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General Accounting Office

Information On IRS Service Centers In Austin, Texas And Fresno, California

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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

GENERAL GOVERNMENT
DIVISION

September 30, 1985

B-220738

The Honorable J.J. Pickle
Chairman, Subcommittee on
Oversight
Committee on Ways and Means
House of Representatives

Dear Mr. Chairman:

This document responds to your May 23, 1985, request that GAO undertake a comprehensive investigation of the ten Internal Revenue Service (IRS) service centers. You asked that we focus initially on the Austin, Texas and the Fresno, California Service Centers and provide you with information on these two centers by June 28, 1985. After we briefed you on June 24, 1985, your office requested that we provide you a written summary of our work at Austin and Fresno by the end of September.

We structured this document along the lines of your request, which called for a review of all service center functions and asked for information on problems occurring (or likely to occur) in the service centers, the extent of those problems, and their causes. In that regard, the first section of the document gives an overview of the problems encountered by the two service centers during the 1985 returns processing year and some causes of those problems. The second section describes the various service center computer systems and how the systems relate to the processing of tax returns. The third section describes, by service center function, some specific problems encountered in 1985. The fourth and last section discusses allegations that taxpayer correspondence was inappropriately destroyed at both Fresno and Austin.

We obtained information contained in this document by interviewing service center officials, reviewing returns processing procedures, and examining various IRS correspondence relating to the topics discussed in this document. Officials from IRS' national office and from the Austin and Fresno Service Centers reviewed a draft of this document. We considered their comments in preparing our final product. Because of the time available to respond to your request, we were not able to do as

much analysis as we believe is necessary to completely identify the problems that may have been encountered, the causes of those problems, and the solutions needed to correct the problems before the 1986 processing year.

GAO is doing other work for the Subcommittee, however, which should help us address those issues. For example, we are reviewing the activities of the other eight service centers, evaluating IRS' acquisition of its new service center computers, and assessing the adequacy of IRS' computer capacity.

As agreed with your office, we are providing copies of this document to IRS. Also, as agreed with your office, after you have distributed this document to the Subcommittee members, we will deliver copies to Congressman Matsui, who has asked us for information about the Fresno Service Center. Unless you publicly announce its contents earlier, we plan no further distribution until 30 days from the date of the document. At that time, we will send copies to interested parties and make copies available to others upon request.

Sincerely yours,

Johnny C. Finch
Senior Associate Director

PROBLEMS ENCOUNTERED BY THE AUSTIN AND FRESNO SERVICE CENTERS DURING 1985

In response to a May 23, 1985, request from the Chairman, Subcommittee on Oversight, House Committee on Ways and Means, we reviewed the problems experienced by the Austin and Fresno Service Centers during 1985. Our review was based on discussions with officials at both service centers on problems the centers had this year and the causes of those problems. We also reviewed appropriate Internal Revenue Service (IRS) returns processing procedures and related reports and correspondence. Because of time limitations, we were not able to do as much analysis as we believe is necessary to completely document the causes of the problems cited by service center officials. For example, we did not obtain and analyze data from the National Office that might better explain why some problems occurred and the significance of those problems. Also, we did not attempt to determine why there were differences in some of the problems each center experienced.

OVERVIEW OF SERVICE CENTER PROBLEMS

Both the Austin and Fresno Service Centers experienced problems which hampered their ability to effectively and efficiently manage and control their workloads during the first several months of 1985. The problems dealt with (1) insufficient capacity of the newly introduced Sperry Univac 1100 series computer system; (2) inefficient computer software for the Univac computer; (3) unfamiliarity on the part of service center employees with the Univac computer and its newly introduced associated input systems--the Distributed Input System (DIS), Error Resolution System (ERS), and Generalized Unpostable Framework (GUF); and (4) insufficient staff and equipment. As a result, the service centers had difficulty processing tax returns timely, controlling the flow of tax returns as they moved through the processing stages, and keeping non-return processing case inventories at a manageable level.

Officials at both service centers said that most of the computer capacity and software problems have been resolved by the National Office. Both Austin and Fresno are scheduled to receive additional computer capacity in time for the 1986 returns processing season. The National Office has been rewriting computer programs to make them more efficient. As of August 30, 1985, both service centers still had large taxpayer correspondence and unpostable inventories. Service center officials said they are making every effort to reduce these inventories to manageable levels prior to the 1986 returns processing season.

Computer capacity and software problems

Both the Fresno and Austin Service Centers were given a Sperry Univac 1100/84 and 1100/82 computer to process their workload. The Univac 1100/84 was operational in October 1984 at both service centers and the Univac 1100/82 in January 1985. However, the Univac 1100/82 could not be used efficiently until March when the service centers received additional tape drives to provide more flexibility in running the computer programs. Service center officials said the Univac 1100/84, by itself, did not have sufficient capacity to process all of the service centers' workloads in a timely manner.

Coupled with a shortage of computer capacity, the service centers experienced problems with computer programs that were newly converted to run on the Univac system. According to service center officials, many of the programs were inefficient and took longer to run than they should have. For example, many of the programs did not contain adequate checkpoints, which are used to restart a program at the point it fails instead of rerunning the program from the beginning. When programs are rerun, they reuse capacity. This capacity is then not available to process other workloads.

The combination of insufficient computer capacity and inefficient computer programs increased the time it took the service centers to process their workloads and to update their computer files. And, the longer it took to run the computer programs and update the computer files the less time the computer was available to handle other types of work, such as resolving taxpayer inquiries. This in turn increased the inventory levels in those service center functions that needed to use the computer in order to work their caseloads.

For example, each weekend the service centers update their data bases with information received from the National Computer Center (NCC). The service centers' data bases consist of files on active or potentially active taxpayer accounts, such as correspondence, collection, and examination cases. Because it took longer than the weekend to update the data bases, all the computer files were not always available full-time on Mondays to work the cases that required use of the files. For example, during the first 19 weeks of the processing season, Fresno and Austin were unable to complete their weekend updates by Monday on 13 and 4 occasions respectively. Also, for the first 5 months of the processing year, inventories in the Adjustments/Correspondence Branch grew from 98,841 cases to 143,052 cases in Austin and from 138,729 cases to 145,922 cases in Fresno.

The computer capacity and programming problems, which resulted in returns processing delays, also affected control over the physical movement of returns from one processing stage to the next. For example, computer generated listings that control the

movement of tax returns from the error correction unit, which is the final returns processing stage, to the files section were often produced late. Without the control listings, the service centers could not readily determine which returns had completed processing through the error correction unit. As a result, some returns were inadvertently stored in the files section even though they had not gone through the error correction process. Also, some computer generated documents, which are used to resolve conditions that cause returns to back up in the returns processing pipeline, were issued late and lacked sufficient information. For example, computer generated registers that are used to resolve balancing differences between the service center control file and the tax return data that has been entered into the computer were often late. As a result, returns backed up in this processing stage and, as the backlogs grew, some returns were inadvertently moved to other areas of the service center. Also, it was difficult to correct the problems with the returns once they were located because the registers did not contain sufficient information to readily resolve the problems.

Computer processing problems also prevented other service center functions from doing their work efficiently and effectively. For example, inadequate computer listings prevented the Criminal Investigation Branches from ensuring that certain questionable refunds were not issued to taxpayers. Also, computer generated quality assurance reports, which show managers the types of errors being made by their employees and the error rates, were not produced timely. Without these reports, managers could not readily isolate problem areas so that corrective action could be taken.

Problems with the computer's associated input systems

The service centers experienced management and control problems with the computer's associated input systems. These problems were due to a lack of familiarity with the systems and with system design constraints.

Service center officials said, for example, that DIS training for operators was not adequate, which resulted in the operators making errors and creating additional work for other service center functions. For example, operators were attempting to release payment data they had entered onto DIS before the computer was ready to accept the data. This resulted in payment data not being processed and payments not posting to taxpayer accounts. Additional work had to be done and manual controls established in order to get these payments into the computer and posted to the taxpayer accounts and to balance the service center accounting records. Other DIS problems occurred because there was little key verification done on the data that the operators entered into the computer system. For example, no key verification was done on the document locator numbers assigned to

returns being processed through DIS. When the operators transcribed these numbers incorrectly, additional time and resources had to be spent correcting the problem and ensuring that the returns were processed and balanced with the service center control files.

Service center officials said that ERS training was inadequate and that the system's design caused some management and control problems. Because training materials were incomplete and received late, employees did not have time to be fully trained before they had to begin correcting actual tax returns. In addition, ERS was not designed to allow for an effective quality review of employees' work so that errors made by employees could be readily brought to their attention and corrective action taken. Another ERS design characteristic posed problems in managing and controlling the ERS workload. A limited ERS file capacity resulted in cases not being available for correction when the ERS inventory exceeded capacity. Manual controls had to be established to ensure that those cases that could not be corrected when the file capacity was exceeded were processed before new cases entered the ERS inventory.

Resource problems

In addition to the unavailability of computer time to process the service centers' workloads, both Austin and Fresno experienced other resource problems, namely: insufficient staff and equipment to do their work. For example, the Examination Branch at Fresno did not have enough staff to work audit referrals that it received from California under the State Cooperative Program. Under this program, the Examination Branch compares state audit reports with taxpayers' federal tax returns and assesses the taxpayers any applicable deficiencies. Curtailment of this program resulted in an estimated federal tax revenue loss of about $10.7 million. Also, the Criminal Investigation Branches at both service centers did not have enough staff to timely screen tax returns for potentially abusive tax shelters and forward the cases to the district offices for investigation.

Various functions in the service centers did not have enough computer terminals to do their work. For example, the Underreporter Branches in both centers had problems managing their workloads during the processing season because of insufficient computer terminals to research cases and make assessments.

SERVICE CENTER COMPUTER SYSTEMS

Because most of the problems experienced by the Austin and Fresno Service Centers related to the new Univac computer system and its associated input systems, we are providing herein a brief description of those systems and how they relate to the processing of tax returns.

The following charts show (1) how the various computer input systems relate to the Univac computer and (2) how tax returns flow through the various return processing steps and how the Univac computer and the input systems relate to that flow.

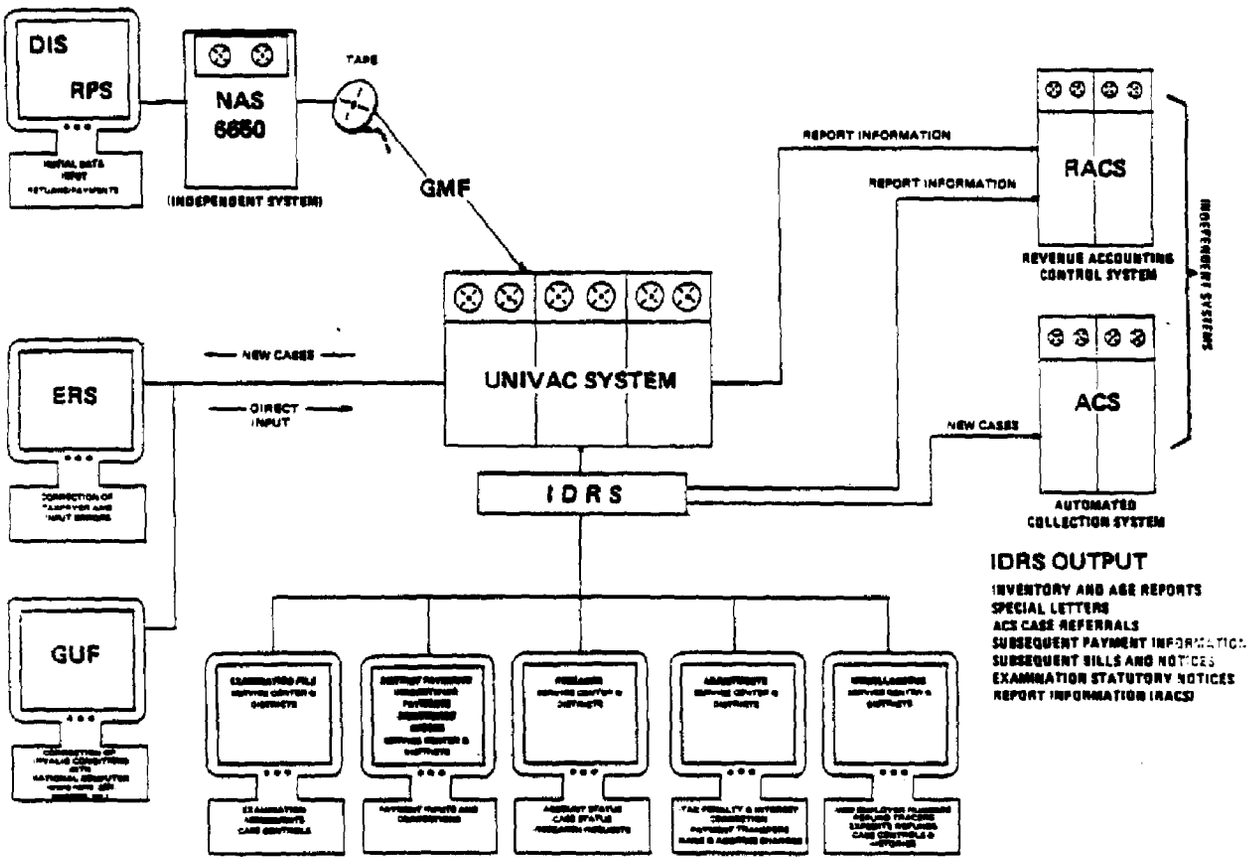
UNIVAC COMPUTER SYSTEM

Both Austin and Fresno have two Univac computers--a Univac 1100/84 and an 1100/82. The 1100/84 is a more powerful computer system than the 1100/82. The 1100/84 has four central processing units, compared to the Univac 1100/82 which has two central processing units, and is twice as fast as the 1100/82. The 1100/84 can process 8.4 million instructions per second versus 4.5 million for the 1100/82.

