

GAO

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

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December 2000

TAX  
ADMINISTRATION

Assessment of IRS'  
2000 Tax Filing  
Season



G A O

Accountability \* Integrity \* Reliability

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### **Abbreviations**

BPOL	Bank, Post Office, and Library
ECN	E-File Customer Number
EIC	Earned Income Credit
ERO	electronic return originator
IRS	Internal Revenue Service
PIN	Personal Identification Number
SSN	Social Security number
TCE	Tax Counseling for the Elderly
TIGTA	Treasury Inspector General for Tax Administration
VITA	Volunteer Income Tax Assistance



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United States General Accounting Office  
Washington, DC 20548

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December 22, 2000

The Honorable Amo Houghton  
Chairman, Subcommittee on Oversight  
Committee on Ways and Means  
House of Representatives

Dear Mr. Chairman:

In response to your request, this report assesses IRS' performance during the 2000 tax filing season. For most taxpayers, their only contacts with the Internal Revenue Service (IRS) are associated with the filing of their individual income tax returns.<sup>1</sup> In addition to the filing itself, those contacts generally involve (1) telephone calls to IRS or visits to an IRS walk-in site<sup>2</sup> to obtain tax forms or publications or to seek return preparation help and/or (2) correspondence from IRS regarding problems, such as computational errors or missing Social Security numbers (SSN), that can affect processing of a return and/or issuance of a refund. Although every filing season contains challenges for IRS, the 2000 filing season was expected to be especially challenging because of the potential for system-related problems associated with the Year 2000.

This report discusses (1) the processing of returns and refunds, including efforts to increase electronic filing; (2) assistance to taxpayers provided through various sources, including toll-free telephone lines, walk-in sites, and the World Wide Web site on the Internet; and (3) efforts to reduce improper Earned Income Credit (EIC) claims and payments. Included in our discussion of the processing of returns and refunds is a summary of our separate report on the performance of computer systems that IRS used to process tax returns during the 2000 filing season. We issued that

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<sup>1</sup>Most taxpayers file their returns between January 1 and April 15, which is the deadline for filing individual income tax returns. However, millions of taxpayers get extensions from IRS that allow them to delay filing until as late as October 15.

<sup>2</sup>As used in this report, the term "walk-in sites" includes both IRS' walk-in offices that are generally open all year and temporary locations that IRS sets up during the filing season. It does not include alternative taxpayer assistance sites, such as mobile vans or sites at shopping malls and grocery stores.

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report in June 2000.<sup>3</sup> We also did a separate review of IRS' toll-free telephone operations during the filing season, and we expect to issue a report on our results early in 2001. We testified before this Subcommittee on the interim results of all of our work in March 2000.<sup>4</sup>

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## Results in Brief

Regarding IRS' processing of returns and refunds, we noted the following:

- IRS indicators showed that IRS' performance in processing returns and refunds during the 2000 filing season was generally as good or better than in 1999. Most importantly,
  - refunds were generally issued within the time frames set by IRS and
  - electronic filing increased by about 21 percent compared to 1999, as more taxpayers used the signature and payment alternatives offered by IRS.
- As we reported in June, despite the added risks associated with the Year 2000, the computer systems IRS used to process tax returns performed slightly better during the 2000 filing season than during the 1999 filing season.
- Changes that IRS made in an attempt to reduce taxpayer errors and enhance the processing of returns and payments seemed to have had a positive effect. For example, steps IRS took to simplify the child tax credit worksheet and to revise the criteria for reporting capital gains contributed to fewer errors by taxpayers and tax return preparers in those areas.

Regarding the various means through which IRS helps taxpayers during the filing season, we noted the following:

- The ability of taxpayers to reach IRS over the telephone improved compared to 1999 but was still well below the performance level achieved in 1998.

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<sup>3</sup>*IRS' 2000 Tax Filing Season: IRS Measures Show Tax Processing Systems Performed Slightly Better Than in 1999* (GAO/GGD-00-146, June 16, 2000).

<sup>4</sup>*Tax Administration: IRS' 2000 Tax Filing Season and Fiscal Year 2001 Budget Request* (GAO/T-GGD/AIMD-00-133, Mar. 28, 2000).

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- IRS implemented measures for assessing the performance of its walk-in sites but still lacked some critical information, such as reliable data on customer satisfaction.
  - IRS procedures provided for assessing the quality of returns prepared by volunteer sites. However, IRS had no measures for assessing the timeliness of service provided by the sites or taxpayer satisfaction with those services. Also, (1) IRS district office representatives were required to make monitoring visits to volunteer assistance sites but were not given specific guidance as to what to review during those visits and (2) the late delivery of computer equipment and training materials hampered the ability of volunteer sites to effectively serve taxpayers.
  - Data on IRS' Web site showed increased use and improved performance in 2000 compared to 1999, but some information on the site was obsolete or inconsistent.
  - IRS' performance measures did not adequately reflect the timeliness with which IRS' area distribution centers responded to taxpayers' orders of forms and publications.

Over the past several filing seasons, IRS implemented efforts aimed at reducing the number of improper EIC claims and payments, including the denial of EIC claims that were not accompanied by valid SSNs.<sup>5</sup> In 2000, IRS continued these earlier efforts and initiated an EIC education and compliance strategy that was directed at tax return preparers. Although these efforts have enabled IRS to identify and stop hundreds of millions of dollars in erroneous EIC claims, a recent IRS study indicated that IRS might still be allowing billions of dollars in erroneous EIC claims.

We are making recommendations to the Commissioner of Internal Revenue on walk-in service, volunteer assistance, forms distribution, and IRS' Web site. In commenting on a draft of this report, the Commissioner of Internal Revenue said that IRS would make every effort to resolve the issues noted in our report. While agreeing generally with our recommendations, the Commissioner disagreed with parts of two recommendations (although, in one case, IRS' plans are consistent with our recommendation) and provided additional perspective that led to a rewording of one recommendation.

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<sup>5</sup>According to law, an EIC is not to be allowed unless the tax return contains the EIC-qualifying child's SSN as well as the SSNs of the taxpayer and the taxpayer's spouse, if any (26 U.S.C. 32 (c) (1) (F) and (c) (3) (D)).

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## Scope and Methodology

To assess IRS' performance during the 2000 filing season, we interviewed IRS officials about ongoing efforts and future plans; analyzed IRS data on numerous activities, such as the extent to which taxpayers used various alternative signature and payment alternatives offered by IRS and the results of IRS efforts to identify and deny improper EIC claims; reviewed various IRS documents, including operating procedures and reports on program results and internal research efforts; reviewed data posted to IRS' Web site and a private study of the site; reviewed reports that an IRS contractor prepared on customer satisfaction surveys; contacted private organizations that prepare tax returns and sponsor free tax return filing assistance; reviewed relevant congressional testimony; and reviewed the results of relevant audit work done by the Treasury Inspector General for Tax Administration (TIGTA).

We did our work at IRS' National Office; submission processing centers in Atlanta, GA, and Kansas City, MO; Customer Service Field Operations and Customer Service Operations Center in Atlanta; call sites in Atlanta, Dallas, TX, Jacksonville, FL, Kansas City, KS, and Nashville, TN; and district office in Georgia. We selected those offices for a variety of reasons—we selected some because they had management responsibility for the programs being reviewed, some because of the nature of their workload, and some because of their proximity to our audit staff.

We did our work from January through October, 2000, in accordance with generally accepted government auditing standards.

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## Processing Operations Went Well

Representatives of several practitioner groups said, either to us or in congressional testimony, that the 2000 filing season went smoothly. The results of our review of IRS' return and refund processing operations were consistent with that assessment. More specifically, our audit work showed the following:

- According to various indicators that IRS and we have traditionally used to assess IRS' processing of returns and refunds during the filing season, IRS generally met or exceeded its processing performance levels in 1999. Among other things,
  - refunds were generally issued within the time frames set by IRS and
  - the number of returns filed electronically increased by about 21 percent compared to 1999.

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- Despite the added risks associated with the Year 2000, IRS' tax processing systems performed slightly better during the 2000 filing season than during the 1999 filing season.
  - Changes that IRS made in an attempt to reduce taxpayer errors and enhance the processing of returns and payments seemed to have had a positive effect by, among other things, reducing the number of errors made by taxpayers and tax return preparers in claiming the Child Tax Credit.

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**IRS Indicators Show That IRS' Performance in Processing Returns and Refunds During the 2000 Filing Season Was Generally as Good or Better Than in 1999**

As shown in table 1, IRS, in 2000, generally met or exceeded its processing performance levels in 1999 for five of seven performance indicators.<sup>6</sup> For a sixth indicator, IRS did not have data for the 2000 filing season, as explained in note "d" of the table. Although the seventh indicator (notice accuracy) seemed to show a decline between 1999 and 2000, data for the 2 years cannot be compared because they were generated by different methodologies. (See app. I for a description of the seven indicators listed in table 1.)

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<sup>6</sup>IRS set the goals shown in table 1 generally on the basis of previous experience and projected workload. We did not assess the appropriateness of IRS' goals nor independently verify the accomplishment data reported by IRS. However, as part of our reviews of past filing seasons, we assessed IRS' methodologies for computing several indicators, such as the accuracy and timeliness of refunds.

**Table 1: IRS' Processing Performance Goals and Related Accomplishments for the 1999 and 2000 Filing Seasons**

Indicator	1999 <sup>a</sup>		2000 <sup>a</sup>	
	Goal	Accomplishment	Goal	Accomplishment
Accuracy of individual income tax returns processed by Code and Edit staff <sup>b</sup>	Process 96% accurately	96.6% were processed accurately	Process 96.8% accurately	96.6% were processed accurately
Accuracy of individual income tax returns processed by data transcribers	Process 94.6% accurately	94% were processed accurately	Process 93.9% accurately	93.9% were processed accurately
Notice accuracy <sup>c</sup>	Provide accurate notices to taxpayers 98.5% of the time	Provided accurate notices to taxpayers 97.7% of the time	Provide accurate notices to taxpayers 97.4% of the time	Provided accurate notices to taxpayers 96.2% of the time
Accuracy of individual income tax refunds on paper returns	Process 99.3% accurately	99.6% were processed accurately	Process 99.3% accurately	Data not available <sup>d</sup>
Timeliness of refunds for individual income tax returns filed on paper	Baseline year <sup>e</sup>	Processed 84.7% of the refunds in 40 days or less	Process 85% of the refunds in 40 days or less	Processed 92.1% of the refunds in 40 days or less
Timeliness of refunds for individual income tax returns filed electronically	Process 98% of the refunds in 21 days or less	Processed 99.6% of the refunds in 21 days or less	Process 99% of the refunds in 21 days or less	Processed 100% of the refunds in 21 days or less
Percentage of individual income tax returns filed electronically	Receive 23% of returns electronically	Received 23.4% of returns electronically as of 10/29/99	Receive 26.5% of returns electronically	Received 27.7% of returns electronically as of 10/27/00

<sup>a</sup>Data are as of April 1999 and April 2000, unless otherwise noted.

<sup>b</sup>Code and Edit staff are to prepare paper returns for computer entry by, among other things, ensuring that all data are present on the return and legible.

<sup>c</sup>In 1999 and previous filing seasons, the methodology used to calculate the notice accuracy indicator excluded systemic errors caused by computer hardware or software and errors not under the control of the service center because IRS wanted to measure how well staff were performing. For the 2000 filing season, IRS changed the methodology to include systemic errors because IRS believes that their inclusion provides a better measure of the quality of notices sent to taxpayers. According to IRS, a change in the computer systems used to track and calculate the indicator prevented IRS from recalculating the 2 years of data to provide comparable information. Therefore, results for 1999 and 2000 should not be compared for trend analysis.

