

United States General Accounting Office

**GAO**

Report to the Chairman, Subcommittee  
on Oversight, Committee on Ways and  
Means, House of Representatives

June 1991

**TAX  
ADMINISTRATION**

**A Generally Successful  
Filing Season in 1990**







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

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General Government Division

B-243950

June 28, 1991

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

Dear Mr. Chairman:

This report responds to your request that we assess the Internal Revenue Service's (IRS) performance during the 1991 filing season. Specifically, we looked at the accuracy and accessibility of IRS' toll-free telephone assistance, the availability of tax materials at IRS' distribution centers and walk-in offices, and the processing of returns by IRS' 10 service centers. In testimony before your Subcommittee on March 20, 1991, we said that the filing season was proceeding successfully.<sup>1</sup> As discussed in this report, our final assessment is no different.

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## Results in Brief

When compared against IRS' expectations and using indicators that we and IRS have historically pointed to as measures of performance, the 1991 filing season was generally successful:

- The accuracy of IRS' answers to taxpayers' tax law questions through the toll-free telephone assistance program improved from 77 percent in 1990 to 84 percent in 1991, just 1 percentage point less than IRS' goal for 1991.
- Tests by us and IRS indicated that taxpayers should have found tax forms and publications readily available.
- Seven service center inventories of things "gone wrong" or needing special attention during returns processing were at levels that IRS considered manageable, and receipts into six of the inventories during the 1991 filing season were down from 1990.
- The percent of processing errors made by service center staff continued a downward trend since 1988, although certain types of errors continued to predominate.
- Returns were filed electronically by 7.5 million taxpayers, 79 percent more than in 1990 and 21 percent more than IRS had expected.
- More taxpayers filed the simpler form 1040A than in 1990.

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<sup>1</sup>IRS' Budget Request for Fiscal Year 1992 and Status of the 1991 Tax Return Filing Season (GAO/T-GGD-91-17, Mar. 20, 1991).

One area of concern was the indication, from IRS' data, that taxpayers continued to have difficulty reaching an IRS telephone assistant.

## Objective, Scope, and Methodology

Our objective was to assess IRS' performance during the 1991 filing season, which we defined as the period from January 1, 1991, through May 3, 1991. We focused on IRS' (1) ability to meet demands for telephone assistance; (2) ability to make tax materials readily available to taxpayers; and (3) general performance in processing tax returns, including efforts to identify and reduce errors and manage various service center inventories.

To accomplish our objective, we

- interviewed IRS National Office officials responsible for the various activities we assessed;
- analyzed IRS statistics on the accuracy of assistance provided over its toll-free telephone system and taxpayers' accessibility to that system;
- validated the results of IRS' test of the accuracy of its telephone assistance by monitoring and scoring 793 test calls made by IRS between March 4 and April 15;
- assessed the availability of tax materials by visiting 10 walk-in sites,<sup>2</sup> making 72 mail and telephone orders to 2 of IRS' 3 tax material distribution centers,<sup>3</sup> and analyzing the results of IRS' test of the tax material distribution program;
- reviewed data in IRS' Management Information System for Top Level Executives to monitor the progress of each of IRS' 10 service centers in processing tax returns and managing service center inventories; and
- obtained a field perspective by interviewing officials and observing activities at the Cincinnati Service Center.

In the course of our work, we sought the views of responsible IRS officials. The officials agreed with the facts as presented in this report, and we incorporated their views where appropriate.

<sup>2</sup>IRS has over 600 walk-in sites. The 10 we visited were judgmentally selected from among sites that were located near GAO offices in Atlanta, Chicago, Cincinnati, San Francisco, and Washington, D.C. The sites were located in six different states (California, Georgia, Illinois, Kentucky, Maryland, and Ohio) and the District of Columbia. Our results show conditions at the sites we visited at the time we visited and cannot be generalized to other sites or other times.