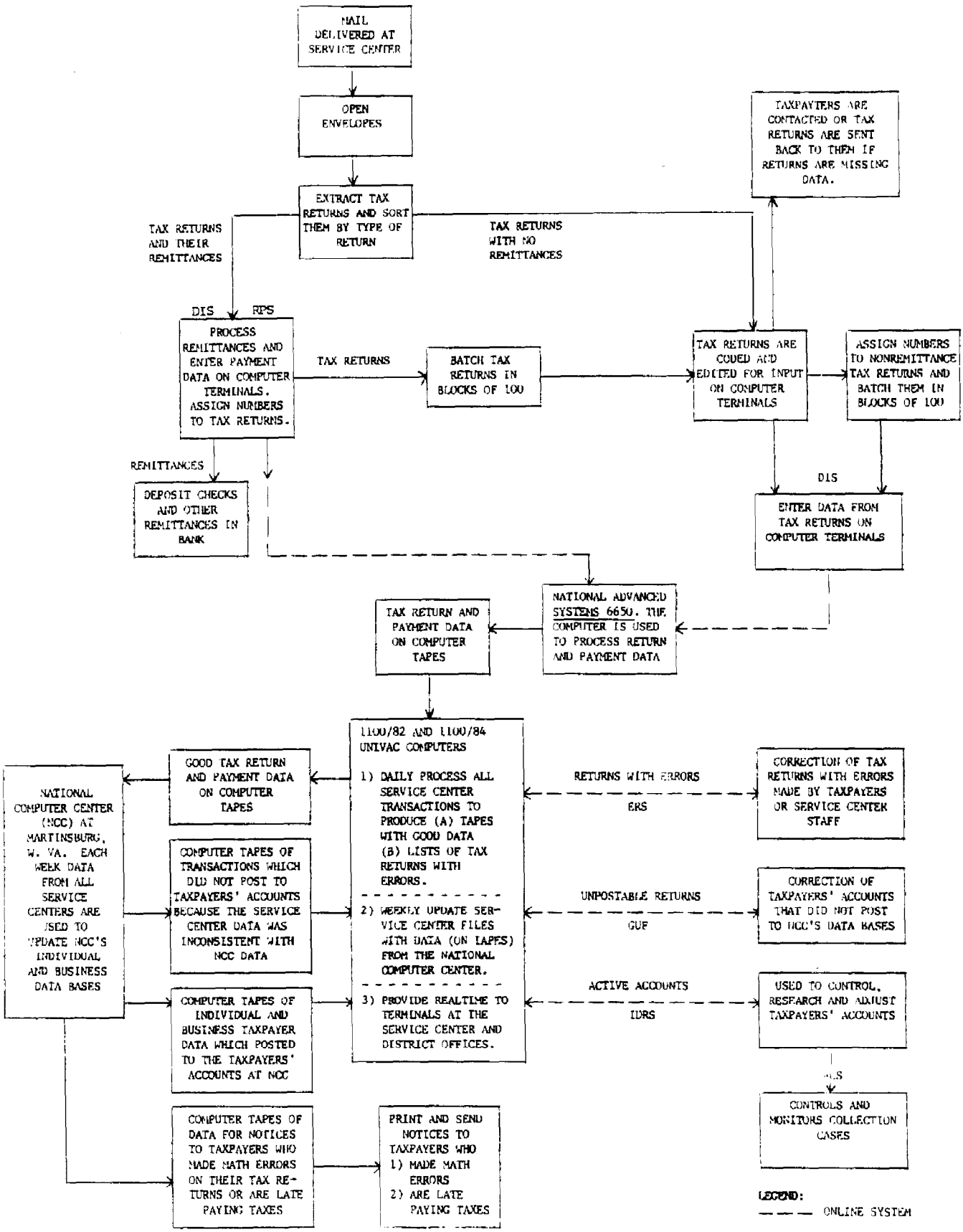
The Univac 1100/84 computer is used Monday through Friday to process the realtime data that is input from (1) the Integrated Data Retrieval System (IDRS), which handles active taxpayer accounts, such as collection and examination cases, and taxpayers' inquiries on these accounts; (2) ERS, which is used by tax examiners to correct errors found on tax returns during returns processing; and (3) GUF, which is used by tax examiners to correct conditions which prevent service center processed data from posting to the taxpayer accounts at NCC. The Univac 1100/84 is also used on weekends to update the service center's files on individual taxpayers. These updates consist primarily of adding and deleting taxpayer account information on IDRS.

The Univac 1100/82 computer is used on weekdays to process the Generalized Mainline Framework (GMF) string of computer runs. The GMF runs are the computer programs used to process the payment and tax return data that is entered through DIS and the transactions that are entered daily on IDRS, ERS, and GUF. The transactions that pass successfully through the GMF string of runs are forwarded daily to NCC for posting to the master files. The Univac 1100/82 is used on weekends to update the IDRS files on business taxpayers.

COMPUTER SYSTEMS



SERVICE CENTER RETURNS PROCESSING SYSTEM



DISTRIBUTED INPUT SYSTEM

DIS is used to enter payment and tax return data into the Univac computer. DIS consists of a series of video display terminals that are connected to a mini-computer or "node." Fresno has 21 nodes with 24 terminals connected to each one. The nodes are connected to a master node, which is a National Advance System (NAS) 6650 computer. NAS processes and formats the data from DIS so that the data can be processed by the Univac computer. The output from NAS are computer tapes, which are input to the GMF processing on the Univac Computer.

ERROR RESOLUTION SYSTEM

ERS is the on-line error correction system. It is used to correct errors made while processing the tax returns and errors made by taxpayers. The errors are detected by the Univac computer when it processes the DIS input tapes and subjects them to various math and validity checks. ERS is used only for correcting errors made on the Forms 1040 and 941 series of returns. All other types of tax returns are corrected off-line using computer generated error registers and the corrections are batch processed through DIS. Under ERS, the error register appears on the ERS terminal video display screen and tax examiners input the corrections on the terminal. The output from ERS is put on a magnetic computer tape and run as part of the GMF computer runs.

GENERALIZED UNPOSTABLE FRAMEWORK

GUF is the realtime computer system used to correct the conditions that prevent service center processed transactions from posting to the taxpayer accounts at NCC. Each week, the service center receives from NCC a tape of transactions that did not post to the master file. Most unpostable conditions relate to problems with taxpayers' names, social security numbers, or employer identification numbers, which cause a mismatch between the service center's records and NCC's records. To correct an unpostable condition, tax examiners often must first research the taxpayer's account on IDRS and examine the source document. Corrections are entered through the GUF terminals and are processed by the Univac computer as part of the GMF string of computer runs.

INTEGRATED DATA RETRIEVAL SYSTEM

IDRS is a realtime system that contains information on active taxpayer accounts. It is used to research accounts in response to taxpayer inquiries, enter adjustments to taxpayer accounts, and generate notices and letters to taxpayers. Adjustments made to taxpayer accounts on IDRS are processed daily through the GMF string of runs and are forwarded to NCC for posting to the master file. Taxpayers accounts are deleted from IDRS after the adjustments post to the master file and NCC

forwards the posting tape to the service center. The deletions occur during the weekend updates of the IDRS files.

REVENUE ACCOUNTING CONTROL SYSTEM

RACS is a minicomputer-based system designed to assume the manual balancing, posting, and reporting processes performed in service centers. Its data base consists of the service center's General Ledger File and subsidiary files used in balancing and reporting transactions. The General Ledger File records each accounting transaction as a debit or credit to the proper general ledger account. The transactions are also recorded in one or more of the subsidiary files. Transactions are posted to the RACS file daily through the GMF string of runs and updated weekly from tapes received from NCC.

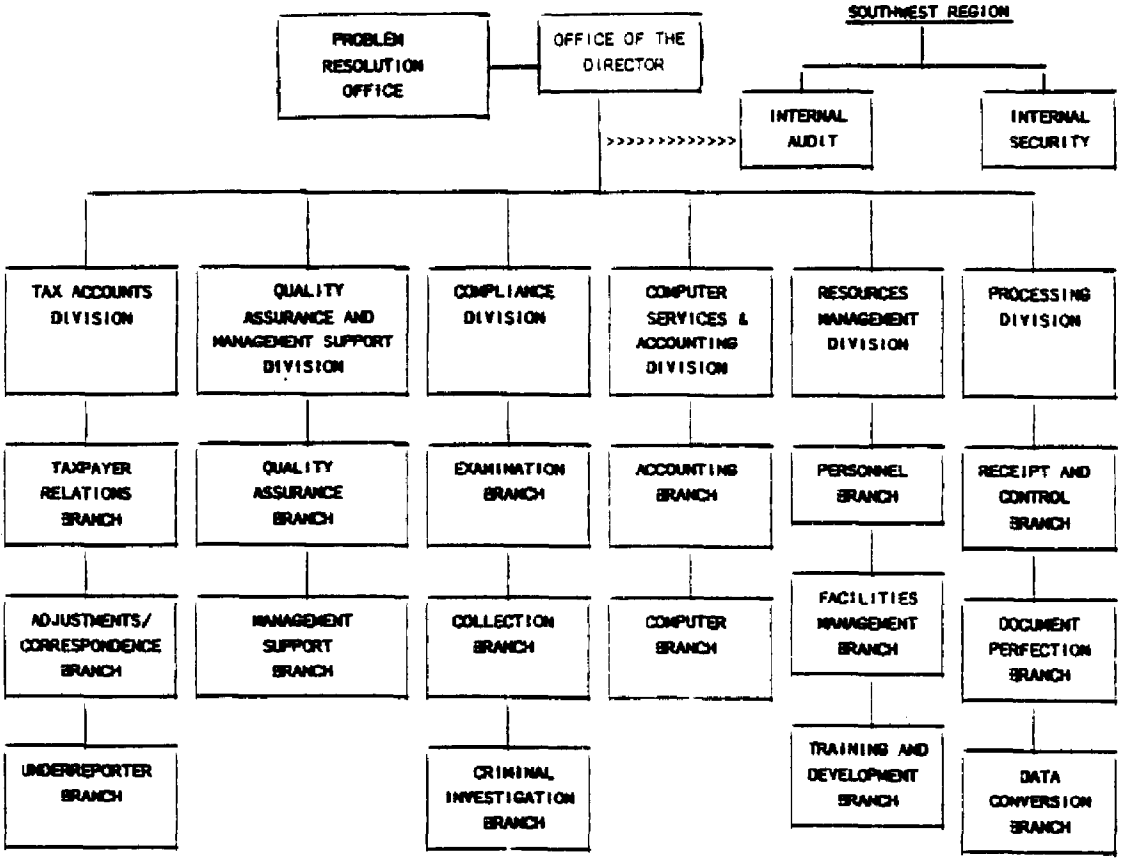
AUTOMATED COLLECTION SYSTEM

ACS is a computerized telephone tax collection system designed to provide efficient case inventory management and to improve collection efforts through the automated scheduling of taxpayer cases for review via computer terminals. Each service center handles the collection inventory of at least two call sites, which work the collection cases within the area covered by the service center. Collection cases appear on ACS after the normal balance due and delinquent return notices have been issued. Under ACS, the service center researches suspense files, inputs all IDRS actions, processes paper output from ACS, and performs other research and follow-up actions on ACS.

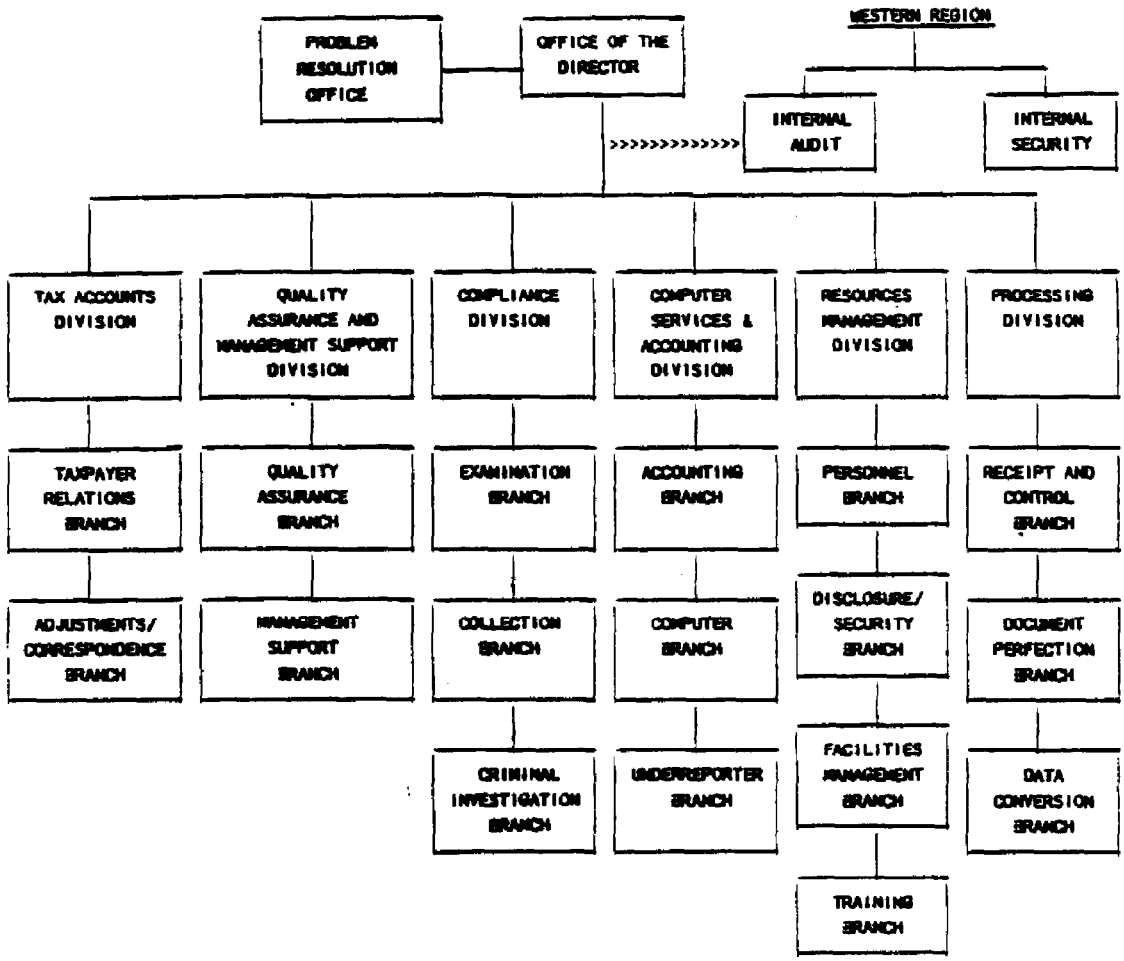
SERVICE CENTER PROBLEMS BY FUNCTION

The Austin and Fresno Service Centers perform the same functions and have the same basic organizational structure. As shown on the following two pages, the service centers' organizations differ in that Fresno's Underreporter Branch is in the Computer Services and Accounting Division while Austin's Branch is in the Tax Accounts Division. Also, Fresno has a separate Disclosure/ Security Branch in the Resources Management Division while in Austin these functions are in the same Division but are not consolidated.

