

GAO

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

December 2001

**TAX
ADMINISTRATION**

**Assessment of IRS'
2001 Tax Filing
Season**



G A O

Accountability * Integrity * Reliability

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Abbreviations

CERCA	Council for Electronic Revenue Communication
ECN	E-file customer number
ERO	electronic return originator
IRS	Internal Revenue Service
NCOA	National Change of Address
PIN	personal identification number
RRA 98	IRS Restructuring and Reform Act of 1998
SSN	Social Security Number
TAC	Taxpayer Assistance Center
TIGTA	Treasury Inspector General for Tax Administration
TRR	tax resolution representative



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Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

December 21, 2001

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

Dear Mr. Chairman:

In response to your request, this report discusses various aspects of the Internal Revenue Service's (IRS) performance during the 2001 tax filing season. The filing season for most individual taxpayers extends from January 1 through April 15. It is during that time when most taxpayers file their returns, call IRS with questions, and make other contacts with IRS related to filing. Because IRS' activities during the filing season affect every American taxpayer and because those activities will often be the only contact most taxpayers have with IRS, breakdowns in IRS' performance can have serious implications. The challenges presented by the sheer scope of IRS' filing season activities are exacerbated by the need for IRS to keep pace with changing technology, organizational structures, and taxpayer demands.

In this report, we assess IRS' performance in five key filing season activities:

- processing individual income tax returns and refunds,
- increasing the extent to which individual income tax returns are filed electronically,
- answering telephone calls and providing quality telephone service,
- providing accurate and timely face-to-face assistance at its Taxpayer Assistance Centers (TAC)¹, and
- providing services via its Web site on the Internet.

We testified before this Subcommittee on the interim results of our assessment in April 2001.²

¹IRS' Taxpayer Assistance Centers were previously referred to as "walk-in sites."

²*Internal Revenue Service: 2001 Tax Filing Season, Systems Modernization, and Security of Electronic Filing* (GAO-01-595T, Apr. 3, 2001).

Our assessment was based on interviews of IRS officials and persons in the private sector, analyses of IRS data and data obtained from sources outside IRS, observations of IRS operations, and a telephone survey of a random sample of TAC managers.

Because of the importance of IRS' telephone operations and of performance data and measures in assessing IRS' filing season, we conducted more detailed reviews of those issues. We issued a separate report on telephone operations on December 7, 2001,³ and anticipate issuing a separate report on IRS' performance measures in April 2002.

Results in Brief

IRS' performance during the 2001 filing season varied depending on the specific filing season activity being discussed.

Processing of Returns and Refunds—Although there was less information available on which to base a judgment than in past filing seasons, IRS' processing of about 130 million individual income tax returns and about 94 million refunds in 2001 generally went smoothly. With the following two exceptions, problems that arose were addressed quickly, with relatively minor impact on taxpayers.

- A bank that was under contract to collect tax returns and process tax remittances for IRS destroyed or failed to process returns and about 71,000 payments amounting to about \$1.2 billion.
- Problems that caused many electronic submissions to be rejected limited the impact of an alternative signature program that IRS developed to encourage more electronic filing.

Our assessment of IRS' performance in processing returns and refunds is based on interviews of IRS officials, information from representatives of the tax practitioner community, an analysis by the Treasury Inspector General for Tax Administration (TIGTA), and reported results of some performance measures and workload indicators. Unlike past years, we were unable to compare IRS' processing performance against its performance in prior years or its goals for the current year because IRS revised the suite of measures it uses to judge processing performance and had not yet set goals against which performance could be compared. IRS

³*IRS Telephone Assistance: Limited Progress and Missed Opportunities to Analyze Performance in the 2001 Filing Season* (GAO-02-212, Dec. 7, 2001).

also implemented several processing initiatives for 2001. It experienced some problems during implementation, and its evaluations of the initiatives were limited. More thorough evaluations would provide a better basis for deciding whether to continue, curtail, or revise the initiatives.

Electronic Filing—About 31 percent of all individual income tax returns were filed electronically in 2001—an increase of 13.7 percent compared to 2000. That rate of increase was below IRS’ goal of 20 percent and the lowest percentage increase since 1996. This declining growth rate occurred despite various IRS efforts to identify and eliminate impediments to electronic filing and reduces the likelihood that IRS will achieve its long-range goal of having 80 percent of individual income tax returns filed electronically by 2007. Although IRS has taken various steps to identify impediments to electronic filing and has identified several such impediments, it does not have sufficient information to determine specifically why about 40 million individual income tax returns were prepared on computer but filed on paper in 2001.

Telephone Service—IRS made limited progress toward its long-term goal of providing world-class telephone service. IRS has several measures directed at assessing the ability of taxpayers to reach an IRS assistor by telephone (accessibility) and the accuracy of IRS’ responses to callers. IRS improved its performance to varying degrees in three of the four accessibility measures. However, taxpayers waited longer for service in 2001 compared to 2000, and IRS failed to meet any of its accessibility goals for 2001. With respect to accuracy, IRS met or exceeded two of its four goals for 2001 and did significantly better in one area (account quality) compared to 2000.

Face-to-Face Assistance—The number of taxpayers assisted at TACs declined in 2001, in part, IRS officials surmised, because taxpayers made greater use of other forms of assistance, including IRS’ Web site. Most taxpayers who visited a TAC during the 2001 filing season waited 15 minutes or less to get assistance. IRS did not measure the quality of service provided by TACs during the filing season, but a review by TIGTA showed that the accuracy of tax law assistance was poor. IRS plans to begin measuring TAC service quality in 2002. As a result, IRS may not realize improvements in quality until the 2003 filing season or later, after it has had time to analyze the results of the new measures and determine the causes of any poor service. Contrary to TIGTA’s results and despite IRS’ lack of relevant performance data, managers responsible for most TACs, in response to our survey, rated their sites’ performance in providing accurate tax law assistance as “successful” or “very successful.” Many

managers, however, said problems with such things as facilities, staffing, equipment, and training hampered performance in 2001.

Web Site—Various indicators related to IRS’ Web site show that (1) overall usage increased compared to the 2000 filing season; (2) IRS improved its timeliness in answering taxpayers’ E-mail questions; and (3) the Web site’s availability and average delivery time, as measured by an independent Web site rater, improved late in the filing season after a slow start.⁴ Our assessment of the Web site showed that (1) a key IRS measure for tracking site usage—number of “hits”—is calculated in a way that calls into question the measure’s usefulness and (2) the site is useable, but could be more user-friendly. For example, we found 10 instances where links within the site forwarded us to pages indicating that the document or site could not be found. IRS is in the process of revising the content and management of its Web site—changes that should address the problems we identified.

We are making recommendations to the Commissioner of Internal Revenue directed at (1) obtaining information on why computer-prepared returns are filed on paper, (2) evaluating processing initiatives, (3) improving TAC services, and (4) discontinuing or revising the Web site hits measure. In commenting on a draft of this report, the Commissioner cited various IRS plans that, in general, appear responsive to our recommendations. We will be assessing IRS’ implementation of those plans as part of our review of the 2002 tax filing season.

Background

The IRS Restructuring and Reform Act of 1998 (RRA 98)⁵ required, in part, that the Commissioner of Internal Revenue develop and implement a plan to reorganize IRS and that the plan, among other things, (1) eliminate or substantially modify IRS’ existing organization, which was based on a national, regional, and district structure and (2) establish organizational units serving particular groups of taxpayers with similar needs. Before the passage of RRA 98, IRS’ organizational structure had not significantly changed for about 50 years. In accordance with RRA 98, IRS initiated a major reorganization to streamline its management structure and create a

⁴Availability is the percentage of time the Web site’s home page downloads fully. Average delivery time is the time it takes for the home page to fully download from the time the user hits the “enter” key on the keyboard.

⁵P.L. 105-206.

more taxpayer-focused organization centered around four customer-focused operating divisions.⁶ The responsibilities of one of those divisions (the Wage and Investment Division) include processing individual income tax returns and providing assistance to taxpayers who call on the telephone or walk into an IRS office.

The 2001 filing season was the first under the new IRS organization. In May 2001, the Commissioner of Internal Revenue testified that although IRS had made substantial progress in implementing the new organizational structure, many challenges remained as the organization was staffed and trained. Although IRS reported that tens of thousands of IRS managers and employees have new jobs, for example, in the field assistance area, it anticipated that, in the short term, the reorganization would be invisible to taxpayers and tax practitioners.

In response to the requirements of the Government Performance and Results Act of 1993⁷ and RRA 98, IRS established a system of balanced performance measures that would allow IRS to determine its performance against program plans and goals.⁸ This is part of an agencywide effort to develop performance measures to help IRS achieve its mission of providing America's taxpayers with top quality service. Throughout the 2001 filing season, IRS made changes to the measures it uses to assess its performance in various areas, particularly in processing returns and refunds.

Scope and Methodology

In response to your request that we assess various aspects of IRS' tax filing season performance, we

⁶The four operating divisions are Wage and Investment, which serves taxpayers whose only income is from wages and investments; Small Business and Self-Employed, which serves fully or partially self-employed individuals as well as businesses with assets of \$5 million or less; Large and Mid-Size Businesses, which serves businesses with assets over \$5 million; and Tax Exempt and Government Entities, which serves pension plans, exempt organizations, and governments.

⁷P.L. 103-62.

⁸IRS' balanced measures system has three components—customer satisfaction, employee satisfaction, and business results. Business results performance measures consist primarily of quantity and quality measures. IRS also uses workload indicators, such as number of returns processed, for purposes of resource planning.

-
- interviewed IRS officials about current operations, initiatives, and performance;
 - observed operations at 2 of IRS' 10 submission processing centers;
 - reviewed and analyzed IRS documents and data, including information posted to IRS' Web site and related material;
 - interviewed representatives of various private organizations that prepare tax returns and that participated in conferences and tax forums sponsored by IRS and external stakeholders; and
 - reviewed related congressional testimony and work performed by TIGTA.

We also surveyed, by telephone, a random sample of managers responsible for 84 of IRS' 413 TACs to solicit their views on the services provided at those offices. We randomly selected a sample of 84 TACs from a listing of TACs provided by IRS, which excluded nontraditional sites, such as mobile vans or kiosks. We conducted separate interviews for each of the 84 TACs, even if the same manager was responsible for more than 1 of the TACs. All percentage estimates from our sample of managers have sampling errors of plus or minus 10 percentage points or less, with 95 percent confidence unless otherwise noted. We also observed operations at three TACs.

