



*Further Consolidation of Processing Centers  
Is Underway in Response to Continued  
Increases in Electronic Filing*

**May 31, 2018**

**Reference Number: 2018-40-038**

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.

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## HIGHLIGHTS

### FURTHER CONSOLIDATION OF PROCESSING CENTERS IS UNDERWAY IN RESPONSE TO CONTINUED INCREASES IN ELECTRONIC FILING

## Highlights

Final Report issued on May 31, 2018

Highlights of Reference Number: 2018-40-038 to the Commissioner of Internal Revenue.

### IMPACT ON TAXPAYERS

The IRS Restructuring and Reform Act of 1998 included a goal for the IRS to have at least 80 percent of all tax returns filed electronically by Calendar Year 2007. In response to the continued decreases in paper-filed tax returns, IRS management announced plans in 2016 to further consolidate Tax Processing Centers from five to two by the end of Fiscal Year 2024. The IRS anticipates using the projected five-year cost savings of about \$266 million to focus on taxpayer service, tax enforcement, and information technology.

### WHY TIGTA DID THE AUDIT

This audit assesses the first phase of the IRS's further consolidation of Processing Centers. The Cincinnati Tax Processing Center is the first site to ramp down its operations with a planned completion by the end of Fiscal Year 2019. The Cincinnati Tax Processing Center includes a number of other IRS functional organizations. Therefore, the consolidation not only affects the processing of business-filed paper tax returns, but also the work performed by these other functional areas.

### WHAT TIGTA FOUND

The IRS established an oversight structure to coordinate its consolidation activities. This included a Consolidation Implementation Team to provide oversight of activities, such as assisting affected employees with finding other jobs; a Project Management Office to guide initiatives; and Consolidation Teams to prepare action plans to ensure an orderly closure of each affected site.

In addition to establishing an oversight structure, the IRS took appropriate steps to prepare the affected Tax Processing Centers for the 2018 Filing Season. This included ensuring the completion of computer programming to enable the Kansas City and Ogden Tax Processing Centers to process both individual and business tax returns, ensuring that sufficient furniture and computer equipment were available and developing and providing training to employees.

Finally, the IRS's consolidation from five Tax Processing Centers to two

because the two remaining sites will have the capability to process both individual and business tax returns. IRS management also noted that this will provide a year-round processing environment at each location, which in turn should enhance recruitment and retention.

### WHAT TIGTA RECOMMENDED

TIGTA made no recommendations as a result of the work performed during this review.



TREASURY INSPECTOR GENERAL  
FOR TAX ADMINISTRATION

DEPARTMENT OF THE TREASURY  
WASHINGTON, D.C. 20220

May 31, 2018

**MEMORANDUM FOR COMMISSIONER OF INTERNAL REVENUE**

**FROM:** Michael E. McKenney  
Deputy Inspector General for Audit

**SUBJECT:** Final Audit Report – Further Consolidation of Processing Centers Is Underway in Response to Continued Increases in Electronic Filing (Audit # 201740039)

This report presents the results of our review to assess the first phase of the Internal Revenue Service's (IRS) further consolidation of Processing Centers that includes transitioning the processing of business tax returns from the Cincinnati Tax Processing Center to the Kansas City and Ogden Tax Processing Centers. This review is included in our Fiscal Year 2018 Annual Audit Plan and addresses the major management challenge of Achieving Program Efficiencies and Cost Savings.

This report was prepared to provide information only. Therefore, we made no recommendations in the report. However, we provided IRS management officials with an advance copy of this report for review and comment prior to issuance. IRS management did not provide us with any report comments.

Copies of this report are also being sent to the IRS managers affected by the report information. If you have any questions, please contact me or Russell P. Martin, Assistant Inspector General for Audit (Returns Processing and Account Services).



