

**Follow-up Review of Selected
Publishing Services Activities
in the Internal Revenue Service's
National Office**

March 1999

Reference No: 092802



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 4, 1999

MEMORANDUM FOR COMMISSIONER ROSSOTTI

FROM: Lawrence W. Rogers /s/Lawrence W. Rogers
Acting Treasury Inspector General for Tax Administration

SUBJECT: Final Audit Report - Follow-up Review of Selected
Publishing Services Activities in the Internal Revenue
Service's National Office

This report presents the results of our follow-up review of selected publishing services activities in the Internal Revenue Service's (IRS') National Office. We conducted our follow-up review in the National Office's Multimedia Production Division to determine whether corrective actions taken in response to our prior audit report were implemented adequately and were operating effectively. Overall, this follow-up audit showed that IRS had implemented some of the corrective measures to address concerns cited in our March 5, 1997, Internal Audit report titled, " Review of Selected Publishing Services Activities in the National Office." However, Multimedia Production Division management needs to take further action at the first-line employee level to effectively control rush jobs and resolve billing discrepancies. The Assistant Commissioner (Forms and Submission Processing) agreed with the facts and is taking appropriate actions to improve the processing and quality review of rush jobs and billing discrepancies. Management's response to the findings has been incorporated into the report where appropriate. In addition, the complete text of IRS management's response is presented as an appendix to the report.

Copies of this report are also being sent to IRS managers who are affected by the report recommendations. Please call me at (202) 622-6500 if you have any questions, or your staff may contact Maurice S. Moody, Acting Assistant Inspector General for Audit, at (202) 622-8500.

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Executive Summary

Our March 5, 1997, audit report titled *Review of Selected Publishing Services Activities in the National Office* contained several recommendations to increase the Internal Revenue Service's (IRS') effectiveness in administering its printing operations. The overall objective of this follow-up review was to determine whether corrective actions taken in response to the prior audit report were implemented adequately and were operating effectively.

Results

The IRS has not addressed all the corrective measures from the prior audit report. Multimedia Production Division management needs to take further action at the first-line employee level to effectively control rush jobs and resolve billing discrepancies.

Improve Quality Review Controls over Processing Rush Job Transactions and Broaden the Efforts to Minimize Rush Orders

Management has taken initial steps to improve controls over processing rush jobs by re-emphasizing existing rush job procedures to employees, and educating customers on the most cost-efficient methods for procuring printing goods. However, management should ensure that employees adhere to the proper operating procedures for processing rush job transactions. Without effective controls, management has no assurance that their efforts to minimize rush jobs are successful.

Ensure Procedures Clearly Provide Instructions for Resolving Billing Discrepancies

Management's corrective action was not effective in implementing procedural changes to ensure that printing specialists document and retain evidence of their actions for resolving billing discrepancies. The Publishing Services Data Financial Administrator had to obtain oral explanations from printing specialists to resolve some discrepancy cases when the documentation did not exist. Without appropriate documentation and managerial review of resolved billing discrepancies, management has no assurance that bills are correctly paid and potential improper practices are identified.

Summary of Recommendations

The following recommendations were made to Multimedia Production Division management for improving controls over rush jobs and billing discrepancies:

- Ensure that rush jobs are approved and printing specialists adhere to operating requirements for processing rush jobs. Also, develop quantifiable measures to ensure that management's efforts are effectively lowering rush orders.

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- Revise procedures to require printing specialists to fully document the nature and resolution of billing discrepancies. Review the documentation for completeness throughout the billing discrepancy process.

Management's Response: IRS management agreed with the facts cited in the report and is taking the appropriate corrective action. Management's comments are included in the body of the report where appropriate and a complete text appears as Appendix IV.

Objective and Scope

The overall objective of this review was to determine whether corrective actions taken in response to a prior audit report were adequately implemented and are operating effectively. Our work was performed during the period of February to April 1998. The review was conducted in accordance with generally accepted government auditing standards. The detailed objectives, scope and methodology are presented in Appendix I. Management's response to the draft report is included in Appendix IV.

A listing of the major contributors to this report is shown in Appendix II.

Background

The Multimedia Production Division is responsible for handling the majority of the publishing and reproduction requirements for the Internal Revenue Service (IRS). In Fiscal Year 1998, the National Office's expenses for printing and reproduction totaled approximately \$76 million. In accordance with Title 44 of the United States Code, the IRS' commercial printing requirements are handled through the Government Printing Office (GPO). These jobs primarily consist of printing tax forms, publications and other related materials.