AUSTIN SERVICE CENTER



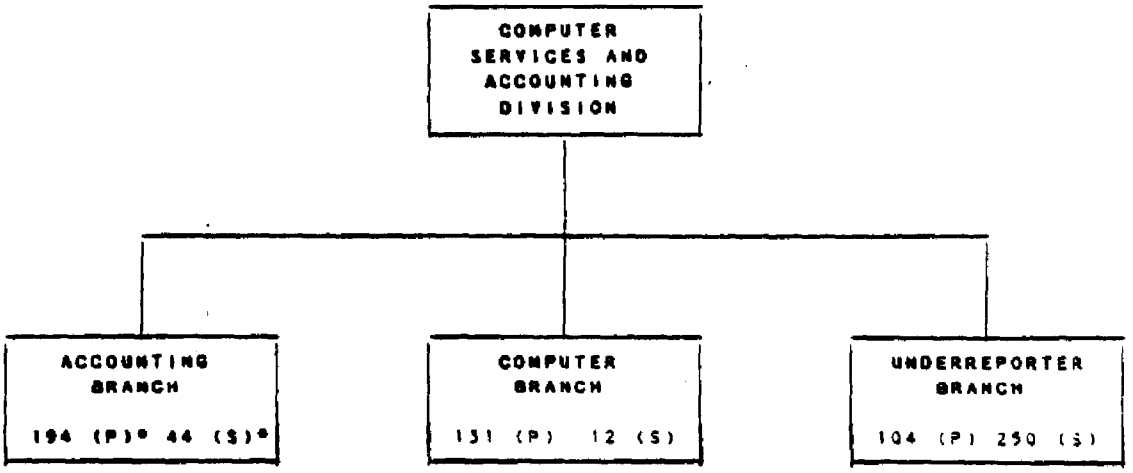
FRESNO SERVICE CENTER



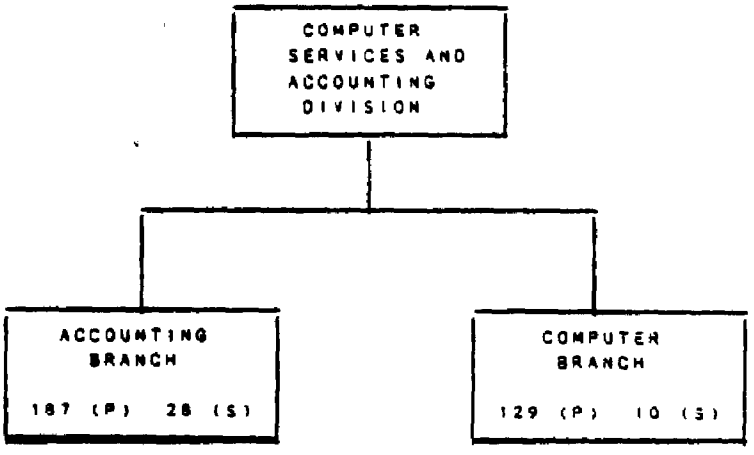
COMPUTER SERVICES AND ACCOUNTING DIVISION

As shown on the next page, the Computer Services and Accounting Division at Fresno consists of the Computer, Accounting, and Underreporter Branches. At Austin, the Underreporter Branch is located in the Tax Accounts Division. The Computer Branch is responsible for the service center's ADP system, including operating the various computer systems (both printers and mainframes), providing programming services needed to maintain the systems, and maintaining a computer tape library. The Accounting Branch is responsible for maintaining the service center's general ledger and subsidiary records, maintaining the Service Center Control File, and receiving and processing applications for employer identification numbers. The Underreporter Branch is responsible for screening tax returns identified through the Information Returns Program and processing these cases.

FRESNO SERVICE CENTER



AUSTIN SERVICE CENTER



*(P) Permanent employees
*(S) Seasonal employees

Computer Branch Problems

The Computer Branches at both the Austin and Fresno Service Centers experienced computer capacity and computer programming problems that hampered their ability to timely process their workload. Specifically, service center officials told us about the following problems.

--Each service center was given a Univac 1100/82 computer to supplement the Univac 1100/84 which lacked sufficient capacity to handle the center's workload. However, the additional tape drives needed to provide more flexibility in running the computer programs on the Univac 1100/82 were not received until March 1985. As a result, during the first part of the filing season some computer programs could not be run timely. For example, on several occasions the weekend updates of the service centers' computer files were not completed until late Monday. On these occasions, users of these files, such as the staff that handles taxpayer correspondence, could not work their caseloads until Tuesday, thereby increasing their inventories. After receiving the tape drives for the Univac 1100/82, the service centers were able to process some of their weekend updates on this computer and to have the computer files available for use on Mondays.

--Both service centers experienced problems with some computer programs. For example, according to Fresno and Austin officials, a computer program which takes a long time to run should have checkpoint routines built into the program at various intervals so that if the program fails it can be restarted from the last good checkpoint instead of from the beginning of the program. However, programs were received that either did not contain good checkpoint routines or contained no checkpoint routines at all. As a result, programs that failed had to be rerun from the beginning instead of from checkpoints. This, in turn, increased the time required to update the service center files and decreased the availability of these files for the users. The service centers also received some computer programs that took a long time to run because they were not efficiently written. For example, according to a Fresno official, the program to update the unpostable file originally took 24 hours to run. The program has been rewritten and now takes about 4 to 6 hours to run. According to Austin and Fresno Service Center officials, most of the computer programs now have reliable checkpoints and are more efficient than they were at the beginning of the 1985 processing year.

In addition to these computer capacity and computer program problems, the Computer Branches encountered management and control problems because of the conversion this year to new Univac computer systems. Specifically:

--The Computer Branches at both service centers were inundated with a large number of IDRS diagnostic transcripts, which are generated when an IDRS account contains a pending transaction and the transaction has been pending longer than normal. For example, when the service center processes a taxpayer's tax payment, it puts that transaction in a pending status on the IDRS file until NCC sends the service center a tape showing that the payment has posted to the master file. If, after a period of time, the service center does not receive a tape showing the transaction has posted, the computer generates a diagnostic transcript that Computer Branch employees use to determine what is wrong with the pending transaction and to correct the problem. These diagnostic transcripts are important tools for detecting improperly processed payments and for helping to prevent the issuance of erroneous notices to taxpayers. According to an official at each service center, the service centers received large numbers of diagnostic transcripts in 1985 because of the computer capacity and programming problems affecting other service center activities. For example, Fresno's Computer Branch, in 1984, averaged about 2,000 transcripts a week; but in 1985 the Branch received as many as 44,000 in one week, according to a Fresno official. For the first 7 months in 1984, Austin averaged about 500 transcripts a week while it averaged about 2,100 for the same period in 1985. Both service centers found, through analyzing the transcripts, that several payment or returns processing tapes had not been processed timely. It took longer to find the tapes because of the large volume of diagnostic transcripts the Computer Branch staff had to analyze. For example, the Fresno Computer Branch found one payment tape which was created on March 14 but had not been processed. The tape was finally processed on May 8, 1985. According to a Fresno official, this tape was found and processed in time to prevent the issuance of erroneous taxpayer notices.

--Both service centers had problems controlling their computer tape inventory because some National Office computer programs were not compatible with the service centers' automated tape inventory system--the STAR system. The STAR system automatically creates an inventory listing of the input tapes used on a job and the output tapes that a job produces. One problem the service centers had controlling the tapes

going through the STAR system concerned incorrect tape retention dates on some National Office programs. Because National Office tape retention dates override tape retention dates established locally, Computer Branch personnel had to validate the retention dates for all tapes going through the STAR system. If they had not, some tapes would have been erased before they should have been and others might have been kept too long. Also, the STAR system only interfaces with the Univac 1100/84 computer and not with the Univac 1100/82 computer. As a result, all tape inventory data for the Univac 1100/82 computer has to be manually input to the STAR system. According to National Office officials, IRS is in the process of obtaining the software needed to correct this problem.

--Officials at both service centers stated that they did not always receive computer programs and/or the associated documentation from the National Office when they were needed. As a result, it took service center program analysts longer to identify and correct programming problems than it should have. A Fresno Service Center official said that program analysts need to have program documentation at least 1 week before the program is scheduled to be run, so that they have time to study and understand the program. Service center officials did not quantify the extent of this problem.

--Both service centers found that the computer programs used more tapes to process the centers' workloads than did the old programs. The service centers had expected the opposite. According to a Fresno Service Center official, Fresno added about 5,000 tapes to its inventory of 31,000 tapes. The Austin Service Center has added 6,500 more tapes. Also, additional tapes created some tape storage problems in the tape library at both service centers.

Accounting Branch Problems

Because of returns processing problems that were experienced by other areas of the service center, the workload of the Accounting Branch in both the Austin and Fresno Service Centers increased. Specifically:

--Both service centers experienced problems in keeping the Service Center Control File (SCCF) updated and accurate. SCCF is an inventory file of all blocks of documents that have been input into the service center's computer system and placed under control for processing. SCCF is created before the time the tax data is transcribed from the documents into the computer. Documents are deleted from SCCF when they

have finished service center processing. If no processing activity occurs on a block of documents on SCCF after 6 weeks, an age list is printed and Accounting Branch personnel are supposed to resolve the processing problem and ensure that the block of documents is processed to NCC. Inventory backlogs and computer terminal operator problems in other areas of the Austin and Fresno service centers increased the number of items on the SCCF age list. For example, during returns processing, computer terminal operators incorrectly transcribed the document locator numbers on some blocks of returns. As a result, mismatches occurred because the numbers were not on SCCF. When a mismatch occurs, a posting transcript is computer generated and used by Accounting Branch personnel to determine the cause of the mismatch and to either adjust the document locator number on the block of returns or on SCCF. According to Accounting Branch officials at both Austin and Fresno, other work priorities prevented them from making the adjustments thus increasing the number of documents on the SCCF age list that showed no processing activity. Because IRS' Internal Audit had found significant volumes of aged items on SCCF, the National Office, in June 1985, instructed each service center to establish a task force to cleanup its file. Fresno, on its own, had established a task force in March to resolve its backlog. As of May 31, 1985, Austin had 2,014,892 documents and Fresno had 2,599,845 documents that were on the SCCF age list and had to be resolved. By September 7, 1985, these numbers had been reduced to 157,649 and 290,338 respectively.

--The Accounting Branches in both service centers experienced difficulties in balancing their general and subsidiary ledgers due to returns processing problems and the introduction of RACS. Accounting Branch officials at both centers said that problems experienced by other service center functions caused an increase in Branch workload. The Branches had to spend so much time resolving problems that related to ensuring that good data was being sent to NCC that they got behind in balancing the general ledger accounts. Problems were encountered in balancing the general ledger because the audit trail under RACS is significantly different than under the old manual general ledger systems. According to a Fresno official, prior to RACS each journal entry was supported by a paper document which the staff could use to balance the general ledger with the subsidiary ledgers. However, under RACS the staff gets a daily listing of all journal entries and these listings

are not as detailed as the individual documents. As a result, the staff has had to spend more time researching entries to get them to balance.

Underreporter Branch Problems

The Underreporter Branches at the Austin and Fresno Service Centers had difficulty processing their workloads because of operational problems and resource limitations. Specifically:

--At both service centers computer processing problems delayed the issuance of underreporter notices to taxpayers. Underreporter notices are usually processed weekly, but this year notice issuance was delayed 2 to 4 weeks because of delays in generating the notices. As a result, large volumes of notices were issued at one time which meant, in turn, that the service center received the taxpayers' responses in large batches. This made it difficult for the Underreporter Branches to process those responses timely. The Austin Underreporter Branch also found that it had to manually prepare underreporter assessments for about 17,000 taxpayers because these cases were not put onto a computer file in the Computer Branch. This manual task took about 3,500 to 4,000 staff hours to complete and delayed issuance of the underreporter notices.