<sup>d</sup>According to IRS, it had no information on the percentage of individual income tax returns filed on paper that were processed accurately during the 2000 filing season because a contractor did not provide the computer programming needed to capture the data.

<sup>e</sup>According to IRS, fiscal year 1999 was a baseline year; therefore, no performance goal was established.

Source: GAO summary of IRS data.

We focused our attention on two areas covered by IRS' indicators—refund timeliness and the use of electronic filing.

## Refunds Generally Issued Within Established Time Frames

A major part of IRS' processing effort is directed at issuing refunds. In that regard, about 70 percent of the individual income tax returns processed by IRS in 2000 involved refund claims.

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IRS' goals for the 2000 filing season were to process (1) 85 percent of the refunds on paper returns within 40 days and (2) 99 percent of the refunds on electronic returns within 21 days. IRS exceeded both of those goals and, in doing so, exceeded its accomplishments in 1999. The improvement over 1999 was especially significant for paper returns, where IRS' performance increased from 84.7 percent to 92.1 percent.

According to cognizant IRS staff, a new methodology for computing the timeliness of refunds on paper returns has been proposed that would change the date from which IRS starts counting. IRS had been using the signature date on the return as the starting point. However, because IRS felt that the signature date did not always reflect when the return was mailed, the proposed methodology calls for using the date IRS receives the return as the starting point. We do not know how many of the refunds that exceeded the 40-day goal during the 2000 filing season would have met the goal if IRS had been using the proposed methodology. As of September 20, 2000, that proposal was still under consideration.

## Use of Electronic Filing Continued to Grow

IRS first began receiving individual income tax returns electronically in 1986. Electronic filing enables taxpayers to file more accurate returns and get their refunds faster and provides taxpayers with evidence that IRS has received their returns. Electronic filing also reduces the number of errors IRS has to correct because (1) checks are built into the electronic filing system that are designed to catch certain taxpayer errors, such as computational mistakes, in advance so that they can be corrected by the taxpayer before IRS takes possession of the return and (2) returns filed electronically bypass the more error-prone manual procedures that IRS uses to process paper returns.

The number of individual income tax returns filed electronically has been on an upward trend since 1995, during which time the number of electronic returns increased by 200 percent (from 11.8 million in 1995 to 35.4 million in 2000). The 35.4 million electronic returns filed in 2000 represent an increase of about 21 percent compared to the number filed in 1999.

There are currently three types of electronic filing: (1) traditional, whereby taxpayers transmit returns to IRS through a third party (such as a tax return preparer); (2) TeleFile, whereby taxpayers send returns directly to IRS over telephone lines using a Touch-Tone telephone; and (3) on-line, whereby taxpayers send returns to IRS through an on-line intermediary using a personal computer and commercial software. As shown in table 2,

the use of traditional and on-line filing increased in 2000, while the use of TeleFile decreased for the second year in a row.

**Table 2: Number of Individual Income Tax Returns Received, by Filing Type**

Number of returns in thousands

<b>Filing type</b>	<b>1/1/98 to 10/30/98</b>	<b>1/1/99 to 10/29/99</b>	<b>Percentage change: 1998 to 1999</b>	<b>1/1/00 to 10/27/00</b>	<b>Percentage change: 1999 to 2000</b>
Paper	98,453	96,178	-2.31	92,322	-4.01
Electronic					
Traditional	17,697	21,227	19.95	25,211	18.77
TeleFile <sup>a</sup>	5,963	5,665	-5.00	5,161	-8.90
On-line	942	2,457	160.83	5,022	104.40
<b>Subtotal</b>	<b>24,602</b>	<b>29,349</b>	<b>19.30</b>	<b>35,394</b>	<b>20.60</b>
<b>Total</b>	<b>123,055</b>	<b>125,527</b>	<b>2.01</b>	<b>127,716</b>	<b>1.74</b>
<b>Percentage of total electronically filed</b>	<b>20.1</b>	<b>23.4</b>	<b>-</b>	<b>27.7</b>	<b>-</b>

<sup>a</sup>An IRS research report attributed at least some of the decrease in TeleFile use between 1998 and 1999 to tax law changes that enabled certain taxpayers to take a student loan interest deduction or an education credit. Persons claiming such a deduction or credit were no longer eligible to use TeleFile. Research data on the decrease in TeleFile use between 1999 and 2000 were not available at the time we completed our audit work.

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

Besides the belief that taxpayers are becoming more familiar and comfortable with computer technology and electronic filing, IRS officials cited several factors that contributed to the increase in electronic filing in 2000, including IRS' expansion of initiatives to make electronic filing paperless, and thus more appealing to taxpayers and tax return preparers. Those factors, with an emphasis on the paperless initiatives, are discussed in appendix II.

## Tax Processing Systems Performed Slightly Better Than in 1999

The performance of systems that IRS uses for processing tax returns was of particular interest in 2000 because of the massive changes that IRS made to help ensure that its systems were Year 2000 compliant. Completing these changes involved correcting millions of lines of application software and upgrading or replacing thousands of computer hardware and software products. Although it extensively tested these changes, IRS anticipated that unexpected system-related problems might occur during the 2000 filing season that could affect service to taxpayers.

As we reported in June 2000, although there were some relatively minor problems, IRS performance data and comments from IRS officials and

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representatives of large tax practitioners indicated that IRS' tax processing systems performed slightly better during the 2000 filing season than in 1999.<sup>7</sup> At the time that we prepared our June report, IRS had identified four system-related problems that affected relatively few individual taxpayers. IRS officials said that they had (1) corrected the four problems, (2) taken or were taking action to mitigate the effects on taxpayers, and (3) notified individuals affected by two of the four problems. One reason IRS officials cited for not always notifying affected individuals was that IRS could not quickly generate correspondence to address the problem. In preparing this report, we followed up with IRS officials about the potential impact of systems modernization on IRS' ability to more quickly notify taxpayers. They told us that systems modernization may enable IRS to more quickly develop customized taxpayer correspondence to address specific problems but may not reduce the time involved in identifying taxpayers affected by the problems because IRS still would need to develop unique software programs for that purpose.

After we completed our audit work for the June 2000 report, IRS officials told us of a fifth system-related problem. That problem involved the freezing of 27,493 refunds because they were mistakenly identified as involving an injured spouse.<sup>8</sup> According to IRS, it identified the problem on February 12, corrected it on February 20, and generated the refunds within a week.

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## IRS Made Several Changes to Reduce Taxpayer Errors and Enhance Processing

IRS made several changes for the 2000 filing season in an attempt to reduce the number of taxpayer errors and enhance its processing efforts. Of particular note, IRS

- simplified the Child Tax Credit worksheet for 2000, which contributed to a decrease of 37 percent in the number of Child Tax Credit errors made by taxpayers and tax return preparers;
- revised the criteria for filing Schedule D (Capital Gains and Losses), which likely contributed to a reduction in the number of Schedule Ds that IRS had to process in 2000;

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<sup>7</sup>GAO/GGD-00-146.

<sup>8</sup>IRS defines an injured spouse as the person whose portion of the overpayment on a joint return was, or will be, applied against a tax or non-tax debt (e.g., a student loan) for which he or she is not liable.

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- had taxpayers who were getting refunds mail their returns to a different address than taxpayers who were making payments so that IRS could better identify returns with remittances; and
  - began checking the validity of secondary taxpayers' SSNs,<sup>9</sup> which resulted in about 36,000 notices to taxpayers about invalid SSNs.<sup>10</sup>

These changes are discussed more fully in appendix III.

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## Improvements Made in Assisting Taxpayers and Measuring Performance, but More Can Be Done

IRS has various ways to help taxpayers meet their filing requirements. These ways include (1) call sites that assist taxpayers who telephone IRS with questions about the tax law, their accounts, or their refunds; (2) walk-in sites where, among other things, taxpayers can get answers to questions and help in preparing their returns; (3) IRS-sponsored volunteer organizations that provide return preparation assistance and other help to eligible taxpayers; (4) IRS' Web site on the Internet, which, among other things, enables taxpayers to get answers to tax law questions via electronic mail (E-mail); and (5) various outlets through which taxpayers can receive tax forms and publications.

Table 3 shows 1999 and 2000 performance data for various customer service-related indicators that IRS and we have used in the past to assess the filing season.<sup>11</sup> IRS also has a new indicator for the quality of service provided by its walk-in sites. However, as discussed later in this report, IRS did not have data on that measure for the 2000 filing season at the time we completed our audit work. (See app. I for a description of the five indicators listed in table 3.)

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<sup>9</sup>SSNs are assigned by the Social Security Administration and used by IRS to identify individual taxpayers. In the case of a joint return, the person whose name appears first on the return is considered the primary taxpayer. The other person is considered the secondary taxpayer.

<sup>10</sup>IRS considers an SSN invalid if it is missing from the return or if the SSN and associated name on the return do not match data in the Social Security Administration's records.

<sup>11</sup>IRS set the goals shown in table 3 generally on the basis of previous experience and projected workload. We did not assess the appropriateness of IRS' goals nor independently verify the accomplishment data reported by IRS. However, as part of our reviews of past filing seasons, we assessed IRS' methodologies for computing several indicators, such as toll-free telephone service and tax law accuracy.

**Table 3: IRS' Customer Service Performance Goals and Related Accomplishments for the 1999 and 2000 Filing Seasons**

Indicator	1999 <sup>a</sup>		2000 <sup>a</sup>	
	Goal	Accomplishment	Goal	Accomplishment
Level of service provided by toll-free taxpayer service telephone system	Baseline year <sup>b</sup>	Provided 54% level of service	Provide 58% level of service	Provided 63% level of service
Tax law accuracy rate for taxpayer inquiries (toll-free) <sup>c</sup>	Answer 85% of taxpayers' questions accurately	Answered 73.8% accurately	Answer 80% of taxpayers' questions accurately	Answered 71.9% accurately
Accuracy with which forms distribution centers process taxpayer orders	Process 96.5% accurately	Processed 97% accurately	Process 96.5% accurately	Processed 98% accurately
Customer satisfaction with toll-free telephone service <sup>e</sup>	Baseline year <sup>b</sup>	Average overall satisfaction of 3.55 on a 4-point scale (as of 3/99)	Not applicable <sup>d</sup>	Average overall satisfaction of 3.50 on a 4-point scale (as of 3/00)
Customer satisfaction with walk-in service <sup>f</sup>	Baseline year <sup>b</sup>	Average overall satisfaction of 6.44 on a 7-point scale (as of 3/99)	Average overall satisfaction of 6.5 on a 7-point scale	Average overall satisfaction of 6.48 on a 7-point scale (as of 3/00)

Note: Similar tables in our reports on past filing seasons included an indicator that is not included in this year's table. In this table, we dropped "level of access to taxpayer service telephone system" because IRS has adopted level of service as its key performance measure and has discontinued use of the level of access indicator.

<sup>a</sup>Data on accomplishments are as of April 1999 and April 2000, unless otherwise noted.

<sup>b</sup>According to IRS, it used fiscal year 1999 as a baseline; therefore, no performance goal was established.

<sup>c</sup>Data for the tax law accuracy indicator are compiled on a fiscal year basis. Data for 1999 are from October 1, 1998, to April 30, 1999, and data for 2000 are from October 1, 1999, to April 30, 2000.

<sup>d</sup>IRS originally set its goal for 2000 as an average overall satisfaction score of 6.3 on a 7-point scale. However, the survey was subsequently automated, and the rating scale was changed to a 4-point scale. Because we could not convert IRS' original goal to the 4-point scale, we did not include a goal in the table. The contractor responsible for the survey recomputed the rating data for 1999 to reflect the new scale.

<sup>e</sup>In a September 2000 report, TIGTA concluded that these data, which were generated by surveying a sample of callers, were not statistically valid. TIGTA said that management controls were insufficient and, among other things, raised questions about the sampling methodology. IRS management disagreed with TIGTA's conclusions.

