

GAO

Fact Sheet for the Chairman
Subcommittee on Oversight
Committee on Ways and Means
House of Representatives

April 1993

TAX
ADMINISTRATION

Examples of Waste and
Inefficiency in IRS





United States
General Accounting Office
Washington, D.C. 20548

General Government Division

B-252874

April 27, 1993

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

Dear Mr. Chairman:

This fact sheet, prepared in response to your request, provides specific examples of waste, inefficiency, and abuse in the Internal Revenue Service (IRS). In our April 30, 1992, testimony on IRS' fiscal year 1993 budget request, we noted that much unproductive work and rework, necessitated in large part by obsolete processes and systems, occur in IRS.¹

Other information requested in your letter will be reported separately.

OBJECTIVE, SCOPE, AND METHODOLOGY

Our objective was to document examples of waste, inefficiency, and abuse in IRS. To do so, we primarily reviewed our prior reports and reports prepared by IRS' Internal Audit Division and the Department of the Treasury's Office of Inspector General. We also reviewed congressional hearings and various studies and other documents prepared by and for IRS. These included documents relating to IRS' Tax Systems Modernization (TSM) effort, including the public version of the TSM Design Master Plan, the National Research Council's 1992 report on its review of TSM, and various business area analyses done by IRS.

To avoid outdated examples, we limited our review of reports to those issued after August 1, 1990. Also, in compiling the list, we excluded examples that we believed, based on our ongoing work in the tax administration area, were no

¹Tax Administration: IRS' Budget Request for Fiscal Year 1993 (GAO/T-GGD-92-34, Apr. 30, 1992).

longer valid. Even so, some of the deficiencies noted in these more recent reports may have been corrected since the reports were issued. In preparing this fact sheet, we did not attempt to determine the extent the deficiencies in the examples presented in this report still exist.

Most of the effects listed in this fact sheet and appendixes were taken from the cited documents. In some cases, however, we added potential effects based on our knowledge of the issue. Those instances are identified by an asterisk (*).

We did our work between August 1992 and March 1993 in accordance with generally accepted government auditing standards.

RESULTS IN BRIEF

Our review of reports and other documents revealed many examples of waste and inefficiency and several of abuse or employee misconduct in IRS. These examples are listed in appendix I. We believe that many of the examples derive from IRS' antiquated computer systems, fragmented organizational structure, and inefficient work processes.

Although the instances of waste and inefficiency described in appendixes I through V involved increased costs and/or decreased revenues, the amount of those costs and revenues was generally not quantified in the source documents. In those examples where the cost or lost revenue was quantified, the amounts totaled about \$87 million. In some cases, the dollar effect was calculated on the basis of audit work at a few IRS locations. If those results are representative of the same function throughout IRS, the dollar implications could be much larger. In addition, some of the examples for which there is no dollar effect cited, such as those dealing with IRS' returns processing system and its collection process, could have potentially large savings associated with them. Also, many examples indicated that a failure to eliminate the causes of the waste, inefficiency, and abuse will erode taxpayer confidence in IRS and diminish voluntary compliance with the tax system, further increasing revenue loss.

IRS is aware of these problems. In its TSM documentation, for example, IRS identified many of the problems that contribute to its inefficiency. Along with modernizing its systems under TSM, IRS is reassessing the roles and responsibilities of its various organizational components. When TSM and related organizational changes are fully implemented, many of the inefficiencies discussed in this fact sheet should be alleviated, thus improving

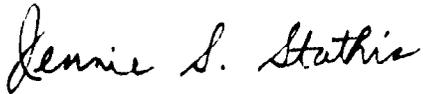
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IRS' overall effectiveness. We will continue to monitor the progress of those efforts.

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We are sending copies of this fact sheet to various congressional committees, the Secretary of the Treasury, the Commissioner of Internal Revenue, and other interested parties. Copies will be made available to others upon request.

The major contributors to this fact sheet are listed in appendix VI. Please contact me on (202) 512-5407 if you or your staff have any questions.

Sincerely yours,



Jennie S. Stathis
Director, Tax Policy and
Administration Issues

CONTENTS

	<u>Page</u>	
LETTER		
APPENDIXES		
I	EXAMPLES OF WASTE, INEFFICIENCY, AND ABUSE IN IRS FROM IRS INTERNAL AUDIT REPORTS AND DOCUMENTS	5
II	EXAMPLES OF WASTE, INEFFICIENCY, AND ABUSE IN IRS FROM DEPARTMENT OF THE TREASURY'S OFFICE OF INSPECTOR GENERAL REPORTS	16
III	EXAMPLES OF WASTE, INEFFICIENCY, AND ABUSE IN IRS FROM GAO REPORTS	19
IV	EXAMPLES OF WASTE, INEFFICIENCY, AND ABUSE IN IRS FROM IRS STUDIES AND DOCUMENTS	28
V	EXAMPLES OF WASTE, INEFFICIENCY, AND ABUSE IN IRS FROM OTHER STUDIES AND CONGRESSIONAL HEARINGS	36
VI	MAJOR CONTRIBUTORS TO THIS FACT SHEET	40

ABBREVIATIONS

ALERTS	Automated Labor and Employee Relations Tracking System
ARTS	Automated Regional Training System
IRS	Internal Revenue Service
ISMIS	Internal Security Management Information System
OIG	Office of Inspector General
TSM	Tax Systems Modernization

