

GAO

**Report to the Chairman, Subcommittee on
Commerce, Consumer, and Monetary
Affairs, Committee on Government
Operations, House of Representatives**

July 1988

TAX ADMINISTRATION

IRS' Service Centers Need to Improve Handling of Taxpayer Correspondence



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The Honorable Doug Barnard, Jr.
Chairman, Subcommittee on Commerce,
Consumer, and Monetary Affairs
Committee on Government Operations
House of Representatives

Dear Mr. Chairman:

In response to your request, this report discusses the need for the Internal Revenue Service's (IRS) service centers to improve their handling of taxpayer correspondence. IRS has identified several steps it plans to take to address the problems discussed in this report. Because we believe resolution of those problems is critical, we will be monitoring IRS' progress.

As arranged with the Subcommittee, unless you publicly announce its contents earlier, we plan no further distribution of this report, other than to IRS, until 30 days from the date of issuance. At that time, we will send copies to congressional committees having an interest in the matters discussed and to other interested parties.

Sincerely yours,

A handwritten signature in cursive script that reads "Richard L. Fogel".

Richard L. Fogel
Assistant Comptroller General

Executive Summary

Purpose

When your tax refund is less than you expected, where can you turn for an explanation? The Adjustments/Correspondence Branch (Branch) in each of the Internal Revenue Service's (IRS) 10 service centers is responsible for responding to taxpayer inquiries and notifying taxpayers of adjustments to their accounts. In fiscal year 1987, the Branches closed about 12 million cases, many involving letters to taxpayers.

IRS' responsiveness to taxpayer correspondence has been the subject of several congressional hearings in recent years. Because of congressional concerns and the critical impact on taxpayer relations, GAO reviewed the accuracy and clarity of Branch correspondence and the potential for improvement. The Chairman of the Subcommittee on Commerce, Consumer, and Monetary Affairs of the House Committee on Government Operations asked that GAO address its report to him.

Background

Adjustments/Correspondence Branches are expected to quickly and accurately respond to taxpayer correspondence. In doing so, tax examiners in the Branches may need to explain an action taken by IRS, respond to questions about the taxpayer's account balance, decide whether a penalty should be abated, or adjust the taxpayer's account.

GAO reviewed a random sample of 718 letters tax examiners at three service centers sent to taxpayers. GAO's sample results are representative of an estimated 173,584 cases closed at the three centers from May 4 to July 31, 1987. Although estimates based on the sample can be generalized only to the three centers GAO visited (Fresno, Kansas City, and Philadelphia), IRS officials said the results at those centers should be indicative of what is happening at others. (See pp. 41 to 46.)

Results in Brief

In about half of the cases closed during the sample period, GAO considered IRS' correspondence to be correct, complete, and clear. In the rest of the cases, IRS' letter to the taxpayer, the adjustment discussed in the letter, and/or IRS' action in response to the taxpayer's inquiry was incorrect, unresponsive, incomplete, or unclear. These sorts of correspondence problems can lead to incorrect determinations of tax and penalties. They can also confuse and frustrate taxpayers, increasing the correspondence workload as taxpayers write again trying to resolve the same issue.

GAO also found that the Branches, in responding to taxpayer inquiries, did not always comply with administrative procedures designed to foster good taxpayer relations.

Several factors may have contributed to the problems noted. Those factors include the use of generic responses that make it difficult for tax examiners to compose an appropriate letter, the need for improved quality assurance, and the need for improved training and supervision. Besides addressing these problems, IRS needs to determine whether steps are needed to enhance the tax examiner position.

Principal Findings

GAO's Review of Cases Indicates Significant Quality Problems

In reviewing Branch cases, GAO identified various quality problems using criteria that are discussed on pages 15 to 20 of this report. After identifying problems, GAO categorized them as critical or noncritical by asking whether IRS had failed to either satisfy the taxpayer's request or to take appropriate action on the taxpayer's account. A "yes" answer to either or both of those questions meant the problem was critical.

Of the cases closed during GAO's sample period,

- 31 percent had critical problems involving incorrect adjustments and incorrect or unresponsive letters and
- another 16 percent had noncritical problems involving unclear or incomplete letters and incomplete Branch action. (See pp. 15 to 20.)

In each of the three service centers, GAO discussed problem cases with Branch chiefs or their designees. They agreed with GAO's conclusions in more than 90 percent of those cases. (See pp. 20 to 22.)

Noncompliance With Administrative Procedures

Of the cases closed during the sample period, 68 percent involved non-compliance with procedures designed to enhance IRS' service to taxpayers. Those procedures specify sending acknowledgment letters and interim responses, taking steps to prevent further billing notices while IRS is working a case, apologizing for IRS errors, and referencing the date of the taxpayer's correspondence in IRS' reply. For example, in 48 percent of the cases closed during the sample period, action was required to stop further billing notices. In 9 percent of those cases, either no such

action was taken or action was taken later than required by IRS procedures. Consequently, those taxpayers received balance due notices before IRS answered their correspondence. (See pp. 24 and 25.)

Various Factors Contribute to Correspondence Problems

In a January 1988 interim report on a study of the Adjustments/Correspondence Branch, an IRS task force identified the need for improved training and supervision that should, if implemented, enhance the quality of Branch work. (See pp. 32 to 35.) While lending support to the task force's recommendations, GAO's review identified several other factors that could contribute to the problems GAO identified.

Tax examiners generally respond to taxpayers by selecting prepared letters from a catalog of about 500 letters. These computer-generated form letters contain required and optional paragraphs and various data fields to be filled in by the examiner. Because of the large number of potential letters and paragraphs and because the examiner does not get to review the completed letter, this system does not facilitate preparation of appropriate responses. According to IRS personnel, tax examiners tend to become familiar with only a small number of letters and use them repeatedly, which makes it more difficult for an examiner to prepare correspondence that is tailored to the taxpayer's specific inquiry. Recognizing this problem, IRS recently started to develop a new system for composing letters. IRS does not expect to implement this system until early 1990. (See pp. 30 and 31.)

The service center's Quality Assurance Branch reviews Adjustment/Correspondence Branch work. The error rates it reported to management were much less than the error rate identified by GAO. One reason for the discrepancy is that GAO's error rate was based on a review of cases involving correspondence while the quality assurance rates are based on a review of all Branch activities—some of which do not involve correspondence. Considering the potentially serious consequences of inadequate correspondence, GAO believes that management needs specific information on the quality of cases involving correspondence. (See pp. 31 and 32.)

GAO also believes that IRS needs to evaluate the Branch examiner position to see if the qualifications required of a tax examiner, the opportunities for advancement, and/or the production standards by which they are rated need to be revised. Some Branch managers said it is difficult to retain examiners because new hires find the job more difficult than

anticipated and opportunities for advancement beyond grade 7 are limited. Generally, examiners are hired from outside IRS as grades 4 or 5, with a starting salary of about \$13-15,000. Among other things, examiners are required to have knowledge of (1) a broad range of tax regulations pertinent to individual or business tax returns, (2) IRS' computerized master file system and the effects of transactions on taxpayers' accounts, and (3) other agency procedures related to tax processing. The minimum requirements to qualify as a grade 4, for example, are generally 2 years of college or 2 years of clerical or office work. Examiners are evaluated against quantity and quality standards that are set by Branch management based on historical data and input from Quality Assurance. (See pp. 27 to 29.)

Recommendations

GAO recommends that IRS

- ensure that the system being developed to help tax examiners compose responses to taxpayer inquiries allows examiners to view letters after they have been composed;
- report separately the quality assurance error rates associated with Branch cases involving correspondence being sent to taxpayers; and
- determine whether the qualifying requirements, the quality and quantity performance standards, and the opportunities for advancement for the Branch tax examiner position need to be revised.

Agency Comments

IRS acknowledged its concern about the quality of responses to correspondence and pointed to steps it was taking or planned to take to address that problem. GAO believes those steps are responsive to its recommendations, and GAO plans to periodically assess IRS' progress in implementing them. (See pp. 37 and 38.)

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Abbreviations

A/C	Adjustments/Correspondence
ARTS	Adjustments Receipts and Timeliness Study
GAO	General Accounting Office
IRS	Internal Revenue Service
OJT	On-the-job training
QA	Quality Assurance

Introduction

In terms of the number of taxpayers affected, those IRS activities that help taxpayers understand the laws and resolve problems are more significant than those that enforce the tax laws (such as audits, collections, and criminal investigations). In December 1987, we issued reports on two of those activities—the telephone assistance program,¹ in which IRS answered about 35 million telephone calls in fiscal year 1987; and the Problem Resolution Program,² in which IRS closed about 410,000 cases in fiscal year 1987. This report deals with a third activity, the service center's adjustments/correspondence function.

The Adjustments/Correspondence (A/C) Branch in each of IRS' 10 service centers is responsible for responding to taxpayer inquiries and notifying taxpayers of IRS-initiated adjustments to their accounts. As shown in table 1.1, the 10 A/C Branches have received several million taxpayer letters and adjustment requests in the past few years.

Table 1.1: Adjustments/Correspondence Branch Workload

Cases in millions		
Calendar year	Number of receipts	Number of closures
1987	11.9	12.0
1986	14.4	15.0
1985	14.2	14.0

Note: Closures exceeded receipts due to inventory carried over from the prior year.

Source: Information provided by IRS' Returns Processing and Accounting Division.

Not every case closed by the A/C Branch requires correspondence with the taxpayer. IRS had no statistics on the number of cases nationwide that involved correspondence. A/C Branch officials in Fresno and Kansas City, however, both estimated that about half of the case closures in those centers involved IRS sending a letter to the taxpayer.

The ability of the A/C Branches to provide timely, accurate, and responsive answers to taxpayer correspondence has been the subject of much discussion in recent years. The Subcommittee on Oversight of the House Committee on Ways and Means, for example, held several hearings in 1985 and 1986 that dealt, in part, with the size of A/C Branch inventories and problems taxpayers were experiencing in obtaining responsive answers to their correspondence. We testified at two of those hearings

¹Tax Administration: Accessibility, Timeliness, and Accuracy of IRS' Telephone Assistance Program (GAO/GGD-88-17, Dec. 3, 1987).

²Tax Administration: IRS Can Improve on the Success of its Problem Resolution Program (GAO/GGD-88-12, Dec. 22, 1987).

and issued three reports that dealt, in part, with A/C Branch inventories. These testimonies and reports are listed in appendix I. Likewise, a December 1985 USA Today poll of 406 members of the Tax Division of the American Institute of Certified Public Accountants showed that (1) 75 percent of the respondents felt that IRS was least efficient in handling inquiries, (2) 83 percent of the respondents noticed unusual delays by IRS in answering client's correspondence, and (3) 75 percent said they had unusual difficulties getting IRS to correct problems.

Because of these concerns and the critical impact a service center's handling of taxpayer correspondence can have on taxpayer relations, we did this review to determine how effectively the A/C Branches correspond with taxpayers. The Chairman of the Subcommittee on Commerce, Consumer, and Monetary Affairs of the House Committee on Government Operations requested that we address our report to him.