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*Abbreviations*

e-file(d), e-filing	Electronically File(d); Electronic Filing
IRS	Internal Revenue Service
PY	Processing Year



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*Background*

The Internal Revenue Service (IRS) Restructuring and Reform Act of 1998<sup>1</sup> included a goal for the IRS to have at least 80 percent of all tax returns electronically filed (e-filed) by Calendar Year 2007. As we have previously reported, as e-filing continued to increase the IRS was able to decrease the number of employees needed to process paper-filed tax returns.<sup>2</sup> In December 2000, the IRS completed a study to identify ways to benefit from the increase in e-filing and the corresponding decrease in paper tax return filing. This study resulted in the IRS developing a business plan to gradually reduce the number of Tax Processing Centers that process paper-filed tax returns. Beginning in Calendar Year 2002, the IRS implemented its Submission Processing Site Consolidation Strategy. This strategy outlined steps to consolidate and centralize paper tax return processing from 10 to five Tax Processing Centers. According to the IRS, consolidating paper tax return processing to five centers resulted in estimated savings of \$175 million, primarily due to real estate reductions and discontinued management positions. Figure 1 shows the Tax Processing Centers and the year that paper tax return processing ceased at those centers.

***Figure 1: Tax Processing Centers and the Year That Paper Tax Return Processing Ceased***

<b>Tax Processing Center</b>	<b>Year Paper Tax Return Processing Ceased</b>
Brookhaven, New York	2003
Memphis, Tennessee	2005
Philadelphia, Pennsylvania	2007
Andover, Massachusetts	2009
Atlanta, Georgia	2011

*Source: Submission Processing Consolidation Briefing, dated October 20, 2016.*

Subsequent to the consolidation, Fresno, California; Kansas City, Missouri; and Austin, Texas, continued to process paper-filed individual tax returns and Cincinnati, Ohio, and Ogden, Utah, processed paper-filed business tax returns.

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<sup>1</sup> Pub. L. No. 105-206, 112 Stat. 685.

<sup>2</sup> Treasury Inspector General for Tax Administration, Ref. No. 2007-40-165, *Consolidation of Tax Return Processing Sites Is Progressing Effectively, but Improved Project Management Is Needed* (Aug. 2007).



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In response to the continued decreases in paper-filed tax returns, IRS management determined that the IRS could further consolidate and reduce paper tax return processing from five to two Tax Processing Centers by the end of Fiscal Year<sup>3</sup> 2024. On June 10, 2016, the Deputy Commissioner, Services and Enforcement, approved consolidating paper tax return processing to the Kansas City, Missouri, and Ogden, Utah, Tax Processing Centers. Figure 2 shows the five remaining Tax Processing Centers and the year that paper tax return processing will cease.

**Figure 2: Remaining Tax Processing Centers and Anticipated Year Paper Tax Return Processing Will Cease**

<b>Tax Processing Center</b>	<b>Anticipated Year Paper Tax Return Processing Will Cease</b>
Cincinnati, Ohio (located in Covington, Kentucky)	2019
Fresno, California	2021
Austin, Texas	2024
Kansas City, Missouri	Remaining Site
Ogden, Utah	Remaining Site

*Source: Submission Processing Consolidation, 2018 State Mapping and Progression to End State in 2025, dated August 7, 2017.*

This review was performed at the Cincinnati Tax Processing Center in Covington, Kentucky; Kansas City Tax Processing Center in Kansas City, Missouri; and, Ogden Tax Processing Center in Ogden, Utah, during the period July 2017 through April 2018. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

<sup>3</sup> Any yearly accounting period, regardless of its relationship to a calendar year. The Federal Government's fiscal year begins on October 1 and ends on September 30.



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## *Results of Review*

In September 2016, IRS management announced plans to continue its consolidation of Tax Processing Centers by reducing the existing five centers to two. According to the IRS, the projected five-year cost savings from consolidating three Tax Processing Centers will be about \$266 million. The IRS anticipates using these savings to focus on taxpayer service, tax enforcement, and information technology. The Cincinnati Tax Processing Center is the first site to ramp down its operations with a planned completion by the end of Fiscal Year 2019.<sup>4</sup> The IRS will continue its consolidation gradually to allow for the transition of the tax return processing workload, along with any specialized programs.