EXAMPLES OF WASTE, INEFFICIENCY, AND ABUSE IN IRS FROM
IRS INTERNAL AUDIT REPORTS AND DOCUMENTS^a

No.	Example	Effect
1	IRS does not centralize information for its criminal investigations. Information is kept in the Case Management and Time Reporting System and in project files. Not all information can be pulled from the project files and often files cannot be found.	-- Taxpayers' rights are violated because information on taxpayer accounts is maintained in an unpublished system which could subject IRS to possible litigation.
2	At the two service centers reviewed, the candling process used to check envelope contents did not adequately ensure that all contents had been removed from envelopes before they were discarded. Internal Audit found 45 documents in the 55,000 envelopes reviewed, including 11 checks. This sample represented about 1 hour's work from both centers during the filing season.	-- Potential exists for lost revenue of more than the \$71,000 in the sample reviewed. -- Additional cost to resolve taxpayer problems resulting from IRS throwing out tax documents and checks.

APPENDIX I

No.	Example	Effect
3	<p>Interest on certain taxpayer accounts must sometimes be manually calculated. Processing of these accounts (known as restricted interest accounts) is fragmented among several service center units, branches, and divisions. In addition, interest charges were not being properly assessed. Instructions for handling these accounts and assessing interest are not contained in one handbook and vary in quality.</p>	<ul style="list-style-type: none"> -- Potential exists for inequitable treatment of taxpayers. -- Additional cost incurred by other IRS functions to correct errors. -- Potential exists for lost revenue if interest assessments are undercharged.
4	<p>Processing of employee benefit plan returns could be further improved if IRS took steps to (1) reduce and improve correspondence, (2) eliminate unnecessary processing steps, and (3) enhance computer programs to identify erroneous pension-related deductions on Forms 1040.</p>	<ul style="list-style-type: none"> -- IRS could save an estimated \$538,000 annually. -- IRS could reduce lost tax revenue from erroneously claimed pension-related deductions. (Internal Audit estimated that about \$13 million in taxes was being avoided.)

APPENDIX I

No.	Example	Effect
5	<p>Contract administration controls need improvement in the Automated Data Processing Support Services Contract to ensure services are obtained at the most advantageous cost to the government and in accordance with acquisition regulations. Internal Audit found that the software used to evaluate contract cost proposals was used incorrectly and that market surveys were not required for certain proposals.</p>	<ul style="list-style-type: none"> -- IRS' costs for automated data processing contracting support may be higher than necessary. -- Contract cost proposals were accepted for amounts higher than required in the contract. -- IRS inconsistently handled reimbursement of contractor travel costs and may have overpaid these costs.
6	<p>Of the underreporter cases pursued by two service centers for tax year 1987, 51 percent could have been excluded with better procedures and computer programs. By working these cases, staff were not able to work more productive cases.</p>	<ul style="list-style-type: none"> -- Potential exists for lost revenue from IRS pursuing unproductive cases. -- Staff resources were inefficiently allocated.

No.	Example	Effect	Reference
7	Management of administrative mail failed to ensure that all discovered taxpayer remittances were properly deposited upon receipt. In addition, discovered remittances were not kept in a secure place until they were deposited and there was no separation of duties among employees who opened and processed mail in the Adjustments/Correspondence and Collection Branches. Many employees who opened and processed mail could also access and adjust taxpayer accounts through the Integrated Data Retrieval System.	<ul style="list-style-type: none"> -- Potential exists for lost revenue from remittances that were not promptly deposited. -- Potential exists for employee theft and abuse of taxpayer information. -- Additional taxpayer assistance required to resolve problems resulting from IRS not crediting taxpayer accounts with checks or documents taxpayers sent. -- Unnecessary or incorrect notices sent to taxpayers and interest and penalty assessments erroneously applied to taxpayer accounts. 	Oct. 2, 1991 (Abstract Ref. #12010602, #12010603, and #12010604)

No.	Example	Effect	Reference
8	<p>There were several security problems relating to the Integrated Data Retrieval System. Management failed to ensure that the access list of users was kept up to date. It was taking about 124 days to remove employees who no longer needed such access from the list. Many people who no longer needed to have access to the system still had their passwords and at least one unassigned password was unaccounted for. Also, employees were not following proper signoff procedures when they stepped away from their terminals when using this system.</p>	<p>-- Potential exists for employee abuse of taxpayer information. For example, they could improperly browse through taxpayer information and make uncontrolled adjustments.</p> <p>-- The security of taxpayer information is compromised.</p>	<p>Oct. 25, 1991 (Abstract Ref. #61060805, #61060806, and #61060807)</p>
9	<p>There were inadequate controls for administering contract terms for the task order for the Automated Underreporter Project to identify overcharges and unallowable charges and prevent conflicts of interest between contractors and subcontractors.</p>	<p>-- The task order for the Automated Underreporter Project included \$609,000 in nonallowable charges and \$230,000 in overcharges for general and administrative expenses.</p>	<p>Nov. 25, 1991 Internal Audit Memo</p>