Processing of Taxpayer Correspondence by Adjustments/ Correspondence Branch

The A/C Branch is responsible for quickly and accurately responding to taxpayer correspondence. The correspondence may require the A/C Branch to provide information explaining an action taken by IRS; respond to questions about a taxpayer's account balance; decide whether a penalty should be abated; or adjust a taxpayer's account by revising the amount of tax, penalty, or interest due or by transferring a payment from one account or one time period to another.

Taxpayer correspondence initially arrives at the service center's mail room, which opens it, stamps it with an IRS-received date, and forwards it to the A/C Branch. Clerks stamp the incoming mail with an A/C Branch-received date and sort it into two categories: (1) correspondence from individual taxpayers, whose accounts are kept on IRS' Individual Master File; and (2) correspondence from business taxpayers, such as partnerships and corporations, whose accounts are kept on IRS' Business Master File. The clerks further divide the correspondence into cases involving owed taxes, known as balance due cases; and other cases, referred to as regular cases.

After this preliminary sort, A/C Branch clerks are to code all balance due cases to prevent the computer from generating balance due notices while tax examiners are reviewing the taxpayers' correspondence. Clerks then batch pieces of mail into folders with the same IRS-received date and take them to adjustments units. Unit managers then log the batches according to the IRS-received date and assign cases to tax examiners on a first-in, first-out basis. Tax examiners work the cases on a

first-in, first-out basis because IRS' general rule is to respond to the taxpayer within 30 days from the IRS-received date. IRS procedures also require that the tax examiner send an acknowledgment letter within 7 days after receiving the taxpayer's correspondence if the correspondence cannot be answered within 14 days of receipt. If IRS cannot answer the correspondence within 30 days of receipt or within the time the taxpayer was advised in an acknowledgment letter, IRS procedures require that tax examiners send an interim reply.

Tax examiners work cases by reviewing any information submitted by the taxpayer and calling up account data on IRS' Integrated Data Retrieval System, which provides instantaneous visual access to taxpayers' accounts. If the account is not on that system or more information is needed, the tax examiner can request the tax return from IRS' files, request additional information from the taxpayer, or request information from the master file. After researching available data, the tax examiner adjusts the taxpayer's account, if necessary, and then prepares a computer-generated form letter. At some service centers, selected tax examiners with legible handwriting can respond to taxpayers through handwritten notes, called "quick notes," or handwritten statements of account, which are statements showing a taxpayer's liabilities and payments.

In addition to answering taxpayers' inquiries, the A/C Branch sends letters to taxpayers notifying them of IRS-initiated adjustments to their accounts. If a taxpayer files more than one return, for example, a duplicate filing notice is computer generated. A/C Branch receives the notice, analyzes the returns, determines the appropriate action, and sends the taxpayer a letter explaining the action.

IRS procedures require that supervisors periodically review examiners' work. Some examiners' work is reviewed more often than others. Newly hired examiners, for example, may have 100 percent of their cases reviewed until the supervisor is satisfied with their work. The service center's Quality Assurance (QA) Branch also reviews cases. Each day, tax examiners submit their closed cases to the QA Branch, which reviews a sample of those cases to ensure that IRS' responses are correct and that examiners followed prescribed administrative procedures. If QA detects an error, it returns the case to the tax examiner with an error notice attached. The examiner either corrects the error or explains to QA's satisfaction why he or she believes there was no error. After QA completes its review, it returns the cases to the A/C Branch for closure. In closing the case, the A/C Branch destroys various documents in it, including any

taxpayer correspondence that did not result in a change to the taxpayer's account.

The above process is outlined graphically in figure 1.1.

Objective, Scope, and Methodology

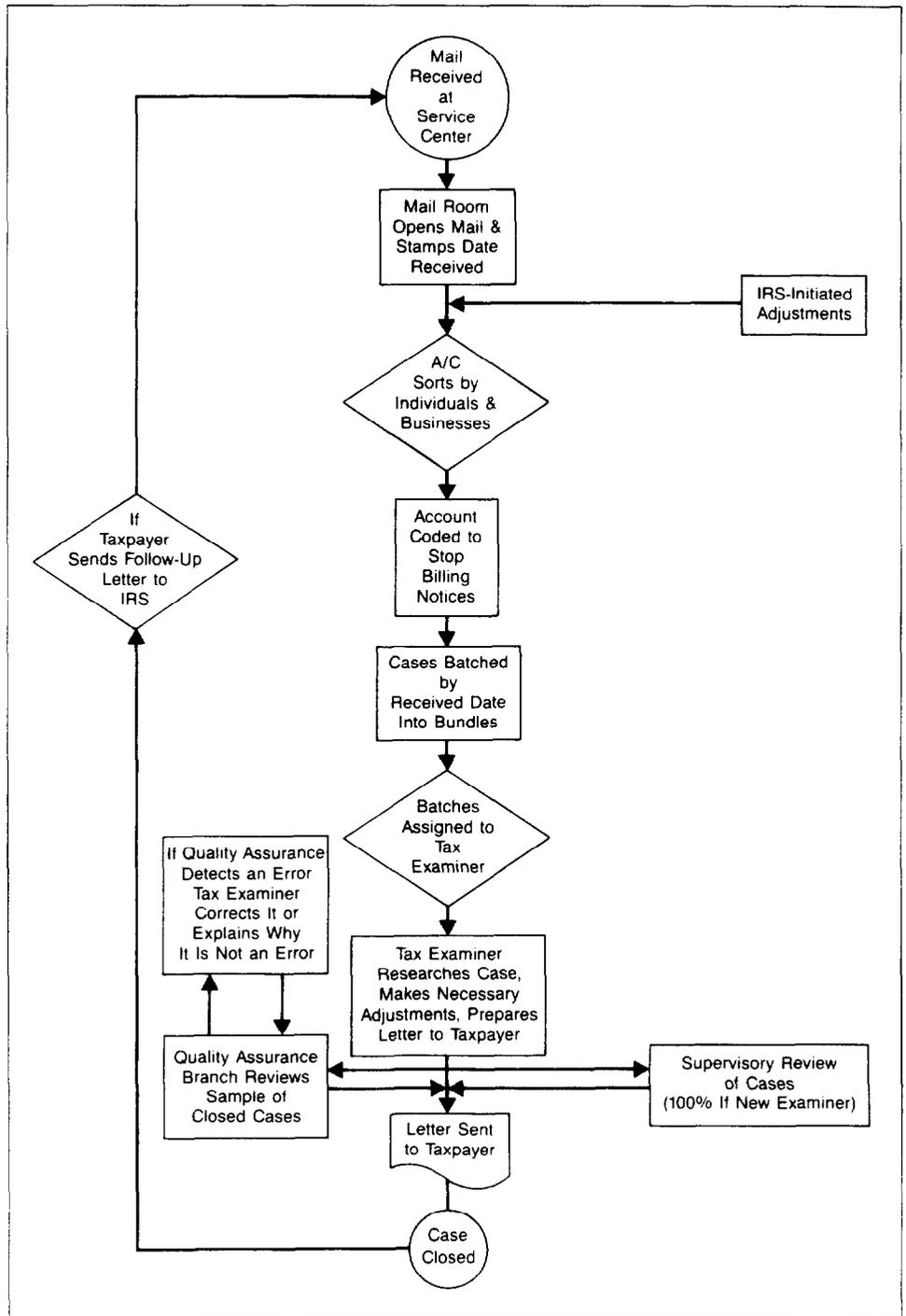
Our objective was to determine whether the A/C Branches are corresponding with taxpayers accurately and clearly and are complying with established administrative procedures. We did our work at IRS' National Office in Washington, D.C., and its service centers in Kansas City, Missouri; Philadelphia, Pennsylvania; and Fresno, California. We chose those three service centers because they provided geographic distribution and a mix of service center sizes in terms of correspondence cases received during 1987. Of the 11.9 million receipts in 1987, Fresno had the most among the 10 service centers (1.7 million), Philadelphia the fifth most (1.2 million), and Kansas City the eighth most (1.0 million). Table 1.2 shows the A/C Branch staffing levels at those three service centers as of June 1987.

Table 1.2: Adjustments/Correspondence Branch Staffing Levels at Three Service Centers in June 1987

Service center	Tax examiners	Supervisors	Other	Total
Fresno	401	25	62	488
Philadelphia	346	46	57	449
Kansas City	202	20	52	274

We reviewed data on a random sample of cases where tax examiners in the A/C Branches sent correspondence to taxpayers. We randomly sampled 718 cases from an estimated universe of 173,584 cases at the three service centers over 63 working days from May 4 to July 31, 1987. IRS National Office officials told us those 3 months would provide a representative mix of the type cases handled by A/C Branches. Although estimates based on our random sample of cases can be generalized only to the three service centers from whose work the sample was drawn during the 63-day data collection period, IRS officials said the results of our review at those centers would reflect what is happening at others. We analyzed each sample case to determine, among other things, whether (1) the tax examiner's action was correct, complete, and clear and (2) the tax examiner followed prescribed administrative procedures. Chapter 2 discusses the criteria we used to make those decisions. We also interviewed national office and service center officials, adjustments unit supervisors, and tax examiners. The percentages and counts cited in this

Figure 1.1: Processing of Taxpayer Correspondence and IRS-Initiated Adjustments



report are weighted estimates obtained from our sample unless otherwise noted. Appendix II contains a detailed explanation of our sampling, our quality control over the data collection, and the sampling errors for the universe estimates used in the report.

We did our review from April 1987 to January 1988 in accordance with generally accepted government auditing standards.

IRS Needs to Improve the Quality of Correspondence and Service to Taxpayers

Generally, in corresponding with a taxpayer, the A/C Branch is either explaining an IRS-initiated adjustment to the taxpayer's account or is responding to the taxpayer's inquiry, which also might involve an account adjustment. Our review of correspondence and related cases at three service centers indicated that IRS' letter, the adjustment discussed in the letter, and/or the action taken by IRS in response to the taxpayer's inquiry was often incorrect, unresponsive, incomplete, or unclear. Such responses sometimes resulted in the assessment of incorrect tax and penalties. Equally serious, however, are the potential confusion and frustration on the part of taxpayers and the extra time and expense IRS and taxpayers might incur in processing additional correspondence needed to resolve the issue. We discussed our findings with A/C Branch chiefs or their designees in the three service centers. They agreed with our conclusions in more than 90 percent of the cases in which we identified a quality problem. Our review also indicated that the A/C Branch, in responding to taxpayer inquiries, did not always comply with procedures designed to foster good taxpayer relations and that many A/C Branch letters contained typing, spelling, or grammatical errors that could tarnish IRS' professional image.

Table 2.1 shows the extent to which these problems occurred in cases handled by the A/C Branches at the Fresno, Kansas City, and Philadelphia Service Centers during the 63 days covered by our review.

Table 2.1: GAO-Identified Problems With Adjustments/Correspondence Branch Cases

Type of problem	Percent ^a
A/C Branch's action or letter was incorrect, unresponsive, unclear, or incomplete	48 ^b
Critical problems involving incorrect adjustments and incorrect or unresponsive letters	31 ^c
Noncritical problems involving unclear or incomplete letters and incomplete A/C Branch action	16 ^c
A/C Branch did not comply with procedures designed to foster good taxpayer relations	68
Correspondence contained typing, spelling, or grammatical errors	22

^aThese percentages add to more than 100 because some cases were included in more than one category.

^bThis number differs from the total of the critical and noncritical problems due to rounding.

