



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but
There Are Delays in the Scanning Process*

March 9, 2007

Reference Number: 2007-40-047

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.

Phone Number | 202-927-7037

Email Address | Bonnie.Heald@tigta.treas.gov

Web Site | <http://www.tigta.gov>



TREASURY INSPECTOR GENERAL
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 9, 2007

MEMORANDUM FOR COMMISSIONER, WAGE AND INVESTMENT DIVISION

FROM: *Michael R. Phillips*
Michael R. Phillips
Deputy Inspector General for Audit

SUBJECT: Final Audit Report – The Correspondence Imaging System Helps to Manage Taxpayer Correspondence, but There Are Delays in the Scanning Process (Audit # 200640024)

This report presents the results of our review of the Correspondence Imaging System (CIS). The overall objectives of this review were to determine the timeliness and accuracy of processing taxpayer correspondence and other cases through the CIS and to determine whether the System is functioning as intended.

Impact on the Taxpayer

The Internal Revenue Service (IRS) receives more than 10 million pieces of paper correspondence within the Adjustments function each year. Prior to implementation of the CIS, this correspondence was routed manually to IRS employees, which sometimes resulted in delays and misrouted or lost cases. With this System, each piece of correspondence is scanned and made available electronically to the IRS employee working the case. While the CIS helps manage and control the inventory of taxpayer correspondence, not all correspondence is scanned in timely, which results in delayed case resolution and thus untimely service to taxpayers.

Synopsis

The CIS was designed to automate the handling of taxpayer-generated correspondence by having paper documents scanned into the System. Customer service representatives are assigned to work the cases and access the scanned documents to complete necessary case actions. In addition to controlling and organizing correspondence, the System automatically generates letters to taxpayers acknowledging receipt of their correspondence and inputs necessary actions



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

to the IRS Integrated Data Retrieval System¹ to stop any balance due notices from being issued while the cases are being worked. The CIS was piloted at the Accounts Management site in Austin, Texas, beginning in November 2003 and has since been implemented at five other Accounts Management sites, with the implementation at the four remaining sites beginning in Fiscal Year 2006.

Generally, once correspondence is scanned and imaged into case files, the System is providing the benefits the IRS expected. The CIS has provided the Accounts Management function with better case inventory management information. Interim letters have been generated properly and timely for timely scanned cases, and appropriate actions have been input to the Integrated Data Retrieval System for these cases.

However, delays in scanning and inaccurate and incomplete data reduced some of the anticipated System benefits. We analyzed the CIS database to identify trends in processing timeliness and reviewed a judgmental sample of 193 cases from 3 Accounts Management sites to analyze database accuracy. Overall, correspondence cases were controlled timely (input to the System so the cases could be located) approximately 80 percent of the time, which is not a significant increase when compared to the manual process timeliness rate (approximately 79 percent) used as a baseline in the CIS Business Case. Moreover, when considering the average for all types of correspondence (including amended returns and claims), only 62 percent of all cases had been controlled within 14 calendar days. Database input errors also occurred in approximately 18 percent of the cases we sampled, with 11 percent having inaccurate information and 7 percent having incomplete information.

We identified several potential causes for the processing delays and errors in inputting cases to the CIS database.

- Inconsistent System procedures, such as use of an Image Control Team (ICT) Received Date stamp at only three of six Submission Processing sites.
- No formal quality review procedures for verifying the accuracy of data input.
- Lack of resource monitoring to ensure a sufficient number of employees are assigned to the ICT unit document preparation and scanning process.
- Inconsistent procedures at the Submission Processing sites using the CIS that do not ensure timely processing of expedited cases, such as carryback loss and disaster claims.

Furthermore, we believe the IRS should consider allowing taxpayers to submit correspondence electronically via the Internet, thereby reducing or eliminating the need to handle and scan paper documents. In addition to saving considerable time and cost for the IRS to resolve taxpayer correspondence, this feature would eliminate the need for taxpayers to print and mail

¹ The Integrated Data Retrieval System is the IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.



The Correspondence Imaging System Helps to Manage Taxpayer Correspondence, but There Are Delays in the Scanning Process

correspondence. It would also allow taxpayers to receive immediate acknowledgement that the IRS had received their inquiries or claims.

Recommendations

We recommended the Director, Accounts Management, add an ICT Received Date field to the CIS database and require date stamps to be used at all the CIS Submission Processing sites to record the ICT Received Date. The Director, Accounts Management, also should expand the 14 calendar-day requirement for scanning and controlling taxpayer correspondence to include all documents input to the System. The Commissioner, Wage and Investment Division, should consider allowing taxpayers to submit correspondence electronically.

Response

IRS management agreed with one of our three recommendations and disagreed with the other two. The IRS agreed that adding the ICT Received Date field is a good idea and will study the feasibility of adding this additional field to the CIS database. The IRS also agreed to use ICT Received Date stamps, and it has already updated its internal procedures for this recommendation. IRS management disagreed with our recommendation to expand the 14 calendar-day requirement for scanning and controlling all documents input to the CIS, but it has implemented new procedures to route all amended returns that clearly include carryback loss claims directly to the Accounts Management function and has agreed to emphasize the importance of controlling all cases within 14 calendar days as much as possible. The IRS agreed in concept to allow taxpayers to submit correspondence electronically but disagreed that our recommendation was feasible to implement now or in the foreseeable future. The IRS stated implementing this recommendation would require extensive modification of all existing internal processes and systems related to taxpayer correspondence. Current Modernization plans do not include this capability, and pursuit of other priority projects will likely prevent consideration of such a system for the foreseeable future. Management's complete response to the draft report is included as Appendix IV.

Office of Audit Comments

We agree that the new IRS procedures to route all carryback claims directly to the Accounts Management function should reduce the time to work these claims. While we generally concur with IRS management's plans to emphasize the controlling of all cases within 14 calendar days as much as possible, we continue to believe that making this a written requirement would emphasize management's commitment to timely customer service and ensure all employees are aware of the importance of timely case control. Knowing the volume of cases could at times preclude meeting this requirement does not diminish the need to set this expectation clearly. The IRS did not state specifically how it intended to emphasize the importance of timely controlling cases, but we encourage the IRS to make this a written expectation, so all employees are aware



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

of this important criteria and so IRS management can monitor whether this requirement is being met effectively.