No.	Example	Effect	Reference
10	Computer programming problems resulted in errors in collection statute expiration dates for penalty assessments. As a result, penalty assessments were prematurely eliminated from the master file.	<ul style="list-style-type: none"> -- Potential exists for revenue loss from penalties prematurely deleted from the master file. -- Additional cost incurred by IRS in doing rework to correct the problem.* 	Apr. 10, 1992 (Ref. #021701)
11	A review of 384 audits of individual income tax returns closed by Examination between July 1989 and February 1990 showed that examiners looked at only one tax year in 234 of those audits. Of those 234, 19 percent warranted examination action in an additional year because issues from the original year examined existed in subsequent years.	<ul style="list-style-type: none"> -- Potential exists for revenue loss from not examining returns from other years in addition to the year being audited. -- Potential exists for taxpayers to be treated inequitably. 	May 14, 1992 (Ref. #022202)

No.	Example	Effect	Reference
12	<p>Service center tax examiners failed to send complete correspondence to taxpayers telling them when to expect to hear from IRS again, due dates for responding to IRS, and the consequences for failure to respond. Many letters also contained spelling and grammatical errors. In addition, in 13 percent of 103 closed cases reviewed, the examiners did not always close the cases completely or correctly, with their final responses to the taxpayers not always addressing the appropriate issues.</p>	<ul style="list-style-type: none"> -- Rework may be necessary to correctly close cases. -- Additional work needed to provide assistance and respond to taxpayer inquiries about the correspondence. -- Treatment of taxpayers is inconsistent. 	<p>May 14, 1992 (Ref. #022202)</p> <p>Sept. 1, 1992 (Abstract Ref. #62130803 and #62130805)</p>
13	<p>In the one district office reviewed, revenue officers did not always timely file liens on cases closed as currently not collectible. Some liens were filed from 4 to 322 days late. Also, in a review of 25 randomly selected uncollectible cases, 12 were closed due to a hardship on the taxpayer. Revenue officers assigned inappropriate reactivation codes to 10 of the 12 cases and did not match information in the case file.</p>	<ul style="list-style-type: none"> -- Potential exists for revenue loss from not filing liens in a timely manner. -- Potential exists for revenue loss because an incorrect code might keep a case from being reactivated when a taxpayer's financial circumstances improve. -- Taxpayers were treated inconsistently. 	<p>Sept. 10, 1992 (Abstract Ref. #62140403 and #62140404)</p>

No.	Example	Effect	Reference
14	A review of one service center's deposit function identified inadequate controls over the processing of payments. Instead of depositing remittances by the next business day if \$10,000 or less or on the same day if over \$10,000, about 5 percent of the remittances sampled took 3 or more days to be deposited (an average of 11 days).	<ul style="list-style-type: none"> -- Revenue loss of about \$87,000 from the sample reviewed for interest not earned on funds not deposited in a timely manner. -- Potential exists for unnecessary taxpayer correspondence and additional IRS work in responding to that correspondence. 	Sept. 14, 1992 (Abstract Ref. #12090201)
15	IRS violated the Bankruptcy Code in one district by failing to identify and abate assessments of taxes, penalties, and interest that had been posted to the master file in 8 of 66 cases reviewed where the taxpayers had initiated bankruptcy proceedings.	<ul style="list-style-type: none"> -- Taxpayers could be treated inconsistently.* -- IRS could be held liable for taking actions (i.e., not abating tax assessments) in violation of the bankruptcy code. -- IRS may be required to do additional work to make abatements.* 	Sept. 16, 1992 (Abstract Ref. #82050603)

No.	Example	Effect	Reference
16	<p>Discrepancies were found in one service center's controls for tracking outstanding returns ordered by the Questionable Refund Detection Team. Internal Audit's analysis showed 7 percent of the returns were outstanding while the service center log showed 17 percent.</p>	<p>-- Some returns did not get properly screened prior to the refund deletion deadline, which could result in erroneous refunds.</p> <p>-- Recovering fraudulent refunds after they are issued results in additional costs; some of the refunds might never be recovered.</p>	<p>Sept. 18, 1992 (Abstract Ref. #12100402)</p>
17	<p>Collection's employment tax adjustment program did not establish a minimum tolerance level for screening out proposed assessment cases which are not cost-effective to pursue. Of the cases sampled, 43 percent would not have been pursued had training manual criteria for screening out unproductive cases been applied.</p>	<p>-- Potential exists for inconsistent treatment of taxpayers.</p> <p>-- Resources are inefficiently used.</p>	<p>Sept. 25, 1992 (Abstract Ref. #02321508)</p>

No.	Example	Effect	Reference
18	<p>Criminal investigation seizure procedures require seized money to be deposited into a Federal Reserve Bank account promptly. In five of seven seizures reviewed in one district, funds were stored in safe deposit boxes from 7 to 57 workdays before being deposited in an account. In another district, checks for more than \$230,000 were stored in a safe deposit box for about 4 months.</p>	<p>-- When money is not promptly deposited, the U.S. government cannot use the money to help pay current obligations. Thus the amount of interest paid by the government increases.</p>	<p>Sept. 25, 1992 (Abstract Ref. #02340502)</p>
19	<p>There are no comprehensive guidelines for controlling the inventory of appeals cases. Existing guidelines do not require physical inventories or include comprehensive procedures for resolving case discrepancies identified through a computerized comparison of cases in two databases. Inventory control problems exist even when there are no discrepancies between the two databases.</p>	<p>-- Significant backlogs of mismatched appeals cases have accumulated in several Appeals offices.</p> <p>-- Potential exists for revenue increase of about \$5 million from implementing proper internal controls.</p> <p>-- Research is duplicated for repeat-case discrepancies.</p>	<p>Sept. 30, 1992 (Abstract Ref. #02330202)</p>

No.	Example	Effect	Reference
20	Examiners in the Error Resolution Unit at the one service center reviewed did not correctly resolve about 10 percent of the returns they processed.	<ul style="list-style-type: none"><li data-bbox="946 322 1668 388">-- Incorrect notices were sent to taxpayers.<li data-bbox="946 421 1668 520">-- IRS incurs additional costs in responding to taxpayer inquiries about the incorrect notices.<li data-bbox="946 553 1668 619">-- IRS has to do additional rework to correct cases.<li data-bbox="946 652 1668 718">-- Potential exists for revenue loss from erroneous tax refunds.	Nov. 16, 1992 (Abstract Ref. #93040201)

^aThese examples were taken from Internal Audit reports or extracts of reports prepared by Internal Audit.