Printing specialists are authorized to incur surcharges to expedite the delivery of print jobs due to emergency or untimely submitted requisitions. For these surcharge cases, or rush jobs, GPO will assess a three-percent surcharge expense in addition to the customary six-percent administrative cost applied to processing routine printing orders. In addition to surcharge expenses, vendor costs (e.g., express mail service and overtime expenses) may be passed on to the IRS.

The IRS' Computer Assisted Publishing System (CAPS) provides the capabilities for extracting contract and requisition information. Publishing Services Data

The IRS' commercial printing requirements are handled through GPO.

The IRS incurs a three-percent surcharge to expedite print jobs.

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The Publishing Services Data Financial Administrator identifies billing discrepancies during payment verification and reconciliation review of the On-line Payment and Collection (OPAC) database file.

The March 1997 audit report indicated that management needed to strengthen controls over rush jobs and the resolution of billing discrepancies.

Support (PSDS) system is one of several database applications under CAPS that process and track print job activities through the procurement process. IRS personnel can research the current status of print jobs and vendor's cost estimate details on GPO's automated Procurement Information Control System (PICS).

Billing discrepancies sometimes occur on print job transactions. These discrepancies include cost differences between the amounts paid and obligated. The Publishing Services Data Financial Administrator reviews the On-line Payment and Collection (OPAC) billing statements and forwards a report of identified discrepancies to the responsible printing specialist for resolution. The specialists are required to document their resolution activity when the difference is ten percent or \$100, whichever is greater.

On March 5, 1997, we issued an audit report titled *Review of Selected Publishing Services Activities in the National Office*. The report indicated that Multimedia Production Division management needed to strengthen controls over rush jobs and the resolution of billing discrepancies. The prior audit report also noted that GPO does not pass vendor term discounts on to the IRS based upon a Comptroller General's decision. Subsequently, on March 10, 1997, the Chief Financial Officer (CFO) requested that the Comptroller General reconsider his opinion. On August 28, 1998, the Comptroller General issued a decision that upheld GPO's treatment of prompt payment discounts.

Multimedia Production Division management and GPO are in the process of integrating their automated systems to track printing transactions. The integrated system will make it easier to identify itemized costs for print jobs to resolve billing discrepancies. However, this effort will not be implemented for several years because of the higher priority given to other IRS Information Systems projects.

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Results

Publishing Services addressed some of the findings raised in the previous audit report.

Multimedia Production Division management has implemented some of the corrective measures to address the concerns cited in the previous audit report. Specifically, management issued instructions that require printing specialists to document the resolution of billing discrepancies and re-emphasized existing rush job procedures, advised their customers of the lead-time requirements for prompt delivery of printing goods, and discussed printing alternatives for minimizing rush job orders.

While management has taken steps to resolve prior audit concerns, we found that measures to improve the processing of rush jobs and billing discrepancy cases were not effective at the first-line employee level. Specifically, Multimedia Production Division management needs to:

- Improve quality review controls to ensure that employees are properly processing rush job transactions and broaden their efforts to minimize rush orders.
- Ensure that revised procedures clearly provide instructions for employees to document and retain evidence of how they resolved billing discrepancies.

Improve Quality Review Controls over Processing Rush Job Transactions and Broaden the Efforts to Minimize Rush Orders

Existing Multimedia Production Division procedures require that first-line managers review and approve all surcharges to determine if these transactions are warranted. Also, printing specialists are required to input the correct surcharge code into the PSDS system to ensure the proper classification and identification of rush job transactions.

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Eighty-three percent of the rush jobs received no Multimedia Production Division management approval and 93% of these cases were not depicted on the PSDS system.

Managers do not always document and retain evidence of their review of printing specialists' workloads

Management should develop quantifiable measures to substantiate their efforts to minimize rush jobs.

We identified the following areas where procedures were not being followed:

- Printing specialists were not receiving managerial approval of rush jobs or inputting surcharge codes into the PSDS system. We selected a judgmental sample of 30 of 55 rush jobs identified on PICS, totaling \$464,563, which were processed from October 1997 through February 1998. We found that section managers did not approve 25 jobs (83%), and 28 jobs (93%) were not depicted on the PSDS system. We also could not assess whether surcharges were warranted because of insufficient evidence of the processing events for all 30 jobs. Additionally, we selected a judgmental sample of 30 of the 1,102 non-rush printing transactions processed from CAPS and found that three (10%) were actually rush jobs.
- Multimedia Production Division managers indicated they do not always document and retain evidence of their review of printing specialists' workloads. These reviews are intended to improve operational efficiencies and assess performance activities.