To coordinate its continued consolidation activities, the IRS established a multifaceted oversight structure that includes:

- A Consolidation Implementation Team to provide oversight of activities such as assisting affected employees with finding other jobs, and identifying furniture and equipment that can be used by another existing location. This team briefs the Wage and Investment Division Commissioner and executives monthly, with ad-hoc briefings to the Acting IRS Commissioner, as needed.
- A Project Management Office to guide the myriad of initiatives associated with the consolidation of Tax Processing Centers. The IRS created two teams that report directly to the Project Management Office: 1) the Document Processing Team, whose primary focus is to guide the IRS through the consolidation; and 2) the Customer Experience Team, whose focus is the future state of service delivery and the customer experience.
- Consolidation Teams to prepare plans to identify specific actions that need to be taken to ensure the orderly closure of submission processing related activities and non-submission processing related activities in Cincinnati and the transfer of remaining work to a continuing site. For example, the Files Team will oversee the closure of the Cincinnati Files Operation to ensure a successful disposition of all tax returns/documents and a successful relocation of the operation. In addition, the Consolidation Teams will meet with the Executive Consolidation Team on a bi-weekly or ad hoc basis to provide feedback relating to their efforts in completing action plan items.

The Cincinnati Tax Processing Center includes a number of other IRS functional organizations (e.g., Agency-Wide Shared Services, Information Technology). Therefore, the consolidation not

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<sup>4</sup> Unlike prior Tax Processing Center consolidations in which paper tax return processing ceases but other IRS functional areas remain at the center, the Cincinnati Tax Processing Center is closing and the remaining functional areas will be moved to other IRS offices within the geographic area.



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only affects the processing of business-filed paper tax returns, but also the work performed by these other functional areas. IRS management indicated that the work performed by these other functional areas will be moving to new locations in the Cincinnati area.

### **Steps were taken to prepare for the transition of workload during the consolidation**

In addition to establishing an oversight structure, the IRS took appropriate steps to prepare the affected Tax Processing Centers for the 2018 Filing Season.<sup>5</sup> This included:

- Analyzing return projections for both individual and business tax returns to identify the States in which taxpayers would be required to send returns to a new location (*i.e.*, a process called State mapping). For example, business taxpayers filing paper tax returns with addresses in Georgia, Illinois, Kentucky, Michigan, Tennessee, and Wisconsin will send their returns to the Kansas City Tax Processing Center for the 2018 Filing Season rather than the Cincinnati Tax Processing Center as they previously had.
- Ensuring that computer programming was completed to enable the Kansas City and Ogden Tax Processing Centers to process both individual and business tax returns. For example, at both Tax Processing Centers, Integrated Submission and Remittance Processing System<sup>6</sup> and the Service Center Recognition Image Processing System<sup>7</sup> programming updates were performed to ensure that the sites could process paper-filed tax returns for both businesses and individuals.
- Ensuring that management information reports were correctly updated to reflect workload statistics for each site.
- Conducting an analysis of employee workstations to ensure that sufficient furniture and computer equipment were available for the additional employees needed to process the projected volumes of tax returns.
- Developing and providing training to employees. It should be noted that our testing confirmed that the IRS delivered timely and relevant training to its employees.

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<sup>5</sup> The period from January through mid-April when most individual income tax returns are filed.

<sup>6</sup> A system that transcribes and formats data from paper-filed tax returns/documents/vouchers for input into the Generalized Mainline Framework and other systems by key entry operators.

<sup>7</sup> A data capture, management, and storage system that uses high-speed scanning and digital imaging technology to process tax documents.



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**The Consolidation Strategy Addresses Plans for Business Continuity**

The Wage and Investment Division’s Business Continuity Master Plan identifies \*\*\*\*\*2\*\*\*\*\*  
\*\*\*\*\*2\*\*\*\*\*  
\*\*\*\*\*2\*\*\*\*\*. As part of its current consolidation strategy, the IRS is ensuring that the two remaining sites have the capability to process both individual and business tax returns. \*\*\*\*\*2\*\*\*\*\*  
\*\*\*\*\*2\*\*\*\*\*  
\*\*\*\*\*2\*\*\*\*\*.

The IRS decided to gradually move the processing of selected paper-filed business tax returns from the Cincinnati Tax Processing Center to the Kansas City Tax Processing Center beginning in Processing Year (PY)<sup>8</sup> 2018. Prior to this, the Kansas City Tax Processing Center processed only paper-filed individual tax returns. Along with the shift of business tax return processing to the Kansas City Tax Processing Center, the IRS also moved some paper-filed individual tax returns from the Kansas City Tax Processing Center for processing at the Ogden Tax Processing Center. Prior to this, the Ogden site processed only paper-filed business tax returns. According to IRS management, the gradual transition of individual and business tax return processing provides for the ability to train IRS staff on the processing of the new tax return workload. In addition, it also allows time to work through and address concerns before the volume of tax return inventory substantially increases.

