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UNITED STATES GENERAL ACCOUNTING OFFICE  
WASHINGTON, D C 20548

CIVIL DIVISION

OCT 23 1969

Dear Mr Jack

The General Accounting Office has completed its survey of controls over taxpayer data transferred between the National Computer Center (NCC) and service centers. Field work was performed by our Kansas City Regional Office at the Midwest Service Center (MWSC). Our objective was to examine into the effectiveness of management controls to assure the prompt and proper handling of transferred taxpayer data. We were particularly concerned with the controls to assure that rejected transactions (unpostables and deletions) were returned from the service centers and properly reintroduced into the master file at NCC on a timely basis.

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Our test of controls over rejected transactions was limited because of restrictions placed on our access to documents necessary for such testing. However, subject to these limitations our survey indicated that service center procedures and controls were generally effective in assuring the prompt and proper handling of transferred taxpayer data, and we do not plan any additional work in this area.

During the first three quarters of calendar year 1968, the MWSC processed 18,540,497 transactions affecting taxpayers' accounts. Of these transactions, the NCC deleted 267,416 for various reasons, e.g., recycling of tapes, damage to tapes, or unreadable tapes. Also, there were 531,563 transactions or 2.87 percent which were unpostable to the master file at NCC. The unpostables included 393,925 (74.1 percent) Individual Master File (IMF) transactions and 137,638 (25.9 percent) Business Master File (BMF) transactions.

Our review of master file unpostable control documents for two cycles indicated that new unpostables received from NCC were picked up under service center control and that unpostables remained under control until corrected and reinput to the master file at NCC.

We found that MWSC controls over deletions were generally adequate, and except for one block of 82 transactions our review indicated that deleted transactions were timely reinput to NCC. Only one of the 82 transactions resulted in interest being paid to a taxpayer as a result of the delay in reinputting the block of transactions.

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We found also that the unpostable transactions which we reviewed and which appeared to be caused by human errors, attributable to either taxpayers or service center employees, were corrected on a timely basis and reinput to NCC in accordance with prescribed procedures and controls

Our survey work at MWSC did disclose one problem area concerning the erroneous issuance of Notices of Non-Receipt of Tax Return (Form 3249) We noted that delinquency notices (Form 3249) had been issued to taxpayers who had filed Employer's Quarterly Federal Tax Returns (Form 941) which were unpostable but subsequently nullified for correction and reinput to the master file at NCC

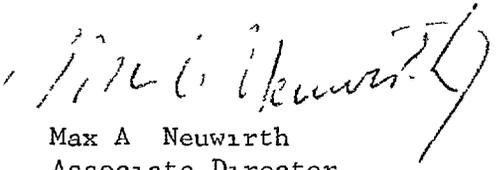
A sample test of selected cycles indicated that MWSC had erroneously issued delinquency notices to about 428 taxpayers Extending the results of this test to cover a 1-year period, we estimated that MWSC had erroneously issued delinquency notices to about 1,700 taxpayers

It was subsequently determined that MWSC was not following ADP Handbook procedures which require the preparation of Notice of Action for Entry on Master File (Form 3177) when it is apparent that an unpostable transaction involving a filed return or document cannot be corrected and reinput prior to cutoff for issuing delinquency notices Input of Form 3177 (return pending) to the master file "freezes" the taxpayer's account and prevents the generation of the delinquency notice MWSC has taken appropriate corrective action which should substantially reduce the number of erroneous delinquency notices Undoubtedly, the most significant benefit from the corrective action will be improved taxpayer relations, however, certain savings in administrative cost will also result from the reduction in correspondence.

This matter involved a failure to follow prescribed procedures and might be restricted solely to MWSC, however, to assure the proper application of such procedures you may wish to emphasize to all service centers the necessity to prepare Forms 3177 to avoid unnecessary taxpayer correspondence

We wish to acknowledge the courtesies and cooperation extended to us during the survey

Sincerely yours,

  
Max A. Neuwirth  
Associate Director

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Mr Robert L. Jack  
Assistant Commissioner (Data Processing) ✓  
Internal Revenue Service  
The Department of the Treasury

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