We conducted our work at IRS' National Office; Wage and Investment Division headquarters in Atlanta; submission processing centers in Atlanta and Cincinnati; the Joint Operations Center in Atlanta;⁹ and TACs in the Atlanta area. We selected these offices for a variety of reasons, including the proximity of our audit teams and the location of key IRS managers. While we did not independently assess the accuracy of IRS' performance data, we verified that IRS had procedures in place that were intended to ensure data reliability. We did our work from January through October 2001, in accordance with generally accepted government auditing standards.

⁹ The Joint Operations Center is the organization responsible for managing IRS' telephone operations.

With Two Significant Exceptions, Processing of Returns and Refunds Went Smoothly

Generally speaking, the processing of individual income tax returns and refunds in 2001 went smoothly. However, because IRS was replacing or revising many performance measures, it is difficult to put IRS' performance in 2001 into context. Specifically, for important areas of performance, we could not make comparisons to IRS' accomplishments in 2000 or to its goals for 2001.

Given the size and scope of IRS' processing operations, problems are inevitable, and there were some problems in 2001. However, with two exceptions, those problems were addressed quickly, with relatively minor impact on taxpayers. IRS also implemented several initiatives related to the processing of individual income tax returns in 2001. IRS experienced problems in implementing some of the initiatives, and evaluations of the initiatives' effectiveness were limited.

IRS' Processing During the 2001 Filing Season Generally Went Smoothly

IRS processed about 130 million individual income tax returns and issued about 94 million individual income tax refunds in 2001—about 2 million more returns and 2.4 million more refunds than in 2000. According to IRS officials, TIGTA, and representatives of the tax practitioner community, IRS did a good job processing those returns and refunds, especially considering the simultaneous challenge of reorganization. For example:

- in a September 2001 report, TIGTA concluded that IRS had successfully processed individual income tax returns during the 2001 filing season while undergoing organizational restructuring and implementing key processing changes;¹⁰
- in testimony before this Subcommittee, one of the largest tax return preparation firms characterized the filing season as successful and positive; and
- representatives from other, smaller companies with whom we spoke voiced similar views.

The one negative aspect mentioned by some practitioners was the alternative signature program for electronic filers, which is discussed later.

¹⁰*The Internal Revenue Service Successfully Processed Individual Tax Returns During the 2001 Filing Season*, TIGTA, Reference No. 2001-40-192, Sept. 28, 2001.

Not unexpectedly, some processing problems did arise during the filing season involving such things as incorrect addresses on and information in certain tax packages, incorrect information given to providers of Refund Anticipation Loans,¹¹ and untimely notices. As discussed in appendix I, available information indicated that IRS handled these problems in a timely manner to limit any adverse effect on taxpayers. Two problems that did adversely affect many taxpayers involved a bank that was under contract to collect tax returns and process tax remittances for IRS and an alternative signature program that IRS had developed to encourage more electronic filing. The bank problem is discussed next. The alternative signature program is discussed in a later section of this report dealing with electronic filing.

Returns and Remittances
Destroyed or Not Processed by
Contractor

IRS uses lockboxes, operated by private banks, to process some tax payments submitted with individual income tax returns. Lockboxes are to receive tax returns and accompanying payments from taxpayers, process the payments, and ship the returns to IRS for processing. During the 2001 filing season, IRS learned that some returns and remittances that were to be processed by a lockbox operated by a Pittsburgh bank were missing. According to information available when we finalized this report, employees at that lockbox may have concealed or destroyed about 71,000 payments amounting to about \$1.2 billion. The bank's contract was terminated in August 2001. At the time we completed our audit work, TIGTA was investigating this matter. That investigation should provide more specific information on the number of returns and dollar amount of remittances affected.

According to IRS, during the first week of June 2001, after it became aware of this situation, it released to the press and public, information about the missing documents, which included a toll-free telephone number for taxpayers to call for assistance. In that regard, a June 9, 2001, article in the Pittsburgh Post-Gazette noted that IRS had found 647 payments that had never been processed in Pittsburgh. According to IRS, once it learned that a larger number of taxpayers were affected, it posted an alert on its Web site on August 31, 2001.

¹¹Private firms offer Refund Anticipation Loans to taxpayers who file electronically. The loan amount is based on the amount of the taxpayer's expected refund, and the refund is sent directly to the loan provider to pay off the loan.

Because it was unclear whether IRS would locate the missing documents, IRS advised affected taxpayers to send another copy of their return. It also advised taxpayers who had sent remittances to Pittsburgh that had not yet cleared their banks to stop payment and said that it would reimburse taxpayers for any bank fees incurred for the stop-payment orders.

New and Revised Performance Measures for Paper Processing Limit Ability for Comparison

As part of its agencywide efforts to develop balanced performance measures, IRS has revised some measures and developed new ones to judge its performance in processing paper returns, refunds, and remittances, while keeping comparable workload indicators, such as the numbers of returns processed and the time it takes to process returns.¹² In past years, our assessment of IRS' performance in processing paper returns and refunds included a comparison of various performance measures against IRS' goals and prior years' performance. We were unable to make such a comparison for measures this year because IRS (1) revised some measures that it had been using to assess processing performance and established some new measures and (2) had not established goals for the new or revised measures in 2001.

Table 1 describes the performance measures for processing individual income tax returns, refunds, and remittances that were in place during the 2001 filing season and shows the performance results IRS reported for each of those measures through July 2001. IRS officials agreed with our assessment that it is difficult to put the reported results into context because of the absence of performance goals and trend data. However, according to IRS officials, while they understand the importance of such information, they also rely heavily on workload indicators and other management information they have used for years to identify and correct problems that could affect processing and other activities and help judge IRS' overall filing season success.

¹²This section deals only with paper processing performance measures. Any relevant electronic filing measures will be discussed in the electronic filing section of this report.

Table 1: New and Revised Performance Measures for Processing Paper Returns, Refunds, and Remittances

Measure	Description	New or revised	Baseline year ^a	Performance through July 2001
Letter error rate	Percentage of incorrect letters issued by the submission processing organization.	New	2001	12.7%
Notice error rate	Percentage of submission processing notices issued incorrectly to taxpayers that are automatically generated for various reasons, including advising taxpayers of missing Social Security numbers (SSN). Not all notices are automatically generated; some for which a standard notice would not apply are generated manually.	Revised to include systemic errors ^b and only submission processing notices.	2002	13.8%
Deposit error rate	Percentage of payments processed by IRS centers that were misapplied (excludes lockboxes).	New	2001	5.4%
Deposit timeliness	The lost opportunity cost of interest on the money received but not deposited by the next business day, per \$1 billion, using a constant interest rate of 8 percent. (Excludes money received by lockboxes.)	New	2001	\$824,154
Refund timeliness	Percentage of refunds issued in 40 days or less from the IRS-received date.	Revised the start date for determining calculation.	2002	96.6%
Refund error rate	Percentage of refunds with IRS-caused errors in the name, address, or refund amount, including systemic errors.	Revised to include systemic errors.	2001	9.8%
Refund interest paid	Amount of refund interest paid for each \$1 million in refunds issued.	New	2001	\$118.92
Productivity	Weighted volume for different types of processing work per staff year expended.	New	2001	27,807

^aIRS intended to use its performance in 2001 as the baseline against which to compare its performance in future years. However, IRS made changes to two measures (notice error rate and refund timeliness) that will result in it not establishing some baselines until 2002.

^bSystemic errors are computer generated errors over which a particular processing center would not have control.

Source: GAO summary of IRS data including the Wage and Investment Division's Strategy and Program Plan for 2001 to 2003, dated Sept. 21, 2001.

During the 2001 filing season, IRS made changes to many of the measures in table 1. Some of the changes, such as renaming a measure and inverting its calculation, should not affect IRS' ability to begin trending data from the 2001 filing season.¹³ However, IRS made more substantial changes to

¹³Where once IRS had a notice accuracy rate measure that was the percentage of correct notices issued, for example, it now has a notice error rate measure that is the percentage of incorrect notices issued.

two measures—notice error rate and refund timeliness—that limited IRS' ability to baseline those measures until the 2002 filing season.

Notice Error Rate

IRS mails millions of notices to advise taxpayers of such things as math errors. IRS reviews samples of these notices before they are mailed to ensure that they are accurate. For 2001, IRS redesigned six submission processing notices in an attempt to make them clearer. Due to a programming oversight, IRS inadvertently omitted the redesigned notices from the sampling it does to measure the notice error rate. Therefore, the measure was not representative of the errors for all submission processing notices. Omitting these particular notices was significant because they are some of the most commonly used notices. IRS officials said that necessary programming changes were made in June 2001, so that the sampling and resulting measure will be reflective of all submission processing notices for the 2002 filing season.

Refund Timeliness

About 72 percent of the individual income tax returns processed by IRS in 2001 involved refunds totaling about \$161 billion. IRS changed the way it measures the timeliness of issuing refunds to taxpayers who filed on paper. Before 2001, IRS used the date the taxpayer signed the return as the start date for computing refund timeliness and had a goal of processing a certain percentage of those refunds within 40 days from that date. For the 2001 filing season, IRS used the IRS-received date as the start date for computing timeliness because it had no control over the date the taxpayer put on the return, but did have control over its own operations. As we reported in our April 2001 testimony, while we agreed with the new start date, keeping the goal at 40 days effectively gave IRS a better chance of meeting the 40-day goal because the IRS-received date could be several days later than the date the taxpayer signed the return.

For the 2002 filing season, IRS plans to change the computation by adding 2 days to the IRS-received date to allow for mailing time, but keep the overall goal at 40 days. We believe that this represents a change in the methodology used to calculate the measure that will make it impossible to compare the results for 2001 with the results for 2002. IRS officials disagreed. Because the overall goal of 40 days has not changed, they believe the results will be comparable.

As noted previously, we anticipate issuing an assessment in April 2002 of IRS' new performance measures, including measures discussed in this report.

IRS Implemented Processing Initiatives but Had Some Problems and Did Limited Evaluation

IRS implemented several initiatives related to its processing of returns that were intended to either improve processing operations or enhance compliance. IRS validated secondary SSNs,¹⁴ added a checkbox to the individual income tax forms through which taxpayers could authorize IRS to discuss their return with their paid practitioner instead of having to submit a separate authorization form, transcribed information from Schedule K-1s,¹⁵ and began using a U.S. Postal Service database to update taxpayer addresses. These initiatives may have obvious or inherent benefits beyond improving performance, such as increasing compliance, and it may take years until the benefits are fully achieved. However, in some cases, IRS experienced problems that limited the effectiveness of these initiatives. For example, despite concerted efforts, IRS experienced problems in processing Schedule K-1s—problems that contributed to lower than anticipated productivity rates.

