

**Better Procedures Are Needed to Locate,  
Retrieve, and Control Tax Records**

**September 2004**

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DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

INSPECTOR GENERAL  
for TAX  
ADMINISTRATION

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MEMORANDUM FOR DEPUTY COMMISSIONER FOR OPERATIONS SUPPORT  
DEPUTY COMMISSIONER FOR SERVICES AND  
ENFORCEMENT

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FROM: Gordon C. Milbourn III  
Acting Deputy Inspector General for Audit

SUBJECT: Final Audit Report - Better Procedures Are Needed to Locate,  
Retrieve, and Control Tax Records (Audit # 200310008)

This report presents the results of our review to determine whether the Internal Revenue Service (IRS) has an adequate system to ensure tax records can be located and retrieved timely. Each of the IRS operating divisions and certain IRS functional units have an ongoing need to obtain tax returns and related information. IRS employees made approximately 15.4 million requests in Fiscal Year 2003 for current and prior year tax records stored by the IRS. Consequently, the IRS systems and processes to control, locate, and retrieve these records are critical to the functioning of the IRS.

In summary, some tax records we requested could not be located or were not retrieved timely. The IRS does not track specific requests for tax records stored at IRS campuses<sup>1</sup> or at the Federal Records Centers,<sup>2</sup> making it difficult to determine where in the process requests were lost or delays occurred. We requested a random sample of 1,587 tax records that included tax returns and related information for examination determinations, Earned Income Tax Credit adjustments, and Trust Fund Recovery Penalty<sup>3</sup> assessments. For 231 requests (14.6 percent), the IRS did not provide the requested tax record or did not provide an adequate response as to the disposition of

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<sup>1</sup> The campuses are the data processing arm of the IRS. They process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

<sup>2</sup> The Federal Records Centers are located throughout the nation and provide long-term storage for the IRS and other Federal Government agencies.

<sup>3</sup> The Trust Fund Recovery Penalty is assessed against any person determined responsible in a business operation for nonpayment of employment taxes that were withheld from employees' wages or salaries. The responsible person(s) are liable for the amount of the employment taxes not paid, and their assets can be used to satisfy this liability.

the tax record, such as whether the tax record had been destroyed or charged out to an IRS employee. We also tested whether the IRS was able to retrieve tax records timely. Based on our random sample of 1,587 requests for tax records (less those we did not receive), the average time from the date of our request to the date on which the response was received in our office was approximately 23 calendar days; however, 133 requests took over 40 calendar days to complete.<sup>4</sup>

The inability to accurately track the disposition of taxpayer records after they have been requested by IRS employees is a serious weakness in the records storage and retrieval process. Because of its responsibility to maintain the confidentiality of taxpayer records, the IRS must maintain full accountability for records in its possession. Moreover, to ensure employees can count on receiving records timely in performing their duties, it is incumbent upon the IRS to ensure the process of retrieving records operates efficiently. Without recording on its computer systems when requests are filled, the IRS cannot monitor the disposition of tax records or the timeliness of its processes.

We also found that workpapers for Trust Fund Recovery Penalty assessments stored at various local field offices were difficult to request and obtain. After contacting personnel at local field offices, we were advised there are no national procedures for requesting these workpapers. We identified varying, sometimes conflicting, methods for determining which office to contact when submitting a request and how to make the request. We requested, using local procedures, a random sample of 199 workpapers for Trust Fund Recovery Penalty assessments. After 3 months, we had not received a response for 58 (29.1 percent) of our 199 requests. The average time to receive the 141 responses was 24 calendar days; however, 28 responses were received in excess of 40 calendar days.

If a taxpayer questions, appeals, or otherwise challenges the Trust Fund Recovery Penalty assessment, it is critical for the IRS to be able to locate and timely retrieve the related workpapers. Employees from the Taxpayer Advocate Service indicated that problems obtaining the workpapers for Trust Fund Recovery Penalty assessments caused the IRS to use additional resources in an attempt to reconstruct the workpapers. This delay in resolving a taxpayer's problem can also lead to the Federal Government abating the penalty if the information cannot be reconstructed. A considerable amount of time on the part of IRS employees is used to document the basis for the penalties assessed. Loss of this work due to inadequate storage and retrieval procedures is a waste of Federal Government resources.

We recommended the Chief, Agency-Wide Shared Services (AWSS), and the Commissioner, Wage and Investment (W&I) Division, ensure the quality and timeliness of the IRS Records Management Program by developing a method to track specific

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<sup>4</sup> Because the IRS indicated that it did not have a time standard for the entire records ordering and retrieval process, we allowed a maximum of 40 calendar days to complete the requests including time for receipt of the request by the appropriate office, identification of the tax record, shipment of the record back to the requester, special research for destroyed tax records, and interaction with the Federal Records Centers.

requests for tax records that will assign accountability, respond to customer problems, and provide management information for the Program. In addition, the Chief, AWSS, and the Commissioner, Small Business/Self-Employed (SB/SE) Division, should update procedures to include instructions for requesting workpapers for Trust Fund Recovery Penalty assessments. This should include guidance for determining to which local field office a request should be sent. Further, the Chief, AWSS, and the Commissioner, SB/SE Division, should ensure the quality and timeliness of the IRS Records Management Program by developing a method to track specific requests for workpapers for Trust Fund Recovery Penalty assessments that will assign accountability, respond to customer problems, and provide management information for the Program.