EXAMPLES OF WASTE, INEFFICIENCY, AND ABUSE IN IRS FROM
DEPARTMENT OF THE TREASURY'S OFFICE OF INSPECTOR GENERAL REPORTS

No.	Example	Effect	Reference
1	In a review of IRS' Office of Chief Inspector's investigative equipment, the Office of Inspector General (OIG) found that internal controls needed to be strengthened. They found that while physical inventories of the equipment were conducted at the end of the fiscal year, the equipment on hand did not always match the official inventory.	<ul style="list-style-type: none"> -- Lack of adequate internal controls could result in increased risk of theft, waste, and misplacement of the equipment. -- Because there was no assurance that all equipment was properly accounted for, additional waste could occur if management decided to purchase equipment on the basis of inaccurate inventory data. 	OIG-OQA-91-001-15 (Sep. 30, 1991)
2	In a review of the implementation of IRS' Ethics Action Plan, OIG found that during a 3-month period in 1991 about 19 percent of the IRS regional and district offices had not either entered and/or updated cases in the Automated Labor and Employee Relations Tracking System (ALERTS). They also found that ALERTS did not provide supervisors with a periodic report of case activity.	<ul style="list-style-type: none"> -- Potential for abuse and inefficiency with the use of ALERTS. -- ALERTS was not meeting the IRS goal of promoting consistency of discipline throughout the agency. 	OIG-OQA-91-005-9 (April 28, 1992)

No.	Example	Effect	Reference
3	<p>In a review at one district office, OIG found that management's adherence to basic ethical principles in dealings with its employees was questionable. OIG's analysis of employee and management interviews indicated a perception that management abused its authority and displayed "an elitist attitude" toward employees.^a Also, OIG found that performance measures used to gauge district operations ran counter to IRS objectives promoting high ethical standards. It found that management manipulated performance statistics by closing cases prematurely to meet deadlines or to increase statistics in a particular area and leaving known input errors in reports to portray favorable measurements.</p>	<ul style="list-style-type: none"> -- Contributed to low morale, possible irregularities and at least the perception that management did not treat its employees fairly. -- Employees have lost faith in the systems and programs they implement and in management. -- Possible loss in maximum recoverable funds from cases closed prematurely. -- Statistics do not accurately reflect reporting for this district. As a result, resources may not be applied to the most critical work areas. 	<p>OIG-OQA-93-003 (Jan. 12, 1993)</p>

No.	Example	Effect	Reference
4	In a review of the Chief Inspector's Internal Security Management Information System (ISMIS), OIG found inadequate controls over access to ISMIS information by current employees and those no longer authorized to access the system. OIG found that a number of employees had access to ISMIS enabling them to perform functions that were not within their responsibilities and other employees had gained access to the system with others' passwords.	-- Potential exists for abuse of taxpayer information and sensitive personnel information.*	OIG-OQA-93-004 (Jan. 28, 1993)

^aA congressional subcommittee also investigated misconduct by senior IRS managers. According to its 1990 report, the investigation "revealed a pattern of improper and possible unlawful conduct by a significant number of senior IRS employees that either was not properly investigated by IRS Inspection/Internal Security, or was not adequately punished by IRS management.

EXAMPLES OF WASTE, INEFFICIENCY, AND ABUSE IN IRS FROM
GAO REPORTS

No.	Example	Effect	Reference
1	IRS has delayed recording payments in taxpayers' accounts, levied assets of taxpayers who already had made installment agreements with IRS, and levied the wrong taxpayers.	<ul style="list-style-type: none"> -- An estimated 2.8 percent of the taxpayers we studied had assets erroneously levied, resulting in additional cost to IRS in correcting the levies. -- Taxpayer abuse could result from erroneous levies and collection efforts made by IRS. 	<u>Tax Administration: Extent and Causes of Erroneous Levies</u> (GAO/GGD-91-9, Dec. 21, 1990)
2	IRS could have reduced the number of unproductive underreporter cases it reviewed in 1987 by 25 percent had it implemented a prior GAO recommendation. This recommendation suggested that IRS match more than one line of income from the tax return in determining underreporters.	<ul style="list-style-type: none"> -- Potential exists for lost revenue from IRS not pursuing more productive cases. -- IRS resources were wasted. 	<u>Tax Administration: IRS Can Improve Its Program to Find Taxpayers Who Underreport Their Income</u> (GAO/GGD-91-49, Mar. 13, 1991)