^cIf a case involved both critical and noncritical problems, it was counted only as a critical-problem case to avoid double counting.

Adjustments/ Correspondence Branch's Action or Letter Often Incorrect, Unresponsive, Unclear, or Incomplete

In assessing the quality of A/C Branch correspondence cases, we identified various types of problems using criteria that will be discussed later in this section. After identifying problems, we differentiated between those we considered critical and those we considered noncritical.¹ In deciding whether a problem was critical or noncritical, we asked ourselves whether IRS had failed to satisfy the taxpayer's request or had failed to take appropriate action on the taxpayer's account. A "yes" answer to either or both of those questions meant the problem was critical; a "no" answer to both meant the problem was noncritical.

Using that criterion, we determined that 31 percent of the correspondence cases involved critical problems and that another 16 percent involved noncritical problems. Those problems resulted in the incorrect determination of some taxes or penalties and almost certainly contributed to diminished taxpayer relations, increased taxpayer frustration, and an increased A/C Branch workload stemming from follow-up taxpayer inquiries.

Critical Problems With A/C Branch Correspondence Cases

In 31 percent of the cases closed by the three service centers during our sample period, the A/C Branch made critical errors that adversely affected the taxpayer or IRS. These cases involved instances in which the tax examiner provided incorrect information, failed to address all the taxpayer's questions, or acted incorrectly in adjusting or failing to adjust the taxpayer's account.

Incorrect Information

We classified a piece of correspondence as containing incorrect information if the letter (1) contained data that was incorrect based on tax regulations published in IRS manuals and publications, (2) incorrectly explained the basis for a tax or penalty, or (3) provided incorrect information about adjustments made to a taxpayer's account. For example:

- IRS sent a taxpayer a notice which said "We changed your tax return to correct your income from wages, salaries, tips, etc." The additional tax due was about \$1,000. The taxpayer returned the notice with copies of his wage and withholding statements and asked for an explanation. The tax examiner sent the taxpayer a statement of debits and credits to the taxpayer's account and explained that the additional tax was due to the

¹Neither of these categories includes procedural problems or typing, spelling, or grammatical errors. Those problems and errors are discussed later.

taxpayer's error in computing medical and dental expenses. This explanation was incorrect. IRS had erroneously added about \$4,100 in nonemployee compensation to the taxpayer's reported wages and salaries. The taxpayer had already reported the nonemployee compensation as business income on his tax return. IRS' double counting of the nonemployee compensation caused an incorrect tax assessment of about \$1,000.

- A business taxpayer terminated a partnership and filed a final Form 941 (Employer's Quarterly Federal Tax Return) along with a deposit of about \$130 for federal unemployment tax in August 1986. Federal unemployment tax is supposed to be reported on a Form 940 (Federal Unemployment Tax Return). The taxpayer wrote on the check that the deposit was for federal unemployment taxes, but IRS credited the deposit to the taxpayer's Form 941 account and refunded it because the Form 941 account was overpaid. The taxpayer filed the Form 940 on February 2, 1987. IRS processed the Form 940, assessed a penalty and interest for underpayment of about \$130, and sent the taxpayer a balance due notice. The taxpayer sent a copy of the cancelled check and wrote a note on the balance due notice saying that the business had terminated in July 1986 and the federal unemployment tax had been paid before it was due to close out the account. In response, the A/C Branch tax examiner sent the taxpayer a letter which said that IRS located the taxpayer's federal unemployment tax payment and credited it to the taxpayer's account. This explanation was incorrect because the tax examiner did not make any adjustment. The tax examiner should have explained that IRS had credited the Form 940 tax payment to the taxpayer's Form 941 account and refunded it. Because of the erroneous refund, the taxpayer still owes about \$130. The tax examiner's incorrect explanation could lead the taxpayer to believe that IRS had located a misapplied payment and credited it to his account. As a result, the taxpayer could be confused when he continues to receive balance due notices and he may even ignore them because he believes they are incorrect.

Unresponsive Correspondence

We considered correspondence unresponsive if it did not address the question or problem raised by the taxpayer. For example:

- A taxpayer received a refund of about \$600, which was less than expected, and an IRS notice explaining that the difference was due to overstated estimated tax payments on the tax return. The notice also listed the estimated tax payments made by the taxpayer. The taxpayer wrote IRS and enclosed cancelled checks showing an additional estimated tax payment of about \$360 not reflected on IRS' record. Thus, IRS owed the taxpayer an additional \$360 refund. The taxpayer also asked

whether IRS wanted the refund check for \$600 returned (so it could then process a refund check in the right amount) or whether IRS would send another check for the additional \$360. The taxpayer also inquired whether IRS owed interest on the \$360. The A/C Branch replied by saying that IRS had found the \$360 payment and credited it to the taxpayer's account. The response did not address the taxpayer's other questions. It did not tell him he would receive another refund check of \$360 or that he might receive interest depending on how quickly IRS processed the refund.

- IRS sent a balance due notice for about \$1,100 because of an adjustment to an employer's reported social security and Federal income tax withholdings. The taxpayer returned the balance due notice with a statement saying that he had paid the tax months ago and that no changes or amendments had been made to his employment tax return. He also said that the amount due indicated a large payroll and he had only one part-time employee. He asked for an explanation. The tax examiner sent the taxpayer a letter saying that IRS had made an additional tax assessment and the taxpayer needed to file an amended return if it was not correct. The tax examiner's response did not provide the taxpayer any more information than the balance due notice and it did not provide the explanation the taxpayer requested. Because the tax examiner did not explain why IRS assessed additional tax, the taxpayer may have to write again or file an amended return.

Incorrect Adjustment Action

We considered IRS' action incorrect if the tax examiner made an erroneous entry to the taxpayer's account, assessed an incorrect tax, abated a penalty that should not have been abated, did not correct a previous erroneous adjustment, or otherwise made an incorrect adjustment. For example:

- A married taxpayer filed two Form 1040As for the same tax year. The husband separately filed one Form 1040A to report his income and jointly filed a Form 1040A with his wife to report her income. An A/C Branch tax examiner combined the two returns and refigured the tax but did not correctly combine wages and charitable deductions. Because of this incorrect adjustment, IRS assessed the taxpayers about \$80 too much in tax.
- A taxpayer incorrectly combined about \$5,100 of income reported on Schedule C (Profit or Loss from Business or Profession) with wages reported on line 7 of the Form 1040. Schedule C income should have been reported on line 12 of the Form 1040 as business income. IRS' returns processing unit brought the Schedule C income forward to line

12 of the Form 1040 and refigured the income tax. Because the taxpayer had incorrectly reported the Schedule C income on line 7, IRS' adjustment resulted in the income being counted twice—once on line 7 by the taxpayer and again on line 12 by IRS. IRS notified the taxpayer that it had transferred the amount of business income from Schedule C to the Form 1040 and advised the taxpayer of a tax increase of about \$2,300. The taxpayer sent the A/C Branch a letter explaining that he had incorrectly reported the Schedule C income on line 7. The taxpayer included his wage and withholding statements and a copy of the Form 1040 and supporting schedules. In his letter, the taxpayer listed the amount that should have been reported as wages and the amount which should have been reported as business income. The taxpayer also said that he had called IRS and was told to provide the information enclosed. The tax examiner had sufficient information to correct the taxpayer's account but instead sent the taxpayer a letter saying that the taxpayer should file an amended return.

Noncritical Problems With A/C Branch Correspondence Cases

Of the cases closed by the three service centers during our sample period, 16 percent involved noncritical problems only.² In these cases, the examiner either (1) made the correct adjustment, but explained it in such a way that it might have confused the taxpayer, (2) did not go far enough to explain things so the taxpayer might avoid similar mistakes in the future, or (3) did not refer the case to another service center function, such as collection, when required.

Unclear Correspondence

We considered correspondence unclear if it contained conflicting information or information that did not apply to the circumstances of the case. For example:

- A business taxpayer returned a copy of an IRS balance due notice with a check for the amount due. The tax examiner then sent the taxpayer a letter with a statement of account showing no balance due. The letter said

“We have enclosed a record of your account, in response to the correspondence identified above. Any current balance due will be shown on these records. However, these amounts will not reflect additional penalty and interest accruals which continue until the account is paid.

²Some of the cases involving critical problems also contained noncritical problems. Those were not included in computing the 16 percent.

Please review the enclosed statement of your account. If you do not agree with our records please feel free to contact this office.

Please enclose a copy of this letter with your payment, or if you need to write again about this matter. Please include a telephone number where we may reach you during the day."

This letter could have confused the taxpayer because the record of account showed a zero balance. The letter, however, indicated that the taxpayer still owed money.

Incomplete Correspondence

We considered correspondence incomplete if it was technically correct and addressed the question or problem raised by the taxpayer, but did not include information that could be beneficial to the taxpayer and help the taxpayer avoid similar problems in the future. For example:

- A taxpayer wrote IRS questioning penalty assessments for depositing employment taxes late and filing the related return late. The taxpayer said in his letter that, according to instructions for filing, one has 10 days past the due date to file if all deposits are made timely. The taxpayer asserted that he owed no penalties because his deposits were timely and he had until February 10 to file (10 days past January 31). The tax examiner wrote back that IRS had received the taxpayer's return on February 9, and that he thus incurred a late filing penalty and a late deposit penalty on the \$1,400 that was paid with the return. This information was correct, but did not fully explain why the taxpayer incurred these penalties. The tax examiner should have explained further that you have 10 more days to file after the due date only if you deposit all taxes when due for a quarter. In this case, the taxpayer should have paid the \$1,400 by January 31, not February 9. Therefore, the taxpayer's return and the \$1,400 were due on January 31, and the penalties were correct.

Incomplete Action

We considered IRS' action incomplete if the tax examiner should have taken additional action, such as referring the case to another service center function, to ensure that the taxpayer received a complete, clear, and correct resolution to his or her inquiry. For example:

- A taxpayer sent IRS a check for \$250 and a letter saying that he still owed about \$1,200 in taxes for 1984 and 1986. The taxpayer said he

would pay the balance in installments and asked for an updated statement showing the amount owed. The tax examiner correctly provided the updated statement. The tax examiner, however, should have also referred the case to the Service Center's collection function because the taxpayer wanted to make installment payments. IRS' manual specifies that the A/C Branch should expedite cases to the collection function if a taxpayer expresses a desire to pay in installments. Collections would have arranged for the taxpayer to pay in installments and would have stopped further billing notices. Because the case was not referred to collections, IRS will continue to send billing notices, and if the taxpayer has not fully paid at the end of the regular IRS billing cycle or otherwise rectified the situation, IRS will initiate collection action which could include levying the taxpayer's assets.

Adjustments/
Correspondence Branch
Officials Generally Agreed
With GAO-Identified
Quality Problems

We discussed all of the cases that we considered to have critical or non-critical problems with A/C Branch chiefs or with personnel designated by the branch chiefs at the individual service centers. They agreed with our conclusions in 93 percent of the cases we considered critical and 95 percent of the cases we considered noncritical—including all of the examples cited previously. When A/C Branch personnel disagreed it was generally on cases in which (1) the taxpayer would be getting a computer-generated notice in addition to the A/C Branch letter or (2) the tax examiner had to exercise judgment because IRS' procedures were not specific.