Management's Response: IRS management agreed with our recommendations. The AWSS and the W&I Division will modify an existing computer system to better track requests and provide improved service to requesters. The SB/SE Division is finalizing procedures that address the retrieval of workpapers for Trust Fund Recovery Penalty assessments and will remind employees that workpapers should be filed in the office where the penalty was assessed. Additionally, the AWSS developed online training and interactive process guides that will be available to SB/SE Division employees. The SB/SE Division will attempt to modify an existing computer system that automates the document retirement process of workpapers for Trust Fund Recovery Penalty assessments. If the SB/SE Division is unable to modify the existing computer system, it will work with the AWSS to identify other alternatives. Management's complete response to the draft report is included as Appendix IV.

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

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Retrieve, and Control Tax Records**

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## Better Procedures Are Needed to Locate, Retrieve, and Control Tax Records

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### Background

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The Federal Records Act of 1950<sup>1</sup> requires the head of each Federal Government agency to maintain agency records. Records include papers, machine-readable materials, or other documentary materials made or received as evidence of the agency's activities. The Internal Revenue Service (IRS) stores millions of Federal records. These records include documentation of agency policies, decisions, and operations; however, the majority of IRS records involve tax records, most commonly tax returns and other related tax documentation including information supporting additional tax assessments or abatements. Although the IRS has recently increased the volume of its electronic tax records, it still maintains a significant number of paper tax records.

Many types of tax records, including tax returns and additional tax assessments or abatements, are assigned document locator numbers as a means to help retrieve individual tax records. Approximately 275 million new tax records<sup>2</sup> are stored each year. These tax records are initially stored for up to 1 year at an IRS campus<sup>3</sup> and then transferred to a Federal Records Center that provides long-term storage for the IRS and other Federal Government agencies. After the specified retention period has expired, the tax records will be destroyed.

Some tax records, including case files on collection enforcement actions, are not given document locator numbers and are stored and retrieved using local IRS field office procedures. Depending on local storage space, these tax records may be transferred to Federal Records Centers. These types of tax records are also destroyed after a specified retention period.

The IRS stores over 5.7 million cubic feet of tax records. These tax records must be stored by the IRS in a manner in

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<sup>1</sup> Title 44, Chapter 31, Section 3102, United States Code.

<sup>2</sup> Approximately 194 million are documents from taxpayers, including tax returns and payment vouchers, while approximately 81 million are IRS actions or changes to taxpayer accounts including names, addresses, payment transfers, levies, liens, installment agreements, offers in compromise, and additional tax assessments or abatements.

<sup>3</sup> The campuses are the data processing arm of the IRS. They process paper and electronic submissions, correct errors, and forward data to the Computing Centers for analysis and posting to taxpayer accounts.

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which they can be identified and easily retrieved because of the importance of these records to the IRS' ability to enforce the tax laws and to support IRS actions in the event of a legal proceeding. Each of the IRS operating divisions and certain IRS functional units have an ongoing need to obtain tax returns and related information. IRS employees made approximately 15.4 million requests in Fiscal Year 2003 for current and prior year tax records stored by the IRS. Consequently, the IRS systems and processes to control, locate, and retrieve these records are critical to the functioning of the IRS. Moreover, because of taxpayer privacy rights, the IRS must maintain an adequate record of the chain of custody for any taxpayer records which are charged out to IRS employees in the performance of their duties.

The Records Management Program within the IRS strives to improve the quality and reduce the quantity of records by providing sound management practices and techniques in the creation, preservation, retrieval, and disposition of records. The Chief, Agency-Wide Shared Services (AWSS), has overall responsibility for the Records Management Program, while the Commissioner, Wage and Investment (W&I) Division, has the day-to-day operation of maintaining tax records stored at IRS campuses.<sup>4</sup> The Commissioner, W&I Division, and the Commissioner, Small Business/Self-Employed (SB/SE) Division, have responsibility for tax records stored at their respective local IRS field offices.

This audit was performed with information from and discussions with employees nationwide in the Office of AWSS, Criminal Investigation function, Large and Mid-Size Business (LMSB) Division, Office of Appeals, Office of the National Taxpayer Advocate, SB/SE Division, W&I Division, and Federal Records Centers, during the period January 2003 through July 2004. The audit was conducted in accordance with *Government Auditing Standards*. Detailed information on our audit objective,

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<sup>4</sup> The IRS issued a public announcement on August 16, 2004, that this File Activity will be offered for competitive sourcing under the Office of Management and Budget Circular No. A-76.