No.	Example	Effect	Reference
3	<p>Use of automatic dialing systems that dial phone numbers and refer <u>only</u> answered calls to operators could allow call site employees to make more calls to taxpayers by reducing the amount of time employees spend waiting for calls to be answered. This type of automatic dialing system would be more effective than the telecomputers used at some call sites at the time of this report. When using telecomputers, once the taxpayer answered the call and an assistor verified they were talking to the taxpayer, a tape would be played for the taxpayer telling them to telephone a call site.</p>	<p>-- Employees could be wasting more than 50 staff years making calls that are not answered. We estimated these staff years could be used to collect another \$65 million.</p> <p>-- Use of telecomputers delays collection of delinquent taxes, increases the workload of calls incoming to call sites, and burdens the taxpayer with the need to call IRS.</p>	<p><u>Collecting Back Taxes: IRS Phone Operations Must Do Better</u> (GAO/IMTEC-91-39, Jun. 18, 1991)</p>
4	<p>In one-third of the negligence and substantial understatement penalty cases reviewed, IRS examiners did not properly determine if a penalty was warranted and/or the amount. In addition, in 76 percent of the cases, written explanations of the penalties to the taxpayers did not adequately explain why the case warranted the penalty.</p>	<p>-- Potential for lost revenue from IRS not asserting appropriate penalties.*</p> <p>-- IRS would need to do additional work to respond to taxpayer correspondence.*</p>	<p><u>Tax Administration: Negligence and Substantial Understatement Penalties Poorly Administered</u> (GAO/GGD-91-91, Jul. 3, 1991)</p>

No.	Example	Effect	Reference
5	Each enforcement function of IRS, a functionally organized agency, has its own separate operations, including case files, records, and management information systems.	<ul style="list-style-type: none"> -- Taxpayers must deal with multiple units or people to get their problems resolved. -- Units sometimes work at cross-purposes on the same taxpayer account. -- IRS' view of taxpayers is fragmented. -- Treatment of taxpayers is inconsistent across IRS field offices. -- IRS resources may be inefficiently allocated.* 	<u>Identifying Options for Organizational and Business Changes at IRS</u> (GAO/T-GGD-91-54, Jul. 9, 1991)
6	IRS has not developed a program to adequately prevent, identify, and collect employment tax delinquencies. Existing programs were generally untimely or infrequently used to effectively measure collection efforts.	<ul style="list-style-type: none"> -- Allocation of IRS resources is inefficient. -- Programs fail to prevent delinquencies. 	<u>Tax Administration: Efforts to Prevent, Identify, and Collect Employment Tax Delinquencies</u> (GAO/GGD-91-94, Aug. 28, 1991)

No.	Example	Effect	Reference
7	A substantial portion of IRS' accounts receivable remains outstanding at the end of each year. Much of the outstanding accounts receivable will subsequently be written off.	<ul style="list-style-type: none"> -- Potential exists for lost revenue from not pursuing the most productive cases.* -- Collection statutes often expire before IRS recovers delinquent taxes. -- Collection resources are used inefficiently. 	<u>Tax Administration: Opportunities to Increase Revenue Before Expiration of the Statutory Collection Period</u> (GAO/GGD-91-89, Sept. 30, 1991)
8	IRS' records on federal agency tax accounts contain errors causing agency accounts to become part of the accounts receivable inventory, giving the appearance that agencies have outstanding tax bills. IRS revenue officers have difficulty understanding account activity because of the volume and complexity of bookkeeping entries due to the cumbersome paper-based process agencies must follow to fulfill filing requirements.	<ul style="list-style-type: none"> -- IRS resources are used inefficiently to correct erroneous tax accounts of federal agencies.* 	<u>Tax Administration: Changes are Needed to Improve Federal Agency Tax Compliance</u> (GAO/GGD-91-45, Apr. 16, 1991) <u>Tax Administration: Federal Agency Tax Compliance Problems Remain; Improvements Are Planned</u> (GAO/GGD-92-29, Feb. 18, 1992)

No.	Example	Effect	Reference
9	IRS has not fully used payments from federal agencies to their contractors as a means by which to collect the contractors' delinquent taxes. Of the 108 cases reviewed, we found 61 in which IRS could have attempted to use contract payments to collect delinquencies but did not.	-- Potential exists for lost tax revenue.*	<u>Tax Administration: Money Laundering Forms Could Be Used To Detect Nonfilers</u> (GAO/T-GGD-92-56, June 23, 1992)
10	About 3 of 10 taxpayer calls were answered by telephone assistors during the 1992 filing season. Other callers received busy signals or hung up while on hold before an assistor could help them.	-- The result of this could be a decline in taxpayer compliance with the voluntary tax system.*	<u>Tax Administration: Federal Contractor Tax Delinquencies and Status of the 1992 Tax Return Filing Season</u> (GAO/T-GGD-92-23, Mar. 17, 1992)
11	IRS' system for capturing data on proposed adjustments to international income does not provide consistent or comprehensive data. IRS had no overall tracking system for these adjustments and information collected was not being used internally for planning purposes.	-- IRS staff might be used inefficiently.* -- IRS is unable to track enforcement and collection efforts.	<u>International Taxation: Problems Persist in Determining Tax Effects of Intercompany Prices</u> (GAO/GGD-92-89, June 15, 1992)