Also, despite the demonstrated benefits of evaluating initiatives that are aimed at improving performance¹⁶ and the presence of IRS guidance requiring that plans for improving performance include steps to monitor and evaluate the implementation and effectiveness of actions, IRS' evaluations of such initiatives were limited. IRS officials generally drew conclusions about the effectiveness of initiatives based on broad numbers and trends. For example, a responsible IRS official considered the third-party-authorization checkbox to be very successful because about 28 million taxpayers checked the box. IRS officials assumed that the number of people who checked the box directly equated to a reduction in the number of separate authorization forms it would have received from those taxpayers, but it lacked detailed analysis to support this assumption. Also, IRS had no system in place for tracking how use of the third-party-

¹⁴The Social Security Administration assigns SSNs that IRS uses to identify individual taxpayers. In the case of a joint return, IRS considers the person whose name appears first on the return to be the primary taxpayer and the next person listed on the return to be the secondary taxpayer.

¹⁵Schedule K-1s are attached to returns filed by partnerships, trusts, and subchapter S corporations. A K-1 is prepared for each taxpayer who received a distribution from the organization, and the receiving taxpayers are to report that income on their individual income tax returns.

¹⁶Our work on the Government Performance and Results Act of 1993 has demonstrated the benefits of evaluating the effectiveness of actions taken to improve performance. See *Program Evaluation: Studies Helped Agencies Measure or Explain Program Performance* (GAO/GGD-00-204, Sept. 29, 2000) and *Program Evaluation: Agencies Challenged by New Demand for Information on Program Results* (GAO/GGD-98-53, Apr. 24, 1998).

authorization checkbox facilitated the resolution of issues related to a return's processing.

IRS officials said that although initiatives may not be specifically evaluated for effectiveness, they are evaluated for resource planning and other purposes as part of filing season readiness reviews and the development of action plans to prepare for the next filing season. While we are aware of this fact, we are unconvinced that evaluations as part of filing season readiness reviews would be sufficient for determining effectiveness.

See appendix II for a more detailed discussion of these processing initiatives.

Despite Various Efforts, IRS Did Not Achieve Its Electronic Filing Goal for 2001 and Is Not on Track to Achieve Its Long-Range Goal

For the first time since 1995, IRS did not achieve its anticipated rate of growth for the electronic filing of individual income tax returns and, as a result, fell short of its goal for the 2001 filing season. This reduces the likelihood of IRS achieving its long-range electronic filing goal of 80 percent by 2007.¹⁷ Because electronic filing is beneficial to IRS and taxpayers,¹⁸ IRS has taken numerous actions to identify impediments to electronic filing. One group of potential electronic filers that IRS does not know enough about are the large number of practitioners and taxpayers who prepare tax returns on computer but file on paper. IRS took steps to encourage more taxpayers and practitioners to file electronically in 2001. However, the most significant of those actions, implementation of a self-select personal identification number (PIN) program for signing electronic returns, encountered problems that limited its effectiveness.

¹⁷RRA 98 provides, in part, that it should be the goal of IRS to have at least 80 percent of all federal tax and information returns filed electronically by 2007. IRS' goal for individual income tax returns is consistent with this overall goal—80 percent by 2007.

¹⁸Electronic filing is beneficial to IRS and taxpayers because it ensures a more accurate tax return and thus reduces the need for correspondence between them. Accuracy is enhanced because (1) checks are built into the electronic filing process that are designed to catch certain taxpayer errors, such as incorrect SSNs, so that they can be corrected before IRS takes possession of the tax return, and (2) returns filed electronically bypass the more error-prone manual procedures that IRS uses to process paper returns. Electronic filing has other benefits as well. For example, taxpayers receive their refunds faster and get an acknowledgement from IRS that their returns were received, and IRS has less paper to store.

Electronic Filing Growth Rate Has Slowed; IRS at Risk of Not Achieving Long-Range Goal

IRS has the following three types of electronic filing: (1) traditional, whereby taxpayers transmit returns to IRS through a third party (such as a tax return practitioner); (2) TeleFile, whereby taxpayers send returns directly to IRS over telephone lines using a Touch-Tone telephone; and (3) on-line, whereby taxpayers send returns to IRS through an on-line intermediary using a personal computer and commercial software. As shown in table 2, the use of traditional filing and on-line filing increased in 2001, but not as substantially as they had in 2000, while the use of TeleFile continued to decrease (this was the third consecutive year). Table 2 also shows that about 30.9 percent of the individual income tax returns filed in 2001 were filed electronically.

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

Number of returns in thousands						
Filing type	1/1/99 to 10/29/99	1/1/00 to 10/27/00	Percentage change 1999 to 2000	1/1/01 to 10/26/01	Percentage change 2000 to 2001	
Paper	96,178	92,322	-4.01	89,834	-2.69	
Electronic						
Traditional	21,227	25,211	18.77	28,988	14.98	
TeleFile	5,665	5,161	-8.90	4,419	-14.38	
On-line	2,457	5,022	104.40	6,838	36.16	
Subtotal	29,349	35,394	20.60	40,245	13.71	
Total	125,527	127,716	1.74	130,079	1.85	
Percentage filed electronically	23.4	27.7	^a	30.9	^a	

^aNot applicable

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

Table 3 shows that the upward growth in electronic filing depicted in table 2 continues the upward trend started in 1995. However, table 3 also shows that the percentage increase between 2000 and 2001 was smaller than at any other time during this period.

Table 3: Number of Individual Income Tax Returns Filed Electronically Since 1995

Number of returns in thousands			
Year	Number of electronic returns	Increase	Percentage increase
1995	11,807	^a	^a
1996	14,968	3,161	26.8
1997	19,136	4,168	27.8
1998	24,580	5,444	28.4
1999	29,349	4,769	19.4
2000	35,394	6,045	20.6
2001	40,245	4,851	13.7
Cumulative increase		28,438	240.9

^aNot applicable.

Source: IRS' Management Information System for Top Level Executives and IRS Publication 3187 (Rev. 11-1999).

As shown in table 3, the rate of growth for electronic filing slowed to 13.7 percent in 2001, which was about 6 percentage points less than the 20 percent growth IRS had projected. As a result, IRS did not meet its goal of receiving 42 million returns electronically in 2001 and, as of September 2001, had lowered its projected rate of growth for 2002 to about 13 to 15 percent.

The decreasing growth rate puts at risk IRS' chances of reaching its long-range goal of 80 percent electronic filing by 2007. Assuming continuing annual growth rates of 13.7 percent for individual returns filed electronically and 1.85 percent for the total number of individual returns filed, about 60 percent of all individual income tax returns will be filed electronically in 2007.

IRS Has Taken Steps to Identify Impediments to Electronic Filing, but It Has Inadequate Information on Why Many Computer-Prepared Returns Are Filed on Paper

IRS officials did not know why IRS fell short of the projected 20 percent increase in electronic filing in 2001. However, in 2001, as in other years, IRS took various steps to identify reasons why practitioners and taxpayers do not file electronically. These steps include electronic filing forums, meetings of the Council for Electronic Revenue Communication Advancement (CERCA), taxpayer attitudinal surveys, customer satisfaction surveys, market research, focus groups, and practitioner meetings.

Although IRS has taken numerous steps to identify impediments to electronic filing, our review of recent IRS research efforts and our

attendance at IRS tax forums indicated that IRS does not have sufficient information to determine why about 40 million individual income tax returns were prepared on computer but filed on paper in 2001. Of those returns, about 32 million were filed by tax return practitioners and about 8 million were filed by taxpayers. Converting these filers to electronic is important if IRS is to achieve its 80 percent electronic filing goal. That importance was underscored in an internal IRS research report dated May 16, 2001. According to the report, without a successful marketing plan designed to convert filers of computer-prepared paper returns to electronic, “it is difficult to see how the Service can attain its 80 percent electronic filing mandate.”

IRS’ various research efforts have resulted in limited direct contact with the filers of computer-prepared paper returns. The tax forums that we attended were generally attended by practitioners who were already involved in electronic filing or already interested in becoming electronic filers. Two recent research efforts involving focus groups involved about 90 filers of computer-prepared paper returns. One research effort completed in May 2001 by a private marketing and research firm involved 18 in-depth interviews with 3 tax preparation firms that electronically file, 4 large accounting firms, and 11 organizations that represent tax practitioners. In its report, the firm identified many knowledge gaps, including why computer-prepared forms are filed on paper. The most recent research study was done by the same firm and completed in June 2001. The firm contacted practitioners who had filed at least 1 tax return electronically and a sample of the general taxpayer population, which included 70 taxpayers who filed computer-prepared paper returns in 2001. None of these research efforts was specifically targeted at determining what specific factors were most significant in explaining why so many computer-prepared returns are filed on paper.

IRS Took Steps to Encourage More Electronic Filing in 2001, but the Most Significant Step Encountered Problems

In past years, IRS took steps to encourage taxpayers and practitioners to file electronically. For example, in response to concerns voiced by practitioners that electronic filing was not entirely paperless, IRS, during the 1999 and 2000 filing seasons, tested alternative signature options that allowed certain electronic filers to sign their returns electronically and thus avoid having to send any paper to IRS. Additionally, each year IRS has expanded the list of forms and schedules that can be filed electronically. For the 2001 filing season, IRS expanded on its prior years’ efforts and took some additional actions. A discussion of the most significant and most problematic of those actions—the self-select PIN program—follows. Other actions are discussed in appendix II.

Self-select PIN Program
Intended to Encourage More
Electronic Filing

For the 2001 filing season, IRS introduced the self-select PIN program to replace two alternative signature programs that IRS had tested during the 1999 and 2000 filing seasons—the practitioner PIN program and the E-file customer number (ECN) program. Taxpayers who decided to use the self-select PIN were to (1) input any five numbers as their electronic signature and (2) verify their identity by providing IRS with certain personal information, including two pieces of information (known as “shared secrets”) from their previous year’s tax return.

The following are three major differences between the self-select PIN program and the two alternative signature programs tested in 1999 and 2000.

- The self-select PIN program significantly increased the number of taxpayers who could file a totally paperless tax return.¹⁹ Under this program, all eligible taxpayers who filed on-line or through any of the about 124,000 approved electronic return originators (EROs)—a total of about 60 million taxpayers, according to IRS—could file a totally paperless return.²⁰ That level of eligibility compares to the 2000 filing season when the only persons who could file a totally paperless return were (1) taxpayers who filed through 1 of the 18,000 EROs who participated in the practitioner PIN program or (2) the 12 million potential on-line filers who received an ECN.
- Practitioners using the self-select PIN did not have to fill out and maintain an authentication worksheet, unlike with the practitioner PIN program.
- The self-select PIN program allowed all taxpayers to select their own PIN. In contrast, on-line filers had to use an ECN assigned by IRS.