--An official at the Austin Service Center stated that problems encountered in processing payment tapes affected some underreporter cases. For example, some taxpayers' payments were received in November 1984, but were not processed and credited to the taxpayers' accounts until February 1985. Because of this delay, the taxpayers were sent statutory notices of deficiency, which start IRS' collection process. Taxpayers who received the statutory notices had to provide proof that a payment was made. The Austin Service Center also found that some taxpayers who had paid their underreported tax liability received their payments back as tax refunds. This occurred when a block of payments that had been processed through the Remittance Processing System by data transcribers in the Receipt and Control Branch did not balance and had to be reentered by data transcribers in the Data Conversion Branch. These transcribers were unaware that they had to input not only the payment amount but also a freeze code to prevent the computer from issuing a refund until the additional underreported tax assessment posted to the master file. Because the taxpayer's account did not have a freeze code or show an outstanding tax liability the computer system would automatically refund the payment to the

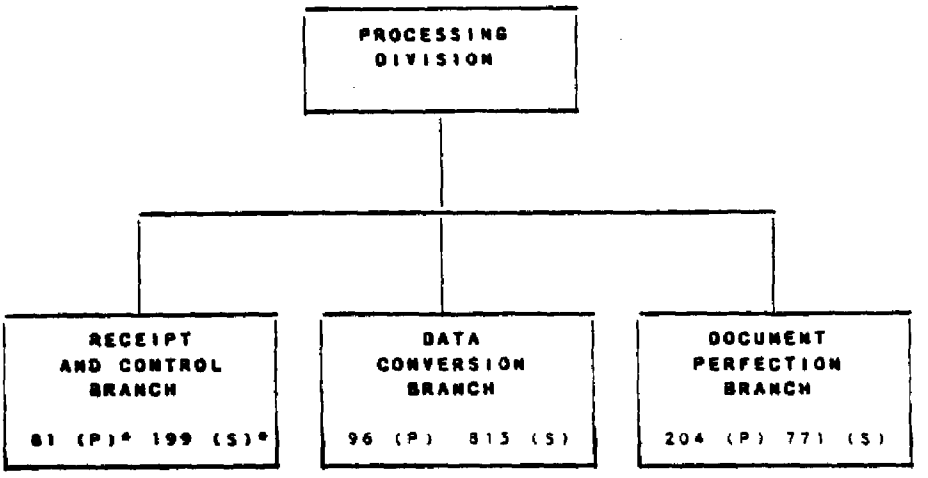
taxpayer. The Underreporter Branch became aware of this problem when taxpayers requested information on why they received the refunds.

--Underreporter Branch officials in both service centers said they had problems managing their workloads during the processing season because of insufficient computer terminals to research cases and make assessments. Both Branches have now received additional computer terminals which branch officials say are sufficient to handle their workloads.

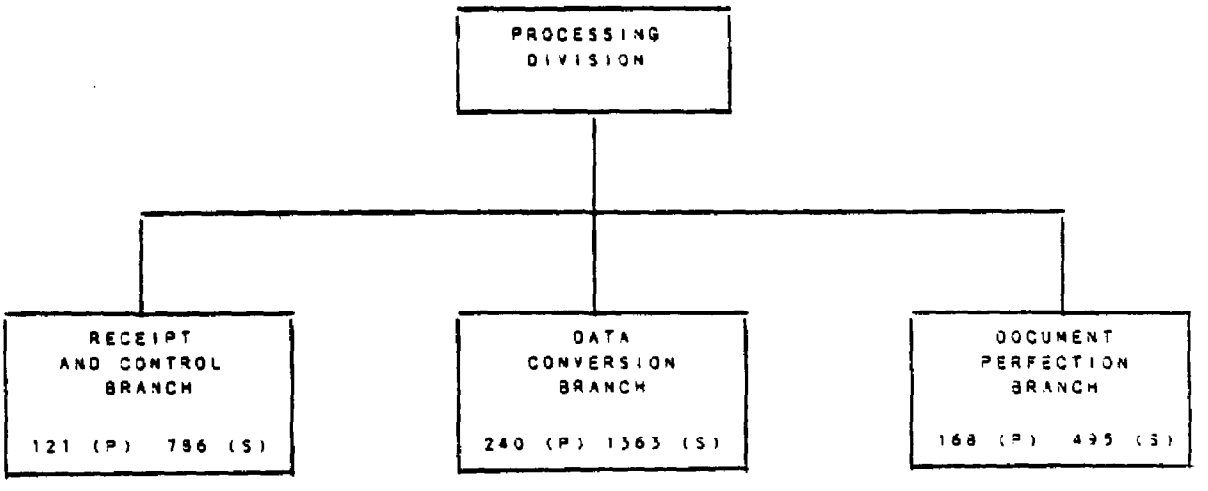
PROCESSING DIVISION

The Processing Division is responsible for processing tax returns and other documents through the "pipeline". In both Fresno and Austin, as shown on the next page, the Division consists of three branches: Receipt and Control, Data Conversion, and Document Perfection. The responsibilities of the three branches are the same at Austin and Fresno, except for processing taxpayer's checks. This responsibility is handled in the Receipt and Control Branch at Austin and in the Data Conversion Branch at Fresno. The Receipt and Control Branch is responsible for receiving mail; extracting documents from the envelopes; sorting, batching, and numbering the documents; and processing taxpayers' checks for deposit. The Document Perfection Branch is responsible for coding, editing, and perfecting tax returns and other documents to facilitate inputting data from returns and other documents into the service center's ADP system; resolving error conditions on taxpayer accounts caused by input and taxpayer mistakes; and resolving accounts that do not post to the master file. The Data Conversion Branch is responsible for inputting data from tax returns and other documents into the computer and for resolving some input errors.

FRESNO SERVICE CENTER



AUSTIN SERVICE CENTER



*(P) Permanent employees
*(S) Seasonal employees

Receipt and Control Branch Problems

The Receipt and Control Branch at the Austin Service Center encountered a major problem that dealt with processing taxpayers' payments on the Remittance Processing System. Fresno had the same problem, but in Fresno remittance data is input by operators in the Data Conversion Branch. Starting this year, DIS was used to input remittance data into the computer. Because operators and managers were not fully trained on DIS and because computer controls were absent, some payments did not get processed onto the service center's Univac computer system.

Payments did not get processed because at least some operators were not aware that once a block of payments had been transcribed, there was a time delay in DIS in order for it to complete processing the transcribed data before new data could be entered. Not realizing this, and because there were no computer controls to prevent them, the operators would press the "mode" key on the DIS terminal believing that this would transfer the data from DIS to the Univac and allow them to work the next payment block. Instead, the mode key stopped DIS from processing the block that had already been transcribed and prevented the data from transferring to the Univac computer. As a result, the computer generated remittance counts and amounts did not balance with the actual remittances transcribed on DIS. Also, the remittances would not be credited to the taxpayers' accounts. To resolve the imbalance, Receipt and Control Branch personnel had to reconcile the differences and manually prepare deposit tickets. Also, additional time had to be spent to manually identify those payments that did not transfer to the Univac computer so that action could be taken to have the payments post to the taxpayers' accounts.

Data Conversion Branch Problems

Most of the problems encountered by the Data Conversion Branches in the Austin and Fresno Service Centers involved a lack of operator familiarity with DIS, which is used to transcribe data into the Univac computer, and the resolution of "Block-Out-Of-Balance" conditions. A Block-Out-of-Balance condition is generated if either (1) the number of documents in a block of returns does not balance with the information on DIS, on the Service Center Control File (SCCF), or on the block transmittal sheet; (2) the dollar amount of the remittances associated with the block of documents is not the same on DIS, on SCCF, or on the block transmittal sheet; (3) the block control number on DIS does not exist on SCCF; or (4) the block control number or the document locator number is a duplicate of another number.

Specifically, Branch officials at Austin and Fresno told us about the following problems.

--The Branch was not able to readily find the documents (returns) needed to resolve the conditions which caused the block of returns not to balance. Ideally, registers which identify the blocks that are out of balance are printed out at the end of the day while the returns are still in the Data Conversion Branch area and easy to find. Because of problems associated with updating the computer files, the registers were printed late--sometimes 4 to 7 days at Fresno and 2 to 3 days at Austin after the data had been entered onto DIS. Therefore, by the time the Branch received the registers, the carts with returns had moved to other service center areas. Control over the returns was difficult. So many returns were being held by the various service center units, such as DIS and Error Correction, that carts were mixed up and went to the wrong destination. Because the Branch was not able to find a large number of documents, it had to periodically check the files to determine if the returns had been sent there by mistake. In some cases, the document locator number on the block of returns had been keypunched incorrectly and therefore the staff was looking for a document or block that did not exist. It took time to find out if the document locator number was good or not.

--At the beginning of the processing year the registers did not contain enough information on certain types of conditions that caused the blocks to be out of balance to allow the examiners working the cases to readily resolve the problem. For example, the register had one code which stood for two unique conditions. The code meant that either the block of documents was not on SCCF or that the block had a duplicate document locator number. Thus, it took more time to work these cases because the examiners had to work them as if both conditions existed. The register was later changed to distinguish between the two conditions.

--Lack of familiarity with DIS caused many errors. DIS operators had to familiarize themselves with a new system while operating that system. The employees, in many cases, learned through trial and error. For example, according to a Fresno official, if the line on the 1040 form has an entry for Schedule C income, DIS will automatically create a Schedule C file in preparation for the data that the DIS operator will enter off the Schedule C. However, the DIS operators were not aware of this. Therefore, if the operator

should happen to transcribe the Schedule C data out of sequence, he or she would create a new Schedule C file. This file would not overlay on the Schedule C file created by DIS. As a result, the return would end up in the error correction unit because it would have failed the computer's validity checks.

--Some tax return information input through DIS was not key verified. This caused some additional work for other service center units. For example, during the processing season the document locator number on the block header card was transcribed on DIS but not key verified. If this number was transcribed incorrectly, it would not balance with the document locator number on SCCF and the block of returns would be out of balance. This caused additional work for the units that had to research the case and make necessary corrections. According to National Office officials, the locator number and other tax return items are now being key verified to avoid this problem in the future.

Document Perfection Branch Problems

The problems encountered by the Document Perfection Branch in both the Austin and Fresno Service Centers dealt with (1) ERS, which is the new on-line system used to correct errors identified by the service center's computer and (2) GUF, which is the new on-line system for resolving conditions that prevent service center transactions from posting to the master files at NCC. The following are the problems encountered by the error resolution and unpostable units at the two service centers.

--Because the Univac computer took an excessive amount of time to update the service centers' computer files, ERS was not always available to handle the error resolution workload. Also, the ERS computer file capacity was intentionally limited to 90,000 cases, based on what the expected error correction workload would be in 1985. However, more error returns were processed this year than expected. As a result, ERS inventories grew, its file capacity was exceeded, and errors could not be timely corrected. For example, if on one day the inventory level on the ERS file was at capacity (90,000 cases) and the error resolution unit was able to work 40,000 cases that day, then the ERS inventory would be 50,000 cases. If 70,000 returns which were processed that day through the Data Conversion Branch had errors, then the ERS inventory for the next day would be 120,000 cases (50,000 from the previous day's ERS inventory plus the 70,000 with errors that were processed that day). Therefore, the ERS file capacity would be exceeded by 30,000 cases which would then drop off the file and not be available

for correction. However, because of the way ERS was designed, these 30,000 cases were not necessarily the newest cases so that some of the previous day's ERS inventory of 50,000 cases would not be worked. The combination of large ERS inventory levels and limited ERS file capacity made it necessary for service center management to institute controls so that the ERS file capacity was not exceeded and that the oldest cases were worked first. According to National Office officials, the ERS file capacity has been increased from 90,000 cases to 120,000 cases.

--As with the ERS inventories, the unpostable inventories increased at both service centers because the computer was not available to work unpostable cases. For example, the unpostable inventory at Austin and Fresno, as shown below, more than doubled between 1984 and 1985.

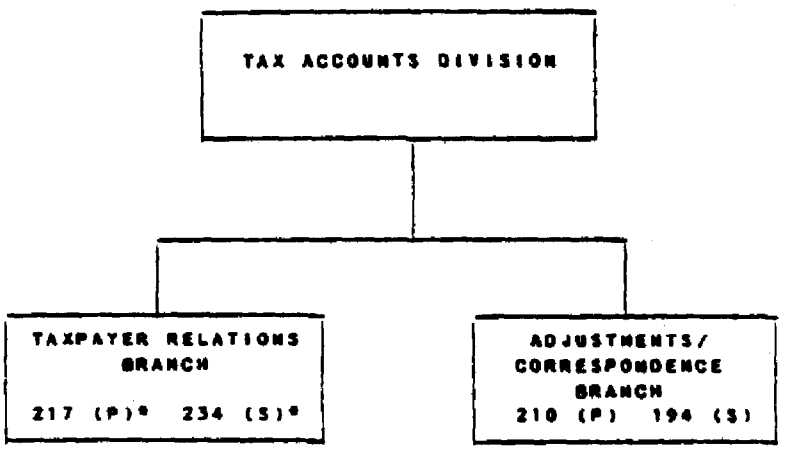
	August 1984	August 1985
Austin	171,493	467,101
Fresno	148,292	507,736

Under the GUF system, which was implemented in 1985, tax examiners in the unpostable unit are more dependent on computer availability than they were in prior years. The tax examiners not only need to use the GUF system to make on-line corrections to the unpostable conditions and close the cases but also need to use IDRS to research the cases in order to have the information to correct the unpostable conditions. Under the prior unpostable system, the tax examiners did not need the computer to close their cases. Corrections to unpostable cases were entered onto the computer by data transcribers in the Data Conversion Branch. As a result, it took more time to resolve and close unpostable cases in 1985 than it did in prior years. An Austin Service Center official said that GUF was not operational during most of March and other extended periods throughout the filing season. Also, more taxpayer and processing errors were made on tax returns this year which resulted in unpostables. This increase was not anticipated by service center management, therefore, the service centers did not have the trained staff available to handle the increases in the unpostable inventories. According to service center officials, the National Office had informed the service centers that less staff would be needed under GUF than under the old unpostable system so the service centers reduced the number of staff assigned to the unpostable units. For example, the Austin Service Center staffed its unpostables unit with 28 permanent employees at the beginning of the year. In June 1985, the unit was up to 180 permanent staff.

TAX ACCOUNTS DIVISION

As depicted in the following chart, the Tax Accounts Division is comprised of two branches at Fresno and three branches at Austin. The Division at both service centers includes the Adjustments/Correspondence Branch and the Taxpayer Relations Branch. The Tax Accounts Division at Austin also includes the Underreporter Branch (see page 19 for a discussion of the Underreporter Branch's responsibilities and problems). The Taxpayer Relations Branch's principal responsibilities include handling taxpayer refund inquiries and requests for tax returns and filing and maintaining taxpayer returns in temporary storage. The Adjustments/Correspondence Branch performs payment tracing functions and processes adjustment requests and special cases (e.g., Joint Committee and Justice Department cases).