No.	Example	Effect	Reference
12	Thirty-eight percent of the forms 8300 (Report of Cash Payments Over \$10,000 Received in a Trade or Business) we reviewed had no identification numbers or the numbers may have been incorrect.	<ul style="list-style-type: none"> -- Potential loss in tax revenue because forms could not be used in computer matches to identify nonfilers and underreporters. -- Costs incurred by IRS in processing unusable forms.* 	<u>Tax Administration: Money Laundering Forms Could Be Used To Detect Nonfilers</u> (GAO/T-GGD-92-56, June 23, 1992)
13	Seized assets of similar types were stored in different places, with varying storage costs within the same area, and sales of the assets were handled by different agents.	<ul style="list-style-type: none"> -- Services and programs are redundant.* -- Storage and sales costs could be reduced and revenue increased if seized property were consolidated. -- Potential exists for inconsistent treatment of seized assets. 	<u>Tax Administration: IRS' Management of Seized Assets</u> (GAO/T-GGD-92-65, Sept. 24, 1992)

No.	Example	Effect	Reference
14	<p>Electronic filing has various inefficiencies associated with it, including (1) the need for taxpayers to submit paper documents in support of the electronic transmission, (2) the need for IRS to correct electronic return errors on two different systems, and (3) the need for IRS to print and ship paper copies of electronic returns to various IRS locations. The number of fraudulent returns associated with electronic filing has been steadily increasing. Through the first 7 months of 1992, \$29.52 million in fraudulent refunds were claimed--over \$8 million of which were paid out before IRS could stop them.</p>	<p>-- IRS is not realizing electronic filing's full potential and thus is incurring the additional costs associated with processing paper returns. Available data show that a paper return costs about \$1.62 more to process than does an electronic return and that the error rate for paper returns is much higher than that for electronic returns--18 percent versus about 3 percent during the 1992 filing season.</p> <p>-- The government is losing tax revenues and incurring additional costs in dealing with fraudulent refund schemes.</p>	<p><u>Tax Administration:</u> <u>IRS Can Improve Controls Over Electronic Filing Fraud</u> (GAO/GGD-93-27, Dec. 30, 1992)</p> <p><u>Tax Administration:</u> <u>Opportunities to Increase the Use of Electronic Filing</u> (GAO/GGD-93-40, Jan. 22, 1993)</p>

No.	Example	Effect	Reference
15	<p>IRS' collection process is lengthy, antiquated, rigid, and inefficient. The first step of the process alone may take 6 months. By comparison, delinquencies in the private sector are usually resolved in 6 months. IRS also does not have enough information to allocate staff effectively and its decentralized structure tends to blur lines of responsibility and accountability.</p>	<p>-- These problems have undermined IRS' ability to collect unpaid taxes.</p>	<p><u>Internal Revenue Service Receivables</u> (GAO/HR-93-13, Dec. 1992)</p>
16	<p>IRS' remittance processing system is antiquated, which contributes to the inability of service centers to quickly process and deposit the large number of tax payments received with individual tax returns at the end of the tax return filing season. Our work at 2 of IRS' 10 service centers showed that these centers averaged 6.2 days to deposit the \$5.2 billion in tax payments they received with individual tax returns between April 15 and May 4, 1992.</p>	<p>-- We estimated that the government could have earned \$2.4 million in additional interest income if those payments had been deposited within 24 hours of receipt-- the time service centers normally take to make deposits at other times of the year.</p>	<p><u>Tax Administration: Delayed Tax Deposits Continue to Cause Lost Interest for the Government</u> (GAO/GGD-93-64, Mar. 22, 1993)</p>

No.	Example	Effect	Reference
17	<p>IRS' experience with transfer pricing issues (Section 482 of the Internal Revenue Code) in the courts has been disappointing. We reviewed cases from five corporations for which court decisions had been reached on section 482 cases in 1990 through 1992. We found these cases took an average of 14 years from the earliest tax year audited until the most recent resolution in the courts.</p>	<p>-- Long-drawn-out litigation keeps corporate tax liabilities in an uncertain status for years.</p> <p>-- Disputes over transfer pricing issues can be very expensive for taxpayers and the government because they require the employment of outside experts.</p>	<p><u>International Taxation: Updated Information on Transfer Pricing</u> (GAO/T-GGD-93-16, Mar. 25, 1993)</p>

EXAMPLES OF WASTE, INEFFICIENCY, AND ABUSE IN IRS FROM
IRS STUDIES AND DOCUMENTS

No.	Example	Effect	Reference
1	IRS tends to resort to an assembly-line model in pursuing noncompliance with separate programs and staffs for each step of the process.	<ul style="list-style-type: none"> -- IRS inefficiently uses human resources. -- IRS' systems provide a fragmented view of taxpayers. 	IRS' Plan for Human Resources (June 1992)
2	The rollout of new programs is not always coordinated well. There have been disconnects between offices or functions. Similar tests and studies were initiated in more than one function and/or office because of the lack of communication or from distrust.	<ul style="list-style-type: none"> -- IRS resources are used inefficiently. 	Same as example 1
3	Training focuses on separate occupations instead of individual tasks, skills, and knowledge. It does not focus on career paths or organizational issues.	<ul style="list-style-type: none"> -- There is duplication of effort concerning related occupations. -- The total unit cost of delivering training increases. 	Same as example 1
4	It takes about 45 days to obtain a copy of a tax return within IRS.	<ul style="list-style-type: none"> -- This time delay results in additional work for IRS to respond to taxpayer inquiries. 	The Selected IRS Systems Architecture: A Brief Overview, TSM Design Master Plan (March 1992)