Also, management cannot rely upon the PSDS system as an effective control to identify rush jobs. Only six rush jobs appeared to be processed on the PSDS system during October 1997 through February 15, 1998. However, the PICS inventory report identified a total of 55 rush jobs for the same review period. Our review showed that PICS is a more complete automated source for identifying rush jobs.

In addition, management should broaden their efforts to minimize rush orders by developing quantifiable measures to ensure that they are effectively lowering rush jobs. While management has taken some action to minimize rush orders, their efforts are not being tracked for cost savings.

Without effective controls over rush jobs and initiatives for identifying inventory levels and cost savings, management cannot determine if surcharges were

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warranted and if their efforts to minimize rush jobs were effective.

Recommendations:

1. Multimedia Production Division management needs to ensure that printing specialists receive proper approval for surcharges, enter the appropriate surcharge codes into the PSDS system, and record surcharge action on the official requisition. Management should use GPO's PICS to identify rush jobs until they are assured that the PSDS system is accurately capturing rush jobs. Also, managers should document their reviews of case files and production reports to assist them in evaluating their employees' adherence to operating requirements for processing rush jobs.

Management's Response: An additional standard has been placed in managers' expectations requiring use of the reports from CAPS to assure that surcharge codes are captured. Management has requested and obtained the GPO's PICS data on rush jobs for comparison with CAPS information to double check that surcharge codes are captured. Additionally, there will be ongoing documented quality reviews of employees and quarterly comparisons of the PSDS and PICS data relating to rush jobs.

2. Multimedia Production Division management needs to develop quantifiable measures to ensure their efforts are effectively lowering rush orders. Management should include steps to assess and identify prior year inventories, establish inventory baselines and trend analysis for tracking any cost savings, and set goals for lowering rush orders in subsequent years.

Management's Response: Management requested that GPO provide a Fiscal Year 1998 PICS report of all rush jobs and a quarterly PICS report for Fiscal Year 1999 of rush jobs to assist in establishing a baseline. Trend analysis and goal setting should reduce the number of rush jobs. A February 1999 employee town meeting will include an agenda topic on these issues. Additionally,

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there will be ongoing documented quality reviews of employees.

**Ensure Procedures Clearly Provide Instructions
for Resolving Billing Discrepancies**

Multimedia Production Division management did not establish controls for evaluating whether billing discrepancies are properly resolved and documented before or after the transaction is closed. As a result, printing specialists did not document their actions for resolving billing discrepancies on the PSDS system, the billing statements or in the case file. The Publishing Services Data Financial Administrator had to obtain verbal explanations from the printing specialists to resolve some discrepancy cases when documentation did not exist.

In 27 cases (90%), printing specialists did not document how billing discrepancies were resolved.

We selected a judgmental sample of 30 billing discrepancy cases from OPAC bills (dated October 1997 through January 1998) and found that in 27 cases (90%) printing specialists did not document how they resolved billing discrepancies. As a result, we could not assess whether printing specialists took the appropriate action to resolve billing discrepancies. For example, 11 of the 29 discrepancy cases were reobligated; however, we found no evidence that supported the resolution action. We confirmed with the Publishing Services Data Financial Administrator that if no written explanations existed for billing discrepancies, the employee would obtain a verbal explanation from the responsible printing specialist to resolve these cases.

Multimedia Production Division's revised procedure does not clearly provide instructions for documenting billing discrepancies or identifying prior year bills that will require budget office resolution. The reliance placed upon verbal evidence is not an effective control for documenting significant events that may require management or other third party evaluation. Without effective controls, which include appropriate documentation and managerial and operational reviews of resolved billing discrepancies, management has no

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assurance that bills are correctly paid and potential improper practices are identified.

Recommendations:

3. Multimedia Production Division management needs to ensure that printing specialists document the billing discrepancy report and the PSDS system to reflect the cause of the discrepancy, the amount of discrepancy, and how the case was resolved.

Management's Response: The Multimedia Production Division Publishing Procedure #137 has been updated to outline all aspects of the OPAC processing, including resolving billing discrepancies and maintaining supporting documentation.

4. Multimedia Production Division management needs to ensure managers review the billing discrepancy report before the printing specialist returns the document to the Publishing Services Data Financial Administrator to ensure the employee properly documented the explanation for all billing discrepancies. Management should also include procedures to conduct periodic post reviews of resolved billing discrepancy cases to assess operational efficiencies.

