarding the case. In a CDP hearing, the determination letter also informs the taxpayer of his or her right to petition the Tax Court if he or she does not agree with the Appeals decision.
Examination	The IRS examination (audit) of a tax return(s) to verify that the tax reported is correct.
Federal Records Center	The Federal Records Center Program stores and services records for nearly 400 Federal Government agencies. The Program operates 17 facilities nationwide and stores 25 million cubic feet of records.
Gigabyte	Represents 1.073741824 billion bytes or 1,024 megabytes. Most hard drive sizes are listed in gigabytes.
Hearing Officer	The general term used to refer to a staff member who conducts Appeals hearings. The term includes both Appeals officers and settlement officers.
Industry Case	Any Large and Mid-Sized Business Division case that is not designated as a Coordinated Industry Case.
Innocent Spouse	By requesting Innocent Spouse relief, a taxpayer may be relieved of responsibility for paying tax, interest, and penalties if his or her spouse (or former spouse) improperly reported items or omitted items on a jointly filed tax return.
Megabyte	A unit used to describe memory and disk capacity that is equal to approximately 1.048576 million bytes or 1,024 kilobytes. It is also equivalent to about 500 pages of text.



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Offer in Compromise	A taxpayer unable to pay his or her tax liability in a lump sum or through an installment agreement may file an offer in compromise.
Other	“Other” types of appeals include both collection (e.g., Collection Appeals Program) and noncollection (e.g., Preparer, Abatement of Interest) cases.
Paperless Attachment Program	A program developed by Appeals staff to allow for the scanning of documents to create an electronic version of Appeals files to replace the current paper Appeals files.
Penalty Appeals	In some cases, taxpayers may request relief from certain penalties if they can show they exercised ordinary business care and prudence in determining their tax obligations but were unable to comply with those obligations due to circumstances beyond their control.
Revenue Agent	An IRS employee who audits complicated income, sales, and excise tax returns of businesses and large corporations.
Tax Computation Specialist	An IRS employee responsible for preparing audit statements, notices of deficiency, tentative computations, information statements, and other analyses. In addition, the employee prepares tentative computations, schedules, and exhibits reflecting the impact of legal opinions or settlement possibilities.
Taxpayer Advocate Service	An IRS program that provides an independent system to assure that tax problems, which have not been resolved through normal channels, are promptly and fairly handled.
Treasury Inspector General for Tax Administration Data Center Warehouse	A collection of historical data from various IRS databases and systems.



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Appendix VII

Management's Response to the Draft Report



CHIEF, APPEALS

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

RECEIVED

DEC 18 2007

DEC 12 2007

MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR TAX ADMINISTRATION

FROM: Sarah Hall Ingram *Sarah Hall Ingram*
Chief, Appeals

SUBJECT: Draft Audit Report - The Office of Appeals Closed Case Files Are
Overwhelming Onsite Storage Space (Audit # 200610050)

I have reviewed the subject draft report. I appreciate its emphasis on the importance of effective case file management and conveying the difficulties Appeals experiences in locating, retrieving, and storing case files. The report accurately describes the challenges Appeals has faced since RRA98 with new work streams and concurrently increased receipts. Those developments coupled with the results of your report point to a need to revisit the process we use for our Appeals closed case filing system. Accordingly, we agree with each of your recommendations.

With the experience we have gained with working CDP cases in particular, it is timely for Appeals to review its closed case file guidelines to ensure that only essential records are maintained. Therefore, we will be analyzing how often and when particular closed case files are accessed. Based on the results of that review, we will issue new guidelines as appropriate for retention of Appeals files and also insure that duplicate records are not forwarded to the Federal Records Center.

Appeals has already taken important steps to address the issues discussed regarding securing of administrative files in docketed cases. Appeals participated on the cross-functional team to review and develop corrective actions to the recommendations contained in the GAO report, "Tax Administration: The Internal Revenue Service Can Improve its Management of Paper Case Files." The Counsel/Appeals Advisory Board is monitoring the efforts of the cross-functional Docketed Information Management System (DIMS) group assigned to review procedures, remove duplications, and improve paper case file processes.

As the report noted, Appeals earlier identified many of TIGTA's concerns about the Paperless Attachment Program. We placed the project on hold to determine the time required to create electronic files, the value of those files, the best process for reducing cycle time, and other analysis, before making a final determination to proceed, just as TIGTA recommends. We now require a full Business Case analysis before moving



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ahead on significant projects. We have matured in our processes and will be doing further planning, examining and testing before implementing the Paperless Attachment Program.