<sup>f</sup>As discussed later in this report, TIGTA raised concerns about the statistical validity of these reported accomplishments.

Source: GAO summary of IRS data.

Concerning IRS' various modes of assistance, we noted the following:

- Although taxpayers were better able to reach IRS over the telephone in 2000 compared to 1999, IRS' performance in providing telephone service was still below the level achieved in 1998.

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- IRS implemented measures for assessing the performance of its walk-in sites but still lacked some critical information, such as reliable data on customer satisfaction.
  - IRS procedures provided for assessing the quality of returns prepared by volunteer sites. However, IRS had no measures for assessing the timeliness of service provided by the sites or taxpayer satisfaction with those services. Also, (1) IRS district offices were required to visit each volunteer assistance site but were not given specific guidance as to what to review during those visits and (2) late delivery of computer equipment and training materials hampered the ability of volunteer sites to effectively serve taxpayers.
  - Data on IRS' Web site showed increased use and improved performance in 2000 compared to 1999, but some information on the site was obsolete or inconsistent.
  - IRS' performance measures did not adequately reflect the timeliness with which IRS' area distribution centers responded to taxpayers' orders of forms and publications.

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### Although Taxpayers' Ability to Reach IRS Over the Telephone Improved in 2000, IRS' Performance in Providing Telephone Service Was Still Below Levels Achieved in 1998

One of the most important services IRS provides all year, but especially during the filing season, is toll-free telephone assistance. For 24 hours a day, 7 days a week during the filing season, taxpayers can call IRS with questions about the tax law, their accounts, or their refunds. A key indicator of IRS' performance in providing telephone service is the ability of taxpayers to reach IRS so that they can get their questions answered. IRS refers to that indicator as "level of service."<sup>12</sup>

We reported last year that although IRS made several changes in an effort to improve its telephone service,<sup>13</sup> its level of service in 1999 declined compared to 1998.<sup>14</sup> Some of the decline was attributed to (1) IRS' unrealistic assumptions about the implementation and impact of its changes and (2) other problems it had in managing staff training and

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<sup>12</sup>Level of service is calculated by dividing the number of calls answered by the total call attempts. Answered calls include calls to a voice messaging system that were subsequently returned by IRS. Total call attempts is the sum of calls answered, calls abandoned by the caller before receiving assistance, and calls that receive a busy signal.

<sup>13</sup>Among other things, IRS extended its hours of operation from 16 hours a day, 6 days a week, to 24 hours a day, 7 days a week, and implemented new call routing technology.

<sup>14</sup>*Tax Administration: IRS' 1999 Tax Filing Season* (GAO/GGD-00-37, Dec. 15, 1999).

scheduling and implementing new technology. As shown in table 4, IRS improved its level of service in 2000 by answering 28.2 million of the 45.7 million call attempts that taxpayers made from January 1 to April 29, 2000—a 62-percent level of service.<sup>15</sup> However, that level of service was still considerably below the 72-percent level provided in 1998. Although the volume of incoming calls was similar for both 1998 and 2000, IRS answered about 4.7 million fewer calls in 2000 than in 1998.

**Table 4: Accessibility of IRS' Telephone Assistance**

Filing season	Call attempts	Calls answered	Busy signals	Calls abandoned <sup>a</sup>	Level of service
1998	45,613,506	32,952,838	4,050,632	8,610,036	72%
1999	62,674,009	31,992,784	21,588,292	9,092,933	51
2000	45,696,667	28,236,278	9,218,261	8,242,128	62
<b>Change from 1999 to 2000</b>	<b>(16,977,342)</b>	<b>(3,756,506)</b>	<b>(12,370,031)</b>	<b>(850,805)</b>	<b>11</b>

Note: Data cover periods from January 1 to May 2, 1998; May 1, 1999; and April 29, 2000, respectively.

<sup>a</sup>These are calls in which the taxpayer hung up before getting assistance.

Source: IRS' *Weekly Customer Service Report*.

The ability of taxpayers to reach IRS so they can get their questions answered is one important measure of telephone service. Another important measure is the accuracy of those answers. IRS measures the accuracy of information provided by its telephone assistors by monitoring a sample of taxpayer calls and determining, for each of the monitored calls, whether the assistor responded accurately and followed correct procedures.<sup>16</sup> The monitoring results for calls involving tax law questions showed an accuracy rate of 71.9 percent for the 2000 filing season—below IRS' goal of 80 percent and, considering the confidence intervals

<sup>15</sup>The level-of-service figures in table 4 differ from the level-of-service figures in table 3 because IRS' official level-of-service indicator, which is shown in table 3, covers more telephone lines than we used in compiling table 4 data. We limited table 4 data and the accompanying discussion to the three main customer service-related telephone lines. These are the lines that taxpayers can call to ask a question about the tax law or IRS procedures (1-800-829-1040), resolve issues relating to their accounts (1-800-829-8815), or inquire about their refunds (1-800-829-4262).

<sup>16</sup>Because a response can be counted as inaccurate if an assistor failed to follow required procedures (such as not asking all of the required probing questions), an answer can be correct even if it is considered incorrect for monitoring purposes. If an assistor fails to ask all of the required probing questions, for example, there is no certainty that the taxpayer provided all of the necessary information on which to base an answer.

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surrounding the results of IRS' sample, not statistically different from the 73.8-percent performance level achieved in 1999.

We conducted a separate review of the key factors that affected IRS' performance in providing toll-free telephone service during the 2000 filing season and expect to issue a separate report to the Subcommittee early in 2001. We are also preparing a report for the Subcommittee on various human capital issues associated with IRS' toll-free telephone service, which we also expect to issue early in 2001.

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### IRS Implemented Walk-In Service Performance Measures but Still Lacked Some Critical Information

IRS' walk-in sites answer tax law questions, distribute tax forms and publications, and help taxpayers prepare tax returns and resolve account issues. IRS data show that its walk-in sites served about 5.8 million taxpayers between January 1 and April 22, 2000—a 5-percent decrease from the about 6.1 million taxpayers served during the same time period in 1999.

In our report on the 1999 filing season, we pointed out that IRS had not made much progress in measuring the performance of walk-in sites.<sup>17</sup> We recommended that IRS implement a performance measurement program and, as part of that program, require that quality reviews be done and data on the results of quality reviews and wait-time monitoring be reported to a central location for analysis. For the 2000 filing season, IRS (1) instituted a quality review program for assessing the accuracy of services provided by walk-in staff, the results of which are reported to a central location, and (2) began requiring centralized reporting of wait-time data, although certain factors affected the data's usefulness. IRS also conducted a walk-in customer satisfaction survey during the 2000 filing season but, according to TIGTA, IRS had not established an adequate management process to ensure that the survey was conducted appropriately.

### IRS Instituted a Quality Review Program for Walk-In Sites

For 2000, IRS' National Office instituted quality reviews of its walk-in sites. A team of 32 reviewers, posing as taxpayers, were to visit walk-in sites and act out various scenarios that would require assistors to help the "taxpayers" prepare their return or resolve an account problem. The reviewers were to complete a checklist covering issues such as

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<sup>17</sup>[GAO/GGD-00-37](#).

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- did the assistor indicate a willingness to help by using an appropriate phrase such as “May I help you?” and
  - did the assistor provide a complete and accurate response, explaining any procedures and ordering the necessary forms and publications?

The reviewers made 272 visits between late-October 1999 and mid-January 2000 and another group of visits during the 2000 filing season. As described by IRS, results from the first group of visits “indicated significant opportunity to improve our quality results.” Specifically, the results showed an error rate (incorrect answers) of 50 percent and indicated that reviewers were denied service in 21 percent of the visits (e.g., reviewers were told to take a form or publication and figure out the answer themselves). Several recommendations for improving performance were set forth, including an intensive back-to-basics training program and increased managerial oversight. Results from the second group of visits were not available at the time we completed our audit work.

### IRS Monitored Wait Times at Walk-In Sites, but Various Factors Adversely Affected the Usefulness of Monitoring Results

The National Office established taxpayer wait-time goals of 30 minutes for return preparation and 15 minutes for all other services during the 1998, 1999, and 2000 filing seasons. In our reports on IRS’ 1998 and 1999 filing seasons, we reported that although IRS monitored walk-in sites’ timeliness, it did not require that monitoring results be reported to the National Office.<sup>18</sup> During the 2000 filing season, IRS did require that its four regional offices submit monthly reports on timeliness to the National Office. However, three factors adversely affected the usefulness of the timeliness data.

First, even though IRS required that timeliness data be reported to the National Office, it did not specify what percentage of the time sites were to meet the 15- and 30-minute wait-time goals. The Southeast Region established its own goal, which called for districts in that region to meet the wait-time goals 90 percent of the time. According to Southeast regional analysts we talked with during the filing season, most of the nine districts in that region were meeting or exceeding the 90-percent goal. The analysts said that some districts were experiencing problems meeting the wait-time goals because of an unanticipated increase in the number of taxpayers visiting the walk-in sites for return preparation.

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<sup>18</sup>*Tax Administration: IRS’ 1998 Tax Filing Season* (GAO/GGD-99-21, Dec. 31, 1998) and [GAO/GGD-00-37](#).

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Second, wait times at most walk-in sites were computed manually, which made the results more prone to error. To enable more accurate tracking of wait times, IRS has installed an automated wait-time tracking system known as Q-Matic at some walk-in sites. During the 2000 filing season, 76 (or 18 percent) of IRS' 417 walk-in sites had that system. As customers arrive at walk-in sites with the Q-Matic system, they are to obtain a numbered ticket from the Q-Matic ticket printer. The ticket reflects the estimated wait time for the service, and the system automatically "calls" the customer when it is his or her turn. The system records the time that a customer received a ticket and the time that an assistor started helping the customer. Non-Q-Matic sites used manual systems to record wait times. At some of those sites, a greeter or receptionist was to record on a taxpayer contact card the time that the taxpayer arrived, and an assistor was to record on the same card the time that he or she started to fill out a sign-in sheet. Other non-Q-Matic sites relied on greeters or taxpayers to fill out a sign-in sheet.

A third factor that affected the usefulness of wait-time data reported by the regional offices, according to a cognizant IRS official, was the use of different reporting formats by the regions.

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### IRS Did Not Adequately Measure Customer Satisfaction at Walk-In Sites

IRS conducted a customer satisfaction survey at all walk-in sites in January 2000 and every fifth week thereafter, which amounted to 1 week during each month of the filing season. Results of the walk-in surveys completed in January, February, and March, 2000, as summarized by IRS' contractor responsible for analyzing survey results, showed that 91 percent of the respondents rated their overall satisfaction with the handling of their case at 6 or 7 on a 7-point scale and that the average overall satisfaction rating was 6.48. The survey results also showed that

- the three primary reasons why respondents visited a walk-in site were to get help preparing their returns (28 percent), ask a tax question (22 percent), and pick up a form or publication (21 percent);

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- 72 percent of the respondents waited less than 15 minutes to be served, 21 percent waited between 15 and 30 minutes, and 7 percent waited more than 30 minutes;<sup>19</sup> and
  - taxpayers whose wait time was less than 15 minutes gave higher satisfaction ratings than did customers who waited longer.

Although the survey results showed that respondents were generally satisfied with IRS' assistance, only about 3 percent of the taxpayers who visited walk-in sites between January and March, 2000, responded to the survey. In that regard, TIGTA, in a May 2000 report, concluded that "while the Walk-In Customer Satisfaction Survey may be an effective marketing tool to gauge taxpayers' satisfaction with the services provided by the IRS Walk-In offices, the Survey results are not statistically valid."<sup>20</sup> Specifically, TIGTA found the following:

- Survey forms were not offered to all taxpayers during the survey weeks, as was required. During visits to selected walk-in offices, TIGTA officials posing as taxpayers were offered a survey form only 8 percent of the time.
- There were no controls to prevent tampering with the survey responses, and IRS had not established controls to ensure that all walk-in offices participated in the survey.
- Three different IRS functions provided oversight for the survey, but none of them appeared to be accountable for the survey results.