If a tax examiner adjusts a taxpayer's account, IRS' computer system automatically generates a notice that shows the adjustment and the revised balance due. IRS' manual specifies that all correspondence received from taxpayers must be answered and the answer should explain the action taken, even if the action was exactly what the taxpayer requested. We would have no problem if the case was one in which the tax examiner wrote no letter to the taxpayer but relied, instead, on the computer-generated notice to provide necessary information to the taxpayer. The cases we took issue with, however, were ones in which tax examiners provided some information in a letter and relied on a computer-generated notice to provide the remaining information. In these cases, we believe it would have been a better service to the taxpayer to provide complete information in the letter and to explain that a revised notice would be forthcoming. Because the taxpayer may not receive the letter and the computer-generated notice at the same time, a partial reply could be confusing and annoying to the taxpayer. It could also cause the taxpayer to write again and generate additional work for

the A/C Branch. For example, if the taxpayer responds to a balance due notice with copies of cancelled checks and a letter saying payment was made and asking IRS to abate penalties and interest, we believe that the tax examiner should address both issues in the letter instead of advising the taxpayer that IRS located the misapplied payments and applied them to the taxpayer's account in a letter and relying on the computer-generated notice to inform the taxpayer that the penalty and interest were abated.

In some cases, A/C Branch personnel disagreed with our conclusions because they felt the responses involved matters of judgment regarding clarity and completeness, rather than compliance with IRS procedures. For example:

- In March 1986, IRS assessed additional tax and interest totaling about \$490 on a taxpayer's 1983 account. In April 1986, IRS transferred an overpayment from the taxpayer's 1985 account to pay the balance due for 1983 and sent the taxpayer a notice to that effect. The taxpayer returned a copy of the notice with this question: "Was paid in 1986. Can this also be considered F.I.T. paid in 1986." The tax examiner sent a letter which thanked the taxpayer for his inquiry and stated "The 1983 tax account is paid in full". The tax examiner's letter did not address the taxpayer's question. The taxpayer was not asking if the 1983 account was paid. Apparently, the taxpayer intended the initials F.I.T. to stand for federal income tax and was asking if federal income tax assessed for the 1983 tax year could be considered federal income tax paid in 1986. The A/C Branch Chief believed the tax examiner's letter was correct because the examiner did not know what "F.I.T." meant. The Branch Chief said F.I.T. is not a standard acronym used by IRS. The Branch Chief agreed, however, that the tax examiner's letter did not address the taxpayer's question if the taxpayer intended F.I.T. to mean federal income tax. In an instance like this, we believe the tax examiner should request clarification instead of providing a generic response that does not address the taxpayer's inquiry.

Quality Problems Affect IRS' Workload, Taxpayer Relations, and Tax Assessments

In our opinion, quality problems of the type discussed can have three major effects. They can (1) lead to follow-up correspondence that adds to A/C Branch workload, (2) cause taxpayer frustration, and (3) result in incorrect assessments of tax and penalties.

Inappropriate responses contribute to IRS' correspondence workload by generating follow-up correspondence from the taxpayer—correspondence that could have been avoided if IRS' initial response was appropriate. Because IRS' records do not show the number of times a taxpayer wrote IRS on the same issue, we could not determine how many of the inappropriate responses in our sample resulted in additional taxpayer inquiries. About 22 percent of the cases closed during our sample period, however, involved taxpayers who said in their letters that they had previous contacts with IRS regarding the same issue. Some of those taxpayers attached copies of prior correspondence from or to IRS.

For example, one business taxpayer attached copies of five letters that had been sent to IRS over a period of about 2 years in an attempt to have IRS' records corrected to show that the corporation's tax year ended in February rather than December. The taxpayer also included copies of the corporation's by-laws and income tax return. Because the taxpayer listed December as the ending month on its application for a taxpayer identification number, IRS' records showed December as the end of the corporation's tax year. However, the corporation filed its income tax return showing February as the ending month. Because tax deposits and the date the return was filed did not correspond with the date on IRS' records, IRS assessed the taxpayer penalty and interest totaling about \$900. The taxpayer paid the penalty and interest under protest to avoid further collection action and continued to write IRS requesting that IRS correct the year ending date and abate the penalty and interest. In response to the taxpayer's most recent correspondence, IRS corrected the fiscal year end to February, but did not address the taxpayer's request to abate the erroneous penalty and interest.

A high incidence of repetitive taxpayer inquiries was also cited in a January 1988 task force report on adjustment receipts and timeliness³. The IRS task force reported that taxpayers had previously contacted IRS on

³This study resulted from an IRS quality improvement project to determine causes of A/C Branch receipts and to identify systemic impediments to timely processing of taxpayer inquiries. To determine causes of receipts, the project team sampled 20,000 cases at four service centers (Austin, Brookhaven, Kansas City, and Ogden) during the period February 23 to July 30, 1987. To identify impediments to timely processing, the team visited all service centers between April and August 1987 and sampled 150 to 200 old cases at each site. Cases not closed within 45 days of IRS receipt are considered old.

the same issue in 23 percent of the 20,000 cases it reviewed at four service centers between February and July 1987. IRS' ability to respond to follow-up correspondence can be adversely affected by the fact that correspondence case files are generally destroyed once the letter to the taxpayer is mailed. If the taxpayer does not include copies of all previous correspondence, the tax examiner handling the most recent correspondence may have trouble reconstructing the case.

Although our sample of correspondence showed that quality problems cause repeat taxpayer correspondence, we could not determine the number of additional letters caused by quality problems in the sample cases. IRS would likely receive some repeat correspondence even if all adjustments were correct and all letters appropriate because, as the correspondence we reviewed showed, some taxpayers have difficulty understanding complex tax regulations and are understandably persistent about having adjustments made to their accounts.

In addition to the unnecessary cost associated with processing repeat correspondence and incorrect adjustments, inappropriate letters can frustrate taxpayers, as indicated by the tone of some taxpayer correspondence we reviewed. For example, one taxpayer wrote:

"I have either written, or telephoned on this issue in the past to try and resolve the problem, but all I seem to get is a run around."

As indicated by some of the examples discussed earlier, quality problems can also lead to erroneous adjustments. Of our 718 sample cases, 49 involved incorrect tax and penalties totaling \$38,300 (\$28,500 in IRS' favor and \$9,800 in the taxpayer's favor).⁴ We do not know to what extent, if at all, the incorrect taxes and penalties were corrected through subsequent correspondence.

⁴The number of cases and dollar amounts are unweighted sample counts. We did not project the sample results to the estimated universe because of the small number of sample cases involved.

Adjustments/ Correspondence Branches Could Improve Taxpayer Relations by Better Complying With Established Procedures

In 68 percent of the cases closed by the three service centers during our sample period, the A/C Branch did not comply with one or more procedures designed to enhance IRS' service to taxpayers. Those procedures relate to sending acknowledgement letters and interim responses, preventing further billing notices while IRS is working a case, apologizing for IRS errors, and referencing the date of the taxpayer's correspondence in IRS' reply.

If a tax examiner cannot respond to an inquiry within 14 days of IRS' receipt, IRS procedures require that A/C Branches send an acknowledgement letter within 7 days of receipt. This letter advises the taxpayer that IRS received the correspondence and when the taxpayer can expect a response. If IRS cannot respond within the time specified in the acknowledgement letter, IRS procedures require that the tax examiner send an interim response to let the taxpayer know IRS is still working on the inquiry. About 85 percent of the cases closed by the three service centers during our sample period required an acknowledgement letter. No letter was sent in 49 percent of those cases. When IRS sent acknowledgement letters, 67 percent of them were not sent within the required 7 days and 48 percent did not go out within 14 days. Interim responses were required in about 21 percent of the cases; none were sent in 94 percent of those cases. When taxpayer correspondence is not answered timely or acknowledged, additional taxpayer contacts and taxpayer frustration may occur.

IRS procedures also require that A/C Branches stop further billing notices on a balance due account if IRS has received an inquiry from the taxpayer and the case cannot be closed within 5 work days of receipt or before the next notice goes out, whichever is earlier. Generally, tax examiners complied with that procedure. However, there were some exceptions. In 48 percent of the cases closed during our sample period, action was required to stop billing notices. In 9 percent of those cases, either no action was taken or action was taken later than required by IRS procedures, and the taxpayers received balance due notices before IRS answered their correspondence. There were 26 such cases in our sample. In 9 of those 26 cases,⁵ the balance due notices sent to taxpayers were incorrect because tax examiners eventually made adjustments to the taxpayers' accounts which were not reflected in the notices.

⁵These numbers are unweighted sample counts. We did not project these sample results to the estimated universe because of the small number of sample cases involved.

According to IRS procedures, A/C Branches should apologize when the taxpayer's correspondence involves an issue that arose because of an IRS error. During our sample period, 26 percent of the cases met that criterion. IRS did not apologize in 70 percent of those cases. Compliance with procedures requiring apologies for the inconvenience caused by IRS errors should enhance taxpayer relations.

IRS procedures also require that responses to taxpayers must reference the date of the taxpayer's inquiry. This procedure was implemented because of an IRS study report, issued in August 1983, which said that taxpayers, and taxpayers' representatives in particular, could not always determine which inquiry IRS was answering. In about 47 percent of the cases closed during our sample period in which the date of the taxpayer's correspondence was known, tax examiners either did not refer to the date of the taxpayer's correspondence in their reply or referred to an incorrect date. Tax examiners often referred to the date of IRS' receipt as the date of the taxpayer's correspondence.

Typing, Spelling, and Grammatical Errors Can Tarnish IRS' Image

Besides assessing the accuracy, completeness, and clarity of A/C Branch correspondence, we also identified the extent to which correspondence involved typing, spelling, and grammatical errors. These errors detract from the quality of IRS correspondence and can tarnish IRS' professional image.

Of the cases closed by the three service centers during our sample period, 22 percent involved correspondence that contained misspelled words, misspelled names, incorrect punctuation, incorrect capitalization, and other grammatical errors. Most of these errors were minor relative to the problems we found with incorrect adjustments and incorrect, incomplete, and unclear letters. For example, a tax examiner sent the following letter to a taxpayer.

"Dear Taxpayer:
I writing in reply to your letter dated April 25, 1987.
Your account has been adjusted according to your Form 1040X.
We apologize for the confusion caused by are losing you amended return you filed in 1985.
No further action is needed on your part."

A quality assurance unit reviews a sample of A/C Branch letters for typing, spelling, and grammatical errors before they are mailed. Because we selected our sample before that review, some of the errors we found

may have been corrected. To assess that possibility, we analyzed the results at one service center. At that center, quality assurance reviewed 7,526 computer-generated letters, or 21 percent of the letters prepared during our sample period. To the extent our grammatically incorrect letters fell into the 79 percent not reviewed, they would have gone uncorrected. Further, quality assurance only reviewed computer-generated letters while we also reviewed handwritten notes at the two centers that used them. Of the cases closed during our sample period that contained typing, spelling, and grammatical errors, 10 percent involved handwritten notes while the rest involved computer-generated letters.

Conclusions

Taxpayers have a right to expect correct, complete, and responsive correspondence from IRS. Our analysis showed, however, that A/C Branch correspondence is too often incorrect, unresponsive, unclear, and incomplete, and that branch personnel too often did not comply with procedures designed to improve taxpayer relations. Those conditions are likely to strain taxpayer relations, frustrate taxpayers, and increase IRS' correspondence inventory.