Attached are our planned corrective actions to address your recommendations. If you have any questions, please have a member of your staff contact Diane Ryan at (314) 612-4640.

Attachment



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Attachment

RECOMMENDATION 1:

The Chief, Appeals, should conduct an analysis on all types of cases to determine how often and when Appeals files are accessed. This analysis should include which Appeals file documents are most often reviewed.

PROPOSED CORRECTIVE ACTION 1:

We will conduct an analysis on how often and when closed office files are accessed. The analysis will include the reason for access and the types of documents involved.

IMPLEMENTATION DATE: September 15, 2008

RESPONSIBLE OFFICIAL: Director, Technical Services

CORRECTIVE ACTION MONITORING PLAN: The Director, Tax Policy & Procedure (Collection and Processing) will inform the Director, Technical Services of any delay in implementing the actions.

RECOMMENDATION 2:

Based on the results of the analysis in Recommendation 1, the Chief, Appeals, should issue new guidelines for retention of Appeals files, especially concerning the 10-year retention period for CDP case files, based on how often the files are used and the cost to retain the files. At a minimum, the new guidelines and policies should:

- Consider the cost of creating and storing Appeals files.
- Ensure taxpayer information is adequately protected and secured.
- Ensure files can be stored locally and are easily accessible.
- Ensure CDP files can be timely identified and destroyed.

PROPOSED CORRECTIVE ACTION 2a:

After conducting the analysis on how often and when Appeals closed office files are accessed, we will emphasize and/or issue case file retention guidelines. These guidelines will:

- Consider the cost of creating and storing Appeal files,
- Ensure that taxpayer information is adequately protected and secured,
- Ensure files are readily accessible,
- Ensure CDP files can be timely identified and destroyed.

We sometimes transfer work between Appeals Processing Services functions to ensure timely case closure. Return mailing costs, local staffing and storage needs preclude us from filing all closed case files locally.



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IMPLEMENTATION DATE: March 15, 2009

RESPONSIBLE OFFICIAL: Director, Technical Services

CORRECTIVE ACTION MONITORING PLAN: The Director, Tax Policy & Procedure (Collection and Processing) will inform the Director, Technical Services of any delay implementing the actions.

PROPOSED CORRECTIVE ACTION 2b:

Per IRC Section 6330, taxpayers may return to Appeals for a Retained Jurisdiction hearing in certain situations until the 10-year collection statute expires. This provision does not apply to Equivalent Hearing (EH) taxpayers. Our guidelines require that we keep EH closed office files only for the time period in the Appeals Records Control Schedule.

We will conduct a random sample of CDP/EH closed office files to determine whether our guidelines are being followed. After the analysis is complete, and if we find that our guidelines are not being followed, we will emphasize the retention guidelines to ensure that EH closed office files are not kept as long as timely CDP hearing closed office files. Planning the random sample review will begin immediately as these actions are not dependent on the results of Recommendation 1.

IMPLEMENTATION DATE: June 15, 2008

RESPONSIBLE OFFICIAL: Director, Technical Services

CORRECTIVE ACTION MONITORING PLAN: The Director, Tax Policy & Procedure (Collection and Processing) will inform the Director, Technical Services of any delay implementing the actions.

RECOMMENDATION 3:

The Chief, Appeals, should destroy or return the existing Appeals files currently stored at a Federal Records Center and discontinue sending Appeals files in the future.

PROPOSED CORRECTIVE ACTION 3:

We will determine which Appeals closed office files currently stored at the Federal Records Center (FRC) are duplicates, ask the FRC to return them, and destroy any files that they return. We will revise our guidelines to ensure that we do not send closed office files to the FRC that duplicate information already stored there.

IMPLEMENTATION DATE: June 15, 2008

RESPONSIBLE OFFICIAL: Director, Technical Services



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CORRECTIVE ACTION MONITORING PLAN: The Director, Tax Policy & Procedure (Collection and Processing) will inform the Director, Technical Services of any delay in implementing the actions.

RECOMMENDATION 4:

The Chief, Appeals, should conduct further planning, analysis, and testing, including assessing storage requirements, before implementing the Paperless Attachment Program.

PROPOSED CORRECTIVE ACTION 4:

After completing the Proposed Corrective Actions associated with Recommendations 1 and 2, we will conduct further planning, analysis, and testing, including determining storage requirements, before implementing or cancelling the Paperless Attachment Program.

IMPLEMENTATION DATE: September 15, 2009

RESPONSIBLE OFFICIAL: Director, Strategy and Finance

CORRECTIVE ACTION MONITORING PLAN: The Director, Business Systems Planning will inform the Director, Strategy and Finance of any delay in implementing the action.