<sup>3</sup>The centers from which we ordered materials are in Bloomington, Illinois; and Richmond, Virginia. IRS also has a center in Sacramento, California. Our orders were not intended to represent the actual distribution of telephone and mail orders IRS receives. Accordingly, our results indicate the centers' performance in responding to orders like ours, not their overall performance in filling taxpayers' orders during the 1991 filing season.

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We did our work between January 14, 1991, and May 3, 1991, and in accordance with generally accepted government auditing standards.

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## Accuracy of Toll-Free Telephone Assistance Continued to Improve, but Accessibility Remains a Concern

In our report on the 1990 filing season, we said that IRS' accuracy rate for answering taxpayers' questions about tax laws had improved substantially over the 1989 rate but that taxpayers received more busy signals when calling IRS, thus making reaching an assistor more difficult.<sup>4</sup> Our assessment of IRS' performance for the 1991 filing season again showed improved accuracy. However, although IRS information indicates that accessibility to assistors in 1991 improved compared with 1990, it is still well below the performance level IRS achieved in 1989.

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### Accuracy Continued to Improve

IRS assistors answer taxpayers' tax law questions at 32 toll-free telephone call sites. IRS measures the accuracy of this assistance through the Integrated Test Call Survey System (ITCSS). Under this system, IRS test callers (1) place anonymous calls to telephone assistors and (2) score assistors' answers to various test questions about the tax laws.

According to ITCSS data, telephone assistors answered test tax law questions accurately about 84 percent of the time during the period from February 4, 1991, to April 27, 1991. This rate is higher than the 77 percent accuracy rate for the same period last year and 1 percentage point below the 85-percent goal IRS set for this year.

We monitored and scored 793 test calls made by IRS between March 4, 1991, and April 15, 1991, to independently validate the ITCSS test results. Our scores for these calls agreed with IRS scores about 95 percent of the time and showed an accuracy rate of 86 percent. Because of the consistency of our test results with IRS data, we believe that the 84 percent accuracy rate reported by IRS is reliable.

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### Accessibility Is Still a Concern

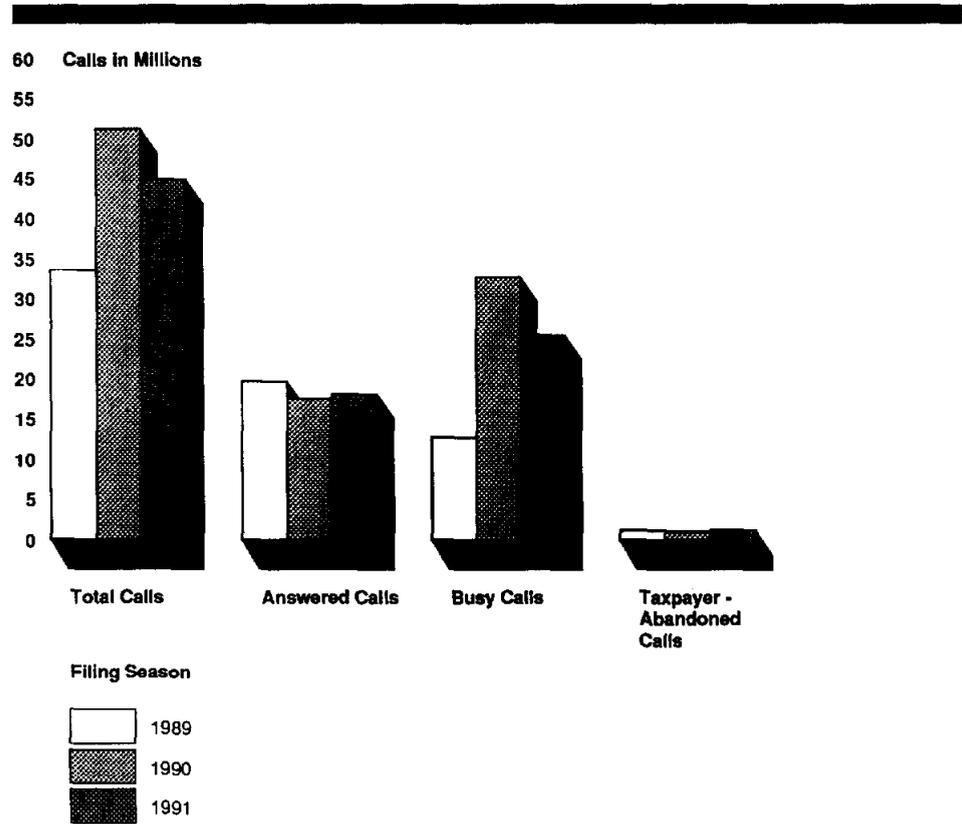
IRS data indicate that in 1991 taxpayers continued to have difficulty reaching IRS assistors by telephone. Using information from IRS' telephone data report on the number of calls received and answered between January 1, 1991, and April 27, 1991, we computed accessibility by dividing the total number of calls answered by the total number of calls received. Calls received is the sum of calls answered, busy signals,