Management's Response: The Multimedia Production Division Publishing Procedure #137 has been updated to outline all aspects of the OPAC processing, including resolving billing discrepancies and maintaining supporting documentation. Additionally, both the front-line manager and the employee must sign to verify completeness of the documentation. Managers will conduct ongoing post reviews to assess operational efficiencies.

Detailed Objectives, Scope and Methodology

The overall objective of our review was to determine whether corrective actions taken in response to a March 1997 audit report were adequately implemented and operating effectively. Specifically, we:

- I. Determined if management effectively implemented corrective actions to improve managerial oversight of the publishing specialists' work inventories, including the processing controls over the identification, approval and reduction of rush job requisitions.
 - A. Determined the volume of Publishing Service requisitions processed from Computer Assisted Publishing System (CAPS) and determined:
 1. The universe of rush job requisitions.
 2. If there was a significant reduction of rush job requisitions.
 - B. Conducted a procedural walk-through of processing rush job requisitions by tracing a transaction from initiation through disposition and identified where the revised control points existed in the data flow.
 - C. Reviewed a judgmental sample of cases depicted as rush jobs from the CAPS extract and determined if the cases were properly classified, surcharges were warranted, and the cases were properly reviewed and approved by the managers.
 - D. Reviewed a judgmental sample of cases that were not classified as rush jobs and determined if these cases were properly classified on CAPS.
 - E. Verified the validity and accuracy of each sampled item for rush and non-rush cases from the computer transaction to its source case file records.
 - F. Interviewed several Multimedia Production Division printing specialists and managers and assessed their adherence towards the recent procedural changes to strengthen the controls involving oversight, coding, and reduction of rush jobs.
- II. Determined if management established procedures to ensure billing discrepancies were accurately resolved and supporting documentation was maintained, and to ensure the Government Printing Office provides documentation to fully account for costs of print jobs.

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- A. Conducted a procedural walk-through of processing print job billing discrepancies by tracing a transaction from initiation through disposition and identified where the revised control points are in the data flow.
- B. Selected a judgmental sample of print job-billing discrepancies from the CAPS and determined if these cases were properly resolved and sufficiently documented. Verified the validity and accuracy of each sampled item from the computer transaction to its source documentation.
- C. Interviewed the Financial Administrator and publishing specialists and assessed their adherence to recent procedural changes established to resolve billing discrepancies.
- D. Interviewed Publishing Services officials and assessed the status and strategy for implementing the integrated automated system and determined if this automated effort includes installing access to GPO's invoices that disclose itemized costs for each print job.

Major Contributors to This Report

Michael Phillips, Acting Director, Office of Audit Projects

Thomas Brunetto, Audit Manager

David Newman, Audit Manager

Gerard Marini, Auditor

Gary Pressley, Auditor

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Appendix III

Report Distribution List

Deputy Commissioner for Operations C:DO

Chief Operations Officer OP

National Director, Multimedia Production Division OP:FS:M

Audit Liaison (Multimedia Production Division) OP:FS:M

National Director for Legislative Affairs CL:LA

Office of Management Control M:CFO:A:M

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Appendix IV



ASSISTANT COMMISSIONER
(FORMS AND SUBMISSION
PROCESSING)

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

January 21, 1999



MEMORANDUM FOR CHIEF INSPECTOR

THRU:

John M. Dalrymple
John M. Dalrymple
Chief Operations Officer

FROM:

Brien T. Downing
Brien T. Downing
Assistant Commissioner
(Forms and Submission Processing)

SUBJECT:

Draft Internal Audit (IA) Report - Follow-up Review of Selected
Publishing Services Activities in the National Office

Thank you for the opportunity to respond to the subject draft IA report covering the review of the Publishing Services Activities in the National Office. There are three items that need clarification before we address the specific findings and recommendations: (1) the reconsidered Comptroller General opinion was received and favors the Government Printing Office (GPO) not passing vendor term discounts on to the Service (B-276509 dated August 28, 1998 - attached); (2) in Fiscal Year 1998, the budget for printing did not total \$217,535,140 but was actually \$75,957,754 (Fiscal Summary Report dated January 5, 1999 - attached); and (3) it is not a realistic expectation that rush job transactions causing surcharges will be eliminated. Uncontrollable events, such as late in the year tax law changes e.g., RRA 98, will routinely result in surcharges. We are in agreement with the findings and the recommendations, and have provided the following explanation of the corrective actions we have taken.