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### **Some Tax Records Could Not Be Located or Were Not Retrieved Timely**

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scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

Requests for tax records originate from IRS employees performing many different IRS functions. IRS employees request tax records using single request or batch request forms. These requests can be made through the computer; by mail, fax, or telephone; or in person. The most common method of requesting tax records to which the IRS assigns document locator numbers, such as tax returns, is through the use of an IRS computer system known as the Integrated Data Retrieval System (IDRS).<sup>5</sup>

When a request for a tax record with a document locator number is made using the IDRS, the request is printed and sent to the Files area in the appropriate IRS campus. However, the IDRS is not designed to track specific requests to identify whether a tax record has been located, sent to the requester, or received by the requester. A requester may have to wait for a significant period of time for a tax record or for a paper response indicating a tax record has been destroyed or previously sent to another IRS employee (the response should include that employee's contact information).

To test the IRS' ability to locate and retrieve tax records, we used the IDRS to request a random sample of 1,587 tax records<sup>6</sup> that included tax returns and related information for examination determinations, Earned Income Tax Credit adjustments, and Trust Fund Recovery Penalty<sup>7</sup> assessments. For 231 requests (14.6 percent), the IRS did not provide the requested tax record or did not provide an adequate response as to the disposition of the tax record, such as whether the tax record had been destroyed or

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<sup>5</sup> The IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records. The requester uses the document locator number and the IDRS to electronically prepare a Return Charge-Out (Form 4251) to request a specific tax record. Form 4251 is printed at one of the IRS campuses and, if necessary, routed to one of the Federal Records Centers based on the coding of the document locator number.

<sup>6</sup> See Appendix I for an explanation of the sample.

<sup>7</sup> The Trust Fund Recovery Penalty is defined on page 8 of this report.



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charged out to an IRS employee. Table 1 summarizes the results of our sample.

**Table 1: Summary of Tax Records Requested**

Type of Tax Record Requested	Requests	Tax Record Requested Was Not Provided	Percentage
Individual tax returns	397	26	6.5%
Individual examinations	199	12	6.0%
Earned Income Tax Credit adjustments	210	49	23.3%
Trust Fund Recovery Penalty assessments	397	109	27.5%
Business tax returns	192	11	5.7%
Business examinations	192	24	12.5%
<b>TOTAL</b>	<b>1,587</b>	<b>231</b>	<b>14.6%</b>

*Source: Treasury Inspector General for Tax Administration (TIGTA) review of 1,587 requests for tax records.*

For 154 of the 231 requests, we received no response from the IRS as to the disposition of the records. When contacted, IRS management explained that specific requests for tax records are not tracked and they could not determine where in the process our 154 requests were lost. For 52 of the 231 requests, we received a response that the request could not be completed because it did not match information in the Files area or at the Federal Records Center. If a tax record is not found, the request is supposed to be returned with information as to whom it was last sent or why it could not be found. Nonetheless, this information was not provided. Some of our requests were for older tax records, so the tax records may have been appropriately destroyed. However, for others, we checked the taxpayer account and confirmed the document locator number was current for the tax record we requested. We could not determine why the IRS was unable to locate these records.

In addition, for 13 of the 231 requests, the response by the IRS did not include enough information for us to determine why the requests were not filled. These 13 response documents included either no information or incomplete information. Further, we received 12 responses that

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contained the wrong tax record because an IRS employee or Federal Records Center employee transposed the digits within the document locator number when attempting to locate the tax record. Table 2 shows further details for each of the types of documents we requested.

**Table 2: Exceptions Identified for Tax Records Requested**

Type of Tax Record Requested	Response Not Received	Tax Record Not Found	Incomplete Response	Provided Wrong Tax Record
Individual tax returns	24	0	1	1
Individual examinations	9	0	0	3
Earned Income Tax Credit adjustments	38	6	3	2
Trust Fund Recovery Penalty assessments	67	36	4	2
Business tax returns	6	2	2	1
Business examinations	10	8	3	3
<b>TOTAL</b>	154	52	13	12

*Source: TIGTA review of 1,587 requests for tax records.*

We also tested whether the IRS was able to retrieve tax records timely. Based on our random sample of 1,433 requests for tax records (1,587 less the 154 requests for which we did not receive a response), the average time from the date of our request to the date on which the response was received in our office was approximately 23 calendar days; however, 133 requests (9.3 percent) took over 40 calendar days to complete.<sup>8</sup> Because the IRS does not track on its computer system whether the requests were filled, we could not determine where in the process the delays occurred. Table 3 shows our summary results of the timeliness of responses for each type of tax record requested.

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<sup>8</sup> Because the IRS indicated that it did not have a time standard for the entire records ordering and retrieval process, we allowed a maximum of 40 calendar days to complete the requests including time for receipt of the request by the appropriate office, identification of the tax record, shipment of the record back to the requester, special research for destroyed tax records, and interaction with the Federal Records Centers.