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<sup>4</sup>Tax Administration: IRS' 1990 Filing Season Performance Continued Recent Positive Trends (GAO/ GGD-91-23, Dec. 27, 1990).

and calls abandoned by taxpayers who received a recorded message but hung up before an assistor got on the line. Figure 1 compares each of these categories for the 1989, 1990, and 1991 filing seasons. Using the information in figure 1, we computed an accessibility rate of 40.3 percent in 1991—up from 34.1 percent for the same period in 1990 but still considerably less than the 1989 rate of 58 percent.

**Figure 1: Information on Calls Received and Answered by IRS' Toll-Free Telephone Call Sites During the 1989, 1990, and 1991 Filing Seasons**



Source: IRS' Telephone Data Reports.

Before the 1991 filing season, IRS estimated that the demand for telephone assistance during the season would exceed the demand in 1990, and it allocated additional resources to meet the expected increase. IRS purchased new telephone equipment; increased the number of telephone lines by 12 percent; and, through April 27, 1991, spent 87 more staff years answering calls. For the period January 1, 1991, through April 27, 1991, IRS reported that it answered 18 million calls—about 3.3 percent

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more than in 1990 but 4.7 percent less than it had expected to answer during that period.

In light of the increased resources, we asked officials in IRS' Taxpayer Services Division why more calls were not answered. They gave two reasons, both relating to IRS' emphasis on providing accurate answers to taxpayer questions. They said that (1) telephone assistors took more time in 1991 determining the specific details of taxpayers' questions before providing answers and (2) call sites devoted more time to assistor training. Although these factors helped improve accuracy, according to IRS, they decreased taxpayers' access to the toll-free system.

IRS officials said that they expect accessibility to increase as assistors become more experienced with some relatively new tools that have been made available to help them do their job. One such tool, for example, is a probe and response guide that IRS developed to help assistors probe for all the facts needed about a taxpayer's situation before attempting to answer the taxpayer's question. One way IRS hopes to enhance experience is by minimizing assistor attrition and thus stabilizing the work force from year to year.

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## IRS Continues to Improve Availability of Tax Materials

Taxpayers can obtain tax forms, instructions, and publications at over 600 IRS walk-in sites or through phone and mail orders placed with 1 of 3 IRS distribution centers. Our tests of the availability of tax materials from some of these sources indicated that tax materials should have been readily available to taxpayers during the 1991 filing season. IRS' own test of distribution center performance also showed that the centers generally filled mail and telephone orders accurately and in a timely manner.

Between February 21, 1991, and March 1, 1991, we visited 10 walk-in sites in 6 states and the District of Columbia to check the availability of 87 forms and publications that all walk-in sites are required to stock. Six sites had all the required items, three sites were missing one item each, and one site was missing two items. During the 1990 filing season, at 13 sites we visited between January 22 and February 26 to check the availability of 82 required forms and publications, we found that 1 site had all the items, 9 sites were missing between 1 and 5 items, 2 sites were missing 6 items, and 1 site was missing 8 items.