For the 2018 Filing Season, the IRS estimated that the projected volumes of paper-filed tax returns for the Kansas City Tax Processing Center would be about 6.6 million individual tax returns<sup>9</sup> and about 2.8 million business tax returns. In contrast, the projected volumes of paper-filed tax returns for the Ogden Tax Processing Center were about 1.9 million individual tax returns<sup>10</sup> and about 11.9 million business tax returns (including about 26,000 excise tax returns). Figure 3 shows a breakdown of the types and volumes of the paper-filed business tax returns that will be transitioned from the Cincinnati to the Kansas City Tax Processing Center.

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<sup>8</sup> The calendar year in which the tax return or document is processed by the IRS.  
<sup>9</sup> This includes about 1.2 million Forms 1040X, *Amended U.S. Individual Income Tax Return*, and about 953,000 Forms 4868, *Application for Automatic Extension of Time To File U.S. Individual Income Tax Return*.  
<sup>10</sup> This includes about 342,000 Forms 4868.



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**Figure 3: Paper-Filed Business Returns Moved From Cincinnati to Kansas City in PY 2018**

<b>Business Tax Returns</b>	<b>Estimated Volumes</b>
Forms 94X <sup>11</sup>	2,212,200
Form 1120 Family <sup>12</sup>	96,900
Form 1120S, <i>U.S. Income Tax Return for an S Corporation</i>	119,000
Form 1065, <i>U.S. Return of Partnership Income</i>	72,500
Form 1041, <i>U.S. Income Tax Return for Estates and Trusts</i>	67,100
Form 7004, <i>Application for Automatic Extension of Time To File Certain Business Income Tax, Information, and Other Returns</i>	181,400
Form 2553, <i>Election by a Small Business Corporation</i>	71,600
<b>Total Business Returns</b>	<b>2,820,700</b>

Source: State Mapping Briefing, dated November 2, 2017.

The volume of paper-filed business tax returns processed by the Kansas City Tax Processing Center is projected to increase to more than eight million paper-filed business tax returns by 2025. Figure 4 provides a breakdown of the projected volumes of both individual and business tax returns for the Kansas City and Ogden Tax Processing Centers by processing year.

<sup>11</sup> Form 941, *Employer's QUARTERLY Federal Tax Return*; Form 943, *Employer's Annual Federal Tax Return for Agricultural Employees*; Form 944, *Employer's ANNUAL Federal Tax Return*; and Form 945, *Annual Return of Withheld Federal Income Tax*.

<sup>12</sup> Includes Form 1120, *U.S. Corporation Income Tax Return*; Form 1120-H, *U.S. Income Tax Return for Homeowners Associations*; and Form 1120-RIC, *U.S. Income Tax Return for Regulated Investment Companies*.



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**Figure 4: Projected Volumes of Individual and Business Tax Returns  
Kansas City and Ogden Tax Processing Centers**

Projected Tax Return Volumes	Kansas City		Ogden	
	PY 2018	PY 2025	PY 2018	PY 2025
Individual Tax Returns	6,620,078	11,704,358	1,935,000	4,186,685
Business Tax Returns	2,820,700	8,027,048	11,908,289	12,256,419
<b>Total Tax Returns</b>	<b>9,440,778</b>	<b>19,731,406</b>	<b>13,843,289</b>	<b>16,443,104</b>

Source: State Mapping Briefing dated November 2, 2017.

Finally, IRS management noted that the Kansas City and Ogden Tax Processing Centers' ability to process both individual and business tax returns will provide for a year-round processing environment, which in turn should enhance recruitment and retention at these locations.

**Future consolidation plans**

As previously mentioned, the Cincinnati Tax Processing Center will close at the end of Fiscal Year 2019. The next Tax Processing Center that will be consolidated is Fresno, with paper tax return processing ceasing at the end of Fiscal Year 2021, followed by Austin at the end of Fiscal Year 2024. We plan to monitor and evaluate the IRS's continued consolidation efforts.