FRESNO SERVICE CENTER



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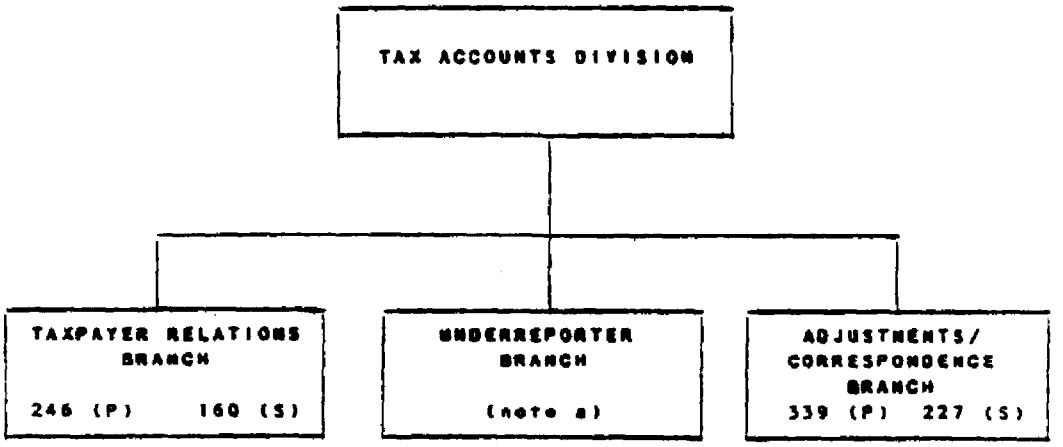

Note a - The Underreporter Branch was created after staffing data for the other Tax Account Division branches was reported. In August 1985 the organizational structure for the Underreporter Branch was approved and called for 140 permanent and 338 seasonal personnel.

*(P) Permanent employees
*(S) Seasonal employees

Taxpayer Relations Branch Problems

Both Taxpayer Relations Branches experienced computer related problems which hampered their ability to handle their workload in a timely manner. Service center officials told us of the following problems.

--Computer processing delays resulted in late issuance of the weekly Cycle Proof Listings that are used to determine if returns had completed all the processing steps and should be stored in the files area. The delays in receiving those listings caused control problems for the Branches because the staff had no way of knowing if the returns they had received had actually finished processing and should be stored. Also, each day the listings were late meant that more returns were processed and moved to the files storage area. At the same time, backlogs were being created in the error correction unit, which is the final processing step, because the unit could not keep up with its workload. These backlogs increased the likelihood that returns would be inadvertently moved to the files storage area before they were fully processed. At Fresno, the listings were received on time only 5 times during the first 18 weeks of the year. Therefore, manual listings of returns received in the files storage area had to be kept and then compared with the Cycle Proof Listings when the listings were finally received. According to a Fresno official, this procedure was not efficient nor was it entirely effective because some of the manual listings were in error. As a result, some blocks of returns that had not completed processing were stored in the files. Austin also received their Cycle Proof Listings between 2 to 5 days late, but dealt with the problem differently. Austin set up a temporary staging area for the tax returns until the listings arrived. The returns found on the listings would then be sent to the permanent file area. This procedure still caused additional work and control problems because returns were continuously coming into the staging area and had to be filed with those already there. Also, returns were continuously being pulled out of the staging area to be worked by other service center functions, such as unpostables. In June, the National Office told all 10 service centers to clean up their inventories of returns in storage areas. This cleanup is to be completed by September 30, 1985. A Fresno official estimated that it will take 500 staff hours to do the inventory.

--Both service centers experienced problems with the Centralized Authorization File or the Power of Attorney file, which identifies individuals authorized to represent certain taxpayers. According to a Fresno official, notices were sent to taxpayers but not to their authorized representatives because of computer delays in updating the file. Taxpayers receiving those notices might have disregarded them, thinking that their representatives had received copies of the notices. This could have led to taxpayers being unnecessarily contacted by other IRS activities, such as collections. It could also have led to taxpayers being charged additional interest and penalties on their delinquent taxes. An Austin official said that Austin had problems with the file in February 1985 when computer programming problems caused about 1,400 accounts to be either erroneously dropped from the file or erroneously changed when the file was updated. Austin became aware of the problem in May 1985, when an attorney/representative requested an address change. It took Austin about 2 months to correct the problem. While the problem was being corrected, the Branch delayed assigning numbers to attorneys/representatives to avoid assigning the same number to more than one representative.

--Statute Expiration Transcripts were issued late because the National Office changed the criteria used to determine the volume of transcripts that would be issued monthly to the service centers. The transcripts, which are used to determine if a quick tax assessment should be made prior to the expiration of the statute of limitations, are usually received in October or November. However, because the transcript criteria was changed in November 1984, they were not received until late January 1985. As a result, both Branches had to work overtime to complete processing the cases by April 15. At Fresno, this also meant that other activities which use IDRS terminals fell behind in their work because the terminals had to be used to process these cases. At Austin, the Branch received duplicate transcripts mixed with new transcripts, in addition to receiving the transcripts late. As a result, Austin reviewed about 60,000 transcripts when, in fact, there were only about 30,000 cases.

Adjustments/Correspondence Branch Problems

Computer availability problems resulted in increases to the Adjustments/Correspondence Branch inventories in both Austin and Fresno. The increased inventory levels also prevented the branches from working some of their special compliance projects. Officials at the two service centers provided us with the following information.

--The Adjustments/Correspondence Branch inventories at both service centers were larger in June 1985 than they were in June 1984:

	June 1984	June 1985
Austin	75,978	143,052
Fresno	104,936	145,922

At Fresno, about 28 percent of the 1985 cases were over 45 days old while in 1984 about 10 percent of the cases were over 45 days old. At Austin, about 40 percent of the 1985 cases were over 45 days old compared to 22 percent in 1984. The primary reason for the larger and older inventories was the unavailability of IDRS. According to a Fresno official, throughout the processing season IDRS was available 4 days a week instead of 5. Also, on the days it was available, it was seldom available for the entire time it was scheduled. When IDRS is not available, adjustment cases cannot be researched and closed. At Austin, the availability of IDRS was also limited. IDRS was scheduled to be available 14 hours a day from 6:30 a.m. to 8:30 p.m. Mondays through Fridays. However, from January through May, it was only available the full 14 hours on 6 occasions.

--According to officials in both service centers, some special compliance type projects had to be suspended or deferred because of the increases in correspondence inventories. These projects, for the most part, deal with verifying specific income exclusions or credits taken by taxpayers, such as the residential energy credit. For example, Fresno's Adjustments/Correspondence Branch could not work its state income tax refund program which identifies taxpayers who did not report their state refunds on their federal tax returns. The Branch had to transfer 20,000 of the 320,000 state income tax refund cases to the Underreporter Branch to be worked. These were the highest dollar refund cases. The Underreporter Branch completed the work on the 20,000 before mid-August 1985. According to a Fresno official, if the remaining 300,000 cases cannot be worked this year, it will result in an estimated loss of $7,700,000 in federal tax revenues because IRS will not have enough time to work the cases before the statute of limitations expires on April 15, 1986. Also, Fresno had to defer working its residential energy credit cases until next year. Since these are tax year 1983 cases, the statute of limitations will not expire until April 15, 1987. Fresno officials believe, therefore, that there is

sufficient time to work these cases and to obtain the additional revenue. However, according to a Fresno official, if major problems occur in 1986 as they did in 1985 and the cases are not worked, an estimated $800,000 in federal taxes will be lost. Austin deferred until next year its potential estimated tax penalty and tentative carryback verification cases. Under the estimated tax penalty project, IRS verifies taxpayers' calculations of their estimated tax penalties. If IRS finds the taxpayers underestimated their penalties and the taxpayers fail to pay the additional penalty within 10 days of notification, the taxpayers will be charged interest on the penalty amount. Under the tentative carryback verification project, IRS determines if the refunds received by taxpayers are accurate. If the refunds are larger than they should be, taxpayers must pay back the excess refund within the time given by IRS or they will be charged interest on the amount owed.

COMPLIANCE DIVISION

As shown on the next page, the Compliance Division is comprised of three branches at both service centers. The Criminal Investigation Branch reviews tax data to identify possible fraudulent activities and to identify potentially abusive tax shelters and investors. The Examination Branch classifies tax returns, claims, and other tax documents for audit potential, and handles those audit issues that may be resolved by correspondence. The Collection Branch controls the accounts of and corresponds with taxpayers who are delinquent in filing their returns or paying their taxes.

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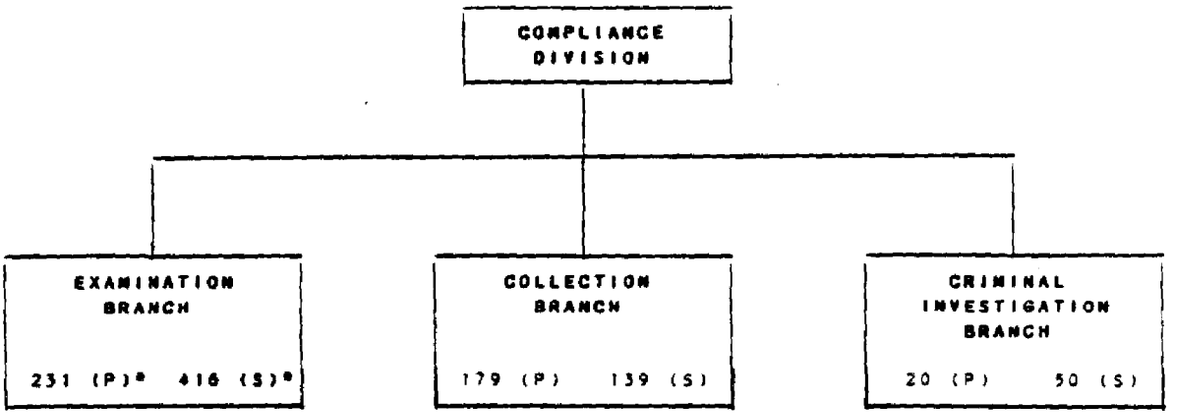
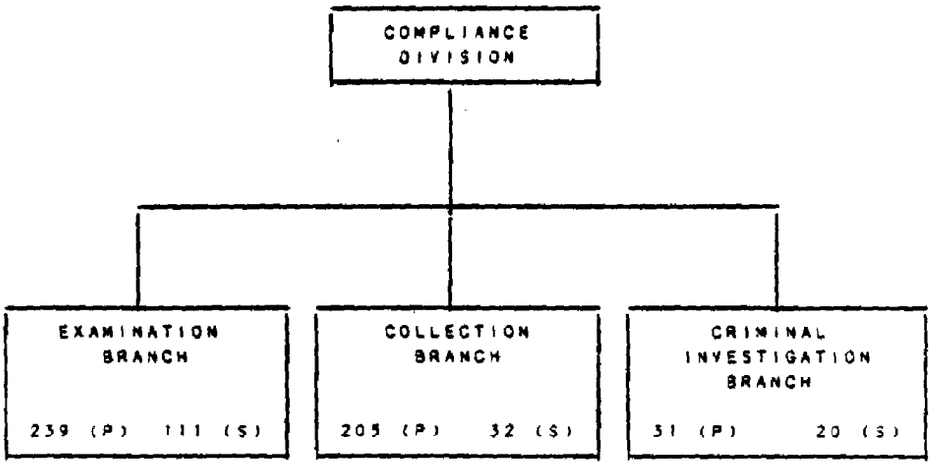


AUSTIN SERVICE CENTER



*(P) Permanent employees
*(S) Seasonal employees

Criminal Investigation Branch Problems

The Criminal Investigation Branches in Fresno and Austin experienced problems in staffing and obtaining timely and accurate management information. Officials at the two service centers told us of the following problems.

--According to a Fresno official, the Branch did not have enough staff to handle its workload. Fresno was funded for 23 of the 50 staff years it said it needed in fiscal year 1985. Additional funding was provided from the budgets of the service center director (15 staff years) and the Examination Branch (20 staff years). The Branch expects to be authorized 26 full-time positions in fiscal year 1986. Additional funding will be needed from other service center budgets to fund the balance of the 64 staff years the Branch says it needs. Austin also had staffing problems, but to a lesser extent than Fresno.

--Both Fresno and Austin were unable to identify and locate many tax returns with questionable refunds because computer listings were not issued timely and did not adequately identify the location of the returns at the service center. As a result, refunds were being sent to taxpayers before the staff could locate and research the returns and stop refunds where appropriate. According to an Austin official, the listings were 13 days late on one occasion and 6 consecutive days of listings came in at that time. This put a heavier workload on the tax examiners and clerks who had to select the returns from the lists in time to find and review the returns before the refunds were issued. An Austin official said that after this occurrence listings were usually timely. A Fresno official said that unlike 1984, the questionable refund listings for 1985 did not identify the location of returns and that, because of this, staff spent up to 11 days attempting to locate returns which should have been in either the Error Correction Unit or in files. By the end of April 1985, the Branch decided to stop looking for returns until the returns had completed processing and were in files. Neither Austin nor Fresno officials knew how many questionable refunds were issued because of the problems they had with the computer listings.

--A Fresno official said that the criteria used to select returns for review by the Abusive Tax Shelter Detection Teams were so broad that service center staff would have had to review almost all Form 1040s processed. At Fresno, this amounted to about 10,000 returns a day, while at Austin it was about 8,000 a day. Officials in both service centers said they were reviewing too many returns for the results

obtained. Because the National Office would not change the review criteria, which are applicable to all service centers, Fresno and Austin developed their own more stringent criteria so that fewer returns were reviewed. According to a Fresno official, next year NCC will select all cases to be reviewed and service centers will not be able to apply their own criteria. According to National Office officials, the selection criteria was not changed early in the 1985 filing season because a determination needed to be made as to where abusive tax shelter returns were being filed and in what volume. It was anticipated that staffing would be adjusted in fiscal year 1986 and future years based on this determination. National Office officials also stated that the selection criteria for fiscal year 1986 has been revised and linked to the master file in an effort to avoid problems with local computer room priorities.