No.	Example	Effect	Reference
5	There are about 6 to 7 million unnecessary contacts made with taxpayers each year to correct taxpayer account information.	-- IRS resources are used inefficiently.	Same as example 4
6	Many computer-generated enforcement notices are mailed out after a taxpayer has properly responded to a prior notice.	-- These notices result in additional work IRS has to do to respond to taxpayer inquiries.	Same as example 4
7	IRS' tax processing system is made up of a combination of on-line and batch processes using multiple, separate computer systems at 10 service centers, the Martinsburg and Detroit Computing Centers, 20 Collection call sites, and over 60 district offices. The primary means of data interchange between these systems is by magnetic tape, which is handcarried between systems at a single site or shipped between sites.	<ul style="list-style-type: none"> -- Potential exists for data to be lost if the tape gets lost or damaged when it is transported from one location to another. -- There is duplication of effort, services, and programs at multiple sites. -- IRS resources are inefficiently used. 	Same as example 4

No.	Example	Effect	Reference
8	<p>Because not all information is transcribed from returns during processing, Statistics of Income receives from the master file only 14 percent of the data needed for business returns and about 50 percent of the data needed for individual returns. The remaining information must be manually edited and transcribed. In fiscal year 1991, 152.9 staff years were budgeted for this purpose.</p>	<ul style="list-style-type: none"> -- Increased costs incurred to do something manually that could be done by computer.* -- Inefficient use of resources. 	<p>Business Area Analysis for Input Processing (Aug. 1990)</p>
9	<p>IRS' financial management processing operation is a patchwork of manual, labor-intensive procedures and stand-alone computer systems, all of which is supported by a massive paper environment. Coupons completed by taxpayers or banks account for much of the paper.</p>	<ul style="list-style-type: none"> -- Many instances of duplication of effort, revalidating and rekeying payment amounts. -- Problems with the use of coupons include errors from incorrect entries on the coupons or coupons sticking together, getting lost, or becoming torn and unreadable. 	<p>Same as example 8</p>

No.	Example	Effect	Reference
10	A major problem with the Federal Tax Deposit processing system is the time delay from when the taxpayer makes the deposit until the deposit is credited to a Treasury account and classified. The deposit float is typically 1 day, allowing the depositories rather than Treasury to benefit from 1 day's worth of interest income. The classification process adds another 3 days.	<ul style="list-style-type: none"> -- Potential lost revenue as a result of the delay in processing the deposits. -- Potential for IRS to incur additional costs while responding to taxpayer inquiries about their payments. 	Same as example 8
11	Some stand-alone computer systems are effective in accomplishing their functions timely, reducing the volume of paper documents and errors within these systems. However, these systems are not integrated and they require manual intervention, such as for screen input and tape loading.	<ul style="list-style-type: none"> -- Error rate increases significantly with manual input. 	Same as example 8
12	Current system limitations require that some transactions must be processed manually, which can take up to 6 weeks. The most common transaction type that must be manually handled is the transfer of taxpayer accounts from one service center to another.	<ul style="list-style-type: none"> -- Processing delays create problems for taxpayers who must then correspond with IRS to inquire about their payments. -- IRS incurs additional costs responding to the taxpayer inquiries.* 	Same as example 8

No.	Example	Effect	Reference
13	IRS has a system for offsetting tax liabilities with remittances that follows a certain order due to systems limitations: primary taxpayer liability, civil penalty, spousal liability, and the individual's business liability.	-- Statute of limitations for collecting delinquent taxes can expire because the remittances received were not offset against the oldest liability.	Same as example 8
14	IRS has a myriad of computer systems, each storing vital taxpayer information in separate databases. Historically, each function developed separate computer systems to meet its critical organizational needs.	-- All of these systems make it difficult to access information.	Same as example 8
15	Much of the data initially captured from an employment application by one IRS unit are the same data needed in another part of IRS to initiate background investigations.	-- Duplication of data capture for investigation purposes makes the system redundant, creates different versions of background information for the same person, and increases the potential for data errors during input.	Business Area Analysis for Workforce Management (Sept. 1992)

No.	Example	Effect	Reference
16	<p>The Automated Regional Training System (ARTS), the current nationwide training system, does not interface with any other IRS system. It does not interface with the automated personnel systems to enable trainers to plan training for new hires. Each region has a database for ARTS that was customized to suit its needs. The regions are dependent on the host system. Access to ARTS is not available to all organizations.</p>	<p>-- Redundant information is maintained in each region's database.</p> <p>-- If the host system goes down, every site using ARTS loses it.</p>	<p>Business Area Analysis for Training (Oct. 1991)</p>
17	<p>Requests for tax forms received at district office toll-free call sites are handled through a manual paper process. To process such a request, the Taxpayer Service telephone assistor manually completes an internal IRS form showing the requester's name and address and the tax forms and publications requested. The completed internal forms are sent each night to the appropriate distribution center, where the information is entered into the Centralized Inventory and Distribution System.</p>	<p>-- Operation that could be done through automation is handled manually.*</p>	<p>IRS Systems Architecture Concepts of Operation for Tax Publications and Forms Distribution (Sept. 28, 1990)</p>