Various Factors Contribute to Problems With Adjustments/Correspondence Branch Cases

Information developed during our review and recent IRS studies point to several factors that have contributed to the problems discussed in chapter 2. Those factors include the use of generic responses that make it difficult for examiners to arrive at an appropriate finished letter, the need for improved quality assurance, and the need for improved training and supervisory review.

Recent IRS reports on A/C Branch activities discuss some of these factors and make recommendations on training and supervision that should, if implemented, improve A/C Branch correspondence quality. IRS needs to go beyond those recommendations, however. It should, for example, evaluate the A/C Branch tax examiner position to determine whether the findings in this report and internal IRS studies warrant revision of (1) the qualifying requirements for that position, (2) the quality and quantity performance standards by which examiners are rated, and/or (3) the opportunities for advancement. We believe, also, that more needs to be done to improve the value of quality assurance to management and to make it easier for tax examiners to compose appropriate letters.

IRS Should Consider Whether Changes Are Needed to the Adjustments/Correspondence Branch Tax Examiner Position

In light of the problems discussed in chapter 2 and their potential impact on taxpayer relations, we believe IRS should consider whether fundamental changes are needed to the tax examiner position in the A/C Branch. That consideration should include a determination whether the qualifying requirements, the performance standards, and/or the opportunities for advancement need to be revised.

Generally, A/C Branches hire tax examiners as grades 4s or 5s with a starting salary of about \$13-\$15,000. Most new A/C Branch tax examiners are hired from outside IRS. Some transfer to the branch from other service center jobs, such as data entry in returns processing. The minimum requirements to qualify as a grade 4 are generally 2 years of college or 2 years of clerical or office work. To qualify as a grade 5, a person must have had 4 years of college or 2 years of clerical/office work and 1 year of specialized experience that is defined as "experience with tax records, reports, documents, financial accounts, or similar records involving the use of source documents according to established rules and procedures."

According to their position description, grade 5 tax examiners in the A/C Branch are expected to have

- knowledge of a broad range of tax regulations pertinent to individual or business tax returns;
- knowledge of IRS' document processing, the master file system, and the effects of transactions on tax accounts;
- knowledge of other agency procedures related to tax processing, such as those of the Social Security Administration and private financial institutions;
- knowledge of criteria that require case referrals to other IRS functions like Examination or Criminal Investigation;
- an ability to communicate effectively both orally and in writing; and
- an ability to use the Integrated Data Retrieval System to do research, initiate correspondence, and input adjustments to a tax account.

Tax examiners are evaluated against both quantity and quality standards which A/C Branch management, with input from the QA Branch, sets. The standards prescribe a minimum level of performance and an outstanding level of performance. The standards vary by grade of examiner and by the type of cases being worked. Quantity standards, which are developed on the basis of past performance, specify the number of cases to be worked in an hour. Quality standards, which are developed on the basis of error rate information reported by the QA Branch, specify the allowable percent of cases with errors.

Not only do these standards vary by grade and type of case, but also among service centers. Table 3.1 illustrates the standards in effect during our review for grade 5 and grade 7 examiners working business screening cases, which are business cases that can be closed just by using information on the Integrated Data Retrieval System. The left side of the ranges in the table represents the minimum level of performance; the right side represents the outstanding level.

Table 3.1: Quantity/Quality Standards for Business Screening Cases

Service center	Acceptable quantity range (cases an hour)		Acceptable quality range (percent of cases with errors)	
	Grade 5	Grade 7	Grade 5	Grade 7
Fresno	3.2 - 4.8 ^a	3.8 - 5.7 ^a	4.6 - 1.0	4.0 - 1.0
Philadelphia	3.7 - 5.5	4.7 - 6.9	8.5 - 5.8	7.5 - 5.1
Kansas City	3.2 - 6.0	4.0 - 6.0	8.0 - 4.3	6.4 - 4.3

^aIn October 1987, Fresno's quantity standard for this type case was revised to require a grade 5 to complete 2.6 to 3.9 cases an hour and a grade 7 to complete 3 to 4.5 cases an hour. The revision was retroactive to July 1, 1987. The quality standard was not revised.

Another area that may need IRS' attention is the level of tax examiner experience. Service center officials believe that tax examiners need at least 3 years of experience in the A/C Branch to be fully qualified. The January 1988 interim report prepared by IRS' Adjustment Receipts and Timeliness Study task force showed that 70 percent of A/C Branch examiners nationwide have 3 or less years of experience. The experience level of tax examiners who worked the cases in our sample was similar. Of the 389 tax examiners involved in our sample cases, 255 had less than 3 years of experience¹.

A/C Branch managers told us that it is difficult to retain tax examiners. They attributed turnover to the following:

- New hires do not understand the complexity and difficulty of the job when they accept the position.
- Opportunities for advancement beyond grade 7 are limited unless the examiner obtains a unit supervisor or management position. Therefore, in seeking promotions, examiners often transfer to other service center functions or leave IRS.

In its January 1988 report, the IRS task force on adjustment receipts and timeliness recommended that A/C Branches track attrition and that management give exit interviews to ascertain why examiners resign and to determine if anything can be done to retain an experienced workforce and create a more desirable working environment.

Although several A/C Branch managers and supervisors cited tax examiner inexperience as a cause for poor quality correspondence and failure to comply with procedures, our analysis showed no statistically significant difference in the incidence of critical errors for experienced and inexperienced tax examiners.² Of the cases worked by tax examiners with less than 3 years experience, 35 percent contained critical errors, as defined in chapter 2, compared to 26 percent of the cases worked by tax examiners with at least 3 years experience.

¹These numbers are unweighted sample counts; we did not project the sample results to the estimated universe.

²We used a 95-percent confidence level for this test.

Use of Generic Responses Causes Unclear Correspondence

Tax examiners generally respond to taxpayers by selecting prepared letters from a catalog that contains about 500 letters that can be used by the A/C Branch. These computer-generated form letters contain required and optional paragraphs and various fields to be filled in with narrative or with information, such as dates, dollar amounts, and form numbers. Optional paragraphs are those that the tax examiner may choose to fit the particular circumstance; required paragraphs are those that are automatically printed. One particular computer-generated letter, for example, has 17 optional paragraphs dealing with the status of tax payments. The same letter had three required paragraphs that dealt with instructions to taxpayers about writing or calling IRS and that thanked them for their cooperation. A copy of that letter with all of the optional and required paragraphs is in appendix III.

When the tax examiner chooses a particular paragraph or paragraphs, the terminal screen only shows the alpha or numeric code for the selected paragraph(s) plus any specific data or narrative added to the paragraph by the tax examiner. A copy of that screen is in appendix IV. In order to visualize the entire letter, the tax examiner must look at the hard copy of the form (not filled in) in the catalog and look at the computer screen for the fill-in data. Because the completed letter is printed in another location, the tax examiner does not see it.

Because of the large number of potential letters and paragraphs, this system does not facilitate selection of an appropriate response. According to IRS national office and service center personnel, tax examiners tend to become familiar with only a small number of letters and use them repeatedly. Reliance on a few letters makes it more difficult for an examiner to prepare correspondence that is responsive to the taxpayer.

The problems caused by generic responses are compounded when the taxpayer's letter includes more than one inquiry. The more information being requested, the less appropriate the generic response. Thus, the tax examiner has to compose more narrative to add to the computer-generated paragraphs. Both IRS national office and service center personnel said that some tax examiners try to make the computer-generated paragraphs fit and, consequently, send a confusing or nonresponsive letter.

IRS initiated a project in the summer of 1987 to develop a new system for selecting letters. This project is in its early stages, and IRS expects to implement it in early 1990. It is our understanding, after reviewing the

project prospectus and talking to the project manager, that the new system will provide on-line assistance to help tax examiners select paragraphs relating to a specific subject area and create a letter using those paragraphs rather than using existing structured letters.

Quality Assurance Needs to Improve Its Review of Cases

The QA Branch reviews the work of the A/C Branch to ensure acceptable quality and to provide data for use in evaluating tax examiners.³ The QA Branch samples A/C Branch work using a sampling plan that designates individual sample sizes for each employee and sample sizes for a particular program.⁴ The results of QA Branch reviews, along with quantity data from the employee's time record, provide management with some of the data used to rate and rank employees for promotions and awards.

The QA Branch personnel who review A/C Branch work are also tax examiners. They have the same salary scale and are supposed to receive the same training as A/C Branch examiners. They are either hired from the outside or transfer in from the A/C Branch or other service center functions. Of the three centers we visited, one had a rotational policy whereby A/C Branch tax examiners would serve a specified term in the QA Branch and then return to the A/C Branch.

In reviewing a case, the QA Branch generally uses the same information we used in reviewing our sample cases—the letter written by the A/C Branch, the case file, and any data on the Integrated Data Retrieval System. At one service center, however, we noted that the QA Branch's review did not include the computer-generated A/C Branch letter. The reviewer would know, from notations in the case file or from information in the Integrated Data Retrieval System, what generic letter the examiner had intended to send but would not know if that letter was actually sent or what information the examiner actually included in the letter.

Because the QA Branch assesses quality and reports this information to management, we attempted to compare its results with our results for approximately the same sampling period to determine if management is receiving an appropriate measure of the quality of A/C Branch correspondence. As discussed in chapter 2, we found that tax examiners sent

³This review differs from the grammatical review of letters discussed in chapter 2.

⁴IRS categorizes the work done by A/C Branches into several different programs. For example, cases involving duplicate filings and tentative loss carrybacks are separate programs.

incorrect or unresponsive letters to taxpayers or made erroneous adjustments in 31 percent of the cases closed by the three service centers during our sampling period. The QA Branches at those centers found average error rates of 6, 10, and 20 percent for all A/C Branch tax examiner activities. The error rates reported by the QA Branches would, at a minimum, include the type of errors we considered critical and included in our 31-percent rate. The QA rates might also include some, but not necessarily all, of the errors we considered noncritical. Thus, to be conservative, we only used our critical error rate in the comparison.

One explanation for the difference between QA's rates and ours is that our sample included only those cases involving correspondence sent to taxpayers whereas QA's sample includes other A/C Branch activities. In that regard, some A/C Branch cases are closed without the need to correspond with the taxpayer. The QA Branch does not compute separate error rates for A/C Branch cases involving correspondence to taxpayers. Another explanation for the difference is that the QA Branch is not identifying all errors. Of our 718 sample cases, 62 had been reviewed by QA. We identified critical errors in 17 of those 62 cases. None of those errors were caught by QA.⁵

IRS Studies Indicate a Need for Improved Training and Supervisory Review

On the basis of our review results, it seems logical to conclude that improved training and supervisory review would help improve A/C Branch performance. Recent IRS studies of A/C Branch activities reached the same conclusion.

Training

A/C Branches provide new tax examiners with classroom training which includes information on service center processing, tax returns and forms, Integrated Data Retrieval System procedures, and procedures for handling various types of correspondence cases. Examiners then go through a period of on-the-job-training (OJT) during which they work cases. During OJT, a supervisor reviews the examiner's work until the examiner is judged capable of performing at an acceptable level. Experienced examiners receive training on changes to procedures and the tax law by means of bulletins, unit meetings, and annual refresher training. The length of classroom training and OJT differs among centers.