Self-select PIN Program
Encountered Problems

In 2001, about 9 million taxpayers filed their tax returns electronically, either through a practitioner or on-line, using a self-select PIN. Although this number is more than the about 6.8 million filers who used either the practitioner PIN or ECN programs in 2000, the increase is due primarily to on-line filers. In that regard, (1) about 2.9 million more on-line filers used a self-select PIN in 2001 than participated in the ECN program in 2000 and

¹⁹Taxpayers who file electronically and use the electronic signature option are not required to submit a signature document or copies of their Wage and Tax Statements (Form W-2).

²⁰Individuals who filed Form 1040, 1040A, or 1040EZ or who used TeleFile the previous year, with a few exceptions, were eligible to use a self-select PIN in 2001. Also eligible were individuals who did not file a tax return in the previous year and would be 16 or older by December 31, 2001.

(2) about 4.8 million practitioner-prepared tax returns were filed in 2001 using a self-select PIN—about 600,000 fewer than the 5.4 million tax returns that were submitted via the practitioner PIN program in 2000. The decline in practitioner-prepared returns occurred in spite of the fact that many more practitioners were eligible to participate in the self-select PIN program than were eligible to participate in the practitioner PIN program.

One key factor that limited the number of participants in the self-select PIN program was the fact that at least some tax practitioners became disenchanted with the program because a large number of returns being submitted with self-select PINs were being rejected by IRS. In that regard

- IRS records, as of October 16, 2001, showed about 2.1 million reject conditions on returns filed electronically because some of the “shared secrets” that taxpayers and practitioners submitted to verify the taxpayer’s identity did not match tax information in IRS’ database;²¹ and
- representatives of the country’s largest tax return preparation company testified on April 3, 2001, that the company was experiencing a reject rate of about 20 percent during the 2001 filing season compared to a normal electronic filing reject rate of 12 to 13 percent, with almost all of the difference attributed to rejected PINs.

According to IRS, the large number of rejects associated with the self-select PIN program were caused not by systemic problems with IRS’ program but by incorrect information provided by taxpayers or practitioners.

Because of the reject rates, the company recommended that members of its organization who prepared returns and taxpayers who used the company’s software package to prepare their own returns not use the self-select PIN. In their April 3 testimony, representatives of this company said the following:

“This year, thousands of PIN applications submitted with correct “shared secrets” information were rejected, costing tax professionals time and income as they worked to correct the rejects, and angering many customers who anticipated easier filing and faster refunds. Some preparers abandoned the program as it became easier to use the paper

²¹The number of reject conditions cannot be equated to the number of rejected returns because one return can have more than one reject condition.

[signature document] instead of having to deal with a PIN reject and asking the client to return to file [a paper signature document].”

“The IRS believes the majority of PIN rejects are caused by customer error. But whether the problem is with the practitioner, the taxpayer, or the IRS, one fact remains: If you [file electronically] using a PIN, your return is more likely to be rejected.”²²

Practitioners who had problems with the self-select PIN testified before the Congress and stated at tax forums and CERCA meetings that they still filed electronically but, instead of using a PIN, sent IRS a paper signature document. However, as noted earlier, at least one practitioner who produces software for filing on-line advised users of its software not to use the self-select PIN. Although neither we nor IRS know why about 20 percent fewer taxpayers than the 8.5 million IRS projected to file on-line actually did so, it seems reasonable to assume that this advice discouraged some potential on-line filers.

During a CERCA meeting that we attended in May 2001, CERCA members told IRS that they would like to see the practitioner PIN program brought back and the number of “shared secrets” for the self-select PIN program reduced from two items to one, thus reducing the potential for rejection. IRS said that it would make both of these changes for the 2002 filing season.

Limited Progress in Providing World-Class Telephone Service

One of the most widely used ways that IRS provides service to taxpayers is via its toll-free telephone operations. In April 2001, we reported that IRS had received about 61 million telephone calls during the 2000 filing season and that the quality of service provided was mixed and below IRS’ long-term goal of providing world-class telephone service.²³ During the 2001 filing season, IRS received about 71 million calls and made limited progress towards its long-term goal.

IRS had eight measures to assess its performance in providing telephone service during the 2001 filing season, four relating to accessibility and four relating to accuracy.

²²2001 Tax Return Filing Season, Hearings Before the Subcommittee on Oversight of the Committee on Ways and Means, House of Representatives, 107 Cong. 80-81 (2001).

²³*IRS Telephone Assistance: Quality of Service Mixed in the 2000 Filing Season and Below IRS’ Long-Term Goal* (GAO-01-189, Apr. 6, 2001).

“Assistor level of service” is designed to show IRS’ effectiveness in providing callers access to an assistor.

“Assistor response level” reflects the percentage of taxpayers who waited 30 seconds or less to speak with an assistor.

“Abandon rate” shows the percentage of taxpayers who hang up while waiting to speak with an assistor.

“Average speed of answer” shows the average number of seconds taxpayers wait to speak to an assistor.

“Tax law quality rate” and **“account quality rate”** show, for a representative sample of calls, the percentage in which assistors follow all procedures and provide correct answers.

“Tax law correct response rate” and **“account correct response rate”** are intended to more accurately reflect the taxpayers’ experience in obtaining correct information by discounting procedural errors and measuring the percentage of calls in which IRS assistors provide correct responses to inquiries.

As table 4 shows, IRS improved its performance to varying degrees in three of the four accessibility measures, but fell short of its goals for all four. The fourth measure showed a significant decrease in performance. As for the accuracy of its telephone service, table 4 shows that IRS met or exceeded two of its four goals for 2001 (tax law quality and account quality) and did significantly better—10 percent better—in account quality compared to 2000.²⁴

²⁴Accessibility measures are based on comparable data for the weeks beginning January 1 and ending July 14. Accuracy measures are based on data for the months of January through June.

Table 4: IRS Filing Season Telephone Assistance Performance

Measure ^a	2000	2001	Target
	Actual	Actual	
Accessibility			
Assistor level of service	60%	61%	69%
Assistor response level	39	41	49
Abandon rate	22	18	12
Average speed of answer	237 seconds	273 seconds	132 seconds
Accuracy			
Tax law quality rate	73% +/- 2% ^b	75% +/- 1% ^b	74%
Account quality rate	59 +/- 2% ^b	69 +/- 1% ^b	63
Tax law correct response rate	^c	79 +/- 1% ^b	82
Account correct response rate	^c	88 +/- 1% ^b	91

^aAccessibility measures are based on actual counts. Accuracy measures are based on representative samplings.

^bActual values are estimates, with 90 percent confidence.

^cComparable data do not exist.

Source: IRS data.

We conducted a separate review of IRS' efforts to identify and address the factors affecting its performance in providing toll-free telephone assistance. We issued a report on the results of our review in December 2001.²⁵

²⁵ [GAO-02-212](#), Dec. 7, 2001.

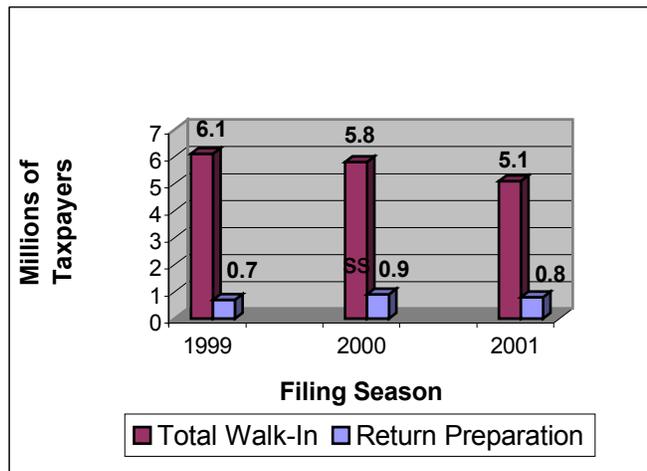
Fewer Taxpayers Visited Taxpayer Assistance Centers; Limited Performance Data Indicate Continuing Problems With the Quality of Assistance

The number of taxpayers who were assisted at TACs during the 2001 filing season declined about 11 percent compared to the 2000 filing season, with a variety of factors contributing to the decline. As a result of reorganization, IRS changed the way TACs were organized and staffed and did considerable hiring, mostly from within, but maintained the same network of about 400 TACs where taxpayers could walk in to obtain forms, answers to tax law questions, and assistance in preparing their returns. Also as a result of the reorganization, IRS deferred measuring or improving quality in 2001. However, a TIGTA review in early 2001 indicated that the accuracy of tax law assistance provided by TACs—the only type of service measured—was poor. Contrary to these findings, managers responsible for most TACs rated their site’s performance positively in our telephone survey.

Number of Taxpayers Assisted at TACs Declined

The number of taxpayers assisted at TACs declined about 11 percent—from 5.8 million contacts during the 2000 filing season to 5.1 million contacts during the 2001 filing season, as shown in figure 1.

Figure 1: Taxpayers Assisted at TACs During the Filing Season



Note: The time periods covered by this figure each began on January 1 and ended on April 24, 1999, April 22, 2000, and April 21, 2001.

Source: IRS data.

Our interviews of IRS officials identified the following factors that may have contributed to the decline in the number of taxpayers assisted at TACs.

-
- With the intent of reducing the need to rely on compliance staff to help meet the demand for assistance at TACs, IRS limited eligibility for return-preparation assistance—a very labor-intensive service—to taxpayers with gross income of \$41,000 or less²⁶ and tried to even out its workload by scheduling appointments for return-preparation assistance. These changes likely contributed to a decrease in the number of filing season contacts for return-preparation assistance from 894,729 in 2000 to 786,103 in 2001.
 - There were fewer tax law changes applicable to returns filed in 2001 than in the recent past.
 - As discussed in more detail later, more taxpayers were looking to IRS' Web site for assistance. For example, the number of forms and publications downloaded from IRS' Web site as of August 31, 2001, had more than doubled—to about 279 million—compared to the same period in 2000.
 - IRS had directed TACs to “rigorously promote alternatives,” such as volunteer sites that provide free return-preparation assistance. Although these sites generally target their services toward certain groups of taxpayers, such as low-income and elderly taxpayers, they generally do not deny service based on income. According to data reported by volunteer sites, their number increased from about 17,600 in 2000 to about 18,400 in 2001. The number of taxpayers who received assistance from volunteer sites increased from about 3.3 million to about 3.6 million for the same periods.

IRS Changed the Way TACs Were Organized and Staffed in 2001

The field assistance organization underwent considerable change in 2001 although the number of TACs remained about the same as in 2000. However, except for establishment of an income limit on return-preparation assistance and the need to make appointments for this type of assistance, these changes should have been largely transparent to taxpayers during the 2001 filing season.