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**Table 3: Timeliness of Responses for Requested Tax Records**

Type of Tax Record Requested	Responses Received	Average Calendar Days	Responses Over 40 Days After Request
Individual tax returns	373	27.2	70
Individual examinations	190	25.5	16
Earned Income Tax Credit adjustments	172	31.1	25
Trust Fund Recovery Penalty assessments	330	20.6	5
Business tax returns	186	17.3	9
Business examinations	182	17.6	8
<b>TOTAL</b>	1,433	23.4	133

*Source: TIGTA review of 1,587 requests for tax records less 154 requests that were not received.*

The ability of the IRS to timely perform its taxpayer service and tax enforcement duties is hindered by problems and delays in obtaining appropriate records. Tax records need to be available and quickly retrieved to help answer questions or support decisions. The IRS is not able to provide any tracking information related to unfilled or late requests. For requests for which no response is received, the only option for an IRS employee is to submit another request and wait for another extended period of time to determine if the request is filled.

We discussed the record retrieval process and associated problems with employees from each of the IRS divisions as well as other IRS functions which need to obtain taxpayer records. They did not retain information on how often tax records were not received or not received timely; however, they stated the inability to retrieve documents timely has caused problems in carrying out their duties.

Office of the National Taxpayer Advocate employees stated they use additional resources and extend the time to resolve taxpayer problems by making repeated requests for tax records. If not obtained, they will use additional resources in an attempt to help reconstruct the information by using computer tax account data or by obtaining the information from the taxpayer.

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Employees from the LMSB, SB/SE, and W&I Divisions stated that problems retrieving records have made it necessary to keep certain examinations open longer than necessary, which can also lead to additional interest charges if the examinations result in the assessment of additional taxes. Moreover, in some instances, decisions about whether an examination could have been limited or avoided entirely could not be made earlier in the process. Problems with retrieving records can also be detrimental to successful enforcement of the tax laws if a taxpayer appeals or litigates tax issues and the records are not available to support the Federal Government's position. Employees from the Criminal Investigation function advised us that tax records not received or delayed can hinder the timely completion of a case and cause evidentiary problems, limiting the Federal Government's ability to successfully prosecute criminal cases.

We believe the inability to accurately track the disposition of taxpayer records after they have been requested by IRS employees is a serious weakness in the records storage and retrieval process. Because of its responsibility to maintain the confidentiality of taxpayer records, the IRS must maintain full accountability for records in its possession. Moreover, to ensure employees can count on receiving records timely in performing their duties, it is incumbent upon the IRS to ensure the process of retrieving records operates efficiently. Without recording on its computer systems when requests are filled, the IRS cannot monitor the disposition of tax records or the timeliness of its processes.

### **Recommendation**

1. The Chief, AWSS, and the Commissioner, W&I Division, should ensure the quality and timeliness of the IRS Records Management Program by developing a method to track specific requests for tax records that will assign accountability, respond to customer problems, and provide management information for the Program.

Management's Response: The AWSS and W&I Division will modify an existing computer system to better track requests and provide improved service to requesters.

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### **There Is No Consistent Process to Retrieve Workpapers for Trust Fund Recovery Penalties**

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The Trust Fund Recovery Penalty is assessed against any person determined responsible in a business operation for nonpayment of employment taxes that were withheld from employees' wages or salaries. The responsible person(s) are liable for the amount of the employment taxes not paid, and their assets can be used to satisfy this liability. The IRS assessed the Trust Fund Recovery Penalty on approximately 89,000 taxpayers, for a total of approximately \$1.1 billion in Fiscal Year 2003.

The tax record for the assessment of the Trust Fund Recovery Penalty is recorded on the taxpayer's account and assigned a document locator number as previously discussed. However, the tax record for the workpapers for a Trust Fund Recovery Penalty assessment, which contain the documentation to support the IRS' decision and basis for the amount assessed against the taxpayer, is not given a document locator number; these workpapers are stored and retrieved at local field offices by SB/SE Division personnel. The workpapers should be maintained for a period of 12 years and can be sent to Federal Records Centers for long-term storage.

We reviewed the retrieval process for these types of records because IRS employees advised us that they were particularly difficult to obtain—the process to obtain this type of record varies significantly depending on the location in which it is stored. Based on our review of the process for retrieving these records, we agree that they are difficult to obtain. Moreover, some of the records we requested were not provided by the IRS.

To determine the IRS process for requesting the workpapers for Trust Fund Recovery Penalty assessments, we researched the Internal Revenue Manual (IRM).<sup>9</sup> However, the IRM did not contain instructions for requesting this type of record. We contacted SB/SE Division personnel at 19 local field offices to determine and evaluate the procedures they were using for requesting the workpapers for Trust Fund Recovery Penalty assessments. We were advised they did not have national procedures for requesting these workpapers. We identified varying, sometimes

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<sup>9</sup> National procedures for IRS operations.

