

GAO Highlights

Highlights of [GAO-14-479](#), a report to the Committee on Finance, U.S. Senate

Why GAO Did This Study

IRS uses correspondence audits (done by mail and the majority of IRS audits) to resolve disputes over tax return reporting of relatively simple issues. Tax observers and IRS itself have concerns that these audits impose unnecessary burden on taxpayers or costs on IRS.

GAO was asked to assess the audit program. In this report, GAO assessed the extent to which (1) IRS correspondence audit notices create unnecessary burden or costs; (2) IRS can determine if the audits are meeting its compliance, burden, and cost goals; and (3) IRS's improvement efforts are likely to deliver the expected benefits.

GAO visited two IRS audit sites, analyzed IRS audit program objectives, measures, and decisions, and documented improvement efforts, and interviewed program officials and IRS tax examiners. GAO compared IRS's practices to internal control guidance and criteria for results-oriented management.

What GAO Recommends

GAO recommends that IRS (1) collect and analyze data on whether IRS is responding timely in revised audit notices, (2) establish program objectives as well as measures that reflect the objectives and strategic goals, (3) document guidance for making decisions with program data, (4) track previously unused program data to provide more performance insights, (5) document the intended and actual benefits of audit improvement efforts, and (6) develop a plan and timeline for implementing the contractor's recommendations. In commenting, IRS described planned actions on all the recommendations.

View [GAO-14-479](#). For more information, contact James R. White at (202) 512-9110 or whitej@gao.gov.

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IRS CORRESPONDENCE AUDITS

Better Management Could Improve Tax Compliance and Reduce Taxpayer Burden

What GAO Found

The notices the Internal Revenue Service (IRS) sends during correspondence audits have misled taxpayers by providing unrealistic time frames on when IRS would respond to their correspondence. For example, notices stated that IRS would respond within 30 to 45 days when it has consistently taken several months to do so. Further, as of early 2014, IRS data show that it had not responded timely to more than 50 percent of the correspondence taxpayers sent. In many cases, refunds are held up until the audit is finished. According to IRS tax examiners, notices caused taxpayer frustration and generated unnecessary taxpayer calls to IRS. Furthermore, examiners who answer such calls said they do not know when IRS will respond. IRS recently revised the notices, but the revisions were not based on analysis of historical data nor did IRS have a plan to analyze data to ensure it is responding timely per revised notices.

The taxpayers cannot understand why IRS would send a letter out with such unrealistic time frames and there is no acceptable way we can explain it to them. That is why they are so frustrated. It puts us in a very awkward and embarrassing situation.... I try to gain control of the situation and tell the taxpayer I understand the frustration so that he will calm down so we can make the phone call productive, but this takes time and wastes time for both the taxpayer and me.

Source: tax examiner focus group interview.

IRS does not have information to determine how the correspondence audit program affects its compliance, taxpayer burden, and cost strategic goals. IRS has not documented objectives for the program. While IRS has many program measures such as how many audits are closed annually, they are not linked to the compliance, burden, and cost goals. Thus, it is not possible to tell whether the program is performing better or worse from one year to the next. Beyond the measures, IRS did not have guidance on how IRS managers were to use program data to make decisions. In some cases, the program data being used are incomplete. For example, IRS did not track data on the number of times a taxpayer called IRS or sent documents. Using incomplete information limits insights on the additional revenues identified from IRS's audit investments and on how much burden the audits impose on the taxpayers.

In 2012 IRS began its Correspondence Examination Assessment Project (CEAP) to reduce taxpayer burden. With a contractor, IRS identified five problem areas involving communications with taxpayers, the audit process, expedited audit resolution, resource alignment, and program metrics. CEAP has 19 improvement efforts finished or underway. However, IRS has not defined the intended benefits and tracked the actual benefits. As a result, it will be difficult to determine whether the efforts successfully addressed the problems. The CEAP contractor recommended that IRS develop a tool for better balancing resource allocation between, for example, telephone calls and reviewing correspondence. IRS officials said they would consider the recommendations but did not have a specific plan or timeframe. Thus, it will be difficult to hold IRS managers accountable for ensuring that the recommendations are completed in a timely manner.