TIGTA recommended that IRS improve the process for overseeing the walk-in customer satisfaction survey to ensure that the survey is properly administered and that the results are accurate, valid, and reliable. In a May 22, 2000, memorandum to TIGTA, the Commissioner of Internal Revenue said that IRS would (1) stress the importance of providing the survey to all taxpayers who are helped; (2) determine the level of employee understanding of the survey process and provide additional training that reinforces the importance of surveying all customers and the need to adhere to instructions in the *Internal Revenue Manual* for survey

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<sup>19</sup>The contractor's summary did not indicate whether the 28 percent who waited for 15 minutes or more were at the site for return preparation assistance. However, perhaps coincidentally, the summary did show that 28 percent of the respondents visited the walk-in site for help in preparing their returns. As previously noted, IRS' wait-time goals are 30 minutes for return preparation and 15 minutes for all other services.

<sup>20</sup>*Walk-in Customer Satisfaction Survey Results Should be Qualified if Used for the GPRA*, TIGTA, Reference No. 2000-10-079, May 17, 2000.

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procedures; and (3) issue program guidance to field offices that provides direction to management on establishing controls to protect survey forms, the integrity of the data, and the survey results.

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### Volunteer Assistance Programs Might Benefit From Increased IRS Attention

In addition to the help that is available to taxpayers over the telephone and at walk-in sites, taxpayers can receive assistance from various IRS-sponsored volunteer sites. Two major volunteer assistance efforts are the Volunteer Income Tax Assistance (VITA) and the Tax Counseling for the Elderly (TCE) programs—both of which provide free tax return preparation assistance. VITA offers free tax help to persons with low to limited income, persons who are non-English-speaking, elderly taxpayers, and persons with disabilities. TCE offers free tax help to elderly taxpayers. According to IRS data as of June 30, 2000, about 3.3 million taxpayers were assisted at about 17,600 VITA and TCE sites.

Considering the significant role played by the VITA and TCE programs in helping taxpayers meet their filing responsibilities, it is important that IRS take reasonable steps to ensure that the assistance provided by those programs is timely and accurate. According to the *Internal Revenue Manual*, “. . . critical to management of volunteers are: proper training; communication of expectations; review, evaluation and feedback of work performed; and recognition of performance.”

In that regard, we noted the following:

- IRS procedures provided for assessing the quality of returns prepared by volunteer sites. In commenting on a draft of this report, IRS said that the accuracy rate for VITA sites was 97.8 percent and the rate for TCE sites was 95.4 percent.
- IRS did not have measures for assessing the timeliness of service provided by the volunteer sites or taxpayer satisfaction with those services.
- Although district office representatives were to make monitoring visits to volunteer sites within their jurisdiction during the filing season, they were not given specific guidance as to what to examine during these visits.
- Much of the computer hardware and software and training materials was not delivered in a timely fashion to the VITA and TCE sites. According to IRS officials, these problems affected the sites' ability to serve taxpayers effectively. For example, three of IRS' four regions reported that the untimely receipt of equipment hampered their sites' electronic filing activities. One region stated that the “equipment did not arrive timely, and in many cases, so late that it was useless to field for this past filing season.

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A majority of the equipment did not arrive in working condition as some were completely missing operating systems, or had the wrong adapters for keyboard plug-in.” At the time we completed our audit work, IRS had not responded to our questions about the reasons for these problems and what was being done to prevent their recurrence in 2001.

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### Data on IRS’ Web Site Showed More Use and Improved Performance Compared to 1999, but Some Information on the Site Was Obsolete or Inconsistent

#### Use of IRS’ Web Site Increased, Performance Improved

Among other things, IRS’ Web site offers taxpayers hundreds of tax forms and publications for downloading, current information on tax issues, details about electronic filing, and the opportunity to submit tax law and procedural questions via E-mail. Various data generated by IRS and others indicate that IRS’ Web site was used more and performed better in 2000 than in 1999. Our review of information on the Web site indicated that the site’s usefulness was somewhat impaired by the presence of obsolete or inconsistent data.

Taxpayers used IRS’ Web site significantly more in fiscal year 2000 than in fiscal year 1999. As of June, (1) the number of “hits” had increased 31 percent—1.3 billion in 2000 compared to about 983 million in 1999<sup>21</sup>—and (2) the number of downloaded files had increased 62 percent—about 115 million in 2000 compared to about 71 million in 1999. Also, the number of E-mail questions received during the 2000 filing season increased by 41 percent—218,405 compared to 155,421 for the 1999 filing season.

Keynote—an independent Web site rater and recognized authority on Internet performance—reviewed IRS’ Web site during the week of March 27, 2000, and reported that the site was coping well with demands of the filing season and performing well overall. The independent rater found that the home page was delivered in 2.7 seconds on average, and the site had an availability rate of 96.8 percent from March 27 through March 31 (Monday through Friday). The average delivery time for April 1 and April 2 (Saturday and Sunday) was 2.62 seconds, with an availability rate of 98.9 percent. A similar review done in 1999 for Monday, April 12, through Friday, April 16, showed delivery times that ranged from 5.39 seconds to 14.45 seconds and availability rates that ranged from 93.6 percent to 97.4 percent.<sup>22</sup> Although these results indicate improved performance in 2000, it is unclear how much, if any, of the apparent improvement is due to

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<sup>21</sup>31 percent does not compute due to rounding.

<sup>22</sup>Weekend performance was not rated in 1999.

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different measurement periods. Unlike in 2000, the site's performance in 1999 was measured during the last week of the filing season when demands on the Web site might be heavier.

One important feature of IRS' Web site is the ability of taxpayers to ask tax law and procedural questions of IRS via E-mail. At a March 2000 Oversight Subcommittee hearing, witnesses representing two practitioner organizations spoke positively about this feature.

IRS data indicate that IRS was more timely in responding to taxpayers' questions during the 2000 filing season than it was in 1999. For the 2000 filing season, IRS took an average of 1.3 business days to respond to taxpayers E-mail questions compared to an average of 2.7 business days during the 1999 filing season. During the 2000 filing season, IRS responded 90.5 percent of the time within its goal of 2 business days compared to 69.2 percent of the time during the 1999 filing season. Although IRS improved its overall timeliness, there were certain types of questions (generally those involving more complex topics) for which IRS did not meet the 2 business day goal. For example, questions dealing with trusts averaged 5.8 business days, questions about aliens and U.S. citizens living abroad averaged 4.6 business days, and estate and gift tax questions averaged 3.2 business days.

Accuracy is another important measure of IRS' performance in responding to E-mail questions. IRS data on the results of its quality reviews of responses to E-mail questions during the 2000 filing season showed that 76 percent of the 1,321 responses reviewed between January and April were correct (IRS' accuracy goal for all of fiscal year 2000 was 79 percent). In September 2000, TIGTA reported on the results of a test it conducted between March and June, 2000.<sup>23</sup> For that test, TIGTA E-mailed to IRS and to 3 commercial Internet Web sites that offer free tax advice, 50 questions relating to issues affecting small businesses and/or self-employed individuals. According to TIGTA, IRS responded correctly to 54 percent of

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<sup>23</sup>Management Advisory Report: Comparison of Responses to Small Business/Self-Employed Taxpayer Questions from the Electronic Tax Law Assistance Program and other Internet Tax Law Services, TIGTA, Reference No. 2000-30-126, Sept. 21, 2000.

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the questions while the commercial Web sites provided correct answers 47 percent of the time.<sup>24</sup>

In another report, TIGTA noted that although IRS had statistically valid nationwide data on the accuracy of responses to E-mail questions, its sampling plan was insufficient to produce statistically valid data for assessing the performance of each of the 10 sites that respond to E-mail questions.<sup>25</sup> TIGTA recommended that IRS design a sampling plan to provide accuracy rates at the call-site level as well as the national level.

All E-mail customers are to be given the opportunity to respond to a customer satisfaction survey. According to IRS data, of the about 4,300 taxpayers who responded to the survey between January 1 and April 17, 2000, (1) 94 percent said that they were satisfied with the time it took to get a response; (2) 78 percent said that the response they received answered their question; and (3) 93 percent said that they would use the E-mail system in the future.

#### Some Data on IRS' Web Site Were Obsolete or Inconsistent

We found several instances of data on IRS' Web site that were either obsolete or inconsistent. For example:

- In the "IRS Newsstand" part of the site, there is a section entitled "Tax Calendar for Small Businesses." When we looked at that section in June 2000, we found a calendar for 1999 but no calendar for 2000.
- In the "Around the Nation" section of the site, there are one or more pages for all but one state. When we checked in June 2000, we found that the pages for four states still had data posted showing events that took place in 1999. There were also some inconsistencies between the dates of Problem Solving Days posted on the Problem Solving Days part of the Web site and the dates posted on some individual state pages. For example, as of June 22, 2000, one state's page showed no Problem Solving Days in that state after March 2000, but the Problem Solving Days page showed that

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<sup>24</sup>The lower IRS accuracy rate in TIGTA's study (54 percent) compared to the rate resulting from IRS' quality reviews (76 percent) could be due to different methodologies. IRS' quality review results are based on a statistical sample of all questions received. TIGTA's study involved test questions specifically related to small businesses and/or self-employed individuals, which, according to TIGTA, may be more complex than normal individual income tax questions.

<sup>25</sup>*Management Advisory Report: Enhancing the Electronic Tax Law Assistance Program*, TIGTA, Reference No. 2000-30-164, Sept. 28, 2000.

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days were scheduled in that state for June and July. Such inconsistencies could cause users of the Web site to get incorrect information depending on which page they accessed.

- Some state pages included more information than others. Although this kind of inconsistency is not a problem in and of itself, some of the inconsistency involved basic information that we thought should be a part of every state page. For example, of 56 state pages (1 state had no page, 4 states had more than 1 page, and the District of Columbia had 1 page), 40 had information on walk-in site locations, while 16 had no such information. As a result, taxpayers in some states were able to get information on IRS walk-in locations from the Web site while taxpayers in other states were not.

An official from IRS' Electronic Information Services Office told us that there was no one person responsible for ensuring that data on the Web site were current and consistent. Each office that placed data on the site was responsible for ensuring that the data were accurate and up-to-date. Thus, for example, there was no one responsible for ensuring that information entered on a particular state page by one of IRS' district offices was consistent with information on the Problem Solving Day part of the Web site that had been entered by another office.

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## Performance Measures Did Not Adequately Reflect the Timeliness With Which IRS Responded to Taxpayers' Orders of Forms and Publications

IRS provides various means through which taxpayers can obtain copies of forms and publications to help them prepare their tax returns. We have already discussed two of those means—IRS' walk-in sites and Web site. Table 5 identifies other channels through which IRS distributes forms and publications and, for each of those channels, shows comparative data for the 1999 and 2000 filing seasons.

**Table 5: IRS Forms and Publications Distribution Channels**

Distribution channel and unit of measure	1999 filing season	2000 filing season	Percentage change: 1999 to 2000
Area distribution centers—orders filled <sup>a</sup>	7,345,000	5,042,000	-31.4
Bank, Post Office, and Library (BPOL) Program—outlets <sup>b</sup>	42,529	41,971	-1.3
Community Based Outlet Program—outlets <sup>c</sup>	3,490	10,193	192
TaxFax Program—successful faxes <sup>d</sup>	970,379	1,089,603	12
Corporate Partnership Program <sup>e</sup>			
Corporations	2,153	2,386	11
Employees	14,428,232	15,443,729	7

<sup>a</sup>IRS' three area distribution centers send forms and publications to taxpayers in response to their mail and telephone orders.