--According to Fresno and Austin officials, neither service center had enough resources to stop all refunds on potentially abusive tax shelter cases. At Fresno, for example, about 14,200 potentially abusive returns had been selected for review through May 1985. However, a Fresno official said that the Branch did not have sufficient staff or terminals available to input suspense codes in time to possibly prevent other service center units from prematurely releasing refunds to taxpayers. In addition, at both Austin and Fresno, inadequate staffing resulted in few potentially abusive tax shelter packages being sent to the districts prior to May 1, 1985. This created workload problems for the districts when the packages were sent. Although Fresno sent out about 100 packages by June 11, a Branch official said that with adequate staffing it could have sent out twice this number and spread them more evenly over the 5-month period. An Austin official stated that the late referral of abusive tax shelter packages could result in additional interest being paid on stopped refunds while the districts evaluated the referrals. National Office officials stated that staffing needs are currently under review by management officials from the appropriate functions.

--Both service centers experienced problems in delaying refunds on tax returns involving potentially abusive tax shelters because refund data was not updated timely by the Computer Branch due to computer processing delays. As a result, the service centers were unable to adequately research computer files to determine when refunds were scheduled to be released.

This problem was aggravated by low staffing levels and computer terminal availability. In an attempt to overcome this situation, Fresno sent listings of about 1,500 taxpayers per week for about 5 weeks to the U.S. Treasury Regional Disbursing Office to intercept the refund checks. Since Fresno did not know when refunds were to be released, the Disbursing Office only located a portion of the refund checks (about 40 percent some weeks). As a result, many refunds involving potentially abusive tax shelters may have been made. National Office officials stated that new master file transaction codes have been developed for abusive tax shelters which should eliminate the problems with suspended refunds being prematurely released. National Office officials stated that the codes will be available for the 1986 filing season. Other priorities precluded the codes from being developed and in place in 1985.

Examination Branch Problems

Problems in the Austin and Fresno Examination Branches involved inadequate staffing of some programs, computer unavailability, and inadequate computer programming.

Resource problems

Examination officials at Fresno said they had a serious staffing problem, whereas Austin officials said staffing was only a minor problem. In fiscal year 1985, Fresno's Examination Branch was funded for 475 of the 502 positions it considered necessary to carry out its programs. In April 1985, about 75 people were furloughed from the Branch to the district offices and another 25 were detailed to the Criminal Investigation Branch to work on the abusive tax shelter program. According to a Fresno official, about 540 positions should be funded for fiscal year 1986. A Branch official expects this staffing level to be adequate for 1986.

According to a Fresno official, resource constraints had the following effect on several Fresno examination programs.

--The State Cooperative Program was curtailed for fiscal year 1985, resulting in an estimated tax revenue loss of $10.7 million. Under this program, the service center receives audit reports on individual tax returns from the state of California. The Examination Branch compares the audit reports with taxpayers' federal tax returns and assesses the taxpayers for any applicable deficiencies. The examination effort takes less than one-half hour per return. Cases are generally worked in one fiscal year and closed and assessed the following year. During the

first 7 months of fiscal year 1985, the service center closed about 22,200 cases worked in fiscal year 1984 and assessed taxpayers about $7 million in deficiencies--an average of $314 per case. Fresno officials estimate that an additional 11,200 fiscal year 1984 cases will be closed and assessed in fiscal year 1985. The service center had no staff to work any fiscal year 1985 audit reports available from the state. A Fresno official said that had staff been available, the service center would have worked about 34,000 of the 70,000 cases available from the state for examination. According to a Fresno official, the loss in tax revenues from not working the 34,000 cases is estimated to be about $10.7 million. None of these cases will be worked in fiscal year 1986 because the statute of limitations will have expired. Fresno Examination Branch officials expect the Branch to be adequately funded to work the full State Cooperative Program in fiscal year 1986.

--Fresno's nonfiler program, under which the Examination Branch assesses tax on those nonfilers who do not file returns after being contacted by IRS, was curtailed in April 1985 due to a reduction in staff. This resulted in delayed assessments of about $145 million in taxes plus interest and penalties on about 29,000 nonfiler cases. Since the statute of limitations does not apply to nonfilers, these cases will be held in suspense until staffing becomes available--probably in fiscal year 1986. About 23,000 nonfiler cases in process will be completed this fiscal year.

--Two other small programs that Fresno did not work in fiscal year 1985 due to the lack of staff involve multiple filers and married couples filing separately. According to a Fresno official, estimated revenues lost from not working these programs are $157,000 and $301,000, respectively. The official also said that those 1982 returns not worked in fiscal year 1985 will not be worked on in fiscal year 1986 due to insufficient time before the statute of limitations expires. A National Office official said that the service center should have worked these cases in fiscal year 1984, but it failed to order the tax returns in time to work the cases.

--Although the Fresno unit handling tax shelter cases projected it needed 60 to 65 staff years, the unit received piecemeal staffing throughout the year. Because of inadequate staffing, the unit was behind in all areas of work as of June 1985. For example, the unit has not been able to timely process IRS

audit reports on tax shelter promotions. As a result, taxpayers will not be billed for such deficiencies as timely as they should. However, this effort has been made the Examination Branch's top priority. Staff have been shifted from other areas to help reduce the backlogs.

--The Branch has not implemented an IRS Correspondence Study recommendation that taxpayers' authorized representatives be notified when audit reports are sent to taxpayers because there was not adequate time available to check for Powers of Attorney on each case. The Branch plans to do that in fiscal year 1986 if the additional staff are authorized.

--According to Fresno officials, the Examination Branch only had 26 of the 35 terminals it considered necessary to do its job effectively. As a result, it had to choose, on a day-to-day basis, what work could be done on the system; some low-priority work never got done.

According to an Austin official, the Examination Branch experienced some staffing problems but was able to keep up with its planned workload by working overtime. Also, Austin had a sufficient number of terminals.

Data processing problems

Both the Austin and Fresno Examination Branches experienced problems with the Audit Information Management System (AIMS) during this processing season. These problems related to the availability of system data and the need to spend considerable resources manually researching and processing such data. Specifically,

--Since the new computer became operational, both service centers have had a programming problem "resequencing" records established on the master file under a temporary or invalid social security number/ employer identification number (SSN/EIN) to matchup with records input under a new or corrected SSN/EIN. When a record is established for a taxpayer under a new or revised SSN/EIN, the master file should move any record it has under an old number to the new number, leaving a "pointer" as to where the record has been transferred. The master file program often does not transfer the record to the new number. When it does, it usually will not transfer the complete record and it does not leave a pointer to where the record has been transferred. As a result, examination records are incomplete or inaccurate because the Branches often (1) cannot establish a record on AIMS

from the master file, (2) cannot close an examination case on AIMS or the master file, and (3) must use additional resources to manually control statute dates and make manual assessments or abatements. A Fresno official expected this problem to be resolved by the National Office before the 1986 filing season begins.

--At Fresno, according to an Examination Branch official, management information reports were inaccurate because data was not updated timely during the filing season. For example, listings of unpostable transactions, resulting from account suspense or freeze codes for cases being worked by the Examination Branch, were not being generated weekly due to delays in running other computer programs. At one point, the Branch received 6 weekly listings during a two-week period. Not only could this have resulted in missing some statute of limitation dates, but it required additional staff time to manually determine statute dates and make any necessary assessments. An Austin Examination Branch official said the Branch only had minor problems with late generated management information reports.

--Both Austin and Fresno also experienced problems in obtaining statute expiration dates on normal examination cases because a computer program, which would automatically generate the notices on cases when the statute was to expire, was not converted to the new computer system. As a result, tax examiners had to manually prepare these notices in order to control the cases. An Austin official said it now takes about 3 times as many hours to manually control the cases than it took under the prior automated program.

--When the service centers' transaction tapes, used to create or update master file records, were not run in the proper sequence, some of the data was not being picked up on the master file records. As a result, some transactions were not posted to the master file, and IRS would not realize something was wrong for about 90 days. Although some of the omitted data was recovered, according to a Fresno official, most of it was lost. Austin officials stated that they were able to either recover or re-establish the records. Both Austin and Fresno officials stated that although this data processing problem has been corrected, (1) many master file records may contain erroneous or incomplete information, (2) erroneous decisions may have been made due to incomplete data, and (3) incomplete data may have caused IRS to miss some statute of limitations dates.

Collection Branch Problems

Problems in the Collection Branches at both service centers included: (1) insufficient availability of computer realtime to research and close collection cases and (2) returns processing delays which created incorrect delinquent return notices to taxpayers.

The lack of realtime availability of both IDRS and ACS during the processing season resulted in increased inventories and in a significant amount of unproductive time. Specifically,

--According to a Fresno Collection Branch official, IDRS was often not available for significant periods to Collection staff during the period January through May 1985. On the days it was available, it was generally available only for a few hours. For example, all accounts and files were available for only 1 full 12-hour day during the 5-month period. However, a Fresno official stated in August 1985 that realtime availability is no longer a problem for the Branch. IDRS is now available until 11:00 p.m. on Mondays, Tuesdays, and Thursdays. That availability will permit the Branch to have one unit (six staff) on a swing shift.

--As a result of both computer processing delays and resource problems, Fresno's Collection Branch inventories increased from 60,000 accounts in June 1984 to a high of about 155,000 in April 1985. In order to reduce the backlog, Fresno transferred cases to be closed to the Oakland ACS call site. An example of how IDRS availability affected productivity is reflected in the unit which reviews balance due notices before they are mailed to taxpayers. The unit spent almost 1,900 hours manually reviewing and researching notices that an official said would have taken less than 400 hours using IDRS. This additional processing time caused notices to be held longer than normal, resulting in a reduction in the time that taxpayers were allowed to respond. Austin also experienced an increase in inventories. For example, Austin's inventories were 131,001 as of June 30, 1985, whereas the inventories on June 30, 1984, were 44,764. According to a National Office official, not all of the inventory increases in both service centers would have had an adverse affect on taxpayers because the collection actions themselves have already occurred. Collection cases remain in inventory until the Collection Branch staff complete their final closing actions.

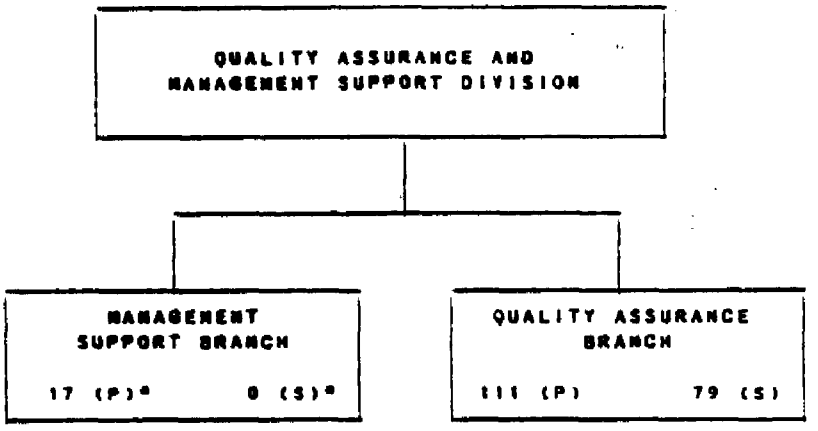
--In order to close cases settled through ACS, both ACS and IDRS must be operating at the same time. During January to May 1985, ACS at Fresno was not available for almost 300 hours. A Fresno official said that during this time, about 40 to 45 Collections staff were essentially unproductive in processing case closures and were used instead to perform routine filing and other clerical functions. However, improvement in realtime availability has meant that the Branch is now much better able to close cases on ACS. Access to ACS was not a problem at Austin.

--According to National Office officials, operational and returns processing problems resulted in the generation of erroneous delinquent return notices at both service centers. The mailing of all notices to taxpayers was delayed at both service centers while notices were screened to stop erroneous ones from being mailed. Each quarter the computer identifies taxpayers who are delinquent in filing their returns and generates a first notice to be sent to those taxpayers. About 114,700 delinquency notices were scheduled to go out from Fresno in April 1985 according to a Branch official. However, these were delayed by the National Office and were rescheduled to go out in mid-May to allow additional time to research and correct any errors. In mid-May, all but 8,000 delinquency notices were delayed a second time. These 8,000 notices were identified as high dollar value delinquencies and were screened as good notices. The remaining notices were reprinted for mailing during the July-September quarter. At Austin, the number of notices generated in the second quarter of 1985 was more than double that of the same period in 1984. Collection officials do not know how many of these notices were erroneous.

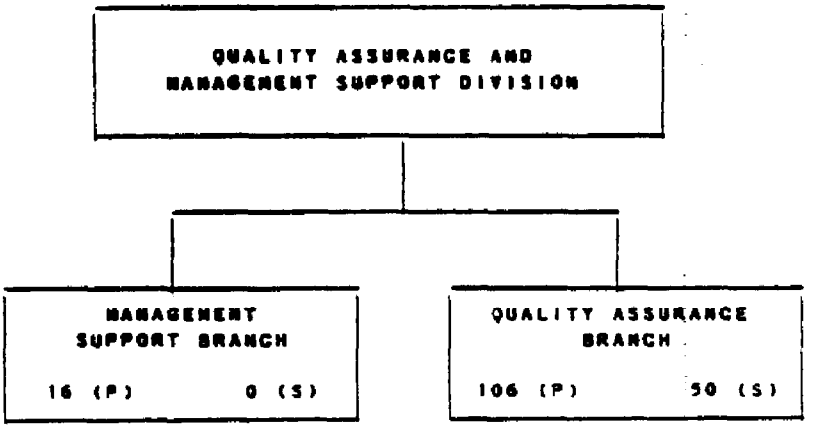
QUALITY ASSURANCE AND MANAGEMENT SUPPORT DIVISION

The Division at both the Austin and Fresno Service Centers, as shown on the next page, consists of two branches. The Quality Assurance Branch samples the validity of tax data being input to the computer as well as proposed transactions resulting from the work of other service center functions, such as collections and adjustments/correspondence. The Management Support Branch assists the service center's divisions and branches in resolving problems, keeps management informed on the status of service center activities, and acts as liaison with the National Office, regional and district offices, and other service centers.