We also acknowledge there will be some technical and privacy considerations to address to allow taxpayers to correspond directly with the IRS, but we disagree with IRS management's assertion that this concept is not feasible now or in the foreseeable future. The IRS should be striving to make it as easy as possible for taxpayers to correspond with the IRS. Providing a method for customers to submit questions and correspondence via a webpage is a common application for banks and other financial institutions. The IRS currently offers certain tax practitioners the ability to submit correspondence and account questions electronically through its e-Services application. We understand that offering this service to all taxpayers would involve overcoming technical barriers, but we would expect the IRS to pursue this ability as part of its Modernization strategy, especially with its push to get more taxpayers to use the IRS.gov web site. We encourage the IRS to reconsider and take action to include this type of capability in its Modernization strategy.

Please contact me at (202) 622-6510 if you have questions or Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs), at (202) 622-5916.



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

Table of Contents

Background	Page 1
Results of Review	Page 4
The Correspondence Imaging System Has Improved the Ability to Manage Taxpayer Correspondence	Page 4
There Were Delays in Scanning Some Taxpayer Correspondence Into the Correspondence Imaging System	Page 5
<u>Recommendation 1:</u>	Page 8
<u>Recommendation 2:</u>	Page 9
The Correspondence Imaging System Includes Inaccurate and Incomplete Data	Page 9
Electronic Submission of Taxpayer Correspondence Would Help Improve the Efficiency and Timeliness of Case Resolution	Page 10
<u>Recommendation 3:</u>	Page 12
Appendices	
Appendix I – Detailed Objectives, Scope, and Methodology	Page 13
Appendix II – Major Contributors to This Report	Page 16
Appendix III – Report Distribution List	Page 17
Appendix IV – Management’s Response to the Draft Report	Page 18



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

Abbreviations

CIS	Correspondence Imaging System
ICT	Image Control Team
IRS	Internal Revenue Service



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

Background

The Correspondence Imaging System (CIS) is a new system used to scan and convert incoming taxpayer correspondence into digital images. This correspondence includes taxpayer-generated letters, responses to tax notices, amended tax returns, and claims for carryback losses and disaster losses that are worked by customer service representatives in the

The CIS was implemented to automate the handling of taxpayer correspondence and thus improve inventory controls and reduce the time needed to resolve cases.

Adjustments function within the Wage and Investment Division Accounts Management function. The CIS puts the scanned images into electronic case folders, which can be easily accessed and worked by customer service representatives. When the CIS is fully implemented, customer service representatives nationwide will have universal access to the imaged cases.

The volume of incoming taxpayer correspondence is substantial. During both Fiscal Years 2004 and 2005, the Internal Revenue Service (IRS) received more than 10 million pieces of paper correspondence within the Adjustments function to be worked by customer service representatives. Mail is received at the Submission Processing sites and is sorted and routed to its destination. Generally, unless taxpayer correspondence is addressed to a specific person or function, it is routed to the Adjustments function for resolution.

Prior to implementation of the CIS, correspondence was physically transported to the Adjustments function, possibly in a building separate from the Submission Processing site. Once the correspondence was received in the Adjustments function, clerical staff performed additional sorting, batching, routing, and classifying; recorded receipts for inventory reports; and controlled cases on the Integrated Data Retrieval System.¹ IRS managers then assigned cases to customer service representatives to research and resolve within 30 calendar days of receipt. For cases that could not be closed within 30 calendar days, interim letters were to be sent to the taxpayers providing the status of their cases. IRS managers manually monitored inventory levels with a goal of keeping the age of cases in inventory below 45 calendar days (the Fiscal Year 2006 goal was to keep 85 percent to 90 percent of the inventory below 45 calendar days old 80 percent of the time). Closed cases were either shipped to the File areas to be stored or destroyed if there was no need to maintain the paper documents.

This manual system made it difficult to meet the IRS' goal of resolving taxpayer inquiries, claims, and requests for adjustments timely. In addition, misplaced or misrouted paper documents often further delayed resolution of taxpayer cases and resulted in additional contacts

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



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

from taxpayers inquiring about their cases. Taxpayers often would make multiple contacts with the IRS, either through written correspondence or telephone calls. Putting these contacts together into one case file was difficult, time consuming, and sometimes not even possible.

With implementation of the CIS, correspondence is routed to an Image Control Team (ICT) unit, where the paper documents are scanned into the CIS and are accessible by taxpayer Social Security Number. A customer service representative can then work from an electronic image and workflow management system using the same workstation he or she uses to access the Integrated Data Retrieval System. While some manual processing of the correspondence is still needed (such as the disassembly, association, and scanning of documents into the CIS), other clerical, routing, and management functions have been automated.

The IRS stated the CIS provided the following primary benefits:

- Enables customer service representatives at different locations to access information needed to resolve a taxpayer's case.
- Reduces the time it takes correspondence to reach the customer service representatives for resolution. It is expected that implementation of the CIS, with its enhanced inventory management tools, will reduce Adjustments function over-age inventories.
- Provides enhanced ability to balance Adjustments function workload among Submission Processing sites so, if necessary, imaged cases can be systemically routed to other Submission Processing sites based on predetermined business rules. This ability to easily transfer work among Submission Processing sites makes it possible for the IRS to balance inventory for faster resolution or to recover from a disruption, such as a natural disaster, at a particular Submission Processing site.
- Provides an inventory management system that allows for more immediate analysis and control of the workload. It enhances workload management by tracking and monitoring inventory and receipts in real-time and makes available up-to-the-minute reports for any level of the organization by document type and age.
- Provides for automatic generation and recordation of interim letters when cases are not resolved within 30 calendar days of receipt.
- Allows customer service representatives to access closed case images to assist with subsequent taxpayer contacts.