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conflicting, methods for determining which office to contact when submitting a request and how to make the request.

We determined that a request for Trust Fund Recovery Penalty assessment workpapers should be sent to the office in which the assessment was made. However, we were told of different methods used to identify this office, such as using the coding from the business' Employer Identification Number, the assessment's document locator number, information on the Integrated Collection System,<sup>10</sup> and two sources of information on the IDRS. We realized later, when attempting to request workpapers, that these methods could produce conflicting results regarding the office to contact. Employees in other offices we contacted stated they did not know or we should contact the nearest Technical Services office for help. Most locations did not require a request form to be submitted, but a few required Records Request, Charge and Recharge (Form 2275), and one had a specific form it had developed. The offices accepted requests by mail, email, and fax; however, some offices would accept a request using only one of these three methods.

Since the IRS reorganized its structure into business units and is no longer aligned geographically, requests for workpapers can originate from any place in the nation. Without local knowledge and formal procedures for requesting workpapers for Trust Fund Recovery Penalty assessments, it is difficult for IRS employees to obtain these records when needed to perform their duties.

We obtained a Master File<sup>11</sup> computer extract for taxpayer accounts with any tax year that had a Trust Fund Recovery Penalty assessment and selected a random sample of 199 assessments.<sup>12</sup> These 199 sample assessments were made between April 1987 and March 2004. From various discussions with local field offices, we identified the most

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<sup>10</sup> The Integrated Collection System is a computer inventory system used by the Collection function. Cases worked by revenue officers are controlled on the system, and case actions are documented electronically.

<sup>11</sup> The IRS database that stores various types of taxpayer account information.

<sup>12</sup> See Appendix I for an explanation of the sample.

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likely locations of the workpapers. We then used each local field office’s method to request the workpapers. We allowed 3 months from the date of our requests to determine whether the IRS could provide the records. After 3 months, we had received 141 responses.

The average time to receive these 141 responses was approximately 24 calendar days; 28 responses (19.9 percent) were received in excess of 40 calendar days. Table 4 provides details about the responses to our requests.

**Table 4: Responses to Requests for Trust Fund Recovery Penalty Assessment Workpapers**

IRS Response to Request for Trust Fund Recovery Penalty Assessment Workpapers	Number of Responses
Workpapers received	119
Response stated that workpapers had been destroyed	7
Response stated that workpapers could not be found	12
Response was not clear—the IRS indicated after further contact by telephone that the workpapers were at another location	3
<b>TOTAL</b>	<b>141</b>

*Source: TIGTA review of 199 requests for workpapers for Trust Fund Recovery Penalty assessments.*

We did not receive a response for 58 (29.1 percent) of our 199 requests. We followed up with the local field offices to determine why requests were not completed. Table 5 presents the reasons that the IRS offices did not respond to our requests for these records.

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**Table 5: Reasons Provided by the IRS for Not Responding to Requests for Trust Fund Recovery Penalty Assessment Workpapers**

Reason Request Not Completed	Number of Requests
Staffing not available or other work priorities	27
Indicated request was completed but could not confirm when and where the tax records were sent	12
Could not find tax records in the local office or at the Federal Records Center	10
Still in the process of locating tax records	5
Tax record had been destroyed	2
Previously sent to an IRS employee before our request	2
<b>TOTAL</b>	<b>58</b>

*Source: TIGTA review of 199 requests for workpapers for Trust Fund Recovery Penalty assessments.*

If a taxpayer questions, appeals, or otherwise challenges the assessment of the Trust Fund Recovery Penalty, it is critical for the IRS to be able to locate and timely retrieve the related workpapers. Employees from the Office of the National Taxpayer Advocate indicated that problems obtaining the workpapers for Trust Fund Recovery Penalty assessments caused the IRS to use additional resources in an attempt to reconstruct the workpapers. This delay in resolving a taxpayer's problem can also lead to the Federal Government abating the penalty if the information cannot be reconstructed. A considerable amount of time on the part of IRS employees is used to document the basis for the penalties assessed. Loss of this work due to inadequate storage and retrieval procedures is a waste of Federal Government resources.

### Recommendations

2. The Chief, AWSS, and the Commissioner, SB/SE Division, should update procedures to include instructions for requesting workpapers for Trust Fund Recovery Penalty assessments. This should include guidance for determining to which local field office a request should be sent.



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Management's Response: The SB/SE Division is finalizing procedures that address the retrieval of workpapers for Trust Fund Recovery Penalty assessments and will remind employees that workpapers should be filed in the office where the penalty was assessed. Additionally, the AWSS developed online training and interactive process guides that will be available to SB/SE Division employees.

3. The Chief, AWSS, and the Commissioner, SB/SE Division, should ensure the quality and timeliness of the IRS Records Management Program by developing a method to track specific requests for workpapers for Trust Fund Recovery Penalty assessments that will assign accountability, respond to customer problems, and provide management information for the Program.