Recommendation 1:

Ensure that printing specialists receive proper approval for surcharges, enter the appropriate surcharge codes on to Publishing Services Data Support (PSDS), and record surcharge action on the official requisition. Management should use GPO's Procurement Information Control System (PICS) to identify rush jobs until they are assured that PSDS is accurately capturing rush jobs. Also, managers should document their reviews of case files and production reports to assist them in evaluating their employees' adherence to operating requirements for processing rush jobs.

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Assessment of Cause(s):

Management has taken initial steps to improve controls over the processing of rush jobs by re-emphasizing existing rush job procedures and educating customers on the most cost efficient methods for procuring printing goods. However, management will improve quality reviews to ensure that employees adhere to the proper operating procedures for processing rush job transactions.

Corrective Action(s):

An additional standard has been placed in managers' expectations, requiring utilization of the reports from the Computer Assisted Publishing System (CAPS) to assure that surcharge codes are captured. Management has requested and obtained through the Superintendent Departmental Account Representative Division the GPO's PICS data on rush jobs for comparison with CAPS information to double check that surcharge codes are captured. Additionally, there will be ongoing documented quality reviews of employees and quarterly comparisons of Publishing Services Data (PSD) and PICS data relating to rush jobs.

Implementation Date:

Completed: December 1998

Responsible Officials:

Assistant Commissioner (Forms and Submission Processing)
National Director, Multimedia Production Division
Chief, Tax Products Branch
Chief, Publishing Services Branch

Recommendation 2:

Develop quantifiable measures to ensure their efforts are effectively lowering rush orders. Management should include steps to assess and identify prior year inventories, establish inventory baselines and trend analysis for tracking any cost savings, and set goals for lowering rush orders in subsequent years.

Assessment of Cause(s):

Management relied on PSD as an effective control to identify rush jobs. Information from GPO's PICS concerning rush jobs was not used to validate PSD data; thus, without effective controls, management has no assurance that their efforts to minimize rush jobs are successful.

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Corrective Action(s):

Management requested that GPO provide a Fiscal Year 1998 PICS report of all rush jobs and a quarterly PICS report for Fiscal Year 1999 of rush jobs to assist us in establishing a baseline. Trend analysis and goal setting should reduce the number of rush jobs. The February 1999 employee town meeting will include an agenda topic on these issues. Additionally, there will be ongoing documented quality reviews of employees.

Implementation Date:

Proposed: February 1999

Responsible Officials:

Assistant Commissioner (Forms and Submission Processing)
National Director, Multimedia Production Division
Chief, Tax Products Branch
Chief, Publishing Services Branch

Recommendation 3:

Ensure that printing specialists document the billing discrepancy report and the PSDS system to reflect the cause of the discrepancy, the amount, and how the case was resolved.

Assessment of Cause(s):

The Multimedia Production Division Publishing Procedure #137, Obligation Processing and Payment Verification, addresses only certain aspects of this recommendation and finding.

Corrective Action:

The Multimedia Production Division Publishing Procedure #137 has been updated to outline all aspects of the On-line Payment and Collection (OPAC) processing, including resolving billing discrepancies and maintaining supporting documentation.

Implementation Date:

Completed: November 1998

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Responsible Officials:

Assistant Commissioner (Forms and Submission Processing)
National Director, Multimedia Production Division
Chief, Tax Products Branch
Chief, Publishing Services Branch

Recommendation 4:

Ensure managers review the billing discrepancy report before the printing specialist returns the document to the PSD Financial Administrator to ensure the employee properly documented the explanation for all billing discrepancies. They should also include procedures to conduct periodic post reviews of resolved billing discrepancy cases to assess operational efficiencies.

Assessment of Cause(s):

The Multimedia Production Division Publishing Procedure #137, Obligation Processing and Payment Verification, addresses only certain aspects of this recommendation and finding.

Corrective Action(s):

The Multimedia Production Division Publishing Procedure #137 has been updated to outline all aspects of the OPAC processing, including resolving billing discrepancies and maintaining supporting documentation. Additionally, both the front-line manager and the employee must sign to verify completeness of the documentation. Ongoing post reviews will be conducted by the managers to assess operational efficiencies.

Implementation Date:

Completed: November 1998

Responsible Officials:

Assistant Commissioner (Forms and Submission Processing)
National Director, Multimedia Production Division
Chief, Tax Products Branch
Chief, Publishing Services Branch

If you have any questions, please call me or your staff may contact Raymona L. Stickell at (202) 622-7000.

Attachments (2)