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## **Appendix I**

### *Detailed Objective, Scope, and Methodology*

Our overall objective was to assess the first phase of the IRS's further consolidation of Processing Centers that includes transitioning the processing of business tax returns from the Cincinnati Tax Processing Center to the Kansas City and Ogden Tax Processing Centers. To accomplish our objective, we:

- I. Determined whether the IRS has adequate resources to timely process the new workload of tax returns resulting from the consolidation.
  - A. Obtained PY 2017 estimated staffing and workload processed and PY 2018 planned staffing and workload. We compared the two years to ensure that the IRS will have adequate personnel available to process the new workload of tax returns and meet its program completion dates.
  - B. Interviewed IRS management to determine how they will monitor the workflow through the pipeline to ensure that the new workload is processed timely and accurately.
  - C. Determined whether the instructions on "where to file" for individual and business tax returns reflect the State mapping analysis for PY 2018, and are consistent across all platforms (*e.g.*, tax return packages, IRS public website and other electronic communications).
- II. Evaluated whether the equipment required to process the tax returns was adequate and properly prepared to timely and accurately process returns at the receiving Tax Processing Centers.
  - A. Obtained the capacity/workstation analysis of the receiving Tax Processing Centers to determine whether the centers have sufficient workstations to handle the new workload.
  - B. Identified which information technology systems (*e.g.*, Service Center Recognition Image Processing System,<sup>1</sup> Integrated Submission and Remittance Processing System)<sup>2</sup> and monitoring and production reports require updating to process the new workload in the Kansas City and Ogden Tax Processing Centers.

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<sup>1</sup> A data capture, management, and storage system that uses high-speed scanning and digital imaging technology to process tax documents.

<sup>2</sup> A system that transcribes and formats data from paper-filed tax returns/documents/vouchers for input into the Generalized Mainline Framework and other systems by key entry operators.



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- C. Reviewed the work requests for the affected information technology systems and management information reports identified in Step II.B. to determine whether necessary updates were made to ensure that the new workload can be processed.
  - D. Interviewed information technology staff to determine what steps were taken to ensure that systems were tested and deficiencies corrected prior to processing the new workload of tax returns at each of the end State sites.
  - E. Conducted site visits to Kansas City and Ogden Tax Processing Centers to verify that the Service Center Recognition Image Processing System and Integrated Submission and Remittance Processing System machines were processing both individual and business tax returns.
  - F. Reviewed production monitoring reports to ensure that they properly reflect the new workload being processed at Kansas City and Ogden Tax Processing Centers.
- III. Evaluated the training provided to employees who will process the new workload in PY 2018 to ensure that it is timely delivered and adequate.
- A. Obtained the training plan to determine when the employees at the receiving Tax Processing Centers (Kansas City and Ogden) were trained on the incoming new work and evaluated if the trainers possessed the necessary knowledge and experience to train the employees.
  - B. Evaluated how IRS management ensured that employees, assigned to work the new workloads, have the knowledge and experience to process the incoming tax returns.
  - C. Determined if the IRS plans to increase the volumes of work that are quality reviewed as a way to ensure that the staff was adequately trained or to identify opportunities for conducting additional training to ensure that tax returns are timely and accurately processed.
  - D. Verified that IRS management has provided new employees with procedural guidance on how to process both individual and business tax returns.

**Internal controls methodology**

Internal controls relate to management's plans, methods, and procedures used to meet their mission, goals, and objectives. Internal controls include the processes and procedures for planning, organizing, directing, and controlling program operations. They include the systems for measuring, reporting, and monitoring program performance. We determined that the following internal controls were relevant to our audit objective: 1) processes and procedures used to analyze tax return projections for both individual and business tax returns and decide the States in which the taxpayers would be required to send tax returns to a new location (*i.e.*, a process called State mapping); 2) processes and procedures to identify and submit computer programming and workstation capacity to ensure that the Kansas City and Ogden Tax Processing



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Centers could process both individual and business tax returns and that management information reports were correctly updated to reflect workload statistics for each site; and 3) processes and procedures to ensure that there is enough staff and that adequate training is provided to employees. We evaluated these controls by reviewing policies and procedures, interviewing employees and management, and analyzing data.



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**Appendix II**

*Major Contributors to This Report*

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**Appendix III**

*Report Distribution List*

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