The CIS was piloted at the Accounts Management site in Austin, Texas, beginning in November 2003 and was rolled out to the sixth Individual Master File² Accounts Management site in Fresno, California, in July 2005. In Fiscal Year 2006, the IRS continued implementing the CIS at the remaining four Accounts Management sites. The IRS plans to upgrade the System

² The IRS database that maintains transactions or records of individual tax accounts.



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

by converting from Microsoft Windows to a UNIX³ platform that will increase the speed of access for users. This upgrade is scheduled for January 2008.

This review was performed at the Submission Processing sites and Accounts Management sites in Austin, Texas; Atlanta, Georgia; and Fresno, California, and at the offices of the CIS administrators in Austin during the period February through June 2006. The audit was conducted in accordance with *Government Auditing Standards*. The completion of our audit was delayed approximately 3 months because we experienced difficulty in obtaining a partial copy of the CIS database. The issues related to the IRS' concern about the security of the CIS data after being provided to the Treasury Inspector General for Tax Administration and the technical problems associated with creating, moving, and storing the copy of the database. The data were ultimately provided by the contractor at the direction of the IRS. Detailed information on our audit objectives, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

³ The UNIX is a computer operating system.



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

Results of Review

The Correspondence Imaging System Has Improved the Ability to Manage Taxpayer Correspondence

Generally, once correspondence is scanned and imaged into case files, the CIS is providing the benefits the IRS expected. The System has provided managers at the Accounts Management sites with better inventory management information on Adjustments function cases. The Pilot Evaluation of the Austin Accounts Management site determined the real-time CIS reports provided management flexibility in monitoring performance and in identifying cases that needed to be reassigned or prioritized. All levels of management used these reports daily to track closures, age of closed cases, and receipts. We observed that cases could be viewed and worked using the CIS at any of the three Accounts Management sites we reviewed. At the time of our review, the System had not been fully implemented in all Accounts Management sites; therefore, we were unable to evaluate its use to balance workload among all Accounts Management sites.

After cases are input and controlled on the CIS so they can be assigned to customer service representatives for resolution, management can access overall case statistics and use the information for management decisions. Case assignments can be made either automatically or manually and can be changed depending on workload and resource factors. IRS managers we interviewed at the three Accounts Management sites stated these features have significantly improved their ability to efficiently manage their workloads.

The CIS automatically generates (1) interim letters to acknowledge receipt of taxpayer correspondence and (2) Integrated Data Retrieval System actions to prevent the issuance of balance-due notices. Taxpayers who write to the IRS with a question need to know their inquiries have been received, and those writing in response to a balance-due notice should not receive additional notices while their inquiries are being processed. Our database analysis of over 150,000 taxpayer-generated letters on the CIS determined (1) interim letters to taxpayers were issued properly and timely when taxpayer-generated letters were scanned timely into the System and (2) necessary actions, including a record of the interim letters, were taken automatically and entered on the Integrated Data Retrieval System for these cases.

Prior to implementation of the CIS, correspondence was either destroyed after resolution or kept as a paper document and filed in a warehouse. Requesting and receiving a document from paper files usually takes a minimum of 1 week and can take much longer. An employee must input a request on the Integrated Data Retrieval System; then a request for the document is printed out where the files are maintained and a clerk searches for the document and forwards it to the employee. Documents are filed according to Document Locator Number, a unique



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

14 digit number assigned to every tax document that can be easily transposed or otherwise input incorrectly. A document could already be “charged out” by another requester while an image can be accessed by any number of employees simultaneously.

In contrast, cases are archived electronically in the CIS, resulting in easy access to cases that have been worked previously. The System currently keeps all cases available for immediate access. Cases are maintained according to established document retention criteria, and closed cases can be accessed easily. The users we interviewed all agreed the ability to research closed cases is a valuable tool. For example, a taxpayer may write to the IRS to provide additional documentation if his or her initially requested action has been disallowed due to missing information such as a dependent’s Social Security Number or birth certificate. Employees save substantial time when they can access a taxpayer’s previous inquiry electronically rather than having to wait for a paper document to be retrieved or having to contact the taxpayer regarding his or her previous case.

There Were Delays in Scanning Some Taxpayer Correspondence Into the Correspondence Imaging System

Notwithstanding the benefits of the CIS, delays in scanning correspondence into the System can affect the timely resolution of taxpayer inquiries and claims. The IRS Restructuring and Reform Act of 1998⁴ requires the IRS to provide final responses to taxpayers by the 30th calendar day from the earliest IRS Received Date. If there is a delay of more than 30 calendar days in resolving the taxpayer’s inquiry or claim, an interim letter should be sent to the taxpayer explaining that the IRS has received the correspondence and is working on the appropriate corrective action. To facilitate the timely resolution of taxpayer inquiries and claims, the IRS requires taxpayer-generated letters to be controlled within 14 calendar days of receipt. These requirements are intended to ensure timely case resolution and availability of case information to respond to additional taxpayer inquiries. However, the IRS did not always meet these time periods.

We analyzed CIS data for all taxpayer-generated letters received between October 1, 2005, and March 31, 2006, for the four Submission Processing sites⁵ (located in Andover, Massachusetts; Atlanta, Austin, and Kansas City, Missouri) that had been using the System since at least April 2005. Approximately 80 percent of the letters had been controlled within the 14 calendar-day requirement. The manual processing timeliness rate for the 14 calendar-day requirement, which was used as a baseline for the CIS Business Case, was approximately 79 percent. Thus, at the time of our review, the timeliness rate for inputting cases

⁴ Pub. L. No. 105-206, 112 Stat. 685 (codified as amended in scattered sections of 2 U.S.C., 5 U.S.C. app., 16 U.S.C., 19 U.S.C., 22 U.S.C., 23 U.S.C., 26 U.S.C., 31 U.S.C., 38 U.S.C., and 49 U.S.C.).