Before IRS' reorganization, the TACs reported to 33 district offices. According to IRS officials, differences in the way the former walk-in sites were organized and operated within each district caused inconsistencies in the assistance provided to taxpayers. To provide more consistency in field assistance, the TACs now report to the Wage and Investment Division's Field Assistance Director, through a network of 7 area and 34 territory offices. According to field assistance officials, IRS began the year

²⁶According to IRS, this income limit will be lowered to \$33,000 for 2002.

with about 1,000 technical field assistance employees and had hired another 504 as of March 16, 2001. Of those 1,504 technical employees, 1,041 were in a new position—tax resolution representative (TRR)—that IRS established as part of its reorganization. As of September 30, 2001, the number of technical employees had increased to 1,843, including 1,278 in the new TRR position. IRS established the TRR position to help TACs meet the demand for assistance during the filing season while reducing reliance on IRS' compliance functions, such as Examination and Collection.²⁷

Although IRS filled the TRR positions primarily from qualified staff in related job series, additional training was required. According to officials, IRS surveyed the new staff to assess training gaps and prioritized the delivery of abbreviated training to fill the gaps. However, not all of the gaps were filled in time for the 2001 filing season. For example, about 100 staff placed in TRR positions in January 2001, who needed the full 6 weeks of required first-year training, received only 3 weeks of that training.

Staffing the new field assistance management structure also required considerable hiring and training. Managers of the former walk-in sites were generally compliance staff who moved to the new Small Business and Self-Employed Division. In addition to the new Director of Field Assistance, the new management structure includes 7 area directors, 34 territory managers, and 226 group managers who are the first-line managers responsible for the day-to-day operations of one or more TACs. As of December 31, 2000, IRS had filled all 7 area director positions, 29 of the territory manager positions, and 154 of the group manager positions (3 more territory manager position and 8 more group manager positions had been filled by September 30, 2001). According to IRS officials, about one-half of the new managers had no field assistance experience and some had no managerial experience.²⁸

²⁷Reducing the need for compliance staff to help provide assistance frees up those staff to audit returns and collect tax debts. The number of compliance staff years used to provide field assistance during the filing season decreased from 386 staff years in 2000 to 162 staff years in 2001—a decrease of 58 percent. According to field assistance officials, the 386 staff years for 2000 was understated by an unknown amount, because many compliance staff reported their time under the compliance time reporting system rather than the one used for field assistance.

²⁸According to information provided by IRS in November 2001, the managers completed a new course entitled *Managing a Taxpayer Assistance Center*, which was designed especially for them.

IRS and TIGTA Studies Document Poor Tax Law Assistance, but Most Taxpayers Received Timely Help

TAC Quality

Important measures of IRS' performance in helping taxpayers who walk into one of its TACs are the quality and timeliness of services provided. Available quantitative information indicates that (1) the quality of tax law assistance provided by TACs was poor, notwithstanding the more optimistic views of TAC managers but (2) most taxpayers who visited a TAC received timely assistance.

As discussed in our report on the 2000 filing season,²⁹ IRS' review of the assistance provided to taxpayers who walked in with tax law questions showed that accuracy was poor that year.³⁰ In that review, IRS employees posing as taxpayers made 544 visits to walk-in sites. In a report on the results, IRS noted, among other things, that 92 percent of the "assistors spoke to reviewers in a pleasant manner and tone of voice," but 81 percent of the reviewers' questions were not answered correctly.³¹

Because of staffing and training challenges associated with the reorganization, IRS did not measure or assess the quality of TAC service during the 2001 filing season. However, a TIGTA review of tax law assistance in early 2001 showed that accuracy was still poor. According to TIGTA, its review involved 90 contacts at 47 TACs in which tax law questions were posed to IRS representatives. In 7 of those 90 contacts, or 8 percent of the time, service was denied. In 41 of the remaining 83 cases, or almost half the time, TIGTA reviewers received inaccurate answers. Although TIGTA's results might indicate that the accuracy of tax law assistance provided by TACs, while still poor, had improved compared to the results of IRS' reviews in 2000, such a comparison cannot be made because TIGTA used a different methodology from the one used by IRS.

In contrast to TIGTA's results, we estimate, based on our random sample, that the vast majority of field assistance group managers would have spoken positively about the accuracy of their sites' tax law assistance during the 2001 filing season. We estimate that managers responsible for

²⁹*Tax Administration: Assessment of IRS' 2000 Tax Filing Season* (GAO-01-158, Dec. 22, 2000).

³⁰Although TACs provide various services, IRS only assessed the quality of tax law assistance.

³¹About one fourth of the 81 percent (22 percent of the reviewers' questions) were instances in which assistors were, in effect, denied service because their questions were not answered. For example, reviewers were sometimes told to take a form or publication and figure out the answer themselves.

about 388 of the 413 TACs—or 94 percent—would have said that their sites were successful or very successful in providing accurate answers to tax law questions. However, managers we spoke with said that their opinions were based on their knowledge of such considerations as staff, training, and experience, since IRS currently lacks a system or measures for assessing tax law accuracy. We discuss the group managers' views of their sites' performance in more detail later.

TAC Timeliness

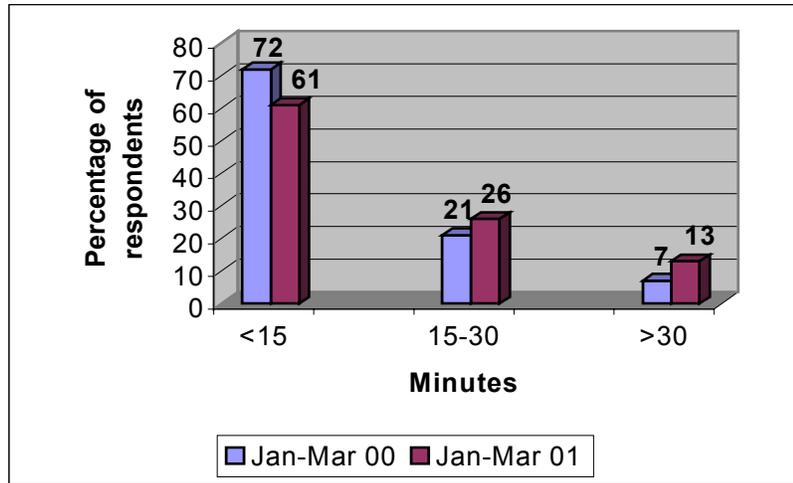
IRS recognizes that the time that taxpayers wait to receive assistance is also an important indicator of TAC performance. Accordingly, TAC managers monitor daily average wait-times at each site in an attempt to minimize average wait-times and maximize the percentage of taxpayers who receive assistance within 15 minutes.

Most taxpayers waited 15 minutes or less to get assistance during the 2001 filing season, although the timeliness of TAC assistance declined slightly from last year, based on various data. In 2000, IRS reviewers who posed as taxpayers reported that wait-times exceeded 15 minutes for 9 percent of their 544 contacts. For the 2001 filing season, however, TIGTA reviewers reported waiting more than 15 minutes for 24 percent of their 90 contacts. According to wait-time data reported by TACs, about 12 percent of the nearly 3.5 million taxpayers whose wait-times were recorded waited more than 15 minutes to get assistance during the 2001 filing season.³² Similarly, IRS customer satisfaction surveys conducted during similar filing season periods in 2000 and 2001 showed that most respondents waited less than 15 minutes for assistance in both years, but a greater proportion of respondents waited longer than 15 minutes in 2001 than in 2000, as illustrated in figure 2.³³

³²Based on our calculations, the data reported by TACs did not account for the wait-times of about 661,000 taxpayers.

³³Customer satisfaction surveys were conducted every fifth week, and the results were summarized and reported the following quarter by the survey contractor. According to IRS, the survey methodology will be different for the 2002 filing season. Instead of conducting a survey every fifth week, every customer who comes to the screener's desk in a TAC seeking assistance will be given a survey card.

Figure 2: Wait-Time Reported by Customer Satisfaction Survey Respondents



Source: IRS Customer Satisfaction Survey, Field Assistance Intercept Survey, June 2001.

Of the 10 areas that TAC customers were asked to rate as part of the satisfaction survey, “promptness of service,” was among the three areas rated lowest (along with “convenience of office location” and “convenience of office hours”).³⁴ However, even those lowest-rated areas received average scores above 6 on a 7-point rating scale, with 7 being the highest rating. Overall, the combined survey results from January, February, and March 2001 showed that 90 percent of the respondents rated their overall satisfaction with assistance received as 6 or 7 on a 7-point scale, for an average overall rating of 6.46.

IRS Deferred Making Quality Improvements During 2001

The IRS and TIGTA teams that reviewed the quality of TAC tax law assistance in 2000 and 2001, respectively, recommended several changes to improve quality. For example, one recommendation resulting from IRS’ reviews was that IRS develop a comprehensive, year-round quality review program for TACs. Field assistance officials informed us that IRS was studying how field assistance quality should be measured and that IRS deferred making changes to improve the accuracy of tax law assistance until the results of that study were known.

³⁴The survey results also showed that the three areas rated highest on average by respondents were, in order: “showing the right attitude;” “employee courtesy;” and “treating you fairly.”

According to information provided by, or discussed with, field assistance officials, IRS had successfully piloted a new method of measuring the accuracy of tax law assistance and expected to begin using it in 2002. Under this new method, contractor employees, posing as taxpayers in need of assistance, are to visit TACs and ask pre-defined questions—similar to the technique used by TIGTA and IRS quality reviewers during the last 2 filing seasons. For 2002, contractor employees are to use questions selected from those frequently asked by taxpayers who call IRS' toll-free telephone lines until IRS develops a database of questions frequently asked by TAC customers.

According to officials, IRS also plans to measure the quality of the account and return-preparation assistance provided by TACs, using a cadre of seven full-time IRS staff beginning in January 2002. IRS plans to fill these positions and train selected staff by November 2001. These IRS reviewers will evaluate the accuracy of prepared returns and adjustments made to taxpayer accounts on a sample basis.

Most Managers Rated Their Sites' Filing Season as Successful or Very Successful Despite Obstacles

Because of the many changes related to TAC operations and the lack of performance measures for assessing quality, we obtained the views of managers responsible for a randomly selected sample of 84 TACs.³⁵ On the basis of this sample, we estimate that managers would have been overwhelmingly positive in rating their sites' performance in nearly every category, in spite of a variety of obstacles that the managers said hampered site performance to varying extents. As noted earlier, our estimate shows that the managers were much more positive about the accuracy of their sites' tax law assistance than would seem warranted by the results of TIGTA's study. However, the managers generally acknowledged that their ratings were based more on their knowledge of such considerations as site staffing, training, and experience than on any specific performance data.