Between February 12, 1991, and April 12, 1991, we also placed 36 mail and 36 phone orders for a total of 288 items. Each order was for 4 items

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randomly selected from IRS' list of 87 required items.<sup>5</sup> As of May 3, 1991, we had received materials in response to all of our orders. More specifically, we received 138, or 99 percent, of the 140 mail-ordered items and 141, or 98 percent, of the 144 phone-ordered items. We received 74 percent of our mail-ordered items and 92 percent of our phone-ordered items within the 14 days that IRS tells taxpayers to expect delivery. Another 20 percent of our mail-ordered items and 5 percent of our phone-ordered items were received within 21 days.

IRS' objective during the 1991 filing season was to accurately process at least 94 percent of the phone and mail orders received by its distribution centers. To measure performance against this objective, IRS volunteers placed 1,983 test orders between November 26, 1990, and March 22, 1991. The results as of May 21, 1991, show that IRS accurately filled 81 percent of its phone orders and about 85 percent of its mail orders. An IRS official in the forms and publications distribution area explained that most errors were caused by a difference between the quantity ordered and quantity received.<sup>6</sup> Many of these quantity differences would have resulted in the taxpayer receiving more copies than ordered, an error that would appear to have no adverse effect on the taxpayer. Excluding these types of quantity differences from IRS' results would increase its phone and mail accuracy rates to 85 percent and 89 percent, respectively.

In our report on the 1990 filing season, we discussed certain problems with the National Office's methodology for testing how well distribution centers filled mail and phone orders and recommended that IRS develop and implement a statistically valid survey. Our assessment of the National Office's testing procedures during the 1991 filing season indicates that the National Office improved its methodology and that the methodology now provides an accurate assessment of the tax material distribution program's performance.

Each of the three distribution centers also assesses its own performance in recording and filling actual orders. According to IRS, these quality checks showed that the three centers had achieved a cumulative accuracy rate of 96 percent as of April 20, 1991.

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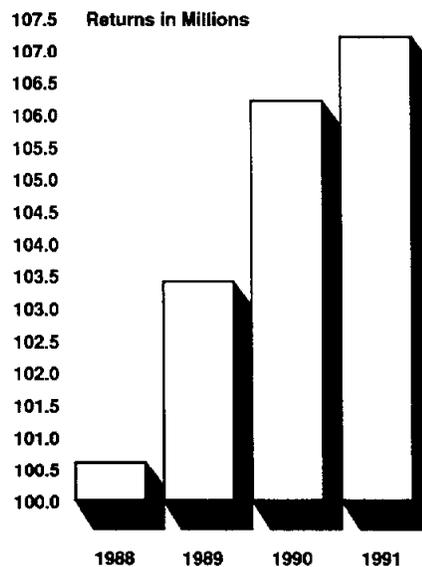
<sup>5</sup>We excluded 1 of the 36 mail orders from our analysis because we had provided an incorrect return address, which caused the mail from IRS to be misrouted.

<sup>6</sup>Because we did not specify quantity when placing our test orders, quantity differences were not a factor in our test results.

## IRS Indicators Show That Returns Processing Performance in 1991 Continued Recent Positive Trend

IRS' returns processing performance during the 1991 filing season continued the positive trend of the past few seasons. According to IRS statistics, about 107 million returns were received as of May 3, 1991, compared with about 106 million at the same time in 1990. Figure 2 shows how the number of returns received has grown since 1988. About 76 percent of the receipts were processed as of May 3, 1991, the same rate as in 1990, and IRS issued 63.2 million refunds compared with 62.8 million the year before.

**Figure 2: Returns Received During the 1988, 1989, 1990, and 1991 Filing Seasons**



Note: These data are cumulative through May 6, 1988; May 5, 1989; May 4, 1990; and May 3, 1991, respectively.

Source: IRS' Management Information System for Top Level Executives.

Although the overall numbers were similar, there were two distinct differences between the filing patterns in 1990 and 1991—in 1991 more taxpayers filed electronically and more taxpayers filed Form 1040A.