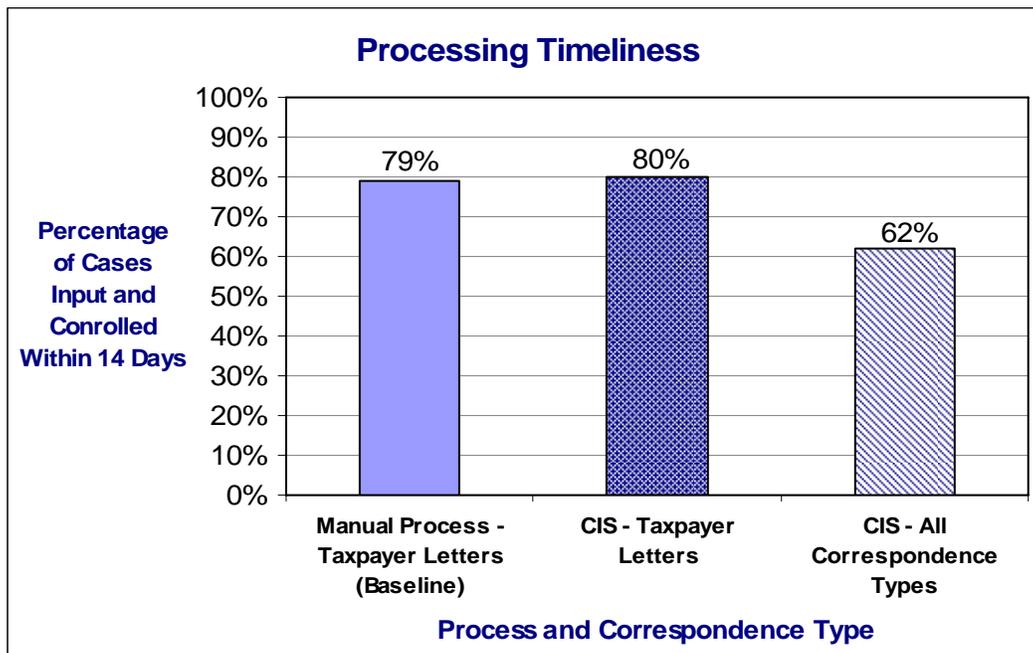
⁵ The Fresno Submission Processing Site began using the CIS after April 2005; we omitted it from our sample due to the short time prior to the October 1, 2005, starting date for the letters we reviewed.



The Correspondence Imaging System Helps to Manage Taxpayer Correspondence, but There Are Delays in the Scanning Process

on the CIS had not improved significantly over that produced by the prior manual system for recording case information from incoming taxpayer letters. Moreover, when considering the average for all types of correspondence (including amended returns and claims), only 62 percent of all CIS cases had been controlled within 14 calendar days.⁶ Figure 1 shows the timeliness rates for inputting and controlling taxpayer correspondence.

Figure 1: Case Timeliness Comparisons



Source: Treasury Inspector General for Tax Administration analysis of CIS cases – October 2005 through March 2006.

The lower average timeliness rate for all types of incoming correspondence appears to be due to a lack of defined criteria for certain types of cases. While there is a 14 calendar-day requirement for inputting and controlling taxpayer-generated letters, there is no calendar-day requirement for assigning other types of cases, such as amended tax returns or carryback loss claims. Scanning documents timely enables customer service representatives to access the cases sooner and facilitates timely resolution of the taxpayers' inquiries or claims. Because the IRS' goal is to resolve all taxpayer inquiries and adjustments within 30 calendar days, having case control timeliness requirements for all types of cases, not just taxpayer-generated letters, appears to be warranted. In addition to providing good customer service, timely resolution of taxpayer issues becomes even more critical when dealing with amended tax returns and carryback loss claims

⁶ The IRS had no baseline timeliness rate for the manual processing of all types of correspondence.



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

because these types of cases could involve refunds on which the IRS may have to pay interest if the cases are not processed timely.

Additional costs resulted from the untimely processing of carryback loss claims

When taxpayers incur significant losses from business activities or natural disasters, to the extent that their deductions exceed their income, they can opt to carry back the losses to prior tax years and obtain refunds of taxes paid in those prior years by filing an Application for Tentative Refund (Form 1045) or an Amended U.S. Individual Income Tax Return (Form 1040X), depending on their situations.

The IRS must pay interest on a refund claimed if the refund is not issued within 45 calendar days of the received date of the Form or the due date of the loss year's return, whichever is later. A 1-day delay in processing a refund check could mean the difference between paying no interest and paying a potentially significant amount of interest. For example, if a taxpayer files a claim that creates a potential refund of \$1 million and the IRS timely processes the claim within 45 calendar days and issues the refund, the taxpayer receives the refund with no interest. However, issuing the refund on the 46th day causes the IRS to pay the refund with approximately \$179,000 in interest. Consequently, timely processing of these cases is a priority.

Of the 22,563 carryback loss cases received from October 1, 2005, to March 31, 2006, in the Andover, Atlanta, Austin, and Kansas City Submission Processing Sites, 20 percent were not controlled within 14 calendar days. To evaluate the risk of additional interest costs associated with delays in processing these claims, we selected from the 22,563 carryback loss cases a separate, statistically valid sample of 138 carryback loss cases processed on the CIS that were received and closed during the period October 1, 2005, to March 31, 2006. On 23 cases (17 percent), approximately \$19,000 in interest was paid due, in part, to the cases not being input and controlled timely. One of the contributing causes for the delays was that not all carryback loss claims were identified properly when first received, and the cases were sent to areas where the employees were not trained to work carryback loss claims. The cases had to be rerouted to the appropriate ICT unit for input to the CIS.

Process monitoring for the CIS needs to be improved

Procedures require each piece of correspondence to be scanned into the CIS within 5 calendar days of the date on which it is received in the ICT unit (this is called the ICT Received Date). However, limitations prevent effective monitoring by management to ensure timely input. Only three of the six Submission Processing sites with the CIS use a date stamp to record this Date on the cases.

There is no data field in the CIS database that allows management to evaluate and correct delays.

Moreover, regardless of whether date stamps are used to record the ICT Received Date on the paper correspondence, the CIS database does not contain a field for recording that Date.