Management's Response: The SB/SE Division will attempt to modify an existing computer system that automates the document retirement process of workpapers for Trust Fund Recovery Penalty assessments. If the SB/SE Division is unable to modify the existing computer system, it will work with the AWSS to identify other alternatives.

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### Appendix I

#### Detailed Objective, Scope, and Methodology

The overall objective of this review was to determine whether the Internal Revenue Service (IRS) has an adequate system to ensure tax records can be located and retrieved timely. To accomplish our objective, we:

- I. Determined if the IRS has developed policies and guidelines to ensure compliance with Federal Government rules and regulations regarding tax records retrieval by reviewing various laws, executive orders and directives, and the IRS Internal Revenue Manual, and conducting discussions with the Servicewide Records Coordinator and selected records managers, service center records coordinators, and information resource coordinators.
- II. Determined if the IRS has an effective process for retrieval of tax records by reviewing the Integrated Data Retrieval System (IDRS).<sup>1</sup>
- III. Discussed customer satisfaction with various IRS divisions and functions that routinely request tax records to determine if they have experienced problems retrieving tax records and if these problems adversely affected their operations. We also determined if they kept information on the number or percentage of tax records not received or not received timely. Our interviews included employees within the Large and Mid-Size Business Division, Small Business/Self-Employed Division, Wage and Investment Division, Criminal Investigation function, Office of the National Taxpayer Advocate, and Office of Appeals.
- IV. Determined if tax records can be readily located and retrieved timely by requesting a random sample of 1,587 tax records for taxpayer accounts involving individual examinations, business examinations, Earned Income Tax Credit adjustments, or Trust Fund Recovery Penalty<sup>2</sup> assessments. These categories were selected based on discussions with IRS division and functional employees.
  - A. Obtained Master File<sup>3</sup> computer extracts for Tax Year 2001 taxpayer accounts with an individual examination (198,632 taxpayer accounts), business examination (4,317 taxpayer accounts), Earned Income Tax Credit adjustment (461,771 taxpayer accounts), or Trust Fund Recovery Penalty assessment (49,270 taxpayer accounts). To include more recent and older tax records in our test, we obtained a Master File

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<sup>1</sup> The IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

<sup>2</sup> The Trust Fund Recovery Penalty is assessed against any person determined responsible in a business operation for nonpayment of employment taxes that were withheld from employees' wages or salaries. The responsible person(s) are liable for the amount of the employment taxes not paid, and their assets can be used to satisfy this liability.

<sup>3</sup> The IRS database that stores various types of taxpayer account information. This database includes individual, business, and employee plans and exempt organizations data.

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computer extract for taxpayer accounts with any tax year that had a Trust Fund Recovery Penalty assessment (382,346 taxpayer accounts).

- B. We selected random samples of taxpayer accounts from each of the individual examination, business examination, Earned Income Tax Credit adjustment, and Trust Fund Recovery Penalty assessment categories and requested the 1,587 tax records for tax returns and related information for the examinations, adjustments, and assessments using the IDRS and the document locator numbers. We determined the time from request to receipt of response and followed up with IRS employees regarding why some responses were not provided. Random samples were taken to ensure each item had an equal chance of being selected.

Type of Tax Record Requested	Tax Records Requested
Individual tax returns <sup>4</sup>	397
Individual examinations	199
Earned Income Tax Credit adjustments <sup>5</sup>	210
Trust Fund Recovery Penalty assessments <sup>6</sup>	397
Business tax returns	192
Business examinations	192
<b>TOTAL</b>	<b>1,587</b>

- V. Determined if tax records can be readily located and retrieved timely by requesting a random sample of workpapers for cases on which the Trust Fund Recovery Penalty had been assessed. This type of tax record was selected based on discussions with IRS division and functional employees.
- A. Obtained a Master File computer extract for taxpayer accounts with any tax year that had a Trust Fund Recovery Penalty assessment (382,346 taxpayer accounts) and selected a random sample of 199 taxpayer accounts.

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<sup>4</sup> Includes the requests for tax returns involving taxpayer accounts that had an individual examination or an Earned Income Tax Credit adjustment.

<sup>5</sup> Includes an additional 12 requests for tax records on which the original Earned Income Tax Credit adjustment may have been given a reassigned (i.e., different) document locator number.

<sup>6</sup> Includes the requests for tax records involving taxpayer accounts from the computer extract for Tax Year 2001 and the computer extract for any tax year.

**Better Procedures Are Needed to Locate,  
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- B. Identified the procedure to follow and requested the workpapers associated with the random sample of 199 Trust Fund Recovery Penalty assessments. We determined the time from request to receipt of response and followed up with IRS employees regarding why some responses were not provided.