As of May 3, 1991, IRS had received 7.5 million electronically filed returns—a 79-percent increase as of the same date in 1990 and 21 percent more than the 6.2 million IRS had expected to receive. IRS believes that electronic filing offers considerable advantages to taxpayers and IRS in the form of faster refunds and fewer processing errors. A small part of this increase was due to an expansion of electronic filing in 1991.

The expansion allowed taxpayers in nine states who filed balance due returns—returns filed by taxpayers who owe money after filing—to file electronically. Through April 29, 1991, taxpayers in those nine states had electronically filed a total of 3,843 balance due returns.

More taxpayers also used Form 1040A to file their returns in 1991. This increase occurred, at least in part, because IRS revised the form to allow taxpayers to report pension income—a change that IRS estimated would enable another 4.5 million taxpayers to reduce their paperwork burden by filing Form 1040A. Through May 3, 1991, IRS statistics show that taxpayers filed 21.2 million 1040A forms—3.2 million, or 18 percent, more than as of the same time in 1990.

Another indicator of IRS' returns processing performance is total receipts into various service center inventories. These inventories, which can be thought of as things "gone wrong" or needing special attention, include, for example, returns with errors needing correction before they can be processed or before information from the returns can be posted to taxpayers' accounts. During the 1991 filing season, as shown in table 1, the total number of receipts into six of the seven inventories decreased compared with the same period in 1990. Receipts into the remaining inventory were up 2 percent. All inventories were at levels that IRS considered manageable.

**Table 1: Receipts Into Service Center Inventories During the 1990 and 1991 Filing Seasons**

Inventory	Receipts in		Percent change
	1990	1991	
Adjustments/correspondence	4,052,841	3,606,954	(11)
Blocks out of balance	7,981,433	8,106,901	2
Entity	3,137,655	2,987,719	(5)
Error resolution	13,206,755	11,789,795	(11)
Rejects	930,315	914,726	(2)
Unidentified remittances	23,612	20,072	(15)
Unpostables	3,435,969	2,929,055	(15)

The various inventories are described as follows:

Adjustments/correspondence includes taxpayer inquiries, claims and amended returns, applications for tentative refunds, and internally generated notices that may require adjustments to taxpayer accounts and/or IRS responses to taxpayers.

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Blocks out of balance are blocks of returns (a block usually contains 100 returns) for which the computer total of the number of returns in the block and/or the amount of taxes paid on those returns does not agree with the actual number or amount.

Entity consists of cases that require IRS to update or correct taxpayer files because of name or address changes, changes to accounting periods, or requests for employer identification numbers.

Error resolution includes returns identified by the computer as having math or other type errors that need to be resolved before processing can be completed. The errors include ones made by taxpayers or return preparers in filling out the returns and ones made by service center staff in processing the returns.

Rejects are returns that cannot be worked within normal processing time frames because of missing or inconsistent information on the returns that requires taxpayer contact or additional IRS research.

Unidentified remittances are tax remittances that require additional IRS research to determine who should receive credit for the payment.

Unpostables are tax returns and other tax transactions that require additional research before they can be posted to the taxpayer accounts maintained on IRS' master files. The research is needed because of discrepancies between data on the accounts and data on the tax returns or transactions. For example, the taxpayer's name and Social Security number on a return may not match the name and number in the master files.

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## Errors Decreased in the 1991 Filing Season

Another measure of IRS' performance is the extent to which service center staff make errors in processing returns.

In March 1991, we reported that IRS' measure of returns processing quality might not be valid because, in compiling the measure, IRS combined errors made by service center staff with errors made by taxpayers and return preparers in filling out the returns.<sup>7</sup> We recommended that IRS use an indicator that specifically identifies the extent to which service center staff are making errors. IRS has since begun reporting its

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<sup>7</sup>Tax Administration: IRS Needs to Improve Certain Measures of Service Center Quality (GAO/GGD-91-66, Mar. 20, 1991).

error information in a way that not only segregates IRS errors from taxpayer/preparer errors but also more specifically identifies the source of IRS errors. That information comes from the Program Analysis System, a quality measurement program that IRS started using in 1985 to sample returns sent to the error resolution function.