No.	Example	Effect	Reference
18	<p>Potential underreporter cases are identified by matching information submitted by third parties with that from taxpayers. It takes about 12 months to assemble third party information into the Information Returns Master File, purify the data, and sort it by taxpayer. The data are then compared with summary information that has been transcribed from the Form 1040 (Individual Tax Return) and related schedules. Due to the limited quantity of information transcribed from the Form 1040 and requirements on how 1040 data are reported, a complete computerized matching of information from third parties is not possible.</p>	<p>-- Because complete computerized matching is not possible, manual intervention is required.</p>	<p>IRS Systems Architecture Concepts of Operation for the Underreporter Process (Aug. 27, 1990)</p>
19	<p>Pipeline processing, which involves receiving and transcribing tax returns and posting information to taxpayer accounts, is a heavily paper-intensive and manual set of activities. Extensive manual processes, ranging from stamping document locator numbers with a hand stamp to the manual entry of data into a computer terminal, are performed.</p>	<p>-- Large quantities of paper are shipped throughout the service centers.</p> <p>-- Potential exists for errors with manual processing.</p> <p>-- IRS uses staff resources to handle tasks that could be automated.*</p>	<p>Same as example 18</p>

No.	Example	Effect	Reference
20	IRS compartmentalizes the telephone assistance it provides. The workflow processes for telephone assistance have not changed in years. IRS has not determined how best to integrate and deploy telecommunications technology at its assistance sites. Currently, callers seeking help from IRS must use one of dozens of telephone numbers to resolve their tax-related problems because current workflows require that callers contact the organizational function with the authority to help them.	<ul style="list-style-type: none">-- It is sometimes necessary for those calling IRS to speak to more than one individual before being transferred to the person with the information to resolve their inquiries.-- Taxpayers are required to repeat their questions.-- IRS manually performs a function for which there is an automated solution.	Mission Need Statement for Telephone Routing Interactive System Project (April 1992)

EXAMPLES OF WASTE, INEFFICIENCY, AND ABUSE IN IRS FROM
OTHER STUDIES AND CONGRESSIONAL HEARINGS

No.	Example	Effect	Reference
1	<p>IRS' returns processing is currently slow, cumbersome, and predisposed to error. Any errors made by employees during data input cannot be corrected online. Because IRS still operates using a batch processing system and physically transports tapes between facilities, it takes weeks to process an entry.</p>	<ul style="list-style-type: none"> -- Error correction is difficult and time-consuming. -- IRS frequently does not have the most up-to-date information available to respond to taxpayer inquiries and frequently sends improper notices and information to taxpayers. -- Voluntary compliance will decline due to public losing respect for IRS' capabilities. -- Operating costs are high with this slow system.* -- Resources are used inefficiently.* -- Potential exists for revenue losses from errors made in processing returns and sending out erroneous refunds.* -- Additional work required by IRS employees to correct errors and respond to taxpayer inquiries.* 	<p>National Research Council's Review of the Tax Systems Modernization of the Internal Revenue Service (Sept. 92)</p>

No.	Example	Effect	Reference
2	Only a limited amount of tax return information is extracted from the paper return and stored in the master files. Paper copies of returns are stored at the Federal Record Center and retrieved and referenced for IRS actions and taxpayer inquiries. It could take a month or more to retrieve a paper copy.	<ul style="list-style-type: none"> -- Enforcement actions and resolution of taxpayer inquiries will be delayed. -- Operating costs are high.* -- Resources are used inefficiently.* 	Same as example 1
3	Service center employees have to read each paper-filed return and manually key about 40 percent of the information into the computer system. The rest of the data are not captured for the computer system; the only place the data could be found is on the paper return, which is filed along with hundreds of millions of other paper documents	<ul style="list-style-type: none"> -- Potential exists for errors during manual data entry. -- Human resources are used inefficiently to read each paper return. -- It is very time-consuming to retrieve paper returns in order to extract data that were not initially captured. 	<u>Reinventing the Way IRS Does Business Through Tax Systems Modernization</u> -- IRS testimony before the Subcommittee on Oversight, House Committee on Ways and Means (March 30, 1993)

No.	Example	Effect	Reference
4	<p>Information document matching programs are delayed each year due to IRS' continued receipt of large volumes of paper returns, delays in the receipt of the wage information from external sources, and the limited capacity of its computers. It takes 15-18 months to identify reporting discrepancies and to issue taxpayer notices. This delay is due to IRS' computers being up to full capacity during the filing season and the time required to process, perfect, and correlate all the paper and electronic information and match it with the taxpayer's accounts.</p>	<ul style="list-style-type: none"> -- The time delay erodes the efficiency of this program. -- The time delay reduces IRS chances of collecting delinquent taxes from taxpayers. 	Same as example 3
5	<p>Although IRS receives and deposits \$1.3 trillion annually, only \$3 billion is through electronic funds transfer. The balance of these receipts is collected through various paper-based systems. Most of the cash management activities are paper-driven (i.e., payment coupons and checks). For example, IRS issues about 89 million refund checks (worth about \$100 billion) through the Treasury Financial Management System.</p>	<ul style="list-style-type: none"> -- Potential exists for revenue loss. 	Same as example 3

No.	Example	Effect	Reference
6	IRS sends millions of taxpayers computer-generated bills or notices. However, other than identifying the items or dollars involved, IRS lacks the ability to tailor these communications to a particular taxpayer or their circumstances. Also, IRS' ability to associate information provided by taxpayers in response to these notices has been paper-driven. As a result, its ability to take timely action -- e.g., "stop the computer" -- even after IRS gets what it has asked for is inadequate.	-- Taxpayer misunderstandings and frustrations in dealing with IRS are great. -- IRS incurs extra costs in resolving taxpayer problems.	Same as example 3

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