**Better Procedures Are Needed to Locate,  
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**Appendix II**

**Major Contributors to This Report**

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**Better Procedures Are Needed to Locate,  
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**Appendix III**

**Report Distribution List**

Commissioner C  
Office of the Commissioner – Attn: Chief of Staff C  
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Director, Customer Account Services, Small Business/Self-Employed Division SE:S:CAS  
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    Director, Customer Account Services, Small Business/Self-Employed Division  
    SE:S:CAS  
    Director, Customer Account Services, Wage and Investment Division SE:W:CAS  
    Director, Real Estate and Facilities Management OS:A:RE

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Appendix IV

Management's Response to the Draft Report



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

RECEIVED  
SEP 23 2004

September 23, 2004

MEMORANDUM FOR ACTING DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM:

*For*   
Norris L. Walker  
Acting Director, Real Estate and Facilities Management

SUBJECT:

Draft Audit Report, Better Procedures are Needed to Locate,  
Retrieve, and Control Tax Records (Audit #200310008)

I have reviewed the draft report, and our response to your recommendations is attached. The report concludes that tax records requested by the Treasury Inspector General for Tax Administration (TIGTA) during the audit could not be located or were not retrieved timely. We agree that any IRS records as well as those referenced in the report need to be retrieved in a timely manner to fulfill mission critical tax administration needs. As such we are committed to servicing record requests expeditiously and providing records management policy and program guidance.

AWSS maintains a Service-wide stewardship role in managing tax return and associated documentation via delegated Commissioner Authority to direct all aspects of records management activities. Our records management program is involved in scheduling records, accessioning records to Federal Records Centers (FRCs), and approving disposals. AWSS staff assists Wage & Investment (W&I) Division personnel in scheduling new series (e.g., forms) implementation, training, and liaison with the National Archives and Records Administration (NARA). However, under an operational agreement with AWSS, W&I, Files Activities, located in each Submission Processing Campus, maintains day-to-day management and control of all tax return requesting, refiling, and interfiling, including special projects (e.g., Under Reporter and Collection Statute Expiration Date).

W&I continuously seeks to improve their records program and they have either implemented or are improving their processes as follows:

- The application/program on the Integrated Data Retrieval System (IDRS) that is used to request tax returns and associated records now includes the requester's mailing address, which speeds the process of routing and delivery of records to the requester.
- Campus Space Utilization Team (CSUT) will create a longer retention period for tax records at the IRS Campuses by removing existing Forms 709 (Gift Tax Returns) to one centralized location, thus, freeing up space in campus files. As a result, more return requests will be filled quicker. Routinely, requests forwarded

## Better Procedures Are Needed to Locate, Retrieve, and Control Tax Records

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to the Federal Record Centers (FRCs) take longer than those requests filled at the Campus.

- Tax records for the Ogden and Atlanta Campuses will each be consolidated into one NARA facility, eliminating the need for sending requests for returns to multiple locations. Ogden records will be stored in Lenexa, KS, and Atlanta records will be stored in Ellenwood, GA.
- Procedures are being implemented to streamline routing processes for records requested by the Examination function, which will result in increased timeliness of providing requested records.
- Plans are underway to transition the IDRS command code used to request documents to a web-based application, which will incorporate a tracking feature and provide information to the requester on when documents have been located and the date records are sent and received by the requester.

Based on resource availability and program priority requirements, W&I and AWSS will jointly conduct annual Program Reviews with the first sites designated in middle to late FY2005. These reviews are necessary, as a combination of insufficient resources to transmit requests, route requests from FRCs back to requestors, or other process problems may be the root cause of records administration difficulties. Detailed reviews would reveal the nature of those difficulties and solutions to resolve them.

While TIGTA recommends more procedural and tracking controls for Trust Fund Recovery Penalty (TFRP) cases, there are extensive procedures for retrieving these cases in Internal Revenue Manual (IRM) 1.15.4, Retiring and Requesting Records. Our experience suggests that inability to locate required case files oftentimes occurs when local offices do not implement the IRM when accessioning records to FRCs. To alleviate this concern, the Acting Director, Real Estate and Facilities Management will provide additional guidance to re-direct all non-tax related records accessioning and requests through AWSS Area Records Managers (ARMs). This will result in improved comprehensiveness of box contents listings in the accessioning process and the expeditious routing (and subsequent tracking) of all requests through ARMs. ARMs now monitor the entire process of retirement and requesting these types of records. Further, they act as local liaisons with FRCs for the approval authority of special searches by FRC staff to resolve legacy problems (i.e., previous failure to develop good box listings of accession contents, etc.).

If you have any questions, please contact me at (202) 283-9400, or call Daniel Bennett, Records Management Officer, AWSS at (202) 283-9359. For matters concerning audit follow-up call Greg Rehak at (202) 622-3702.

Attachment

cc: Commissioner, Wage and Investment Division  
Commissioner, Small Business and Self Employed Division



**Better Procedures Are Needed to Locate,  
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**ATTACHMENT**

**RECOMMENDATION 1**

The Chief, Agency-Wide Shared Services and the Commissioner, Wage and Investment Division should ensure quality and timeliness of the IRS Records Management Program by developing a method to track specific requests for tax records that will assign accountability, respond to customer problems, and provide management information for the program.