<sup>b</sup>Through the BPOL Program, IRS partners primarily with post offices and libraries to distribute forms. Although still called the BPOL Program, IRS no longer recruits banks to participate. According to a cognizant IRS official, IRS has significantly improved its relationship with libraries and post offices over the last few years, so the decline in participating BPOL outlets between 1999 and 2000 should not be viewed as a trend.

<sup>c</sup>Through the Community Based Outlet Program, IRS partners with newspapers, copy centers, credit unions, and grocery stores to distribute forms.

<sup>d</sup>The TaxFax Program enables taxpayers to order and receive forms and instructions from IRS via a fax machine.

<sup>e</sup>The Corporate Partnership Program enables employees of participating corporations to obtain copies of IRS forms and publications at their work sites.

Source: IRS.

Of the various distribution channels listed in table 5, we focused most of our audit work on the performance of the area distribution centers in filling taxpayers' orders. Taxpayers can order forms and publications from the distribution centers either by mail or by calling a toll-free telephone number. In the tax packages mailed to taxpayers before the filing season, IRS tells taxpayers how to order forms and publications from the area distribution centers and that they should expect to receive the documents within 10 days after IRS receives their order.

According to IRS data for January 1 through April 30, 2000, the three area distribution centers filled about 5 million orders for forms and publications, filled 98 percent of the orders accurately, and took no longer than 2.6 days on average to fill those orders.<sup>26</sup> However, the latter measure

<sup>26</sup>According to IRS data, the average order-filling time varied from week to week and ranged from less than a day to about 2.6 days.

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does not provide a reliable basis for judging how well IRS met its 10-day goal because the measure (1) does not track order-filling time from when IRS received the order, only from when an order was assigned a “picking” number for processing, and (2) reflects turnaround time only for inventory on hand and not for forms or publications that were out of stock and, thus, had to be backordered. Regarding backorders, there were several significant stockouts during the 2000 filing season, involving such documents as Form W-2 (Wage and Tax Statement) and Publication 596 (Earned Income Credit).

IRS data for January through April, 2000, also indicated that taxpayers had an easier time accessing the toll-free forms-ordering telephone line than they did accessing the three customer service-related telephone lines previously discussed. The data show that of 5.3 million call attempts to the forms-ordering line, 4.0 million were answered—a 75-percent level of service.<sup>27</sup> The 5.3 million call attempts represented a significant decrease from the 7.0 million call attempts during the same 4 months in 1999. The decrease in call attempts, like the decrease in orders filled shown in table 5, could indicate that more taxpayers are using other sources, such as IRS’ Web site, to obtain needed forms and publications.

On a related matter, a recent IRS study found that when taxpayers called the toll-free forms-ordering telephone number, they were not told how long it could take to receive the form or publication until after the order was placed. The study concluded that this procedure could cause wasted IRS effort and increased taxpayer burden if taxpayers, after placing their order on the telephone and being told the delivery time, decided to go to a walk-in site to get the material rather than wait for the material to be sent by mail. The study recommended that IRS rearrange its forms telephone menu and advise its assistors to tell taxpayers at the beginning of the call how long it generally takes to receive IRS forms ordered over the telephone. Doing so would allow taxpayers to terminate the call immediately if the wait time is unacceptable to meet their needs. When we asked whether they had implemented this recommendation, cognizant IRS officials said that they had not. They explained that providing the information at the beginning of the call could be very awkward because assistors do not know (1) what the call is about and (2) what the taxpayer

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<sup>27</sup>This level of service was slightly below the 78-percent level of service IRS reported for January through April, 1999.

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is ordering. The officials stated that, depending on the product and time of the year, the order time may change (e.g., due to products not being available or being on backorder).

However, between April 1 and 15, IRS officials did institute two automated messages on the forms-ordering line that were to come on when a caller was put on hold because all of the assistors were occupied. The messages stated that it could take up to 10 days for the caller to receive his or her order, and that the caller may want to ask the assistor for alternate ways of obtaining forms. However, these messages were operational only when the forms operators were on duty, which was 7 days a week, 12 hours a day. If a taxpayer called the forms line during the other 12 hours, the call rolled over to another telephone line, which did not have these messages.

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## IRS Expanded Its Efforts to Reduce EIC Noncompliance; the Overall Impact of Those Efforts Is Unclear

During the past several filing seasons, IRS has undertaken several efforts aimed at reducing noncompliance with the EIC eligibility requirements.<sup>28</sup> Generally speaking, those efforts involved (1) using IRS' math error authority to deny EIC claims that were not accompanied by valid SSNs and (2) conducting in-depth reviews of EIC claims that met certain criteria. In 2000, IRS continued these efforts and began a new effort directed at tax return preparers. Although IRS identified and stopped hundreds of millions of dollars in erroneous EIC claims in 2000, a recent IRS study indicated that IRS might still be paying out billions of dollars in erroneous EIC claims. However, because that study involved returns filed in 1998, it predated many of IRS' more recent EIC compliance efforts. IRS has studies under way and planned that should help determine the impact of those more recent efforts on noncompliance.

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## IRS Continued to Deny Some Improper EIC Claims Through Math Error Authority

As IRS processes individual tax returns, it looks for computational errors made by taxpayers or their representatives in preparing the returns. When IRS finds such errors, it can automatically adjust the return through the use of math error authority. In 1996, Congress first authorized IRS to treat invalid SSNs as math errors, similar to the way that it had historically

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<sup>28</sup>The term "noncompliance" includes erroneous EIC claims caused by mistakes, negligence, or fraud.

handled computational mistakes.<sup>29</sup> IRS now has the authority to (1) automatically disallow, through its math error program, any deductions and credits, such as the EIC, associated with an invalid SSN and (2) make appropriate adjustments to any refund that the taxpayer might be claiming.

According to IRS data as of June 30, 2000, IRS had denied about \$321 million in erroneous EIC claims through its math error authority. Although significant, this amount represents a decrease from the \$410 million stopped as of the same point in time in 1999. In that regard, as shown in table 6, although the number of EIC recipients in 2000 was about the same as in 1999, the number of EIC-related math errors involving SSNs and the number of other EIC-related math errors both declined by more than 20 percent. These declines would seem to indicate that IRS' efforts have caused taxpayers and practitioners to be more careful in preparing EIC claims.

**Table 6: EIC Recipients and Math Errors During 1999 and 2000**

<b>EIC recipients and math errors</b>	<b>January through August 1999</b>	<b>January through August 2000</b>	<b>Percentage change</b>
Number of EIC recipients	19,016,474	18,896,854	-0.6
EIC math errors involving an invalid SSN	435,991	334,177	-23.4
Other EIC math errors <sup>a</sup>	1,444,824	1,058,469	-26.7

<sup>a</sup>Other EIC math errors include errors in computing earned income and figuring the EIC. To be comparable with data for 1999, the number for 2000 excludes 37,331 errors in 2 categories that were not considered math errors in 1999.

Source: IRS report entitled *Monthly Operational Review of Earned Income Credit*.

### IRS Targeted Certain Types of EIC Claims for In-Depth Review

Other types of EIC noncompliance are not as easy to identify as math errors. These types can be detected only through an audit. In 2000, IRS continued to target for in-depth review certain types of EIC claims, such as those involving the use of a child's SSN on multiple returns for the same year, that IRS had identified as the main sources of EIC noncompliance. Taxpayers whose returns were identified for inclusion in one of these

<sup>29</sup>In 1998, Congress further provided that a taxpayer would be considered to have omitted a correct SSN if information provided by the taxpayer on the return with respect to the individual whose SSN was provided differed from information that the Secretary of the Treasury obtained from the Social Security Administration.

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programs were to be audited to determine if their EIC claims were valid. During the first 11 months of fiscal year 2000, according to IRS, it closed about 218,000 of those audits and identified about \$336 million in erroneous claims.

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### IRS Initiated an EIC Education and Compliance Effort Directed at Preparers

For the 2000 filing season, IRS implemented an integrated EIC education and compliance effort directed at tax return preparers. IRS decided to implement this effort, known as the EIC Preparer Outreach Program, because IRS data indicated that 62 percent of the returns with EIC claims were prepared by paid preparers. This program focused on preparers who generated at least 100 tax returns claiming the EIC because, according to IRS, that universe of preparers accounted for 75 percent of the EIC tax returns done by paid preparers. Preparers were divided into five groups, with each group getting a different type of visit from IRS, ranging from education to criminal investigation. At the time we completed our audit work, not enough information was available on the results of the program to assess its overall effectiveness. Additional information on the EIC Preparer Outreach Program is presented in appendix IV.

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### Recent IRS Study Indicates That IRS Might Be Allowing Billions of Dollars in Erroneous EIC Claims

The previously discussed EIC-related efforts are part of a 5-year initiative for which Congress has appropriated about \$140 million a year since fiscal 1998. That initiative was begun after IRS, in April 1997, reported the results of its tax year 1994 EIC compliance study.<sup>30</sup> The study showed that of the \$17.2 billion in EIC claimed during the study period, 26 percent, or about \$4.4 billion, was overclaimed.

In September 2000, IRS published the results of another EIC compliance study involving tax year 1997 returns.<sup>31</sup> That study showed that of the estimated \$30.3 billion in EIC claims made by taxpayers who filed returns in 1998 for tax year 1997, an estimated \$9.3 billion (30.6 percent) was overclaimed.<sup>32</sup> After deducting about \$1.5 billion in overclaims that IRS estimated it would recover as a result of its enforcement programs, such as audits of tax returns and corrections of math errors, IRS estimated that

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<sup>30</sup> *Study of [EIC] Filers for Tax Year 1994*, IRS, April 1997.

<sup>31</sup> *Compliance Estimates for Earned Income Tax Credit Claimed on 1997 Returns*, IRS, Sept. 2000.

<sup>32</sup> Percentage does not compute due to rounding.

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it paid out about \$7.8 billion in overclaims (25.6 percent of the total amount of EIC claimed).<sup>33</sup> According to IRS, these results are not comparable to the results of the tax year 1994 study because of (1) various legislative changes since 1994 that affected eligibility for the credit, the credit amounts, and IRS' administration of the credit and (2) methodological changes to the study design.

Because IRS had not yet fully implemented many of the efforts that it undertook as part of the EIC compliance initiative, the results of the tax year 1997 study do not reflect the full impact of those efforts. In that regard, IRS is doing a study of tax year 1999 returns and plans to study tax year 2001 returns.

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## Conclusions

Going into the 2000 filing season, we had two predominant questions: how would IRS' tax processing systems function given the challenges associated with the Year 2000, and would IRS be able to improve its toll-free telephone service in light of the performance problems experienced in 1999. Except for a few relatively minor glitches, which were not unexpected given the enormity of IRS' processing task, the processing systems worked well. On the other hand, although taxpayers were better able to reach IRS over the telephone compared to 1999, IRS' performance was still well below the level achieved in 1998. Our forthcoming reports on IRS' toll-free telephone service will contain recommendations directed at helping IRS improve its performance.

In addition to telephone service, IRS provides other forms of assistance that are used by tens of millions of taxpayers. While our review identified several positive aspects with respect to IRS' monitoring of those assistance efforts (such as development of a quality review program for walk-in sites and various positive performance indicators related to IRS' Web site), we also identified several opportunities for improvement. In some respects, such as with the volunteer assistance programs and the assistance provided by IRS' walk-in sites and area distribution centers, the opportunities centered around performance measures. In those areas, unlike the situation with respect to IRS' telephone service, it was not easy to assess IRS' performance because either IRS did not have good measures

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<sup>33</sup>According to IRS, the range of sampling uncertainty around the 25.6-percent estimate is plus or minus 2.3 percentage points.