Table 2 shows the recategorized Program Analysis System data for 1988 through 1991. According to that information, the percentage of returns involving IRS processing errors decreased between 1988 and 1991, as did the percentage of returns involving errors by taxpayers and preparers.

**Table 2: Source of Errors on Individual Returns Processed as of April 10, 1988, Through 1991**

Source	Percent returns with errors			
	1988	1989	1990	1991
Taxpayers and preparers	9.0	8.1	6.9	6.4
Service center staff				
Code and Edit <sup>a</sup>	4.0	3.9	3.7	3.4
Data Conversion <sup>b</sup>	4.0	3.3	3.2	2.9
Other	0.2	0.3	0.1	0.1
<b>Total errors</b>	<b>17.2</b>	<b>15.6</b>	<b>13.9</b>	<b>12.8</b>

<sup>a</sup>Code and Edit is the service center group that checks tax returns for accuracy and completeness and codes the returns for entry into the computer.

<sup>b</sup>Data Conversion is the group that enters data from the tax returns onto computer tapes.

Source: IRS Program Analysis System data through April 10 of each of the years involved.

We noted in our report on the 1990 filing season that taxpayers and service center staff made the same types of errors that year as they had in previous years. As shown in appendixes I and II, this was also the case in 1991, although IRS statistics show that in all but one instance the number of returns affected declined.

In 1990, IRS began studying several types of recurring errors in the hope of having some solutions in place for the 1991 filing season. Included among those studies were such problem areas as the earned income credit and the transcription of incorrect Social Security numbers during processing. As of February 1991, most of those studies had been completed. IRS said that it had implemented some of the solutions recommended by the study teams and was considering further actions for implementation in 1992. We did not do the work necessary to determine the extent to which the implemented changes contributed to the overall decline in error rates in 1991 or to the declining rates for specific errors.

We are sending copies of this report to various congressional committees, the Secretary of the Treasury, the Commissioner of Internal Revenue, the Director of the Office of Management and Budget, and other interested parties.

Major contributors to this report are listed in appendix III. Please contact me on (202) 275-6407 if you have any questions concerning the report.

Sincerely yours,

A handwritten signature in cursive script that reads "Jennie S. Stathis".

Jennie S. Stathis  
Director, Tax Policy and  
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# Top Five Service Center Errors During the 1991 Filing Season and the Number of Returns Affected

Error	Number of returns affected		Percent change
	1990	1991	
Code and Edit did not edit exemptions	286,246	265,378	( 7.3)
Code and Edit did not edit filing status	138,506	132,689	( 4.2)
Code and Edit did not edit return processing code	184,675	109,273	(40.8)
Data Conversion omitted dependency status indicator	203,142	93,662	(53.9)
Data Conversion entered wrong refund amount	101,571	93,662	( 7.8)

Note: According to IRS, the second, third, and fourth errors listed in the table were also among the top five errors in 1990.

Source: Program Analysis System data through April 10, 1990, and 1991.

# Top Five Taxpayer Errors During the 1991 Filing Season and the Number of Returns Affected<sup>a</sup>

Error	Number of returns affected		Percent change
	1990	1991	
Used incorrect income when figuring earned income credit	212,376	241,962	13.9
Used incorrect standard deduction amount	277,012	234,156	(15.5)
Failed to claim earned income credit when entitled	249,311	226,351	(9.2)
Made math error when figuring refund	313,947	171,715	(45.3)
Claimed earned income credit when not entitled	230,843	140,494	(39.1)

<sup>a</sup>Taxpayer errors include errors on returns prepared by individuals, paid preparers, volunteer preparers, and IRS assistants.

Note: According to IRS, the top five errors in 1991 were also the top five in 1990, although not in the same order.

Source: Program Analysis System data through April 10, 1990, and 1991.

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