**CORRECTIVE ACTION**

While we agree that the recommendation has merits, we do not believe it would be beneficial to develop and implement a new system to track specific requests for tax records. We will instead modify an existing system by adding a tracking feature, which will allow us to better track requests and provide improved service to requesters. Modifications are in the early stages of consideration and development, and no definitive timeframes have been established.

**IMPLEMENTATION DATE**

N/A

**RESPONSIBLE OFFICIALS**

N/A

**IMPLEMENTATION MONITORING PLAN**

N/A

## **Better Procedures Are Needed to Locate, Retrieve, and Control Tax Records**

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### **RECOMMENDATION 2**

The Chief, Agency-Wide Shared Services and the Commissioner, Small Business/Self-Employed Division should update their procedures to include instructions for requesting working papers for Trust Fund Recovery Penalties. This should include guidance for determining which local field office to send requests.

### **CORRECTIVE ACTION**

Currently, SB/SE Compliance Field Operations and Compliance Policy are finalizing procedures for Technical Services Control Point Monitoring (CPM) employees. The suggested guidelines specifically address the retrieval of closed TFRP files from the FRC. Additionally, the procedures will reference IRM 1.15.4, *Retiring and Requesting Records*.

Since TFRP records are maintained by the CPM for two years after the assessment year, requests during that period of time would be directed to the CPM. Thereafter, they will direct all requests to the local ARM as appropriate. CPM technicians are listed on SERP under the category (Who/Where). We will also remind employees that the work papers will be filed in the office where the penalty was assessed.

Final procedures will be disseminated via an Interim Guidance Directive and subsequently included in the next IRM 5.7.6.3 revision.

Additionally, AWSS developed on-line training for Information Resource Coordinators (IRCs); CPMs are authorized and will be encouraged to take this training. Also, AWSS has developed electronic interactive records management process guides for use by all IRS employees. URLs will be shared with SB/SE to facilitate direct pointers to this training and guidance, which can be posted onto their internal website for quick and direct access.

AWSS will work with the MITS Web Master to develop a direct link on Employee Tools/Services on the IRweb to the Records Management Website. This link is necessary as record searches within the IRweb fail to clearly identify REFM as the definitive source for records management program administration, and will allow employees to more easily locate them.

### **IMPLEMENTATION DATE**

April 15, 2005 – Interim Guidance Directive will be issued and AWSS will provide URLs to the SB/SE Web Master.

September 15, 2005 – IRM will be updated and AWSS will work with MITS Web Master.

**Better Procedures Are Needed to Locate,  
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**RESPONSIBLE OFFICIALS**

Director, Payment Compliance, Small Business/Self-Employed Division  
Acting Director, Real Estate and Facilities Management, Agency-Wide Shared Services

**IMPLEMENTATION MONITORING PLAN**

The Program Manager, Technical and Insolvency, will advise the Director, Payment Compliance of any delays, who will then advise the Acting Director, Real Estate and Facilities Management, AWSS. The Acting Director, Real Estate and Facilities Management will apprise both of the status of the Website initiatives.

## **Better Procedures Are Needed to Locate, Retrieve, and Control Tax Records**

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### **RECOMMENDATION 3**

The Chief, Agency-Wide Shared Services and the Commissioner, Small Business/Self-Employed Division should ensure quality and timeliness of the IRS Records Management Program by developing a method to track specific requests for working papers for Trust Fund Recovery Penalties that will assign accountability, respond to customer problems, and provide management information for the program.

### **CORRECTIVE ACTION**

SB/SE, Case Processing (as part of their Campus Centralization effort) has received approval from MITS to use the "JUNIOR" database system as a National Standard Application (NSA). JUNIOR is a document retirement and retrieval system that automates the document retirement process. The Technical Services Redesign Team is evaluating JUNIOR for filing and retrieving TFRP records. Case Processing has indicated that JUNIOR could be modified with minimal effort or cost. If implemented, it may be possible for Technical Services to also implement these procedures. At this point, however, any such proposal is still under consideration by the principal functions and would be contingent upon obtaining all requisite approvals.

If SB/SE is unable to implement the JUNIOR document retirement and retrieval system, they will work with AWSS to identify other alternatives and use existing procedures as noted in the above memorandum.

### **IMPLEMENTATION DATE**

September 15, 2005

### **RESPONSIBLE OFFICIALS**

Director, Payment Compliance and the Director, Case Processing, Small Business/Self-Employed Division  
Acting Director Real Estate and Facilities Management, Agency-Wide Shared Services

### **CORRECTIVE ACTION MONITORING PLAN**

The Program Manager, Technical and Insolvency will advise the Director, Payment Compliance and Director, Case Processing of any delays, who will then advise the Acting Director, Real Estate and Facilities Management.