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

Without this, it is difficult for the IRS to determine whether delays are in the routing process, in the scanning process, or caused by scheduling and/or staffing problems.

The procedures and additional resources required to prepare, sort, and scan cases into the CIS may not be adequate to ensure timely processing as envisioned by its Business Case. Significant manual processing is still required to get paper correspondence ready for the System. Paper correspondence must be disassembled with all staples removed, pages must be smoothed for scanning, and separation sheets must be inserted. The time and resource requirements for these actions vary with the workload. Based on results of the CIS Pilot in Austin, the IRS initially estimated the resources needed to adequately staff the ICT units to ensure all correspondence is scanned timely. However, the IRS has not reevaluated the resource requirements to ensure staffing is commensurate with the actual workload.

Untimely scanning can cause delays in case assignment and resolution and/or issuance of interim letters (to update the taxpayers on the status of their cases). Many CIS benefits are not realized when cases are not scanned and controlled timely. This reduces the ability of management to monitor inventory levels and hinders the ability of employees to respond to taxpayer inquiries adequately.

Management Actions: In response to a recently issued Treasury Inspector General for Tax Administration audit of carryback loss claims,⁷ the IRS stated it planned to implement prescreening of all Forms 1040X with a carryback loss claim. These claims are to be routed directly to the Accounts Management function. This is consistent with existing instructions to expedite the routing of Forms 1045. Also, based on our prior report, the CIS now requires that a priority code be input for every carryback loss claim on the System.

Recommendations

Recommendation 1: To allow management to track and analyze the timeliness of CIS processing and help management determine if scanning delays are caused by insufficient resources in the ICT units or delays in forwarding correspondence to the ICT units, the Director, Accounts Management, should add an ICT Received Date field to the CIS database and require date stamps to be used at all CIS Submission Processing sites to record that Date.

Management's Response: IRS management agreed with this recommendation. They stated the addition of an ICT Received Date field is a good idea, and they will study the feasibility of adding this additional field to the CIS database. Management also agreed with the requirement to use an ICT Received Date stamp and has already updated internal procedures to include guidance for date stamping all cases received in the ICT unit.

⁷ *Untimely Processing of Taxpayer Carryback Loss Claims Resulted in Significant Interest Costs* (Reference Number 2006-40-139, dated August 31, 2006).



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

Recommendation 2: To help the Accounts Management function better monitor correspondence inventory and facilitate timely customer service, the Director, Accounts Management, should expand the 14 calendar-day requirement for scanning and controlling taxpayer correspondence to include all documents input to the CIS.

Management's Response: IRS management did not agree with this recommendation, responding that it would not be productive to establish a firm requirement to control all cases within 14 calendar days when there will be times when the requirement cannot be met. Management stated their commitment to timely control cases was evident in the new procedure they have implemented to route all amended returns that clearly include carryback loss claims directly to the Accounts Management function, and that they will continue to emphasize the importance of controlling all cases within 14 calendar days. Management stated they believe this procedure, as well as emphasis on controlling cases within 14 calendar days as much as possible, will effectively facilitate timely customer service.

Office of Audit Comment: We agree that the new IRS procedures to route all carryback claims directly to the Accounts Management function should reduce the time to work these claims. While we generally concur with IRS management's plans to emphasize the controlling of all cases within 14 calendar days as much as possible, we continue to believe that making this a written requirement would emphasize management's commitment to timely customer service and ensure all employees are aware of the importance of timely case control. Knowing the volume of cases could at times preclude meeting this requirement does not diminish the need to set this expectation clearly. The IRS did not state specifically how it intended to emphasize the importance of timely controlling cases, but we encourage the IRS to make this a written expectation, so all employees are aware of this important criteria and management can monitor whether this requirement is being met effectively.

The Correspondence Imaging System Includes Inaccurate and Incomplete Data

The CIS is designed to prioritize cases using codes that specify case priority and category. For example, high-dollar carryback loss claims are prioritized over taxpayer correspondence and internally generated notices because of the potential for payment of additional interest if the carryback loss refunds are not issued timely. Disaster claims are also prioritized to address taxpayers' emergency situations.

In our judgmental sample of 193 cases, 21 (11 percent) had inaccurate information on the CIS database, with some cases having multiple inaccuracies. The most common inaccuracies were:



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

- Incorrect category code – 10 cases.
- Incorrect priority code – 9 cases.
- Incorrect document type – 6 cases.
- Incorrect IRS Received Date – 5 cases.

Moreover, in 14 (7 percent) of the 193 cases, some documents for the case had not been scanned. In 11 of the 14 cases, the scanned image of the envelope was missing. The IRS uses the postmark on the envelope to determine the date on which a taxpayer submitted the correspondence, and CIS guidelines require all envelopes to be scanned. The postmark date can be significant if the correspondence relates to a time-sensitive issue (e.g., a request for refund must be made within 3 years of the due date of the original tax return). Without the postmark, the IRS may not know if the request was made timely. In the three remaining cases, parts of the related documentation, such as the second page of a letter, were missed in the scanning process. Original documentation may be destroyed as soon as approximately 1 week after scanning, so it is not possible for a customer service representative to obtain missing information without requesting a duplicate from the taxpayer. Contacting the taxpayer to obtain the missing information will delay any necessary corrective actions and creates additional burden on the taxpayer.

Inaccurate information on the CIS database can prevent cases from being worked timely and/or in the proper order. For example, a high-dollar carryback loss claim could be input with the wrong priority code (or no priority code at all). As a result, the claim may not be worked timely, which could result in a substantial interest cost to the IRS. Documents not scanned may cause miscommunication or unnecessary contact with taxpayers for the missing information.

Management Actions: At the time of our review, there was no formal quality review process in the ICT units to ensure quality results. However, Accounts Management officials have agreed to initiate a formal quality review process that includes a review of cases to help ensure accuracy of CIS information and completeness of cases. We believe this quality review process should address the conditions we identified.