The managers in our sample also cited several obstacles that hampered site performance to a moderate or great extent.

- Managers cited problems with facilities at 38 percent of the sites. For example, managers often mentioned that their sites' workspace was too

³⁵Many managers were responsible for more than one TAC.

small to accommodate customers, ensure privacy in discussing taxpayer information, or accommodate assigned staff or computers.

- Managers mentioned staffing problems at 32 percent of the sites. Many managers said that their sites lacked sufficient field assistance staff, which forced some sites to rely more heavily on compliance staff and sometimes forced taxpayers to wait longer than an hour for assistance.
- Managers cited equipment problems at 31 percent of the sites. Managers said that their sites lacked sufficient computers—especially those equipped to access taxpayer accounts or file returns electronically. Some managers said that staff virtually had to stand in line to use the only computer with access to customer accounts.
- Managers mentioned training problems at 29 percent of the sites. Many managers said that employees, especially those in the new TRR positions, received only part—and in some cases, none—of their required first-year training before the beginning of the filing season. Some said their employees received training during the busy filing season, affecting operations or requiring compliance backup. Still other managers said that their employees had received the required training, but it did not adequately cover complex tax law topics or topics that were unique to certain geographic areas.

Although our telephone survey was designed to address only the filing season, some managers informed us that IRS had resolved some problems after the filing season. However, many responses implied that the sites' problems remained unresolved. In that regard, field assistance officials told us in October 2001 that IRS plans to resolve TAC computer hardware and software shortages by 2004 and TAC facility design and space inadequacies by 2007.

The results of our telephone survey are highlighted in appendix III.

Indicators Related to IRS' Web Site Are Generally Positive, but the Site Could Be More User-friendly

IRS' Web site on the Internet provides a vehicle whereby taxpayers can receive assistance without having to contact IRS employees via more expensive modes of communication, such as calling or visiting an IRS office. Among other things, the Web site provides the potential to download hundreds of tax forms and publications, contains current information on tax issues and electronic filing, and gives taxpayers the opportunity to ask IRS tax law and procedural questions via E-mail.

Various indicators related to IRS' Web site show that (1) overall usage increased compared to the 2000 filing season; (2) IRS received fewer E-mail questions from taxpayers but generally did a good job responding to

the questions; and (3) the site's availability and average delivery time as measured by Keynote, an independent Web site rater, improved late in the filing season after a slow start.³⁶ Our assessment of the Web site showed that (1) a key IRS measure for tracking site usage—hits—is calculated in a way that calls into question its usefulness and (2) the site is useable, but could be more user-friendly. IRS is in the process of revising the content and management of its Web site—changes that should address the problems we identified.

Overall Usage of IRS' Web Site Increased

IRS' Web site was used more in 2001 than in 2000 based on various measures. A key measure IRS uses to track usage is hits. Although IRS data showed that the number of hits, as of June 1, 2000 and 2001, had increased from 1.1 billion to 1.7 billion, the way hits are counted calls into question the usefulness of that measure as an indicator of usage. For example, every time a person accesses the home page of IRS' Web site, about 16 hits are counted because the page and each graphic on it are counted as a single hit. A hit is also counted every time a user moves to another page on the Web site. Thus, an increase in the number of hits may not necessarily be due to increased usage, but could be attributed to changes in the structure of the home page or problems users are experiencing in finding what they want on the site. Officials responsible for the Web site acknowledged that number of hits is not a good measure of use and said that IRS is limited in the measures it can use, in part due to privacy considerations.

The number of hits was the key measure that IRS used to assess the performance of its Web site until 2001, when it added the number of forms downloaded as a measure. That measure and another indicator compiled by a non-IRS source showed the following growth in the use of IRS' Web site.

³⁶According to Keynote, availability is the percentage of time the Web site's home page downloads fully and average delivery time is the time it takes for the home page to fully download from the time the user hits the "enter" key on the keyboard. According to IRS, a home page is charged with an error and therefore receives a lower percentage of availability even if a graphic that has nothing to do with the user's ability to get pertinent content information from the page does not download properly. As such, according to IRS, the measure does not reflect whether the Web site itself is available or not. Also, according to IRS, errors can be the result of heavy traffic on the Internet in general and may have nothing to do with the home page.

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- About 279 million forms and publications had been downloaded from the site as of August 31, 2001, an increase of 116 percent compared to the 129 million downloaded as of the same point in time in 2000.
 - Nielsen//NetRatings, an Internet audience measurement service, reported about 13 million unique visitors to IRS' site from February 4 through May 6, 2001—an increase of about 57 percent over the 8.3 million unique visitors during the same time period in 2000.³⁷

Nielsen//NetRatings also reported that on the last day of the 2001 filing season (April 16), 613,000 unique visitors accessed IRS' site.³⁸ According to Nielsen//NetRatings, IRS' site has become the “go to” online resource for timely and useful tax information.

Number of E-Mail Questions Decreased; IRS Generally Did a Good Job Responding

One area of IRS' Web site that was not used more in 2001 than in 2000 was the feature that allows taxpayers to ask IRS tax law and procedural questions via E-mail. As of June 1, 2001, IRS had received about 28 percent fewer E-mail questions—about 159,000 compared to about 220,000 as of the same time in 2000. IRS officials attributed this decrease to the absence of major tax law changes affecting returns to be filed in 2001.

IRS uses three measures for assessing its performance in responding to E-mail questions: (1) timeliness, (2) accuracy, and (3) customer satisfaction. IRS data for the 2001 filing season show that IRS (1) improved its timeliness compared to 2000, (2) maintained the same level of accuracy as in 2000, and (3) received generally positive ratings from respondents to its customer satisfaction survey.

IRS' goal is to respond to an E-mail question within 2 business days. IRS data indicate that IRS almost always met its goal during the 2001 filing season and that it did better than in 2000. For example, IRS took an average of 0.8 business days to respond to taxpayers' E-mail questions in 2001, compared to 1.3 business days in 2000.

³⁷“Unique visitors” refers to the number of different persons who accessed the Web site at least once during a day.

³⁸This information helps illustrate how misleading the “hits” measure can be. While Nielsen//NetRatings reported 613,000 unique visitors to IRS' site on April 16, 2001, IRS reported about 60 million hits that day.

To measure accuracy, a quality review group reviews a random sample of E-mail responses. IRS data on the results of those reviews showed that 78 percent of E-mail questions were answered accurately during the 2001 filing season. Given the statistical imprecision surrounding a sample, that rate is consistent with the 76 percent accuracy rate in 2000 and IRS' 79 percent goal for 2001.

IRS gives all E-mail customers an opportunity to respond to a customer satisfaction survey, and about 1,400 did so between January 1 and April 16, 2001. The survey asked three questions about the E-mail service received. In response to those questions, 96 percent of the respondents said that they were satisfied with the time it took to get a response, 91 percent said that they would use E-mail again in the future, and 75 percent said that the response they received answered their question.

Web Site's Availability and Average Delivery Time Improved After a Slow Start

Keynote, an independent Web site rater and recognized authority on Internet performance, reviewed the availability and average delivery time of IRS' Web site and reported that IRS' performance was mixed during the 2001 filing season.

Keynote reported that its measure of IRS' Web site's availability ranged from 65 to 75 percent between February 4 and March 27, 2001, and improved dramatically after that—increasing from 67 percent on March 27 to 83 percent the next day. Availability continued to improve after that—averaging 97.7 percent and 97.5 percent, respectively, for the weeks ending April 8 and April 16, 2001, respectively. Average delivery time also fluctuated considerably during the filing season. Keynote reported that average delivery time ranged from 2.5 seconds to 3.5 seconds from March 1 through March 27, 2001, and improved to around 2 seconds thereafter through April 15, 2001. Keynote reported that the improvements in availability and average delivery time coincided with an upgrading of computer servers in the latter part of March.

Web Site Could Be More User-friendly

Our review of IRS' Web site disclosed certain aspects that, if improved, would make the site more user-friendly.

Broken Links—We found 10 instances where links within the site forwarded us to pages indicating that the document or sites could not be found. For example, in the “Earned Income Tax Credit” section, when clicking on the question “How Do I Get Advanced Earned Income Tax Credit Payments”, we were sent to a page that had a link for getting a copy

of Form W-5 (Earned Income Credit Advance Payment Certificate). When we clicked on that link, we were sent to the Fedworld.gov site where we got the message “Address Not Found”.

Missing Information—In the “Around the Nation” section of the site, there are one or more pages for all states but one. In our report on the 2000 filing season, we noted that many of those state pages did not include information on the location of TACs—basic information that we thought should be part of every state page.³⁹ When we checked on May 31, 2001, we found that 14 state pages still had no data on TAC locations.

Obsolete Data—In our report on the 2000 filing season, we also noted that certain data on the Web site were obsolete. We also found obsolete data in 2001, although not as much as in 2000. For example, in the “IRS Newsstand” part of the site, there is a section entitled “Tax Calendar for Small Business.” When we looked at that section in April 2001, we found a calendar for 1999 but none for 2001. Our follow-up in May 2001 revealed that IRS had since removed the 1999 calendar and added one for 2001.

Difficult to Navigate—We experienced several instances where we found the Web site to be laborious and cumbersome to maneuver through. For example, the site offers users the option to comment in a section called “A Penny for Your Thoughts.” When we clicked on the comment link, we were directed to a page entitled “Help, Comments, and Feedback.” We expected to be forwarded to a page for comments since we clicked to reach a comment page. However, we had to scroll down eight topics to get to the comment link.

Our overall assessment of IRS’ Web site, on the basis of reviews we performed throughout the year, is that the site contains a plethora of information that provides taxpayers with options other than the traditional methods of walking into an IRS site or calling on the telephone. Given its size, we found it usable, but not user-friendly. In general, we found the maze of links not well organized or straightforward. IRS officials responsible for the Web site agreed with our assessment.

In our report on the 2000 filing season, we recommended that IRS (1) assign clear responsibility in a central location for identifying and correcting outdated and inconsistent Web site data and (2) develop

³⁹ [GAO-01-158](#).

minimum requirements for information to be included on the state pages. According to IRS officials, IRS has taken several steps to address our recommendation. Those steps include the following.

- The Electronic Tax Administration office within IRS instituted an interim process that required executives to approve all new data and significant changes to existing data.
- The Electronic Tax Administration office is implementing a content management program to ensure that data on the Web site is current and consistent.
- Beginning in 2002, the IRS Web site will have a central list that provides the location of all TACs and their hours of operation.
- IRS awarded a 5-year, \$33.8 million contract to redesign and provide support for IRS' Web site. Anticipated changes include incorporating features for easier maneuverability.