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or there were problems with the data behind the measures. Management needs good measures backed by reliable data if it is to draw meaningful conclusions about its performance and make sound decisions about any need for change. Other improvement opportunities we identified centered around management oversight—the kind of oversight that would enhance the level of service provided by better ensuring that (1) training materials and computer equipment were delivered to the volunteer assistance sites on time and in working condition and (2) data being entered on the Web site by various offices within IRS are current and consistent.

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## Recommendations for Executive Action

We recommend that the Commissioner of Internal Revenue direct the appropriate officials to do the following:

- Enhance the usefulness of walk-in site wait-time data by providing a standard format for field offices to use in reporting that information to the National Office and specifying the percentage of time that walk-in sites are to meet established wait-time goals.
- In collaboration with IRS' partners in providing volunteer assistance, develop performance measures for volunteer assistance sites that can be used to ensure that taxpayers are receiving an adequate level of service.
- Identify the underlying causes for (1) untimely delivery of an adequate supply of materials to volunteer assistance sites and (2) inadequate district review of site operations, and take action to address those underlying causes.
- To better ensure that area distribution centers provide timely service in filling orders for forms and publications, revise the order-filing timeliness measure so that (1) time is tracked from the day the order is received and (2) tracking does not end until the entire order is filled, even if backorders are involved.
- To better ensure that IRS' Web site contains accurate and useful information, (1) assign clear responsibility in a central location for identifying and correcting outdated and inconsistent data and (2) develop minimum requirements for information to be included on the state pages in the "Around the Nation" section of the site. Regarding the latter, consider including information on the location of walk-in sites and their hours of operation.

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## Agency Comments and Our Evaluation

We requested comments on a draft of this report from IRS. We obtained written comments in a December 8, 2000, letter from the Commissioner of Internal Revenue (see app. V). In his letter, the Commissioner said that (1)

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our report provided a fair and balanced assessment of IRS' efforts to deliver a filing season that was relatively error-free while providing taxpayers with top quality service and (2) IRS would make every effort to resolve the issues noted in our report. While agreeing generally with our recommendations, the Commissioner disagreed with parts of two recommendations (although, in one case, IRS' plans are consistent with our recommendation) and provided additional perspective that led to a rewording of one recommendation. The Commissioner also expressed some concern about one aspect of our assessment of IRS' telephone service.

The Commissioner agreed that IRS should provide a standard format for field offices to use in reporting wait-time data for walk-in sites. However, he did not agree that IRS should specify the percentage of time that walk-in sites are to meet established wait-time goals because doing so might pressure IRS staff to serve taxpayers too quickly and, thus, negatively affect service quality. We believe that just measuring average wait time can mask a circumstance in which many taxpayers are waiting more than the length of time specified in IRS' goal (i.e., 30 minutes for return preparation and 15 minutes for all other services) even though the average wait time is below IRS' goal. Concern about staff working too fast and thus providing poor quality service should be offset by the influence of other measures (i.e., quality and customer satisfaction) on employee behavior.

The Commissioner agreed that goals and measures are needed for volunteer sites and noted that one aspect of their performance—quality—is being measured. We revised this report to make that clear. The Commissioner said that IRS will discuss with its largest partner in providing volunteer assistance the possibility of developing a timeliness measure. We believe that any such discussion should also include a measure of customer satisfaction. The Commissioner cautioned that IRS cannot require that its partner adopt any measure. We recognize that collaboration is required and revised our recommendation accordingly.

The Commissioner agreed with the need to improve the process of ordering and delivering supplies and materials to volunteer assistance sites and said that actions have been taken to address that issue. The Commissioner did not comment on our recommendation that IRS identify the underlying causes of inadequate district review of site operations and take necessary corrective action.

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The Commissioner agreed that area distribution centers should track orders for forms and publications from the day an order is received, but he did not agree that tracking should continue until all backorders associated with an order have been shipped. However, the tracking plans described by the Commissioner include plans to measure overall elapsed time to fill an order, including associated backorders. That is fully consistent with our recommendation.

The Commissioner agreed with our recommendation regarding IRS' Web site and said that steps have already been taken to assign clear responsibility for ensuring accurate, useful, and timely information.

The Commissioner also commented on our discussion of IRS' performance in providing telephone service. While agreeing that IRS can improve its delivery of telephone service, the Commissioner did not believe that we should compare IRS' performance to 1998 because IRS had significantly changed its telephone service operating environment after 1998. We agree, and have acknowledged in this report, that there were major changes after 1998, but we do not agree that those changes make it inappropriate to compare IRS' performance in 1998 to its performance in 1999 and 2000. To the contrary, we believe that such a comparison is essential. The changes made after 1998 were intended to improve IRS' telephone service. The only way to tell if service improved is to compare performance levels after the change (1999 and 2000) with levels before the change (1998).

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We are sending copies of this report to Senator William V. Roth, Jr., Chairman, and Senator Daniel P. Moynihan, Ranking Minority Member, Senate Committee on Finance; Representative Bill Archer, Chairman, and Representative Charles B. Rangel, Ranking Minority Member, House Committee on Ways and Means; and Representative William J. Coyne, Ranking Minority Member of this Subcommittee. We are also sending copies to the Honorable Lawrence H. Summers, Secretary of the Treasury; the Honorable Charles O. Rossotti, Commissioner of Internal Revenue; the Honorable Jacob J. Lew, Director, Office of Management and Budget; and other interested parties. We will make copies available to others on request.

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This report was prepared under the direction of David J. Attianese, Assistant Director. Other major contributors are acknowledged in appendix VI. If you have any questions about this report, contact me or Mr. Attianese on (202) 512-9110.

Sincerely yours,

A handwritten signature in black ink that reads "James R. White". The signature is written in a cursive style with a large, prominent initial "J".

James R. White  
Director, Tax Issues

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# Appendix I: Description of Processing and Customer Service Performance Indicators

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This appendix contains descriptions of the various performance indicators listed in tables 1 and 3.

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## Accuracy of Individual Income Tax Refunds on Paper Returns

The percentage of individual income tax refunds that are free of any Internal Revenue Service (IRS)-caused errors in the name and address field or in the refund amount. The percentage is based on a sample of individual income tax returns filed on paper.

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## Accuracy of Individual Income Tax Returns Processed by Code and Edit Staff

The percentage of other-than-full-paid, individual paper returns that Code and Edit staff process accurately. Other-than-full-paid returns involve either a refund or an unpaid liability and account for most of the paper returns processed.

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## Accuracy of Individual Income Tax Returns Processed by Data Transcribers

The percentage of other-than-full-paid, individual paper returns that are processed without transcription errors.

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## Accuracy With Which Forms Distribution Centers Process Taxpayer Orders

The percentage of orders that are processed accurately determined by randomly checking selected taxpayer orders, monitoring telephone calls from taxpayers, and reviewing the transcription of written requests from taxpayers.

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## Customer Satisfaction With Toll-Free Telephone Service

Determined through surveys of a random sample of taxpayers who call IRS' toll-free telephone numbers and choose to participate.

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## Customer Satisfaction With Walk-In Service

Determined through surveys of a sample of taxpayers who visit IRS' walk-in sites and choose to participate.

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## Level of Service Provided by Toll-Free Taxpayer Service Telephone System

Calculated by dividing the number of calls answered by the total call attempts. Answered calls include calls to a voice messaging system that were subsequently returned by IRS. Total call attempts is the sum of calls answered, calls abandoned by the caller before receiving assistance, and calls that receive a busy signal.

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**Notice Accuracy**

The percentage of notices reviewed that are correct. The notice accuracy indicator is based on a sample of returns processing notices to be sent to individual and business taxpayers. Among other things, IRS uses returns processing notices to advise taxpayers of missing schedules or forms, missing Social Security numbers (SSN), or refunds being delayed. IRS reviewers compare the printed notice to various data, including information in the taxpayer's account and on the taxpayer's tax return. IRS told us that the results for individual and business taxpayers could not be separated.

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**Percentage of Individual  
Income Tax Returns Filed  
Electronically**

The number of electronically filed individual income tax returns as a percentage of all individual income tax returns filed.

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**Tax Law Accuracy Rate for  
Taxpayer Inquiries (Toll-  
Free)**

The percentage of calls answered accurately determined by monitoring a sample of telephone calls.

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**Timeliness of Refunds for  
Individual Income Tax  
Returns Filed  
Electronically**

The percentage of refunds on electronically filed returns that are processed within 21 days. The percentage is based on a sample of electronically filed returns, and the days are counted from the date the return was received to the date the refund was issued.

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**Timeliness of Refunds for  
Individual Income Tax  
Returns Filed on Paper**

The percentage of refunds on paper individual income tax returns that are processed within 40 days. The percentage is based on a sample of paper returns, and the days are counted from the signature date on the return to 1 day after the issuance of the refund.

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# Appendix II: Several Factors Contributed to the Increase in Electronic Filing

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In discussing the increase in electronic filing in 2000 compared to 1999, IRS officials cited several contributing factors, in addition to the belief that taxpayers are becoming more familiar and comfortable with computer technology and electronic filing.

- The number of electronic return originators (ERO) increased from about 90,000 in 1999 to about 108,000 in 2000.<sup>1</sup> Also, some EROs offered free electronic filing to any taxpayer, while others offered free electronic filing to taxpayers who met certain criteria.
- IRS expanded its electronic filing marketing efforts by allocating \$9 million in 2000 compared to \$7.8 million in 1999. As part of this expansion, IRS launched an effort to strengthen the “E-file” brand name by expending over \$5 million on promotions, such as television and radio commercials; magazine ads; Internet banners; video productions; and billboards.
- IRS continued to enter into new partnerships with private sector companies to broaden the electronic services accessible through IRS’ Web site. As part of these arrangements, IRS placed hyper-links from its Web site to the partners’ Web sites, and partners offered services such as free electronic filing and free tax preparation software.
- IRS added five forms and schedules to the list of documents that can be filed electronically. The five forms and schedules included Schedule J (Farm Income Averaging) and Form 8586 (Low Income Housing Credit).<sup>2</sup>
- IRS expanded the alternative signature and payment initiatives that it had begun in 1999. Further discussion of these initiatives follows.

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## Alternative Signature and Payment Initiatives

One frequently cited barrier to the greater use of electronic filing is that it has not been a paperless process. In that regard, electronic filers, other than those who used TeleFile, have had to submit a paper signature document (Form 8453) along with copies of their Wage and Tax Statements (Form W-2).<sup>3</sup> Also, taxpayers who filed electronically

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<sup>1</sup>As defined by IRS, EROs “originate the electronic submission of income tax returns to the IRS.” Generally, EROs are tax return preparers.

<sup>2</sup>IRS plans to add 23 forms and schedules to the list for 2001 and add another 5 forms and schedules for 2002. According to an IRS official, with the addition of those 28 forms and schedules, 99 percent of all taxpayers should be able to file electronically in 2002.

<sup>3</sup>Instead of submitting their W-2s, TeleFile users must enter certain information from each of their W-2s via the telephone. In lieu of a signature document, TeleFile users must make the following declaration over the telephone: “Under penalties of perjury, I declare that to the best of my knowledge and belief, the return information I provided is true and correct and includes all amounts and sources of income I received during the tax year.”

(including those who used TeleFile) and had a balance due had to mail a check and payment voucher to IRS. In 1999, IRS began various alternative signature and payment initiatives that were aimed at making electronic filing paperless and, therefore, more attractive to taxpayers and tax return preparers. IRS expanded those initiatives in 2000.