Electronic Submission of Taxpayer Correspondence Would Help Improve the Efficiency and Timeliness of Case Resolution

One of the primary functions of the CIS is to convert paper correspondence into electronic images that are easier and faster to control and resolve. However, delays in scanning documents have resulted in the CIS not achieving all of its intended benefits. As an alternative to the manual scanning portion of the CIS process, the IRS could allow taxpayers to submit correspondence electronically via the IRS Internet web site (IRS.gov), thereby reducing or eliminating the need to handle and scan paper documents. This would help to further the President's goal of expanding electronic government (E-Government Act of 2002) to improve

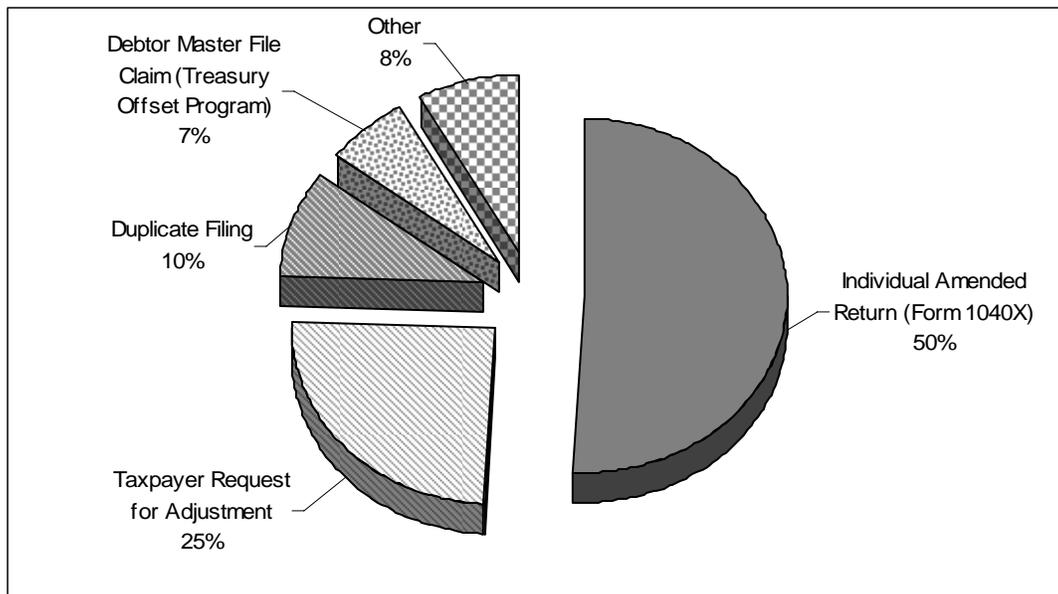


The Correspondence Imaging System Helps to Manage Taxpayer Correspondence, but There Are Delays in the Scanning Process

how the Federal Government provides services to citizens.⁸ The IRS Transcript Delivery System was fully implemented in May 2005, as an e-service, for use by both internal and external users. Additionally, on July 31, 2006, the IRS announced implementation of a new online payment agreement application through national partnerships with the professional tax community.

In addition to saving considerable time and cost for the IRS to resolve taxpayer correspondence, the electronic submission of correspondence would eliminate the need for taxpayers to print and mail correspondence if they so chose. It would also allow taxpayers to receive immediate acknowledgement that the IRS had received their inquiries or claims. Further, over 50 percent of taxpayer correspondence that must be scanned involves taxpayer-submitted forms such as Form 1040X. The IRS has consistently encouraged the electronic transmission of other types of forms because of the reduced processing cost. Figure 2 shows the types of CIS correspondence received by category.

Figure 2: CIS Cases by Category Code



Source: Treasury Inspector General for Tax Administration analysis of CIS data - November 2003 through May 2006.

Problems related to timeliness and accuracy could be alleviated and the substantial amounts of work involved to prepare documents for scanning could be eliminated if correspondence could be submitted via IRS.gov. The IRS could develop a standardized input form on which taxpayers would provide the necessary identification and control data fields (such as Social Security Number, name, tax period, etc.) and the specific questions and/or information they need to

⁸ Pub. L. No. 107-347, 116 Stat 2899.



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

convey to the IRS. This information could then be downloaded directly into the CIS, thereby eliminating the need for staff to open mail, transfer correspondence, and scan documents. Moreover, when the IRS' new modernized computer systems have the capability, taxpayers could file adjustments and claims on Forms 1040X and 1045 electronically, further reducing the amount of paper documents that need to be scanned manually into the CIS.

Recommendation

Recommendation 3: The Commissioner, Wage and Investment Division, should consider allowing taxpayers to submit correspondence electronically.

Management's Response: IRS management responded that although it agreed in concept with this recommendation, it is not feasible now or in the foreseeable future. Management stated such a capability would require extensive modification of all existing internal processes and systems related to taxpayer correspondence. It would also require the IRS to address related privacy and security issues and to incorporate new technical requirements and solutions into its Modernization Vision and Strategy. Current Modernization plans do not include this capability, and the IRS' pursuit of other priority projects will likely prevent consideration of such a system for the foreseeable future.

Office of Audit Comment: We acknowledge that there will be some technical and privacy considerations to address to allow taxpayers to correspond directly with the IRS, but we disagree with management's assertion that this concept is not feasible now or in the foreseeable future. The IRS should be striving to make it as easy as possible for taxpayers to correspond with the IRS. Providing a method for customers to submit questions and correspondence via a webpage is a common application for banks and other financial institutions. The IRS currently offers certain tax practitioners the ability to submit correspondence and account questions electronically through its e-Services application. We understand that offering this service to all taxpayers would involve overcoming technical barriers, but we would expect the IRS to be pursuing this ability as part of its Modernization strategy, especially with its push to get more taxpayers to use the IRS.gov web site. We encourage the IRS to reconsider and take action to include this type of capability in its Modernization strategy.