FRESNO SERVICE CENTER



AUSTIN SERVICE CENTER



*(P) Permanent employees
*(S) Seasonal employees

Quality Assurance Branch Problems

Quality Assurance Branch officials at both Austin and Fresno said they had problems with computer generated reports and with reviewing certain service center functions. Specifically:

--A Fresno official said that quality assurance reports, showing types of errors made and error rates by service center function, were not issued during the filing season. The reports were not issued because the computer had to be used for processing tax returns and other higher priority work. This affected all service center activities. Without these reports, managers could not easily isolate problem areas so that corrective actions could be taken. The Quality Assurance Branch did, however, manually produce reports that gave service center functions some indication of quality problems.

--Both Austin and Fresno had difficulty reviewing the quality of the corrections made on ERS because of inadequate sampling criteria. According to a Fresno official, once a tax examiner corrects a tax return error on ERS and releases it to the computer, quality assurance reviewers cannot retrieve the correction to assess its accuracy before it goes into the computer. Quality assurance reviewers have to use a computer generated printout on a sample of the tax examiner's work to determine if proper corrections were made. However, the sampling criteria used on ERS was designed to select primarily corrections that were made on the more simple tax returns, such as 1040EZ and 1040A, worked by the tax examiners that day instead of sampling all types of returns. More simple returns, such as the 1040A, usually contain less complicated errors to correct than other returns, such as 1040s with business or farm income. As a result, less quality review was done on the more error prone tax returns, which increased the possibility that tax examiners' errors would go undetected, thereby increasing the number of erroneous math error notices generated. According to a Fresno official, the sampling criteria was changed in July to allow quality assurance to review samples of all types of returns corrected by tax examiners. Also, during the filing season, Fresno had problems locating tax returns needed to review the ERS samples because by the time they received the printouts the returns had been moved to other areas of the service center.

--Both service centers had difficulty reviewing the work done on DIS. Like ERS, the quality review on DIS is performed by examining printed transcripts of employees' work. According to an Austin official, the original DIS quality review programs did not provide the necessary data to locate the returns and conduct the review. Fresno encountered problems in reading the transcripts and securing the tax returns. To overcome these problems, Fresno developed an online review system which eliminated the need for the printed transcripts and allowed for review of the returns on the day the data was entered into the computer while the tax returns were readily available.

--Both service centers experienced problems in reviewing notices before the notices were mailed to the taxpayers. According to a Fresno official, computer problems have caused math error notices to be generated about a day later than last year. In 1984 the notice review unit, which reviews the math error notices, would get the printed notices on Monday; this year it got the notices on Tuesday. This creates a problem because the notices must be mailed by Friday so that the taxpayers will receive them by the following Monday, which is the assessment date on the notices. According to a Fresno official, less time was available to review the notices which decreased the quality of the reviews and allowed more erroneous taxpayer notices to be issued. An Austin official said that the notice review unit had difficulty locating the tax returns needed to review the notices. During one week, for example, only 10 percent of the returns requested from the files section were located. Austin also did not have enough staff to review all the notices and had to use staff from other service center functions.

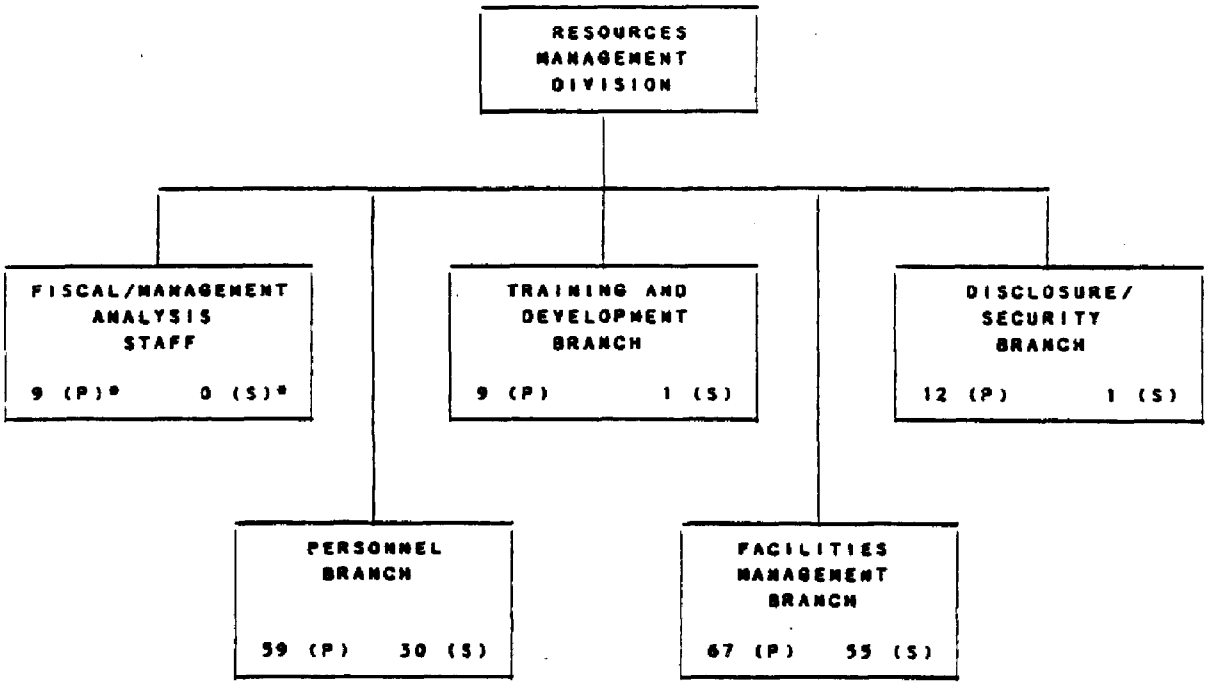
RESOURCES MANAGEMENT DIVISION

Although organized differently in the two service centers, as indicated by the following chart, the Resources Management Division in each center serves the same function--it provides basic administrative support services for the center.

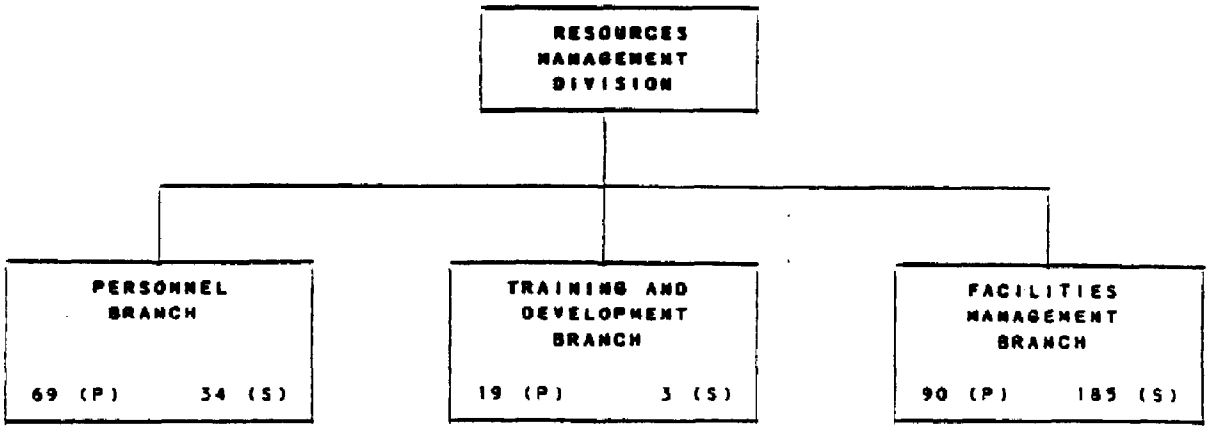
At Fresno, the Division consists of four branches (Personnel, Training and Development, Disclosure and Security, and Facilities Management) and a Fiscal/Management Analysis staff. The Division is responsible for (1) preparing the service center's annual budget proposal and monitoring actual performance against the approved fiscal year budget; (2) hiring, training, and paying service center personnel; (3) allocating, coordinating and maintaining service center office and warehouse space; (4) safeguarding service center documents and taxpayer returns and processing taxpayer disclosure requests; and (5) acting as the service center director's and division chiefs' principal advisor on administrative matters.

Austin's Resources Management Division consists of three branches: Personnel, Training and Development, and Facilities Management. The Division is responsible for the same activities as at Fresno. The disclosure responsibilities are handled by staff in the Division Director's office.

FRESNO SERVICE CENTER



AUSTIN SERVICE CENTER



*(P) Permanent employees
*(S) Seasonal employees

Personnel Branch Problems

Both service centers had difficulties hiring enough people at the right time. According to an Austin official, this occurred because the Austin area has a low unemployment rate and people with the skills needed for service center work can get permanent positions with commercial companies. The service center, conversely, can offer workers only seasonal or intermittent employment. Also, workers would prefer not to work nights and weekends which is required for some service center functions. Although Austin was able to hire the workers needed to handle the 1985 workload--it hired 3,270 people between September 1984 and May 1985--most of these employees had little experience for the work they had to do.

An Austin official said that the Personnel Branch expects to have similar hiring difficulties next year. The attrition rate for seasonal and intermittent employees is about 80 percent, while it is less than 10 percent for permanent employees. The Austin official said the center is going to try to cut down attrition of seasonal employees. In an effort to reemploy seasonal workers, the service center plans to give more orientation to new employees and to hire additional managers to more effectively deal with the new employees.

Fresno's Personnel Branch encountered hiring problems similar to those experienced by Austin. Fresno had to hire 3,286 seasonal and intermittent employees for the 1985 filing season. It also had difficulties placing employees in new positions within the service center. For example, when the Underreporter Branch was created this year, employees from other functions, such as the Document Perfection Branch, transferred to this Branch. This meant that Personnel had to find skilled employees to replace those that left the Document Perfection Branch. Also, according to a Fresno official, some service center positions, such as those in extracting and sorting, were downgraded causing Personnel to do additional work to get people into the lower graded positions and to find other work at the same grade level for those employees affected by the downgrading.

Training and Development Branch Problems

Both the Austin and Fresno Service Centers experienced delays in receiving training material, such as handbooks and training manuals, from the National Office. Training material is usually available to the service centers in early December. This year, according to service center officials, the material was not received until late January at Fresno and February at Austin. In addition, the quality of some of the training material was poor. For example, there were some incorrect solutions to training problems for the Error Resolution System. Due to the late arrival of the training material, not all the errors found in the material could be corrected.

The Austin Service Center also had problems with the training tape for DIS and ERS. The ERS tape did not work, so trainees could not do any problem solving on the ERS terminals. Instead they had to rely on classroom training.

Disclosure and Security Problems

Disclosure

The Disclosure Officers in both service centers said they experienced difficulty responding timely to taxpayers' Freedom of Information Act requests during the 1985 tax season. Disclosure relies on other service center functions, such as the Tax Accounts Division and Accounting Branch, to perform research on the requests. These functions were not always able to provide that service in a timely manner because the research required use of IDRS, which was not always available. Also, because of limited IDRS availability and other problems which increased the workload of these other functions, they could not give Disclosure's research requests a high priority. As a result, Disclosure could not answer the taxpayers in a timely manner.

The Austin Disclosure Officer said that delays in responding to taxpayers affected the National Office's workload. For example, in five Freedom of Information Act requests, the taxpayers filed appeals with the National Office because the service center did not respond to the requests within 10 days, which is the statutory time limit for responding.

According to the Fresno and Austin Disclosure Officers, the service centers expect the volume of requests to increase substantially during the next year due to the adverse publicity surrounding IRS' new computer system.

Security

Both service centers experienced problems with computerized security data after October 1984, when the new service center computer system was installed. At Fresno, for example, the quarterly security profile report, which shows what data was accessed and who accessed it, occasionally contained garbled names and social security numbers. According to a Fresno official, no one to date has been able to determine if the problems are with the hardware or the software. Also, Fresno sometimes received security reports late. Some of these reports require a fast response if data security is breached. A Fresno official said that although late receipt of these reports could hamper security investigations, no known problems have occurred to date.

Austin experienced problems with IDRS security records. These records show if a particular employee accessed a certain IDRS command code for a taxpayer account. However, in some cases, the computer system did not record the employee's identification number. As a result, Security would not be able to identify which employee accessed the taxpayer's account if it had to investigate the account. An Austin official said that this problem was probably the result of a programming error or oversight. He said that Security monitored the computer runs and reported instances where the records did not show the employee who accessed an account to the Computer Branch for correction.

Public affairs

The adverse publicity surrounding IRS this year had a major impact on both the Fresno and Austin Service Centers' Public Affairs Offices. Before April 1985, the Austin Service Center's public affairs were handled through the Austin District Public Affairs Office. After the shredding incident at the Austin Service Center (see p. 59), the service center created its own Public Affairs Office.

The workload at Fresno's Public Affairs Office increased substantially during this tax filing season. For example, between January and June 1985 the office received 557 inquiries from media sources compared to 236 inquiries between January and June 1984.

Facilities Management Branch Problems

Both the Fresno and Austin Branches had problems providing enough space for service center functions to work efficiently in 1985. According to Austin and Fresno officials, the space problems resulted from increases in the volume and type of work done at the service centers. For example, an Austin official said that the Compliance Division alone has grown from 121 to 600 people over the last 5 years. Since 1982, Fresno has added 240 people to its Compliance Division. Officials in both service centers said that when changes are made that require more space, the Branch is often given little advance notice, making it difficult to budget for space allocation, space location, and equipment needs. The Austin Service Center also had construction projects going on during the filing season that compounded existing space problems.