⁵The numbers in this paragraph are unweighted sample counts. We did not project the sample results to the universe because of the small number of sample cases involved.

Our review did not include an evaluation of the effectiveness of A/C Branch training. We interviewed 26 A/C Branch supervisors and 25 tax examiners in Fresno, Kansas City, and Philadelphia, however, to obtain their views on the adequacy of training in various subject matters (see app. II for more information on these interviews). The areas most frequently mentioned by the 51 supervisors and examiners as ones in which more training was needed were

- application of the various penalty and interest charges (55 percent);
- resolution of missing payment conditions (51 percent);
- resolution of problems involving the taxpayer's identity, such as the taxpayer's name or social security number (41 percent);
- composition of letters and quick-notes and deciding which to send (35 percent); and
- assessing reasonable cause for abating penalties (31 percent).

Our review of A/C Branch training materials indicated that they covered all the areas where supervisors and examiners indicated a need for additional training. Although we did not assess the adequacy of that coverage, reports on two recent IRS studies expressed concerns in that area. In its 1986 report on a review of A/C Branch operations at the service centers in Austin, Texas, and Ogden, Utah, a Southwest Region task force said that training course materials were outdated and inaccurate. Likewise, according to a June 1987 internal audit report on the Philadelphia Service Center, A/C Branch managers at that center believed that training materials were inadequate and said that instructors often had to revise the materials.

The Adjustments Receipts and Timeliness Study (ARTS) task force also assessed A/C Branch training and, in its January 1988 interim report, recommended, among other things, that IRS

- develop minimum standards for various levels of training,
- schedule training in segments to allow new tax examiners time to gain experience with a category of work before advancing to other areas, and
- certify that trainees have met defined training objectives before going to more advanced training.

We believe that those recommendations, if implemented, could lead to improved A/C Branch quality. In commenting on a draft of this report, the Commissioner of Internal Revenue noted that a senior manager was

appointed in April 1988 to coordinate implementation of the ARTS recommendations and that training issues would be addressed in an ARTS implementation plan scheduled to be developed by the end of 1988.

Supervisory Review

A/C Branch supervisors at the three service centers we visited do many types of reviews. Most of those reviews, however, do not involve checking for the problems we noted in chapter 2. For example, supervisors

- review cases that tax examiners have suspended while awaiting additional information to assess the examiner's work and to make sure the additional information is needed to work the cases,
- review cases being routed to other service center functions to make sure the cases do not belong in the A/C Branch, and
- review old cases to see if they can be closed quickly.

Other than the review of suspended cases already referred to, there is no IRS-wide requirement that supervisors review the technical accuracy of correspondence cases. Supervisors in Kansas City said, however, that they generally do an in-depth review of each tax examiner once or twice a year during which time they review 1 day's work and report the results back to the tax examiner in writing. New examiners and examiners who are not meeting quality standards are subjected to more frequent in-depth reviews. As part of an in-depth review, the supervisor is to assess the quality of the correspondence, the examiner's responsiveness to the taxpayer, the correctness of adjustments, and the examiner's compliance with procedures. Supervisors in Fresno and Philadelphia told us they were not performing in-depth reviews except for new employees and those not meeting quality standards.

We did not evaluate the in-depth reviews being done by A/C Branch managers. Recent IRS studies, however, have expressed concerns about supervision, particularly the issues of span of control and management reviews. The January 1988 ARTS report, for example, noted that the number of tax examiners per unit ranged from 18 to 24 at the various A/C Branches and that administrative duties associated with the large number of employees assigned to each unit prevented managers from doing case reviews.

The ARTS report included the following recommendations relating to supervision:

- Establish national guidelines that provide for a unit small enough to allow managers to do a sufficient number of meaningful case reviews.
- Review a minimum sample (the lesser of 10 percent or 10 cases) of each employee's closed cases each quarter for technical accuracy.
- Develop a manager's handbook to include, among other things, guidelines on how to do a review.

We believe that these recommendations, if implemented, would lead to better supervisory reviews and increased assurance as to the quality of A/C Branch correspondence.

According to information we obtained from IRS, work has begun on development of a manager's handbook. That handbook is expected to include, among other things, standards for the type, scope, and number of managerial reviews to be done; guidelines on how to do a review; and an outline of the types of administrative policies needed to promote an efficient operation.

Conclusions

No one factor appears to be solely responsible for the quality and procedural problems we identified in analyzing A/C Branch correspondence cases. Instead, our review and recent IRS reviews point to several contributing factors involving training, supervision, quality assurance, and the use of generic responses.

IRS recognized the need to improve A/C Branch operations and established a task force to address the issue. Although the task force concentrated on the timeliness of A/C Branch correspondence and not quality, its interim report included several recommendations that should, if implemented, enhance the training and supervision of A/C Branch examiners and thus the quality of their work. Also, because QA Branch examiners receive the same training as A/C Branch examiners, any training improvements should enhance the QA Branch's ability to identify quality problems. We believe that the results of our study underscore the importance of those recommendations and the need for management to address them expeditiously.

Besides addressing the ARTS recommendations IRS needs to take steps to make it easier for tax examiners to compose responsive correspondence and to make quality assurance more useful to A/C Branch management.

As we understand it, the system IRS has started developing to help tax examiners compose letters through computer prompts should lead to

more responsive correspondence than has the existing system, which relies on the examiner's familiarity with all possible generic responses. It is not clear, however, whether that system will enable the tax examiner to view the entire letter once it has been composed. We believe the tax examiner needs that capability to help ensure that the letter adequately conveys the intended message. It is also not clear how such a system would work in cases involving more than one inquiry. Because the computer would apparently suggest paragraphs based on the subject area identified by the tax examiner, it is important that (1) the tax examiner, in queuing the computer, be alert to the fact that each of the taxpayer's inquiries needs to be addressed and (2) the system be sufficiently flexible to handle those situations.

A/C Branch management's ability to identify and correct systemic problems with Branch correspondence would be facilitated if the QA Branch provided management not just with information on overall A/C Branch quality but also with specific information on the quality of cases involving correspondence with the taxpayer. Considering the potential effect of poor quality correspondence on taxpayer relations and A/C Branch work load, we believe that information is vital. It is also vital if management is to have a sound basis for assessing the impact of quantity standards. We do not disagree that tax examiners need to be accountable for quantity as well as quality. It is important, however, that the two be balanced. To that end, specific QA Branch information on the quality of correspondence cases would be useful.

We also believe that IRS needs to evaluate the A/C Branch examiner position. That evaluation should include a determination whether the quality and quantity performance standards by which tax examiners are rated are reasonable in light of the problems discussed in this report. The evaluation should also include a determination as to whether the demands of the job and the potential impact on taxpayer relations warrant revision of the minimum requirements needed to qualify for a tax examiner position and the opportunities to advance within that position.

Recommendations to the Commissioner of Internal Revenue

We recommend that IRS:

- ensure that the system being developed to help tax examiners compose responses to taxpayer inquiries (1) allows examiners to view letters after they have been composed and (2) facilitates the preparation of responsive answers to taxpayer correspondence involving more than one inquiry;

- report separately the quality assurance error rates associated with A/C Branch cases involving correspondence being sent to taxpayers; and
- determine whether the qualifying requirements, the quality and quantity performance standards, and the opportunities for advancement for the A/C Branch tax examiner position need to be revised.

Agency Comments and Our Evaluation

IRS commented on a draft of this report in a June 10, 1988, letter (see app. V). In that letter, the Commissioner of Internal Revenue noted that

"... IRS has been concerned with service center correspondence problems since 1985 and has initiated several quality improvement programs to address these problems since then. Many of the problems noted in your report are the same problems we identified in our studies and have already taken steps to correct. As a result, our correspondence and adjustments inventories have declined substantially over the last few years. However, we continue to be concerned with the quality of our responses to correspondence and are focusing our quality improvement studies on providing understandable and accurate responses to taxpayers' correspondence."

In response to our specific recommendations, IRS made the following points:

- The system being developed to help examiners compose letters to taxpayers will use the latest computer technology to develop state-of-the-art correspondence software. According to IRS, the new system and software will permit examiners to view an entire letter once it has been composed and will be sufficiently flexible to enable examiners to respond to multiple inquiries from a taxpayer. IRS plans to test the system in 1989 and implement it in early 1990.
- In January 1988, IRS installed a system to, among other things, provide error and trend analyses of the A/C Branch work load. In addition to analyzing accuracy in handling inquiries and adjusting accounts, the system also analyzes the quality of correspondence related to the adjustment cases. IRS plans to "separate the information pertaining to correspondence from the information on adjustments into a separate analysis program" which will be operational in January 1989.
- IRS plans to review the qualifying requirements for A/C Branch tax examiners, develop new quality and quantity standards, establish acceptable performance levels, review the current grade structure to determine if the career potential of that position can be improved, implement the ARTS recommendation that exit interviews be conducted to determine why tax examiners resign, and explore the feasibility of a pass/fail test for all new tax examiners.

IRS' proposed actions appear responsive to our recommendations. Considering the critical issues involved and IRS' statement that it has been aware of many of the problems we identified since 1985, we would encourage IRS to do all it can to hasten corrective action.

Because no one had been assigned responsibility for acting on the ARTS findings as of March 21, 1988, our draft report also included a proposal that IRS assign responsibility for ensuring consideration of the ARTS recommendations, especially those relating to training, supervision, and attrition. Because IRS has since appointed a senior manager to coordinate implementation of the ARTS recommendations, as discussed earlier in this chapter, we are not including that proposal in our final report.

We plan to periodically follow up with IRS to assess its progress in implementing the recommendations in this report and in addressing the ARTS findings.

Listing of GAO Reports and Testimonies Dealing With Adjustments/Correspondence Branch Inventories

1. Information on IRS Service Centers in Austin, Texas and Fresno, California (GAO/GGD-85-89, Sept. 1985).

2. Tax Administration: Information on IRS' Philadelphia Service Center (GAO/GGD-86-25FS, Nov. 1985).

3. Testimony of the Senior Associate Director, General Government Division, before the Subcommittee on Oversight, House Committee on Ways and Means, on operational problems experienced by IRS' service centers during 1985 (Dec. 1985).

4. Testimony of the Senior Associate Director, General Government Division, before the Subcommittee on Oversight, House Committee on Ways and Means, on the status of the 1986 tax return filing season and service centers' tax return processing activities (March 1986).

5. Tax Administration: How IRS' Philadelphia Service Center is Addressing Processing Problems (GAO/GGD-86-60BR, March 1986).

Sampling Methodology and Analysis

To assess the handling of correspondence cases by A/C Branches in the Kansas City, Fresno, and Philadelphia Service Centers, we randomly sampled cases involving correspondence to the taxpayer, evaluated the tax examiner's handling of those cases, and then projected the results to the total universe of closed correspondence cases at three service centers during our sample period.

Selection of Cases

We used random sampling techniques to select closed correspondence cases at three service centers during the period May 4 through July 31, 1987. After eliminating weekends and holidays, we randomly selected 20 of the 63 workdays during the sampling period from which we randomly selected cases for review. We chose the Kansas City, Fresno, and Philadelphia Service Centers because of their geographic distribution and their different volumes of correspondence cases during 1987. In terms of 1987 volumes at IRS' 10 service centers, Fresno ranked first, Philadelphia fifth, and Kansas City eighth.