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

Appendix I

Detailed Objectives, Scope, and Methodology

The overall objectives of this review were to determine the timeliness and accuracy of processing taxpayer correspondence and other cases through the CIS and to determine whether the System is functioning as intended. To accomplish these objectives, we:

- I. Reviewed the CIS Business Case to identify how this project meets the objectives of the President's agenda for electronic government (i.e., offering more services online and organized around customer needs).
 - A. Reviewed the Business Case for any mention of electronic government or its general objectives, identified any planning for the CIS that is consistent with the objectives of electronic government, and held discussions with System administrators and Information Technology Services function personnel to determine whether there are plans for future changes to the CIS to meet the objectives of electronic government.
 - B. Evaluated the composition of cases currently being handled by the CIS to determine whether certain types of cases could be accepted electronically from taxpayers.
 - C. Determined whether the IRS has discussed or developed methods to work CIS cases using an email site for taxpayer-initiated correspondence and electronic filing of the Amended U.S. Individual Income Tax Returns (Form 1040X).
- II. Determined the method used to measure the success of the CIS Pilot prior to its nationwide rollout.
 - A. Interviewed Wage and Investment Division management officials to determine the initial objectives for the System and to assess implementation progress.
 - B. Requested documentation of the project plan that includes the Business Case for the development of the CIS, determined the basis used by management to measure the success of the System's implementation, and reviewed documentation showing the results produced, which prompted the rollout to additional Submission Processing sites.
 - C. Reviewed documentation of problems encountered and proposed solutions, including the resolution of problems identified previously by the IRS.
- III. Evaluated the timeliness of preparing Adjustments function receipts for CIS processing.
 - A. Conducted a walk-through of the CIS scanning units in three Submission Processing sites (located in Atlanta, Georgia; Austin, Texas; and Fresno, California) to observe



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

- the age of unprocessed cases and to identify any unique procedures used to expedite processing, and interviewed IRS personnel at the three CIS scanning units to identify common impediments that may delay the scanning process or details on unique procedures to expedite processing.
- B. Selected a judgmental sample of cases that were to be input to the CIS.
1. For each of the 3 Submission Processing sites visited, selected a judgmental sample of 30 or more cases in the Receipt and Control Units after secondary sorting, plus 30 or more additional cases from the Entity Unit in the Code and Edit function that handles the simple amended tax returns, and photocopied the entire cases. Judgmental sampling of 193 cases (60 cases from Atlanta; 73 cases from Austin; and 60 cases from Fresno) was used because the population size could not be determined.
 2. Recorded information and data for each case. If any processing problems or delays were noted, we attempted to determine the cause and whether any cases in the selected samples were not processed into the CIS.
- C. If there was a significant delay in processing priority cases into the CIS that affected the ability of customer service representatives to work the cases, determined the monetary impact of the delays.
1. From the CIS database, selected a statistically valid sample of cases (carryback loss claims) with “type” codes that indicated expedited processing was used to preclude or reduce the payment of interest. We selected a sample of 138 cases, using a 95 percent confidence level, a ± 5 percent precision rate, and an expected error rate of 10 percent.
 2. Determined whether interest was paid for each case and whether there was a delay in controlling the cases.
- D. Analyzed CIS data for all cases (1,052,350) received between October 1, 2005, and March 31, 2006, by the 4 Submission Processing sites¹ (located in Andover, Massachusetts; Atlanta, Austin, and Kansas City, Missouri) that had been using the System since at least April 2005.

¹ The Fresno Submission Processing Site began using the CIS after April 2005; we omitted it from our analysis due to the short time prior to the October 1, 2005, starting date for the letters we reviewed.



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

- IV. Evaluated the accuracy of CIS-processed records for Adjustments function receipts. For each case selected in Step III.C., we determined whether the image was legible, all pertinent information was included with the case, and the case had been identified by the appropriate type code.
- V. Determined whether collection activity was delayed and, where appropriate, whether interim letters were issued as required for CIS cases.
 - A. For each case in the sample selected in Step III.C., determined whether an Integrated Data Retrieval System² action to delay collection activity should have been input and whether (and how many) interim letters should have been issued (and when).
 - B. Compiled the results and determined whether there was a significant problem with either sending interim letters or delaying collection activity on open cases.
 - C. Analyzed CIS data for 153,470 taxpayer-generated letters received between October 1, 2005, and March 31, 2006, by the 4 submission Processing Sites³ (located in Andover, Atlanta, Austin, and Kansas City) that had been using the System since at least April 2005.
- VI. Determined whether closed CIS cases are available from the archive system when needed and the archive system is reliable. We interviewed IRS management officials to determine where and how the archive system is maintained.

Data Reliability

We assessed the CIS data obtained as sufficiently reliable for analysis because the records generally contain the same information as that shown by a limited number of paper cases we compared to printouts of information on the CIS. For 193 cases, we evaluated 7 data elements (a total of 1,351 data elements) and found 33 inaccuracies (2.5 percent). We also found no significant gaps in the data, such as days for which data were missing. To date, the Treasury Inspector General for Tax Administration had not conducted a systems audit of the CIS.

However, we did note that information in the database was inconsistent with that stamped on the paper cases (such as dates) or deemed proper (such as priority codes) by procedure for at least 1 data field in approximately 11 percent of the cases in our judgmental sample of 193 cases. We also noted a small percentage of cases in our database analysis that contained inconsistent information, such as closed dates preceding received dates.

² The Integrated Data Retrieval System is the IRS computer system capable of retrieving or updating stored information; it works in conjunction with a taxpayer's account records.

³ The Fresno Submission Processing Site began using the CIS after April 2005; we omitted it from our analysis due to the short time prior to the October 1, 2005, starting date for the letters we reviewed.