We believe IRS' actions go a long way toward addressing our recommendation. We plan to continue monitoring their implementation.

Conclusions

IRS' performance during the 2001 filing season varied depending on the particular filing season activity being considered. For some activities—processing and the Web site—available evidence indicated that IRS generally did a good job and taxpayers generally received good service. Even so, there were some exceptions involving processing by a lockbox, implementation of an alternative signature program, and initial problems with the Web site's availability and delivery time. For other filing season activities—telephone service and TAC assistance—there was evidence to indicate that many taxpayers had problems reaching IRS by telephone and getting accurate responses to their tax law questions from TAC personnel.

In each of these areas, IRS has taken steps to improve its performance—steps that include initiatives to enhance the processing of paper returns and encourage more electronic filing, a contract to redesign and provide support for IRS' Web site, and a study on how best to measure the quality of TAC assistance. However, there are opportunities for IRS to further enhance its performance.

In some cases, there is available information from quality reviews done by TIGTA and IRS and from the results of our survey of TAC managers that IRS can use to immediately identify and begin implementing needed enhancements. While we recognize that there are limits to what IRS can do to affect the 2002 filing season, there may be certain conditions

identified by the quality reviews and our survey that lend themselves to relatively easy resolution.

In other cases, needed enhancements may be going unidentified because IRS has inadequate information on the effectiveness of processing initiatives and the reasons why computer-prepared tax returns are filed on paper. Without adequate information on the effectiveness of initiatives (those undertaken in 2001 as well as any that may be undertaken in the future), IRS does not have a sound basis for deciding whether to continue, curtail, or revise the initiatives. Similarly, the absence of detailed research focused on paper filers of computer-prepared returns leaves IRS without sufficient information to identify specific impediments that must be overcome if that large group of returns (40 million in 2001) is to be successfully converted from paper to electronic.

In spite of our characterization of IRS' performance in processing returns and refunds as smooth and recognizing that IRS does have comparable historical data for workload indicators, we are concerned about our limited ability to compare IRS' performance in 2001 against its goals for 2001 and its performance in past years. While we support IRS' efforts to develop and refine its performance measures to help assure that they are valid and balanced, frequent or extensive changes deprive the various programs of stability and comparability, thus hampering the ability to set or achieve goals. We are currently assessing IRS' filing season performance measures and expect to issue a report on our results in April 2002. However, we obtained enough information on one filing season measure—Web site hits—during this review to indicate that it is not a useful measure for assessing the site's performance.

Recommendations for Executive Action

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

- To the extent practical, take action to correct tax law accuracy problems reported by IRS and TIGTA in 2000 and 2001, respectively, in time to improve the accuracy of tax law assistance provided by TACs in the 2002 filing season rather than deferring quality improvements until data from the new measurement system are available.
- Work with TAC managers to determine if there are any significant facility, staffing, equipment, and training problems that are not addressed in existing improvement plans, and develop appropriate plans for resolving those problems.

-
- Directly survey tax practitioners and taxpayers who prepare returns on computer but do not file electronically.
 - Develop a plan for evaluating the implementation and effectiveness of processing initiatives.
 - Either discontinue the use of hits as a measure of the performance of IRS' Web site or revise the way hits are calculated so that the measure more accurately reflects usage.

Additional recommendations were included in our report on IRS' telephone assistance during the 2001 filing season⁴⁰ and may be forthcoming as a result of our ongoing review of IRS' filing season performance measures.

Agency Comments and Our Evaluation

We requested comments on a draft of this report from IRS. We obtained written comments in a December 13, 2001, letter from the Commissioner of Internal Revenue (see app. V).

The Commissioner said that overall he concurred with our conclusion that the processing of returns and the issuance of refunds went smoothly. He provided some additional information related to IRS' handling of the problem with the lockbox contractor in Pittsburgh, which we added to the report.

The Commissioner pointed out, as our report reflects, that developing and revising performance measures is critical to IRS' "Balanced Measures concept as is aligning those measures with [IRS'] strategic plan." At the same time, he said that he understood our concerns that too frequent or extensive changes to performance measures could invalidate subsequent comparison and said that "we factor that into changes necessary to accomplish our transition."

In response to our specific recommendations, the Commissioner said the following:

- Improving tax law accuracy at TACs is "a core competency of the Service and we are not waiting for data to make incremental improvements." To improve quality during the 2002 filing season, according to the Commissioner, IRS will focus on providing (1) consistent, standardized

⁴⁰[GAO-02-212](#).

services; (2) a larger and better trained workforce; and (3) improved accessibility to taxpayer information for employees directly responsible for case-specific assistance.

- IRS has plans to resolve all issues concerning TAC facilities, staffing, equipment, and training identified in the report. To engage managers fully in the improvement process, IRS will be implementing Manager Councils in each of the seven field assistance areas.
- IRS agrees with the need for a survey of tax practitioners and taxpayers who prepare their returns on computer but file on paper.
- As new processing initiatives are developed, IRS will incorporate a plan in its project documentation to assess the implementation and effectiveness of each initiative. While agreeing that IRS should review its initiatives to “ensure their proper implementation and ensure they are targeted to achieve the results intended,” the Commissioner said that the processing initiatives discussed in the report are inherently beneficial because “they resolve or mitigate known problems or weaknesses.”
- IRS believes that it should continue to use hits as a measure of Web site performance because the number of hits “indicates site usage/traffic” and because IRS uses the number of hits “to measure system performance and to estimate system needs.” However, IRS said that it can improve its method for counting hits when it implements a more sophisticated, comprehensive web analytic program in January 2002. We agree that the current measure of hits may have uses internally. However, unless computation of the measure is appropriately revised, it should not be used as an indicator to describe overall usage to external stakeholders, such as the press or the Congress. In an April 26, 2001, news release, for example, IRS used the number of hits to support its statements that the Web site “attracts more taxpayers” and “remains one of the most frequently visited sites during tax season.” We believe that such uses of the measure, as currently constructed, are inappropriate.

In further commenting on the Web site, IRS expressed concern that readers would be misled by our use of Keynote data on site availability unless we more clearly explained what Keynote means by “availability.” We revised the report to do that.

In general, the various plans described in IRS' comments appear responsive to our recommendations. We will be assessing IRS' implementation of those plans during our review of the 2002 filing season.

We are sending copies of this report to the Chairmen and Ranking Minority Members of the Senate Committee on Finance and the House Committee on Ways and Means and the Ranking Minority Member of this Subcommittee. We are also sending copies to the Secretary of the Treasury; the Commissioner of Internal Revenue; the Director, Office of Management and Budget; and other interested parties. We will make copies available to others on request.

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

Sincerely yours,

A handwritten signature in black ink that reads "James R. White". The signature is written in a cursive, flowing style.

James R. White
Director, Tax Issues

Appendix I: Problems IRS Experienced in 2001 Related to Processing

Given the size and complexity of IRS' processing operations, it is inevitable that IRS may experience some problems during the filing season. In addition to the more significant problems discussed in the body of the report related to (1) returns and remittances destroyed or not processed by the Pittsburgh lockbox and (2) rejected electronic submissions that limited the impact of the self-select PIN program, IRS experienced some relatively minor problems related to TeleFile,¹ the debt indicator database,² and the printing of notices.

TeleFile

IRS experienced two problems with TeleFile. The first problem involved a computer programming error that created some incorrect addresses in the TeleFile database. According to IRS, the problem affected taxpayers who had moved in 2000 and whose address included an apartment number. Because IRS did not know if the problem would be resolved by April 16, 2001, it told affected taxpayers, through an April 3 alert on its Web site, that they should only use TeleFile if they expected a refund and would have the refund directly deposited into their bank account. Otherwise, their refund or balance due notice, if they owed money, would be mailed to the wrong address. According to IRS, about 45,000 taxpayers could have been affected by this problem, which, according to IRS, has been corrected for the 2002 filing season.

The second TeleFile problem involved incorrect customer numbers printed on about 192,000 TeleFile packages by an IRS contractor. Customer numbers are used by taxpayers to identify themselves when using TeleFile. The contractor sent notices with corrected numbers to affected taxpayers to enable the affected taxpayers to file via telephone. IRS notified taxpayers of the problem via the Web site or over the telephone if they called IRS.

Debt Indicator Database

IRS reported a programming problem with the debt indicator database at the start of the filing season that resulted in IRS' failure to identify some individuals as having offsets before they were provided a Refund

¹TeleFile is the system through which taxpayers send returns directly to IRS over telephone lines using a Touch-Tone telephone.

²The debt indicator database contains information on certain debts owed by taxpayers, such as federal taxes, unpaid student loans, and child support. The indebted taxpayer's refund check is intercepted, and funds are redirected to pay the debt.

Anticipation Loan. These are loans that private firms offer taxpayers who file electronically. The loan amount is based on the amount of the taxpayer's expected refund, and the refund is sent directly to the loan provider to pay off the loan. Firms that provide such loans rely on information from IRS to determine whether there will be an offset against the taxpayer's refund. If there is going to be an offset, the firm will deny the loan. IRS determines if an offset exists by checking against the debt indicator database. Because of the programming problem, loan providers received inaccurate information from IRS about the existence of an offset. Some returns that were shown without offsets actually had offsets taken when the refunds were processed. According to IRS and other sources, loan providers were adversely affected by this problem in that they made loans that were to be repaid by tax refunds that were not forthcoming. According to IRS, the problem was first identified in January 2001 and corrected on February 1, 2001.

Printing of Notices

IRS reported and corrected a computer-system related problem at the beginning of the filing season related to the printing of notices. In one case, about 8,000 payment due notices were not mailed in a timely manner. To remedy the situation, IRS included Publication 3746 in the notice when it was mailed to apologize for the delay and note that (1) the payment due date was extended without impact on the amount due and (2) any additional penalty and interest incurred due to the delayed mailing would be abated. In addition, IRS informed employees of the issue, gave them procedures for dealing with taxpayers who inquired about the delayed mailings, and authorized them to abate any penalty or interest amounts when appropriate. According to IRS, it identified and corrected this problem in less than 2 weeks—by mid-January 2001.