Both service centers had difficulties installing new computer systems and equipment. According to a Fresno official, each system is designed to fit all 10 service centers even though all the centers do not have the same configuration. As a result, most systems, when they arrive, need some engineering work done to them. Fresno, however, did not have an in-house engineer, and the region had not been able to hire one for 2 years. Thus, it is often difficult and time-consuming to install these systems.

An Austin official said that the service center was able to accommodate the new equipment by working closely with the contractor's engineers to get it squeezed in. However, last minute equipment specification changes created problems and prevented the center from adequately planning its space allocations and doing site preparation.

In addition, the design changes that had to be made were costly. For example, when the new computer system was being installed in April 1984, Fresno received some design changes which cost the center about $30,000 to modify the back-up power system. Also, the additional air conditioning required due to this modification was not included in the specification but had to be done at a cost of about $20,000. As late as November 1984, when the computer was operational, some control panels had to be relocated which required rerunning the electrical wiring at a cost of about $5,000. The Austin Service Center's Branch also received incorrect specifications for the air conditioning system and had to make design changes to accommodate the Center's system configuration.

Fiscal/Management Analysis Staff Problems

At the Fresno Service Center, during January 1985, discrepancies began to appear in the computer-generated "Performance and Cost Reports". These reports consist of a "Managers Report", which gives details by section of the staff year resources used to date, and an "Abstract", which is supposed to be a summary of the information in the Managers Report. According to a Fresno official, however, an overall discrepancy of 46,000 staff hours existed between these two reports in June 1985. Because managers historically have used the Performance and Cost Reports to project their staffing needs for the rest of the year, this difference could have a major impact on budgeting and on requests for additional staff. Officials did not know which, if either, of the reports was correct. In fact, the official accounting journal, which has the actual number of hours worked and salaries paid showed staff hours about half way between the two computer reports.

Both the Fresno and Austin Service Centers experienced problems with issuing paychecks on time and, in some cases, had to issue emergency checks. These problems are directly related to the problems the Detroit Data Center experienced this year. The Service Center's personnel forms are routed through the Detroit Data Center. The Detroit Data Center could not keep up with the workload this year, which affected the processing of paychecks for IRS nationwide.

Potential Problems

Both the Fresno and Austin Service Centers have been informed by the National Office that funding for the next fiscal year for the Resources Management Division will be reduced. Fresno has been informed by the National Office that the Division's budget for the next fiscal year will be reduced by 20 percent. This reduction will require "belt-tightening" and possibly the elimination of some activities. To date, no decisions have been made on how the cost reduction will be handled. Austin has been informed by the National Office that for the next fiscal year its Resources Management Division will be funded for 42 staff years less than the Division's approved staff years. An Austin official said he did not know how this problem will be resolved.

PROBLEM RESOLUTION OFFICE

The Problem Resolution Offices in the Fresno and Austin Service Centers are responsible for resolving taxpayer problems that, for whatever reason, have not been resolved by the normal IRS processes. Cases come to their attention from two primary sources--some are identified and referred from within the service center, others are identified and referred by the various district offices.

Cases are referred to the Problem Resolution Office if (1) the taxpayer has made two inquiries about refunds and it has been at least 90 days since the return was filed, (2) the taxpayer has made an inquiry and has not received a response within the time frames IRS has specified, or (3) the taxpayer's response to a third or fourth collection notice indicates a lack of service center action to resolve the problem. Problem Resolution cases are actually worked by the particular service center function responsible for resolving the taxpayer's problem.

Problem Resolution Office Problems

The Problem Resolution Offices in Austin and Fresno experienced problems that were related to the new computer system. For example, limited IDRS availability prevented service center personnel working the cases, such as those in the Adjustments/Correspondence Branch, from resolving them timely. The limited IDRS access also contributed to an aging of problem resolution case inventories, which can lead to more taxpayer inquiries and poor taxpayer relations. In that regard, the Problem Resolution Office's goals are to resolve cases within 15 to 20 days and to close 80 to 85 percent of all cases within 30 days. During the first six months of 1985, Fresno did not meet these goals while Austin met them on several occasions.

	Fresno Service Center		Austin Service Center	
Month	Average days open	Percent of cases closed within 30 days	Average days open	Percent of cases closed within 30 days
Jan. 1985	30.3	54.9	17.9	71.6
Feb. 1985	23.9	75.4	15.2	85.1
March 1985	29.4	58.0	22.1	70.8
April 1985	23.6	77.0	25.4	58.3
May 1985	22.9	76.0	16.2	79.4
June 1985	36.4	60.9	17.9	79.7

The number of cases received this year by the Austin Service Center was about the same as last year, but the Problem Resolution Offices in the districts serviced by Austin received more taxpayer inquiries because of the problems experienced in processing tax returns this year. The Austin Problem Resolution Officer said that the inability of taxpayers to reach IRS on the toll-free telephone number may have frustrated some taxpayers and resulted in more inquiries. He said IRS needs the capability to answer more telephone calls and to staff the lines with knowledgeable people.

THE HANDLING OF TAXPAYER CORRESPONDENCE AT THE FRESNO AND AUSTIN SERVICE CENTERS

Newspaper accounts alleged that employees in both the Fresno and Austin Service Centers had inappropriately destroyed taxpayer correspondence. While doing our work at the two centers, we examined into the basis for the allegations. The following information was obtained from (1) interviews with service center officials, (2) reviews of service center correspondence processing procedures, and (3) examinations of various IRS correspondence relating to the issue.

FRESNO SERVICE CENTER

Newspaper accounts alleged that IRS employees at the Fresno Service Center were instructed by their supervisors to destroy between 50,000 and 63,000 letters received from business taxpayers concerning their balance due notices. The allegation, made by the National Treasury Employees Union, was that the taxpayer correspondence was destroyed without thoroughly researching the cases in order to reduce a rising correspondence backlog and thereby create an appearance of increased productivity.

According to Fresno's officials, from about December 5, 1984, to February 15, 1985, the service center modified its correspondence processing procedures by limiting the amount of research that had to be performed on some cases within a specific group of about 27,000 balance due inquiries from business taxpayers. The modified procedures also eliminated the requirement that tax examiners send letters to taxpayers informing them that their inquiries had been resolved. As a result of the modified correspondence procedures, some taxpayers may have been subjected to subsequent collection action because IRS assumed that the taxpayers' accounts were settled when they were not. Also, some taxpayers would not have received letters from IRS explaining that their inquiries had been resolved.

Service center management said that they modified the correspondence processing procedures to help reduce growing correspondence inventories that were caused, for the most part, by the lack of sufficient computer availability to work and close the correspondence cases. According to Fresno officials, the modified procedures did not result in the premature destruction of taxpayer correspondence. Rather, they said that the taxpayer correspondence was destroyed after the cases were closed and quality-reviewed, which is in accordance with IRS procedures.

IRS Procedures For Processing Taxpayer Correspondence

The following summarizes IRS' procedures for (1) researching taxpayer correspondence, (2) informing taxpayers of how their cases were resolved, and (3) destroying taxpayer correspondence.

Research procedures

When processing taxpayers' inquiries on balance due accounts, the following research actions are required.

1. The taxpayer inquiry is analyzed to determine what action is required to resolve the inquiry.

2. IDRS is checked to determine the status of the taxpayer's account and whether a payment had posted to the account after the balance due notice in question was issued. If IDRS shows that the payment has posted to the taxpayer's account, the case can be closed.

3. If there is not enough information on IDRS to close the case, a master file transcript of the taxpayer's account is requested. If the transcript shows that the payment in question has been resolved, the case can be closed. If not, more research must be done, such as reviewing the taxpayer's tax return.

Procedures for responding to taxpayers

When taxpayers' balance due inquiries are resolved, the taxpayers should receive either (1) a computer-generated notice which tells what action was taken to resolve the balance due condition or (2) a personalized letter from the tax examiner who handled the case explaining that the issue in question has been resolved.

A personalized letter is sent to a taxpayer when the action that resolves the taxpayer inquiry will not automatically cause a computer-generated notice to be issued to the taxpayer. For example, at times a taxpayer's tax payment does not post to the master file until after the taxpayer receives a balance due notice. When the payment does post to the master file, the computer will automatically clear the balance due condition. However, the computer will not generate a notice informing the taxpayer that the balance due condition was resolved--the tax examiner handling the taxpayer inquiry must generate the letter.

The computer will automatically generate a notice to the taxpayer when it takes an overpayment from one of the taxpayer's tax modules and applies it to another module where there is an underpayment. For example, if a taxpayer had overpaid the Federal Unemployment Tax Act (FUTA) tax but still owed tax on the Form 941 (Employer's Quarterly Federal Tax Return), the computer would automatically transfer the FUTA overpayment to the underpaid 941 account. The computer should also automatically issue the taxpayer a notice explaining this transaction. In this case, the tax examiner is not required to send the taxpayer a personalized letter.

Procedures for destroying taxpayer correspondence

After a tax examiner resolves the taxpayer's inquiry, the documents associated with the case, such as the taxpayer's written inquiry and the copy of the taxpayer's master file transcript, are coded "D" (for destroy) by the tax examiner and forwarded to the quality review function. The only documents that should not be coded for destruction are those that show that the tax examiner adjusted the taxpayer's account. For example, if a taxpayer requested an abatement of the delinquency penalty for reasonable cause and the tax examiner agreed, the document showing the abatement action should not be coded for destruction. All case documents will be coded for destruction in those cases where the tax examiner did not have to adjust the taxpayer's account. For example, if a taxpayer inquiry concerned a payment which did not post to the account until after the balance due notice was issued, the tax examiner does not have to adjust the account because the computer would have already made the adjustment. In this case, the taxpayer's inquiry and all other documents associated with the case will be destroyed.

How The Correspondence In Question Was Handled

In anticipation of converting to the new computer system in October 1984, service center management decided to build up an inventory of correspondence cases which would be worked during the conversion process. According to Fresno officials, the service center took the following action on about 27,000 balance due inquiries received in August and September 1984 from businesses.

1. The taxpayers were sent postcards acknowledging IRS' receipt of the taxpayers' inquiries.

2. A hold of 15 weeks was put on the cases to prevent the issuance of subsequent balance due notices.

3. Transcripts of the taxpayers' master file accounts were ordered.

4. The cases were then set aside to be worked during the conversion process.

The conversion process was delayed by IRS' National Office and when the new computer system was on-line it did not operate efficiently. As a result, correspondence inventories continued to grow because the amount of time the computer was available to work the cases was less than planned. In an effort to reduce the inventories and to concentrate its resources on taxpayer correspondence that appeared to have problems requiring immediate action, service center management decided to limit the amount of research done on the 27,000 cases. Before modifying the

correspondence procedures, a sample of 50 balance due cases was taken to determine if the cases could be effectively closed by limiting the research. The sample results showed the following.

--27 cases had already been resolved because the payments in question had posted to the master file. The account balances on these cases were zero so that no subsequent balance due notices would have been sent to the taxpayers.

--22 cases had already been resolved because the payments in question had been offset by the computer transferring an overpayment from another account. These taxpayers were sent computer-generated notices explaining the transfer of funds from one account to another. Also, 19 of the 22 cases still showed a balance due amount and new balance due notices showing the corrected amount had been sent to the taxpayers.

--1 case showed no change from the balance due notice in question.

The sample results indicated to service center management that the cases could be closed without obtaining additional master file transcripts. According to Fresno officials, the service center then used, during the period December 5, 1984, to about February 15, 1985, the following procedures for working the 27,000 cases.

1. If the account showed a zero balance or if no account existed on IDRS and the taxpayer's inquiry just concerned the one payment issue, the case was closed and the correspondence was coded "D" for destruction.

2. If the case contained more than one taxpayer issue, the case was controlled on IDRS and a master file transcript was ordered.

3. If the case still showed a balance due amount on IDRS, a hold of 26 weeks was put on the case to prevent subsequent balance due notices from being generated. The case was put aside to be worked later.

4. If the case involved the 4th balance due notice (final notice before seizure), the case was processed immediately in accordance with normal IRS correspondence processing procedures.

IRS officials did not have estimates on the number of cases that fell into each of the above four categories. However, the cases that would have been affected most by the modified procedures were those that fell into the first category.

Those cases would have been affected as follows:

--If the case was on IDRS and showed a zero balance and did not deal with an issue that would automatically generate a computer notice to the taxpayer, no personalized letter would have been sent to the taxpayer. Therefore, the taxpayer would not know that his or her inquiry had been resolved.

--If the case did not appear on IDRS and the master file transcript that IRS ordered in September 1984 did not show that the payment issue had been resolved, it was assumed that the issue was resolved when it may not have been. In this case, the balance due amount would be below the collection tolerance required to be on IDRS. The taxpayer would be subject to subsequent IRS collection action when the accrued interest on the balance due amount brought the amount over the tolerance level.

Both of these situations could have resulted in subsequent inquiries from taxpayers on the status of their accounts.

AUSTIN SERVICE CENTER

Newspaper accounts alleged that between 4,000 and 6,000 requests from businesses that IRS adjust their accounts were inappropriately destroyed at the Austin Service Center.

Service center officials told us that taxpayer correspondence was destroyed over a 3 day period in December 1984, without the knowledge and approval of service center management. A unit manager in the Adjustments/Correspondence Branch allegedly instructed one tax examiner to destroy the correspondence without having the cases quality reviewed. Service center officials said the unit manager, who has since resigned from IRS, denied that she instructed the tax examiner to destroy the correspondence.

Service center officials said that, as best as they could determine, there was no adverse affect on the taxpayers because the correspondence would have been destroyed under established operating procedures after the cases had been quality reviewed. Service center officials said they could not determine the specific taxpayers affected because, at the time the correspondence was destroyed, the service center did not have inventory control over correspondence cases. No records were maintained on the specific correspondence handled by each correspondence unit. Service center officials said that premature destruction of correspondence could not go undetected under current procedures because inventory controls for each case are established on IDRS and weekly inventory listings are available for supervisory review.

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