Tax examiners can respond to a taxpayer through computer-generated form letters; handwritten notes, called quick notes; or statements of account, which are debit/credit type statements that show a taxpayer's liabilities and payments. In designing our sampling plan, we grouped quick notes and statements of account together because each involve the tax examiner writing a note by hand. Kansas City and Philadelphia used each kind of response; Fresno used only computer-generated letters. The process point from which we sampled was immediately after case closure but before the QA Branch selected its cases for review.

At Kansas City and Philadelphia, quick notes/statements of account were in envelopes in the closed case files. We counted the number of envelopes in the case files each day and then randomly selected envelopes. We knew that some envelopes might contain something other than quick notes/statements of account, such as copies of returns or copies of taxpayer documentation that IRS was returning. Because it would have been too time-consuming to look through the envelopes for those not containing a quick note/statement of account before we took the sample, we selected more envelopes than needed for the sample and eliminated those that did not contain quick notes/statements of account.

We initially selected 343 envelopes from which to pick our sample. Of those cases, we dropped 125 because the envelopes contained something other than a quick note or a statement of account. We dropped another 28 cases primarily because either the QA Branch was unable to locate the

case after we selected it (13 cases) or the case file did not contain pertinent documents, such as the taxpayer's inquiry (13 cases). After dropping the above cases, we ended up with our sample of 190 quick notes/statements of account—95 each in Kansas City and Philadelphia. There is no reason to believe that the dropped cases were any different than the cases in our sample. On the basis of the number of envelopes eliminated in selecting our sample and the total count of envelopes, we estimated the total number of quick notes/statements of account for each sample day.

At first, we counted computer-generated letters by hand to obtain a daily universe, but eventually we used a computer program developed by the Fresno Service Center which listed the daily universe of those letters. We did not verify the computer program. We initially selected 1,051 letters, which was more than we needed for our sample, because we knew cases would have to be dropped for various reasons. We eventually dropped almost half of those cases (523), leaving 528 in our sample—115 in Philadelphia, 200 in Kansas City, and 213 in Fresno.

Of the 523 cases not included in our sample, 55 were dropped because they did not meet our definition of a closed correspondence case. Of these 55 cases, 37 were letters that did not involve a response to a taxpayer's inquiry or inform a taxpayer of an adjustment. For example, the letter might have been sent to inform a taxpayer's representative that because IRS had no record of a power of attorney it was replying directly to the taxpayer. The other 18 involved cases in which the tax examiner was requesting additional information from the taxpayer and was holding the case open in the meantime.

The other 468 cases excluded from our sample were dropped for the following reasons:

- 272 were dropped because the case file was not available due to the fact that computer-generated letters input on the computer after a certain time (for example 10:00 p.m. in Kansas City) are not printed until the day after the case file is closed. By the time the letter was printed and available for our selection, the QA Branch would have selected its sample and returned all nonselected cases to the A/C Branch for closing. In closing a case, the A/C Branch destroys various documents, including any taxpayer correspondence that did not result in a change to the taxpayer's account. Thus, we would have been unable to associate the letter with a case file.

- 70 were dropped because they were listed more than once on the daily printout of letters generated by the Fresno-developed computer program we used to identify our universe.
- 67 were dropped because the A/C Branch held the case for supervisory review rather than forward it to the QA Branch.
- 38 were dropped because the case files did not contain all pertinent documents.
- 21 were dropped because the A/C Branch had noticed an error in the letter or the QA Branch had identified an error in the case that required the letter or case to be returned to the examiner for correction. After correction, a case would be returned to the QA Branch at which time it would be eligible for inclusion in our sample.

Except for the 67 that were dropped because the A/C Branch held them for supervisory review, there is no reason to believe that the dropped cases were any different than the cases included in our sample. Because of the supervisory review, the 67 cases might have been of better quality than the cases included in our sample. We excluded them, however, because we wanted, through our review, to assess correspondence cases that had gone through the typical process. Holding a case for supervisory review rather than forwarding it for potential QA review is not the typical process.

Table II.1 shows the universe and sample sizes for the two types of letters at each service center. The adjusted universe reflects the elimination of computer-generated letters and quick notes/statements of account that were not appropriate for the sample or could not be reviewed, as previously discussed.

Table II.1: Universe and Sample Sizes of Closed Correspondence Cases for the 20 Sample Days

Location/letter type	Original universe	Adjusted universe	Sample size
Kansas City			
Computer-generated letters	17,849	11,400	200
Quick notes/statements of account	3,180	1,754	95
Philadelphia			
Computer-generated letters	20,483	8,541	115
Quick notes/statements of account	6,480	4,377	95
Fresno			
Computer-generated letters	56,407	29,035	213
Total^a	104,399	55,106	718

^aTotals may not add due to rounding

Our sampling design allows us to project the results of our sample to the 63-day sampling period at the three service centers. Therefore, the universe estimates used in the report refer to the estimated universe of closed correspondence cases for the 63-day sampling period at those service centers. Table II.2 shows the estimated adjusted universe sizes at each service center for the sampling period.

Table II.2: Estimated Adjusted Universe of Closed Correspondence Cases for the 63-Day Sampling Period

Location/letter type	Adjusted universe
Kansas City	
Computer-generated letters	35,911
Quick notes/statements of account	5,525
Philadelphia	
Computer-generated letters	26,903
Quick notes/statements of account	13,787
Fresno	
Computer-generated letters	91,459
Total^a	173,584

^aTotals may not add due to rounding.

Projection of Sample Results

We applied weights to our sample data in order to project sample results to the estimated universe of closed cases involving correspondence to a taxpayer in the three service centers combined during the period May 4 through July 31, 1987.

The following example illustrates the method used to apply weights to the sample data. On the first of the 20 sample days, the Kansas City Service Center generated a total of 838 computer-generated letters. We randomly selected 18 cases to obtain 10 workable cases. Therefore, the adjusted universe of computer-generated letters for the first sample day is $838 \times (10/18) = 466$ cases. Each of the 10 sampled computer-generated letters for that day has a weight of $466/10 = 46.6$ cases toward the estimated universe of cases for the 20 sampled days. That same case has a weight of $46.6 \times (63/20) = 146.8$ cases toward the estimated universe for the 63-day sampling period.

Quality Control Over Data Collected

We maintained quality control over data collection throughout the review. We prepared an instruction manual and a standardized instrument for recording the results of our case evaluations. Before we started our review, we tested the instrument and the manual on actual cases

and modified them where appropriate. Staff members were trained on the use of the manual and instrument. Once we started our review, questions relating to either the instrument or the manual were centrally answered and each location was notified by phone and in writing of any further changes. If required, we re-evaluated cases already completed in light of the approved modifications. GAO supervisors or other GAO employees compared the information recorded on each instrument with the related case file and signed off on the accuracy of the recorded information.

The GAO staff member having overall responsibility for the review visited each location and reviewed cases for conformance to the manual. Finally, we discussed our conclusions with IRS officials at each location and recorded their reaction to each of our findings. A commercial service then keypunched the data collection instruments twice; the double keypunching served as a 100 percent verification of the data. We verified a random sample of 10 percent of the keypunched cases and found no data entry errors.

Sampling Errors

Every universe estimate based on our review of closed correspondence cases has a sampling error because we used a random sample of cases to obtain the estimates. The sampling error is a measure of the estimate's precision. We used sampling errors to construct confidence intervals for key estimates in the report. Table II.3 shows the confidence intervals for some of the key estimates in the report. These estimates are for the universe of cases at the three service centers during the 63-day sampling period. All confidence intervals are reported at the 95 percent level of confidence.

Table II.3: Sampling Errors for Key Estimates Used in the Report

Description	Universe estimate	95 Percent confidence intervals	
		Lower limit	Upper limit
Percent of letters with at least one critical error	31	27	35
Of the letters with at least one critical error, the percent in which IRS agreed with at least one of the errors	93	81	100 ^a
Percent of letters that were technically correct, but confusing or incomplete	16	12	20
Of the letters that were confusing or incomplete, the percent in which IRS agreed with at least one of the errors	95	73	100 ^a
Percent of letters with at least one procedural error	68	64	72

^aThe estimate is less than 100 percent but rounds to 100 percent. The number represents an upper bound on the confidence interval.

Sampling errors for the remaining estimates used in the report and not shown in table II.3 are between 3.2 percent and 12.0 percent, except for one. We estimated the percent of cases for which an interim letter was required but not sent to be 94 percent. The lower and upper limits of the 95 percent confidence interval are 79 percent and approximately 100 percent.

Interviews With Service Center Personnel

We interviewed 26 A/C Branch supervisors and 25 tax examiners in the Fresno, Kansas City, and Philadelphia Service centers. The interview results are not representative of the universe of tax examiners and supervisors at the three service centers. Table II.4 shows the number of tax examiners and supervisors interviewed at each of the service centers.

Table II.4: Adjustment/Correspondence Branch Personnel Interviewed

Location	Number of people	
	Supervisors	Tax examiners
Fresno	10	9
Kansas City	8	8
Philadelphia	8	8
Total	26	25

Sample of Generic Response Used to Compose a Reply to Taxpayer About Tax Payment

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

Department of the Treasury Internal Revenue Service	IDRS Correspondence	Transmittal Number	Date of Issue
		88-20	02-12-88
		Letter Number	Form Number
			6720
Title			Originating Office
Reply To Taxpayer About Tax Payment			TR:R:f
Number of Copies	Distribution to	This Letter Supersedes	
Original and 1	2 to Taxpayer	6720 (Rev. 09-86)	
OMB Clearance Number	Expires		
N/A			
This Letter is a Match For:			
A] Taxpayer Identification Number: [01 12T] B] Form Number: [02 14V] C] Tax Period Ended: [03 14P] D] Tax Period Beginning: [04 15D] E] Document Locator Number: [05 17V] Response to your inquiry dated: [06 17D]			
Dear [-30V]			
F] Thank you for your letter about your tax payment(s) of [07 36V] dated [08 36V]. At the time we sent you the bill, we had not yet applied the payment(s) to your account. Please disregard the notice you received.			
G] We located your tax payment(s) of [09 36V] dated [10 36V], and have credited this amount to the above account. If you received a notice showing an underpayment of tax for the same amount as this payment(s), please disregard it.			
H] Thank you for your payment(s) of [11 36V] dated [12 36V]. We have credited this amount to the account identified above. This account is paid in full.			
I] Your payment of \$[13 12\$] dated [14 13D], was refunded to you on [15 13D]. Our refund check included \$[16 12\$] in interest. Therefore, the bill you received was correct. The current balance due is \$[17 12\$], which includes penalty and interest figured to [18 13D]. Please send your payment now for the balance and attach this letter to insure prompt credit. An envelope is enclosed for your convenience.			
J] We located your tax payment(s) of [19 36V] dated [20 36V], and have credited the payment(s) to the account identified above. This account is paid in full.			

See comment.