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## Alternative Signature Initiatives

Two initiatives—the Personal Identification Number (PIN) and E-File Customer Number (ECN) programs—enabled participating taxpayers to use electronic signatures and waived the need for them to submit Forms 8453 and W-2.

The PIN Program allows taxpayers who file returns through a participating ERO to use a self-selected PIN instead of completing a Form 8453. IRS, in 2000, expanded the program by increasing the number of EROs selected to participate from about 8,100 in 1999 to 18,000 in 2000.<sup>4</sup> As of October 4, 2000, about 5.4 million taxpayers had used this option in comparison to about 500,000 in 1999. According to IRS, starting in 2001, all EROs will be able to file electronic returns using a self-selected PIN. Also starting in 2001, both spouses will not have to be present when filing an electronic joint return through a preparer using a PIN because IRS has developed an unavailable spouse signature authorization worksheet. As noted in our report on the 1999 tax filing season,<sup>5</sup> a representative of the largest national tax return preparation company had mentioned this as one of the changes he would like to see made to the PIN Program.<sup>6</sup>

The ECN Program offered taxpayers who used a computer to prepare their tax returns the opportunity to file on-line and use an ECN instead of completing a Form 8453. In 2000, IRS expanded the ECN Program by increasing the number of ECNs mailed to taxpayers from about 8 million in 1999 to about 12 million in 2000. As of October 4, 2000, about 1.4 million taxpayers had used this option in comparison to about 660,000 in 1999.

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<sup>4</sup>Although about 8,100 EROs were selected to participate in the PIN Program in 1999, only about 2,500 submitted returns with a PIN. According to IRS, of the about 18,000 EROs selected to participate in 2000, about 8,900 submitted returns with a PIN.

<sup>5</sup>[GAO/GGD-00-37](#).

<sup>6</sup>Another change that the representative wanted to see made to the PIN Program was elimination of the authentication worksheet, which IRS was requiring preparers to keep on file in case there was any dispute about the return's authenticity. According to IRS, that worksheet will no longer be required.

IRS' District Office of Research and Analysis surveyed taxpayers who used the ECN in 1999. Of the respondents, 54 percent said that the ECN made them more likely to file on-line and 60 percent said that the ECN would make them more likely to file electronically in future years. According to IRS, the ECN Program is being terminated. Instead, starting in 2001, on-line filers will be able to use a self-selected PIN just like EROs.

An Electronic Tax Administration official told us that IRS believes that more taxpayers took advantage of the PIN and ECN programs during the 2000 filing season because (1) practitioners and software companies did a better job of marketing the programs; (2) software companies involved in the PIN Program increased from 3 to 10; (3) 25 new software packages were available, and 23 supported the ECN Program; and (4) the postcard alerting taxpayers about the ECN Program was redesigned.

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## Alternative Payment Initiatives

In 1999, for the first time, many taxpayers who electronically filed balance due returns could pay their balance due either by credit card or by direct debit from a checking or saving account. On-line filers who used certain software packages were able to indicate on-line when filing their returns that they wanted to pay any balance due by credit card. Taxpayers who used traditional electronic filing or TeleFile could charge their balance due by credit card with a toll-free telephone call to private companies that processed the credit card payments. IRS expanded the credit card payment option for the 2000 filing season by (1) promoting its use to paper filers and (2) expanding its use to the payment of estimated taxes and the payment of taxes accompanying applications for extensions to file.

Taxpayers filing electronic balance due returns could also pay their balance due by direct debit to a checking or saving account through an automated clearinghouse. IRS expanded the direct debit option for the 2000 filing season by making it available to all electronic filers. This option previously had not been available to TeleFile users. The direct debit is only paperless for on-line filers who participated in the ECN Program. Those filers used the ECN as their signature and were to indicate via an on-line prompt that they wanted to use the direct debit option. Other on-line filers and other electronic filers who chose the direct debit option had to submit a Form 8453, which contains a disclosure statement that requires the taxpayer's signature authorizing the direct debit.

According to IRS data, as of September 30, 2000:

- The number of credit card payments had increased to about 218,000 compared to about 53,000 in 1999. At least 63,000 of the 218,000 payments were associated with individual income tax returns that were filed electronically.
- The number of direct debit payments had increased to about 237,000 compared to about 76,000 in 1999. Of the 237,000, about 36,000 were TeleFile users.

IRS informed us that virtually no problems were encountered in processing credit card and direct debit payments in 2000.

Although we saw no data with which to determine a direct cause/effect relationship, it appears that the availability of electronic payment options led to the electronic filing of more balance due income tax returns in 2000. In that regard, the Electronic Tax Administration Advisory Committee reported that about 2.3 million balance due returns were filed electronically in 2000—about 51 percent more than in 1999.<sup>7</sup>

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<sup>7</sup>*Annual Report to Congress, Electronic Tax Administration Advisory Committee, June 30, 2000.*

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# Appendix III: Changes Made by IRS to Reduce Taxpayer Errors and Enhance Processing

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IRS made several changes for the 2000 filing season in an attempt to reduce the number of taxpayer errors and enhance its processing efforts. Of particular note, IRS simplified the Child Tax Credit worksheet, revised the criteria for filing Schedule D (Capital Gains and Losses), began using dual mailing addresses for taxpayers to use in sending their returns to IRS, and began verifying secondary SSN.

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## Child Tax Credit Worksheet Simplified

As we reported last year, the Child Tax Credit caused processing problems for IRS during the 1999 filing season because many taxpayers did not claim the credit even though they checked a box on the return indicating that one or more of their dependents was eligible for the credit.<sup>1</sup> IRS data indicate that taxpayers and tax return preparers had fewer problems with the Child Tax Credit in 2000. As of June 2, 2000, according to IRS, the number of Child Tax Credit errors by taxpayers and preparers was 37 percent lower than at the same time in 1999. This decrease is even more significant considering that, according to IRS' Statistics of Income Division, more taxpayers claimed the Child Tax Credit in 2000 than in 1999.

The fewer errors in 2000 can be attributed, at least in part, to changes IRS made to the Child Tax Credit worksheet, which, in our opinion, reduced the chance for error. Before the revision, taxpayers were required to complete an 11-line worksheet that incorporated the criteria for eligibility along with the calculations for the credit. IRS simplified the worksheet by presenting the criteria in the form of questions to which the taxpayer was to answer "yes" or "no." If taxpayers plainly met the criteria, they were directed to complete a simple five-line worksheet to calculate the credit. Taxpayers who did not plainly meet the criteria were directed to use a separate publication to determine if they were entitled to any part of the credit. Our review of the revision and the conditions that require use of the separate publication indicated that most taxpayers would have been able to use the simple five-line worksheet and avoid the publication.

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<sup>1</sup>[GAO/GGD-00-37](#).

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## Criteria for Filing Schedule D Revised

As we discussed in our report on the 1998 filing season, IRS' implementation of a legislative change relating to capital gains led to additional burdens for IRS and taxpayers.<sup>2</sup> In 1998, if Schedule D, which is used to report capital gains, was missing from a return, IRS would stop processing the return and write the taxpayer asking for a Schedule D. For the 1999 filing season, IRS changed that procedure to correspond with the taxpayer only if the capital gain reported on the return was over a certain amount. For the 2000 filing season, IRS raised that amount and dropped the requirement for a Schedule D if the only capital gain was from a mutual fund distribution. Consistent with those changes, IRS data indicate that (1) about 17 percent of the individual income tax returns that were received as of May 5, 2000, included a Schedule D compared to about 21 percent at the same point in time in 1999 and (2) as of June 2, 2000, the number of error notices related to problems with Schedule D had decreased 7.7 percent compared to 1999.

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## Dual Mailing Addresses Used to Better Identify Remittances

When tax returns come into a service center, it is important that IRS be able to quickly distinguish those that include remittances from those that do not. IRS gives priority processing attention to returns with remittances so that the money can be quickly deposited to the U.S. Treasury. The mail-sorting equipment IRS uses to identify and segregate mail containing remittances relies on a magnetic ink detection system to determine if there is a check in the envelope. However, because laser computer printers use magnetic ink, the equipment often misreads that print as indicating the presence of a check. According to a report prepared by IRS' Statistics of Income Division, this problem caused many returns to be misidentified as containing remittances. This misidentification causes an excessive amount of nonremittance work to receive priority processing attention, which, according to IRS, ultimately delays monetary deposits to the Treasury.

For the 2000 filing season, in an effort to better identify returns with remittances, IRS tested the use of dual mailing addresses for taxpayers to use in sending their Form 1040 return to IRS (persons using Forms 1040A and 1040EZ still used only one address). IRS' test involved the use of one address for returns claiming a refund and another address for returns not claiming a refund. An IRS sample of returns at 2 of its 10 service centers

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<sup>2</sup>[GAO/GGD-99-21](#).

showed that taxpayers used the correct address (thus correctly identifying their return as a refund or no refund return) 82 percent of the time.

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## Secondary SSNs Verified

Another IRS effort to enhance its processing efforts for the 2000 filing season involved the systematic verification of secondary SSNs. As part of that effort, IRS sent notices to taxpayers whose secondary SSNs were invalid and who met other criteria.<sup>3</sup> Before the 2000 filing season, IRS had focused its SSN verification efforts on primary SSNs and the SSNs of dependents and EIC-qualifying children.

As of June 2, 2000, IRS had issued about 36,000 notices related to invalid secondary SSNs. By contrast, about 1.6 million notices were generated relating to invalid dependent SSNs, and about 152,000 notices were generated relating to invalid primary SSNs.

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<sup>3</sup>IRS considers an SSN invalid if it is missing from the return or if the SSN and associated name on the return do not match data in the Social Security Administration's records.

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# Appendix IV: The EIC Preparer Outreach Program

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For the 2000 filing season, IRS implemented the Earned Income Credit (EIC) Preparer Outreach Program—an integrated education and enforcement effort whose goals are to (1) educate EIC preparers, (2) reduce EIC errors, and (3) lower EIC overclaims.

IRS divided preparers into five groups, with each group getting a different type of visit from IRS, ranging from education to criminal investigation. The type of visit that each preparer received was based on the preparer's filing history.

- The first group consisted of about 9,000 preparers. Visits to those preparers were to have an education and outreach focus. During these visits, IRS employees were to, among other things, give preparers the EIC Practitioner's Kit.
- The second group consisted of about 880 preparers who were to receive a limited due diligence review. In conducting these reviews, revenue agents were to look at 10 returns and associated documents done by each preparer to determine if the preparer complied with the due diligence requirements specified in section 6695(g) of the Internal Revenue Code.<sup>1</sup> The revenue agents could recommend a \$100 penalty for each failure to comply with the due diligence requirements.
- The third group consisted of about 325 preparers who were to receive a more comprehensive due diligence review. Revenue agents were to review up to 100 returns and associated documents in increments of 25 returns. According to IRS guidelines, an agent's decision regarding whether to review each succeeding increment was to be based on the results of the agent's review of the previous increment. Once again, the agents could recommend a \$100 penalty for each failure to comply with the due diligence requirements.
- The fourth group consisted of 118 preparers who were treated as program action cases. A program action case consists of an examination of returns done by the preparer when information indicates a pattern of noncompliance with preparer provisions of the Internal Revenue Code. According to IRS, a program action case can result in a variety of penalties being asserted against both the preparers and their clients.

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<sup>1</sup>To demonstrate due diligence, preparers, among other things, must complete an EIC worksheet or the equivalent and "must not know or have reason to know that any information used by the preparer in determining the taxpayer's eligibility for the [EIC] is incorrect."

- The fifth group consisted of 75 preparers who were to be criminally investigated by IRS' Criminal Investigation Division.

IRS completed 7,152 education and outreach visits, 751 limited due diligence visits, and 264 comprehensive due diligence visits. The number of completed visits was less than the number planned for several reasons. For example, some preparers in the first group opted out of their education and outreach visits, and other preparers had either gone out of business or could not be located.<sup>2</sup> As of June 27, 2000, IRS had started 118 program action cases and had not begun any criminal investigations.