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

Appendix II

Major Contributors to This Report

Michael E. McKenney, Assistant Inspector General for Audit (Wage and Investment Income Programs)
Scott A. Macfarlane, Director
Richard J. Calderon, Audit Manager
Tracy K. Harper, Lead Auditor
John Hawkins, Senior Auditor
Andrea R. McDuffie, Auditor
Nelva A. Usher, Auditor
Joseph C. Butler, Information Technology Specialist



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

Appendix III

Report Distribution List

Commissioner C
Office of the Commissioner – Attn: Chief of Staff C
Deputy Commissioner for Services and Enforcement SE
Commissioner, Small Business/Self-Employed Division SE:S
Deputy Commissioner, Small Business/Self-Employed Division SE:S
Deputy Commissioner, Wage and Investment Division SE:W
Director, Communications, Liaison, and Disclosure, Small Business/Self-Employed Division
SE:S:CLD
Director, Compliance, Wage and Investment Division SE:W:CP
Director, Customer Account Services, Wage and Investment Division SE:W:CAS
Director, Strategy and Finance, Wage and Investment Division SE:W:S
Chief, Performance Improvement, Wage and Investment Division SE:W:S:PI
Director, Accounts Management, Wage and Investment Division SE:W:CAS:AM
Director, Submission Processing, Wage and Investment Division SE:W:CAS:SP
Chief Counsel CC
National Taxpayer Advocate TA
Director, Office of Legislative Affairs CL:LA
Director, Office of Program Evaluation and Risk Analysis RAS:O
Office of Internal Control OS:CFO:CPIC:IC
Audit Liaisons:
 Chief, GAO/TIGTA/Legislative Implementation Branch SE:S:CLD:PSP:GTL
 Senior Operations Advisor, Wage and Investment Division SE:W:S



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

Appendix IV

Management's Response to the Draft Report



COMMISSIONER
WAGE AND INVESTMENT DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
ATLANTA, GA 30308

RECEIVED
FEB - 1 2007

February 1, 2007

MEMORANDUM FOR MICHAEL R. PHILLIPS
DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Richard J. Morgante *Richard J. Morgante*
Commissioner, Wage and Investment Division

SUBJECT: Draft Audit Report – The Correspondence Imaging System
Helps to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process (Audit # 200640024)

I reviewed your draft report and appreciate your acknowledgement of our improved ability to manage taxpayer correspondence and the enhanced services we are providing for our customers through implementation of the Correspondence Imaging System (CIS).

I also appreciate your findings regarding delays in scanning and controlling cases into CIS, and while we may not be able to avoid all of these delays due to seasonal fluctuations in the volumes of correspondence and amended returns we receive, we will emphasize the importance of controlling all cases within 14 days. Likewise, we will consider adding an Image Control Team (ICT) received date field to CIS, which may enable us to identify where delays occur in the routing and scanning processes for individual cases, and ultimately may help us better plan for these fluctuations and more effectively manage our resources.

Your report also notes that delays in scanning carryback loss claims into CIS resulted in additional interest costs. Prior to receipt of your draft report, we decided to implement a procedure to route directly to Accounts Management all Forms 1040X (Amended U.S. Individual Income Tax Return) that clearly include carryback loss claims. This new procedure will remedy the condition identified in your report by moving these cases immediately to ICT rather than having Submission Processing determine whether it can process them. In addition, the CIS now requires the input of priority codes for every carryback loss claim on the system. This action will prioritize these claims so they can be worked more quickly to avoid payouts of interest.



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

2

Attached are our responses to your specific recommendations. If you have any questions, please call me at (404) 338-7060, or members of your staff may contact Betsy Kinter, Director, Customer Account Services, at (404) 338-8910.

Attachment



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

Attachment

RECOMMENDATION 1

To allow management to track and analyze the timeliness of CIS processing and help management determine if scanning delays are caused by insufficient resources in the ICT units or delays in forwarding correspondence to the ICT units, the Director, Accounts Management, should (a) add an ICT Received Date field to the CIS database and (b) require date stamps to be used at all CIS submission processing sites to record the ICT Received Date.

CORRECTIVE ACTION

(a) We agree the addition of an Image Control Team (ICT) Received Date field is a good idea and will study the feasibility of adding this additional field.

(b) We agree with this recommendation and have already updated our internal procedures in IRM 21.5.1.4.2.3, Clerical Function for the ICT CIS, to include guidance for date stamping all cases received in ICT within five calendar days of the ICT received date, or within 14 calendar days of the IRS received date. Implementation of this procedural guidance will produce data that may allow us to determine whether there are delays in the routing process or in the scanning process for individual cases, and this data may also help us determine if sufficient resources are being scheduled in ICT to accommodate the volume of cases we receive.

IMPLEMENTATION DATE

(a) June 15, 2007

(b) Completed

RESPONSIBLE OFFICIAL

Director, Accounts Management, Customer Account Services, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

(a) We will monitor this corrective action as part of our internal management control system.

RECOMMENDATION 2

To help Accounts Management better monitor correspondence inventory and facilitate timely customer service, the Director, Accounts Management, should expand the 14-calendar day requirement for scanning and controlling taxpayer correspondence to include all documents input to the CIS.



*The Correspondence Imaging System Helps
to Manage Taxpayer Correspondence, but There Are
Delays in the Scanning Process*

2

CORRECTIVE ACTION

We do not agree with this recommendation. While we will continue to emphasize the importance of controlling all cases within 14 days, we do not believe that it is productive to establish a firm requirement to do so when we know that there will be times that we can not meet such a requirement. However, our commitment to timely control cases is evident in the new procedure we implemented to route all amended returns that clearly include carryback loss claims directly to Accounts Management. We believe that this procedure, as well as our emphasis on controlling cases within 14 days as much as possible, will effectively facilitate timely customer service.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A

RECOMMENDATION 3

The Commissioner, Wage and Investment Division, should consider allowing taxpayers to submit correspondence electronically.

CORRECTIVE ACTION

Although we agree in concept with this recommendation, it is not feasible now or in the foreseeable future. Such a capability would require extensive modification of all existing internal processes and systems related to taxpayer correspondence. It would also require us to address related privacy and security issues and to incorporate new technical requirements and solutions into our Modernization Vision and Strategy. Current Modernization plans do not include this capability and our pursuit of other priority projects will likely prevent consideration of such a system for the foreseeable future.

IMPLEMENTATION DATE

N/A

RESPONSIBLE OFFICIAL

N/A

CORRECTIVE ACTION MONITORING PLAN

N/A