**Appendix III
Sample of Generic Response Used to
Compose a Reply to Taxpayer About
Tax Payment**

Department
of the
Treasury

Internal
Revenue
Service

**IDRS
Correspondex**

Page Number 2	Transmittal Number 88-2C	Date of Issue 02-12-88
	Letter Number	Form Number 672C

- K] We located your tax payment(s) of [21 36V] dated [22 36V], and have credited the payment(s) to the account identified above. The remaining balance due of \$[23 12\$] includes penalty and interest figured to [24 13D]. Please send your payment now for the balance and attach this letter to insure prompt credit. An envelope is enclosed for your convenience.

- L] We located your tax payment(s) of [25 36V] dated [26 36V], and have credited the payment(s) to the account identified above. An overpayment of \$[27 12\$] will be refunded to you if you owe no other obligations. You may have already received this check. If not, please allow 2 weeks for it to be mailed to you. Any interest due you will be added to your refund.

- M] We located your tax payment(s) of [28 36V] dated [29 36V], and have credited the payment(s) to the account identified above. The overpayment of \$[30 12\$] will be applied to your estimated tax for the tax period [31 14P].

- N] We located your tax payment(s) of [32 36V] dated [33 36V], and have credited the payments to your estimated tax for the tax period [34 14P].

- O] We applied your tax payment(s) of [35 36V] dated [36 36V], to your Form [37 9V] account for the tax period [38 14P], which is paid in full. This leaves a balance due of \$[39 12\$] in the account identified above, which includes penalty and interest figured to [40 13D]. Please send your payment now for the balance, and attach this letter to insure prompt credit. An envelope is enclosed for your convenience.

- P] We applied your tax payment(s) of [41 36V] dated [42 36V], to your Form [43 9V] account for the tax period [44 14P]. A refund was issued to you with interest on [45 13D]. Therefore, the bill you received for the account identified above was correct. The current balance due is \$[46 12\$], which includes penalty and interest figured to [47 13D]. Please send your payment now for the balance, and attach this letter to insure prompt credit. An envelope is enclosed for your convenience.

**Appendix III
Sample of Generic Response Used to
Compose a Reply to Taxpayer About
Tax Payment**

Department
of the
Treasury

Internal
Revenue
Service

**IDRS
Correspondex**

Page Number	Transmittal Number	Date of Issue
3	88-2C	02-12-88
	Letter Number	Form Number
		672C

Q] We applied your tax payment(s) of [48 36V] dated [49 36V], to your Form [50 9V] account for the tax period [51 14P]. A refund was issued to you on [52 13D]. Therefore, the bill you received for the account identified above was correct. The current balance due is \$[53 12\$], which includes penalty and interest figured to [54 13D]. Please send your payment now for the balance, and attach this letter to insure prompt credit. An envelope is enclosed for your convenience.

R] The above account also shows an estimated tax penalty of \$[55.12\$] has been assessed. We may be able to reduce or cancel this penalty if: (1) your income varied during the year and payments were made based on annualized income, (2) you underpaid estimated income tax because of the changes made by the Tax Reform Act of 1986, or (3) you have an acceptable reason for penalty removal.

(Selective paragraph R continued)

To request consideration for the annualized income penalty exception, please complete the enclosed Form 2210, including the Annualized Income Installment Worksheet on the back of Form 2210 and return it to us with a copy of this letter. An envelope is enclosed for your convenience.

(Selective paragraph R continued)

If you believe you have an acceptable reason for removing the penalty for any installment, please send us your explanation. Your statement should contain a declaration that is made under the penalty of perjury, attesting to the facts relating to reasonable cause. You, or a person having power of attorney must sign the explanation. Please attach your statement to a copy of this letter and return it to us in the enclosed envelope.

S] We are unable to adjust your Federal tax deposit penalty without a corrected breakdown of the liability. Please complete the enclosed Form 4977, Schedule of Tax Liability, and mail it to us in the envelope provided. Please send the completed Form 4977 within 30 days from the date of this letter or we cannot consider adjusting the penalty.

T] Please make sure that you submit a Form 8109, Federal Tax Deposit Coupon, completed with correct identifying information, such as type of tax and tax period, each time you make a payment(s), so we may correctly credit your account.

**Appendix III
Sample of Generic Response Used to
Compose a Reply to Taxpayer About
Tax Payment**

Department of the Treasury Internal Revenue Service	IDRS Correspondex	Page Number 4	Transmittal Number 88-2C	Date of Issue 02-12-88
			Letter Number	Form Number 672C

U] [56 384V]

V] As a reminder, please make sure that you list your Taxpayer Identification Number, Tax Period and Form Number on each check or money order that you send to us, so that we may correctly credit your account.

If you have any questions about this letter, please write to us at the address shown on this letter. If you prefer, you may call the IRS telephone number listed in your local directory. An IRS employee there may be able to help you but the office at the address shown on this letter is most familiar with your case.

If you write to us with questions about this letter, please provide your telephone number and the most convenient time for us to call in case we need additional information. Please attach this letter to any correspondence to help us identify your case. Keep the copy for your records.

Thank you for your cooperation.

W] We are sorry for any inconvenience we caused you.

Sincerely yours,

[57 35V]
[58 35V]

Enclosure[59 1B]:

- X] Copy of this letter
- Y] Envelope (Paragraphs I, K, O, P, R, or S)
- Z] Form 2210 (Paragraph R)
- O] Form 4977 (Paragraph S)
- Q] Corrected Form 8109 (Paragraph T)
- 1] [60 25V]

NOTE: 1) To list multiple payments in paragraphs F through Q (except paragraph I) use the following format: [1,000.00,\$1,001.00,\$650.00,\$650.00] dated [04-15-86,06-15-86,09-15-86,01-15-87]; program will not accept a "\$" with a fill-in of 36V, therefore, dollar sign must be entered manually.

2) Do not use paragraphs U or W with paragraph X

3) Enclosure listed in selective paragraph 1 should be mentioned in open paragraph U.

**Appendix III
Sample of Generic Response Used to
Compose a Reply to Taxpayer About
Tax Payment**

GAO Comments

The brackets indicate data fields that the tax examiner has to fill in on the computer.

The capital letters in the left margin indicate optional paragraphs or items from which the examiners choose to compose their letters.

Sample of Video Screen Display for Generic Response in Appendix III

LPAGE1111-11-1111 30 8712		
JOHN DOE		< NL1
		< NL2
		< NL3
		< NL4
800 SO MAIN		< STR
CALDWELL,KS 66021		< CSZ
672C DA 75	> < CAF >	< OMB
ABCEKWX		< PAR
MR. > DOE:		< DEAR
<u>01</u>]		
<u>02</u> 1040]038612] <u>21</u> 100.00] <u>22</u> 032288] <u>23</u> 60.00]		
<u>24</u> 040488][

The reference to 672C in the display indicates the number of the computer-generated form letter the examiner has chosen from which to compose his or her response. It is the letter that appears in appendix III.

The letters "ABCEKWX" in the display indicate which items the tax examiner selected from the generic response in appendix III. The letters correspond to the letters in the left margin of the generic response in appendix III.

The underlined numbers correspond to the numbers assigned to data fields in the generic response that need to be filled in. The 21, for example, identifies the first data field in paragraph K. The numbers after the underlined numbers are the data entered by the tax examiner to fill those fields.

Comments From the Internal Revenue Service



COMMISSIONER

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

JUN 10 1988

Mr. Richard L. Fogel
Assistant Comptroller General
United States General Accounting Office
Washington, DC 20548

Dear Mr. Fogel:

We have reviewed your recent draft report entitled "Tax Administration: IRS' Service Centers Need to Improve Handling of Taxpayer Correspondence" and have enclosed detailed comments on the report recommendations. We hope you find these comments useful.

As noted in your report, the IRS has been concerned with service center correspondence problems since 1985 and has initiated several quality improvement programs to address these problems since then. Many of the problems noted in your report are the same problems we identified in our studies and have already taken steps to correct. As a result, our correspondence and adjustments inventories have declined substantially over the last few years. However, we continue to be concerned with the quality of our responses to correspondence and are focusing our quality improvement studies on providing understandable and accurate responses to taxpayers' correspondence.

With kind regards,

Sincerely,

A handwritten signature in dark ink, appearing to be "D. B. ..." with a flourish at the end.

Enclosure

IRS COMMENTS ON RECOMMENDATIONS
CONTAINED IN GAO DRAFT REPORT ENTITLED
"TAX ADMINISTRATION: IRS' SERVICE CENTERS NEED TO
IMPROVE HANDLING OF TAXPAYER CORRESPONDENCE"

Recommendation 1:

Assign responsibility for insuring consideration of the ARTS (IRS' Adjustments Receipts and Timeliness Study) recommendations, especially those relating to training, supervision, and attrition cited in this report.

Comment:

In early April of this year, we appointed a senior manager to head the quality improvement project on Adjustments Receipts and Timeliness Study (ARTS). He is responsible for coordinating the implementation of actions recommended in the study report. One of the actions already underway is the development of a managers handbook for the service center Adjustments and Correspondence Branch. This handbook will incorporate the study recommendations pertaining to management/supervisory responsibilities. The training issues will be reviewed and addressed separately in the ARTS implementation plan scheduled for development by the end of this year.

Recommendation 2:

In developing a system to help tax examiners compose responses to taxpayer inquiries, insure that the system (1) allows examiners to view letters after they have been composed and (2) facilitates the preparation of responsive answers to taxpayer correspondence involving more than one inquiry.

Comment:

The system referred to in the report will utilize the latest computer technology to develop state-of-the-art correspondence software. One of the many new features of the software permits examiners to view an entire letter once it has been composed. The system will also be sufficiently flexible to enable examiners to respond to multiple inquiries from a taxpayer. The new system is scheduled for testing during 1989, with Servicewide implementation planned for early 1990.

-2-

Recommendation 3:

Report separately the quality assurance error rates associated with Adjustments/Correspondence Branch cases involving correspondence being sent to taxpayers.

Comment:

In July 1987, a program analysis system was developed to analyze adjustments and correspondence work in service centers. This program was tested in late 1987 and implemented nationwide in January 1988. It was developed to assist the Service in identifying specific processing errors, determine causes for adjustments cases, and to provide error and trend analysis of the Adjustment/Correspondence Branch workload. In addition to analyzing accuracy in handling inquiries and adjusting accounts, the program also analyzes the quality of correspondence related to the adjustment cases. The correspondence analysis includes letter type, date letter sent, who made error, type of error, etc.

We plan to separate the information pertaining to correspondence from the information on adjustments into a separate analysis program which will be operational nationwide in January 1989. This program will then be utilized to analyze responses to all correspondence issued by the Service, not just correspondence related to adjustment cases.

Recommendation 4:

Determine whether the qualifying requirements, the quality and quantity performance standards, and the opportunities for advancement for the Branch tax examiner position need to be revised.

Comment:

We plan to review current qualifying requirements for Adjustment/Correspondence Branch tax examiners, and in addition will explore the feasibility of a "pass/fail" test for all new tax examiners. This test will be incorporated in revamped training procedures for the tax examiners. We also will develop new quality and quantity standards, and establish acceptable performance levels.

The study report recommended that management conduct exit interviews to ascertain the reasons for resignations and determine if any action can be taken to retain and experienced workforce. This recommendation will be implemented. In addition, we are reviewing our current grade structure to determine if the career potential for these positions can be improved.

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