In late January and early February 2000, The Gallup Organization conducted a telephone survey of 401 preparers who had received education and outreach visits. The survey showed that 83 percent of the respondents were quite satisfied with the visits. According to the survey, preparers most liked (1) the thorough explanations of the EIC requirements, (2) the friendly and courteous IRS representatives, and (3) the ability to discuss concerns with IRS representatives.

According to IRS, revenue agents proposed penalties totaling about \$435,000 for 143 of the 1,015 preparers who received either a limited or comprehensive due diligence visit. As of June 27, 2000, most of the proposed penalties had been assessed, but about \$92,000 was still under appeal

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<sup>2</sup>The education and outreach visits to preparers in the first group were optional on the part of the preparers. IRS visits or actions for the other four groups were mandatory.

# Appendix V: Comments From the Internal Revenue Service



COMMISSIONER

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

December 8, 2000

Mr. James R. White  
Director, Tax Issues  
General Accounting Office  
441 G Street, N.W.  
Washington, D.C. 20548

Dear Mr. White:

Thank you for the opportunity to respond to your draft report titled "Tax Administration: Assessment of IRS' 2000 Tax Filing Season." We are pleased the report acknowledges that given the enormity of IRS' processing task, the processing systems worked well with relatively minor problems. The few problems we encountered had minimal impact on a small number of taxpayers and were generally identified and fixed quickly. We are also pleased the report acknowledges that taxpayers were better able to reach IRS over the telephone compared to 1999, although our performance was below the level achieved in 1998.

As you noted, we have had many successes in improving telephone services, measuring customer satisfaction, increasing use of the IRS web site, stopping millions of dollars in erroneous refunds, making electronic filing paperless, and successfully implementing a significant number of computer program changes.

We have implemented many programs in recent years to reduce the number of Earned Income Tax Credit (EITC) overclaims. For the 2000 filing season, we redesigned the EITC instructions and the related publication and began additional education and outreach efforts. These efforts included an integrated EITC education and compliance strategy directed at tax return preparers that enabled us to stop hundreds of millions of dollars in erroneous EITC claims.

Your draft report provides a fair and balanced assessment of our efforts to deliver a filing season that was relatively error-free while providing taxpayers with top quality service. In the comments below, I will share my perspectives on the challenges we face, and then describe our plans for addressing your recommendations.

The 2000 filing season was our most successful filing season ever. A record setting 35.4 million individual taxpayers, 20 percent more than in 1999, filed using one of three *e-file* options:

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- Authorized Electronic Return Originator (ERO) — 25.2 million taxpayers filed their tax returns electronically; an 18.8 percent increase over the same period last year.
- On-line Filing — over 5 million taxpayers filed their tax returns on-line using their home computers through a third party transmitter; an increase of 104 percent over last year.
- TeleFile — more than 5.2 million taxpayers filed their returns over the telephone.

Our other accomplishments in electronic filing include:

- Practitioner Personal Identification Number (PIN) and Customer Number pilots grew for the second year in a row with 6.8 million taxpayers filing paperless tax returns. These pilots involved the use of PINs as the taxpayer's signature, eliminating the need to file the paper signature document.
- Federal/State *e-file* receipts grew 36 percent to 12 million taxpayers in 35 states and the District of Columbia.
- The Electronic Federal Tax Payment System (EFTPS) enrollment increased as over 3 million businesses enrolled in the system and deposited 94 percent of employment tax dollars electronically. In early 2001, we will pilot an Internet web site that allows paperless enrollment, on-line payments, on-line research, and customer service.

Thank you for recognizing the 11 percentage point gain we made in the level of service for 2000. The 21.6 percent increase reflects our progress in establishing and managing a true nationwide enterprise telephone system. This growth represents a maturing of our processes and the increased knowledge we have gained from the ambitious modernization effort we began for the 1999 Filing Season. The changes that occurred in 1999 and 2000 are monumental and make a comparison to preenterprise statistical data invalid.

I am concerned about comparing our 2000 performance to 1998. I realize the similarity of the data, however, our modernization effort changed both the management of our call sites and the reporting of statistical data. In 1998, our sites operated in a regional alignment and in a semiautonomous fashion. We reported data on a site-by-site basis rather than the enterprise approach used in 2000. Call routing was based on an allocation method, a reaction to call demand history.

In 2000, we operated as a fully integrated enterprise network using dynamic call routing and centralized data capture and reporting, which is more structured and less susceptible to error or misinterpretation. Moving to the modernized enterprise

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environment substantially impacted critical areas that were not factors in 1998. Consolidation and standardization of workload to accommodate the call router technology prompted massive training efforts. We expanded service hours, which meant we had to serve more customers. As a result, we had to reallocate, select, and train more staff. We have become more focused on service and resolution of customer issues rather than volume of calls answered because of the Restructuring and Reform Act of 1998 (RRA '98) provisions. We are trying to balance service delivery with a heightened awareness of our impact on our customers. Our approach is more than "answering calls" to achieve a numeric goal for level of service.

Our focus on customer needs has expanded to consider their experience in dealing with us. We are using our network tools to better balance increased access to service and more consistent delivery of it. We are trying to improve the value of our contacts with our customers by increasing their satisfaction and preventing additional calls. The total call demand from October 1, 1999, through June 30, 2000, was down 27.4 percent for our 1-800-829-1040, 8815, and 4262 lines combined, when compared to 1999. Of the 27.4 percent decrease in total call attempts for Fiscal Year 2000, the reduction in repeat calls accounted for 64.3 percent of the decline. I view this as particularly noteworthy and representative of our expanded customer focus. Without a doubt, we can improve our delivery of telephone service. However, I do not believe the report should include the 1998 performance indicator in light of our totally new operating environment.

I appreciate your acknowledging our efforts to improve our walk-in assistance to taxpayers. At the suggestion of the Treasury Inspector General for Tax Administration (TIGTA) early in the filing season, we established a way to pass out the customer satisfaction surveys and a systematic reminder to employees and managers. We also began a national quality review program for walk-in sites. The findings resulted in changing the training for customer service employees and increasing management oversight to improve the results of our initial group of visits. We are compiling the results from the second group of visits and should have them available by December 31, 2000.

We agree we need a standard wait-time report and plan to implement a reporting system this filing season. We disagree with establishing an amount of time for walk-in sites to meet wait-time goals because it causes employees and managers to assist taxpayers too quickly, which could negatively impact the quality of the service and increase the use of critical compliance resources.

We also agree we need goals and measures for Volunteer Income Tax Assistance (VITA) sites. Quality has been measured at VITA sites for some years. The accuracy

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rate for VITA sites is 97.8 percent and for Tax Counseling for the Elderly (TCE) sites is 95.4 percent. Volunteers must pass a skills/competency test before working with taxpayers to prepare returns. Testing ensures that only competent volunteers staff the sites. The TCE sites also have established a quality review process independent from any requirement of the IRS.

However, because we staff these sites with volunteers, we must explore any additional performance measures with our partners.

You made several recommendations for enhancing our filing season performance, and I agree we need to address all areas. Our comments to the draft report's recommendations follow. Also enclosed for your consideration are suggestions for changing the wording or statistics.

RECOMMENDATION

To enhance the usefulness of walk-in site wait-time data, provide a standard format for field offices to use in reporting that information to the National Office and specify the percentage of time that walk-in sites are to meet established wait-time goals.

COMMENTS

We agree we need a standard wait-time report and plan to implement a reporting system this filing season. We disagree with establishing an amount of time for walk-in sites to meet wait-time goals because it could negatively impact the quality of the service and increase the use of critical compliance resources.

RECOMMENDATION

Develop performance measures for volunteer assistance sites that can be used to ensure that taxpayers are receiving an adequate level of service.

COMMENTS

The current performance measure for accuracy will continue to be used. In the near future, we will discuss the possibility of developing a timeliness measure with our largest partner, American Association for Retired People. However, we cannot require that they adopt such a measure.

RECOMMENDATION

Identify the underlying causes for (1) untimely delivery of an adequate supply of materials to volunteer assistance sites, and (2) inadequate district review of site operations and take action to address those underlying causes.

COMMENTS

We recognize we need to improve the process of ordering and delivering supplies and materials and we have taken the following actions to ensure we address these problems before the upcoming filing season:

- Implemented a new Intranet ordering system that allows the territories to monitor the status of their orders daily.
- Developed and distributed a CD-ROM containing complete training materials to TCE sites in all states and territories. As a result, the training materials will be delivered several weeks ahead of last year's distribution.
- Purchased more than 1,000 external CD-ROM drives to enable more VITA sites to offer electronic filing. We have also secured 1,800 additional portable computers for our VITA sites. This equipment was shipped to IRS offices and TCE sites the week of November 17, 2000. Our partners have recognized our successful effort to deliver training and equipment timely for the upcoming filing season.

RECOMMENDATION

To better ensure that area distribution centers provide timely service in filling orders for forms and publications, revise the order filling timeliness measure so that (1) time is tracked from the day the order is received, and (2) tracking does not end until the entire order is filled, even if backorders are involved.

COMMENTS

We agree with the recommendation to track orders from the day received. We are developing requirements for modernizing the Centralized Inventory Distribution System (CIDS) to include an order tracking system, which will track an order from the time it is received until it is filled. Implementation is planned for January 2002. This date depends on the contracting, testing, and systems approval process.

We disagree that an order should be tracked and considered not filled until all backorders associated with that order have been shipped. When the modernized CIDS

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is in place, the system will track the amount of time it takes to fill the first shipment, the time it takes to fill any associated backorders, and compute the total time to fill the entire order. This method will provide three measurements: 1) timeliness to fill original orders, 2) timeliness to fulfill backorders, and 3) overall elapsed time.

RECOMMENDATION

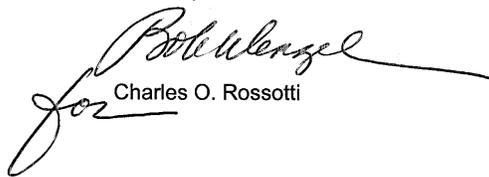
To better ensure that IRS' Web site contains accurate and useful information, (1) assign clear responsibility in a central location for identifying and correcting outdated and inconsistent data, and (2) develop minimum requirements for information to be included on the state pages in the "Around the Nation" section of the site. Regarding the latter, consider including information on the location of walk-in sites and their hours of operation.

COMMENTS

Our Electronic Tax Administration (ETA) Office recently assumed responsibility for the IRS web site and will ensure we have accurate, useful, and timely information on the IRS web site. Within the next 90 days, ETA will establish a Content Review/Editorial Review Board that will review all information to be added or changed on the IRS web site. The Review Board will set requirements and standards for information proposed for publishing. As recommended, we will add information about the location and hours of operation for walk-in sites.

We will make every effort to resolve the issues noted in your report and are confident that our plans will successfully address them for future filing seasons. If you have any questions, members of your staff may contact John M. Dalrymple, Commissioner, Wage and Investment Division, at (202) 622-6860.

Sincerely,



Charles O. Rossotti

Enclosure

cc: Director, Legislative Affairs  
Director, Government Liaison and Disclosure  
Deputy Inspector General for Audit, Department of the Treasury  
Director, Office of Accounting and Internal Control, Department of the Treasury

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# Appendix VI: GAO Contacts and Staff Acknowledgments

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## GAO Contacts

James White (202) 512-9110  
David Attianese (202) 512-9110

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## Acknowledgments

In addition to those named above, Jyoti Gupta, Doris Hynes, Ron Jones, John Lesser, Joanna Stamatiades, and Bradley Terry made key contributions to this report.



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