Appendix II: IRS Efforts to Encourage Electronic Filing and Enhance Returns Processing in 2001

In 2001, IRS took several steps to encourage electronic filing and implemented various processing initiatives that were intended to either improve its processing operations or enhance compliance. Our past work on the Government Performance and Results Act of 1993 demonstrated the benefits of evaluating initiatives that are aimed at improving performance. Likewise, IRS guidance requires that plans for improving performance include steps to monitor and evaluate the effectiveness of those actions. IRS' filing season initiatives may have inherent benefits beyond improving performance, such as increasing compliance, and it may take years until the benefits are fully achieved. However, in some cases, IRS experienced problems that affected implementation and limited the effectiveness of these initiatives. For example, despite concerted efforts, IRS experienced problems in processing Schedule K-1s. We had a difficult time determining the effect of such problems and the overall effectiveness of the initiatives. IRS' evaluations of initiatives were limited, and IRS officials generally drew conclusions about the effectiveness of initiatives based on broad numbers and trends. IRS officials said that although initiatives may not be specifically evaluated for effectiveness, they are evaluated for resource planning and other purposes as part of filing season readiness reviews and the development action plans to prepare for the next filing season. While we are aware of this fact, we are unconvinced that evaluations as part of filing season readiness reviews would be sufficient for determining effectiveness.

IRS Continued to Expand Electronic Filing Options, but Evaluations of Effectiveness Have Been Limited

As it does every year, IRS undertook initiatives designed to encourage electronic filing. The initiatives for 2001, in addition to the alternative signature program discussed in the body of the report, included increasing the number of forms and schedules to be electronically filed and allowing tax practitioners to include notes to IRS on their electronic submissions. As noted previously, IRS uses meetings with the tax practitioner community to identify barriers and options for expanding electronic filing, but because evaluations of effectiveness have been limited to date, IRS may be missing key data needed to design an effective strategy for continuing to increase electronic filing.

IRS added 23 more forms and schedules to the list of forms and schedules that can be filed electronically and increased the number of certain forms that could be filed electronically in 2001. IRS took these actions to enable more taxpayers and practitioners to file more returns electronically and to address an issue raised by some practitioners who say that they will file all of their returns either electronically or on paper, but not both. IRS estimated that with the 23 additional forms and schedules, 98 percent of

all individual taxpayers could file their income tax returns electronically in 2001. IRS plans to add 38 more forms and schedules for 2002, which, according to IRS, will enable over 99 percent of all individual taxpayers to file their income tax returns electronically in 2002.¹

As of October 18, 2001, about 1,044,000 of the newly eligible forms and schedules had been filed.² Of the 23 forms and schedules, only one, Form 2106EZ (Unreimbursed Employee Business Expenses), was filed electronically to any great extent—about 930,000 times—and 18 were filed electronically less than 3,000 times. As of October 2001, other than compile these statistics, IRS had not done, nor did it plan to do, other evaluations of this initiative. As a result, IRS does not know, for example, how many new taxpayers filed electronically or how many practitioners decided to join the electronic filing program because of the addition of these 23 forms and schedules.

Besides allowing more forms and schedules to be filed electronically in 2001, IRS also increased the number of certain forms or schedules that can be filed with each electronic return. For example, the number of Schedule Es (Supplemental Income and Loss) that could be filed with each individual electronic tax return was increased from 5 to 15.

Before 2001, there was no way for a practitioner to add a note to an electronic submission to support or explain an entry on an electronic tax return. Practitioners had suggested that this limitation provided a disincentive to file electronically. In response to that input, IRS, for the 2001 filing season, allowed tax practitioners to write notes to support or clarify an entry on an electronic tax return. Although practitioners supported this initiative, it was not used extensively. IRS figures showed that about 4,000 electronically filed tax returns contained such notes. What IRS does not know is (1) how many, if any, of these 4,000 occurrences involved a first time electronic filer, and (2) how many

¹This 99-percent figure relates to the electronic filing of individual income tax returns and not business-related returns. Significant restrictions for filing business returns electronically still exist. For example, key business-related documents, including the basic corporate income tax form (Form 1120), cannot be filed electronically. Some practitioners have said that they will not participate in the electronic filing program until they can file both individual and business-related forms electronically.

²This number cannot be equated to the number of returns because one return could include more than one of the 23 forms and schedules.

practitioners decided to join the electronic filing program because of this new feature.

IRS Implemented Several Processing Initiatives, But Problems Arose and Evaluations Were Limited

IRS implemented various initiatives related to its processing of individual tax returns. IRS experienced some problems that affected implementation, but the extent to which these problems affected implementation and potential benefits downstream was difficult to determine because of the limited data, analysis, and evaluations of effectiveness.

Secondary SSNs Were Validated

To better ensure that persons are correctly determining their tax liability, IRS verifies the SSNs on all individual income tax returns. Until the 2001 filing season, however, that verification did not include all secondary SSNs.³ IRS began verifying all secondary SSNs on paper and electronic returns in the 2001 filing season and disallowing questionable exemptions using its math-error authority.⁴

IRS established an extensive, multistep process to determine whether to accept a secondary SSN, which, according to IRS, met the requirements of the Internal Revenue Code and minimized the burden placed on taxpayers. As a first step in the process, IRS sent notices to taxpayers who it had identified in 2000 as having invalid secondary SSNs to encourage them to take steps to resolve the problem before filing their return in 2001. During the 2001 filing season, all incoming joint returns were to be manually reviewed to determine whether the taxpayer enclosed any information about a name change, marriage, or divorce. IRS was to use this information to accept the secondary SSN and process the return according to normal procedures. If no such information was enclosed with the

³IRS had attempted to verify secondary SSNs during the 2000 filing season but reported significant problems that caused a high number of returns to fall out as errors during processing. As a result, IRS discontinued the verification process in 2000 and made changes for the 2001 filing season.

⁴As IRS processes returns, it looks for computational errors made by taxpayers or their representatives in preparing the returns. When IRS finds such errors, it can automatically adjust the return through the use of its math-error authority. In 1996, the Congress first authorized IRS to treat invalid SSNs as math errors.

return, IRS was to check the name and secondary SSN against Social Security Administration and IRS computer records. If a mismatch occurred, IRS was to pull the return out of normal processing for manual research. According to IRS officials, the notices that were issued prior to the filing season and the research IRS performed on filed returns helped keep to a manageable level the percentage of returns that had to be adjusted because of secondary SSNs that did not match. Also, as part of this process, IRS did not alter the joint filing status claimed on a return if it contained a mismatched name and secondary SSN—this had been a concern at one point. However, using its math-error authority, IRS would disallow the spousal exemption and any earned income credit if there were a mismatch that IRS could not resolve through research.

In September 2001, TIGTA reported that it found inconsistencies between IRS' instructions for employees and instructions to taxpayers for secondary SSN validation.⁵ For example, TIGTA reported that the instructions to taxpayers did not make clear that it was acceptable to send IRS documents, such as marriage certificates, to support a name change. However, IRS' processing instructions cited such documentation as valid support for accepting a secondary SSN. TIGTA also found that IRS incorrectly denied about \$1 million in personal exemptions and earned income credits after erroneously determining that about 1,800 secondary SSNs on returns that posted to IRS' computer system during the week of April 29, 2001, were invalid. TIGTA's review showed that the secondary SSNs were valid and that the exemptions and credits should have been allowed. According to TIGTA, these processing errors occurred because IRS had not either (1) considered certain documentation provided by the taxpayers to support the validity of the secondary SSN or (2) followed its research and resolution procedures.

IRS officials reported few processing problems with this initiative, other than those identified by TIGTA, and considered the initiative to be effective based on broad trends, such as the number of returns that had errors. In August 2001, IRS officials told us that although they had ideas about what to include in a written plan to obtain data and perform more in-depth analysis to help determine the effectiveness of the effort, they had not yet written such a plan. Due to other priorities, IRS officials reported

⁵*The Internal Revenue Service Successfully Processed Individual Tax Returns During the 2001 Filing Season*, TIGTA, Reference No. 2001-40-192, Sept. 28, 2001.

that as of October 5, 2001, plans to design an evaluation and do more in-depth analysis of this initiative were postponed indefinitely.

Third-Party-Authorization Checkbox Was Implemented

For the 2001 filing season, IRS implemented the third-party-authorization checkbox on individual income tax returns (excluding returns filed via TeleFile) in response to input from external stakeholders. The checkbox allowed taxpayers to authorize an individual return practitioner—but not the company for which the practitioner worked—to serve as their representative in resolving problems (such as math errors, inquiries about missing tax return information, and questions regarding refunds or payments) that arise during processing of the return. With the checkbox, taxpayers could authorize this kind of limited representation without having to submit a Form 2848 (Power of Attorney and Declaration of Representative) or Form 8821 (Tax Information Authorization). These other designations give practitioners much more authority than the third-party-authorization checkbox.

IRS has referred to the initiative as a “burden reduction project,” estimating that it would save taxpayers about 75,000 hours by not having to prepare Form 8821, about 2 million hours by not having to prepare Form 2848, and more than a million hours by IRS directly communicating with paid practitioners to resolve issues rather than going through the taxpayer. In addition, IRS asserted that the designation would allow processing issues to be resolved immediately, thereby eliminating some postfiling contacts, such as the mailing of notices.

From our perspective, this initiative was of limited success for three reasons. First, representatives of the largest tax return preparation company told us that the initiative was of little value to them, and it was their official policy not to use the checkbox. They said that the company blocked the checkbox field in the software used by its affiliates so that it could not be used. The representatives explained that the authorization required the name or designation of an individual and not a company to discuss tax matters. Because this company relies heavily on temporary employees who may or may not be working for the company after the filing season, no one else in the company would be able to address issues related to a particular return.

Second, according to IRS officials, IRS had limited capability to call taxpayers or their practitioners to resolve issues during processing. Therefore, according to IRS officials, in many cases, IRS still issued notices instead of calling taxpayers or their practitioners directly during

processing. IRS officials acknowledged that not all submission processing centers are equipped to allow employees to call taxpayers or practitioners to resolve issues that arise during processing. Of the two centers we visited, one had a “call-out” unit where IRS employees could make calls to resolve issues that arose during processing. At that submission processing center, IRS officials said that they received limited guidance and training related to the third-party-authorization checkbox. While they did make some calls out, they did not keep track whether they were calling a practitioner, using the checkbox authorization, or calling a taxpayer, using the taxpayer’s telephone number on the return. An IRS official told us that some employees would rather call the taxpayer, even if the authorization box were checked, because in all likelihood the taxpayer would be able to answer the call and be more responsive than a practitioner. Employees at the other center never had a call-out unit and, therefore, did not use the authority to contact practitioners. Without the ability to call, IRS would have had to send notices to taxpayers, negating the intended benefit of reducing such contacts.

Third, because of discrepancies between instructions to taxpayers and IRS’ processing instructions, it was unclear if the primary intent of the checkbox was to enable IRS employees to call practitioners or enable practitioners to call IRS. Several practitioners we talked to said that they were confused by the intent. The Director of Submission Processing Operations told us that this initiative was driven by practitioners’ desire to call IRS on behalf of their clients versus IRS’ desire to call the practitioners. However, we believe that if some centers are calling practitioners and others are not, this represents disparate treatment of taxpayers and represents a failure on IRS’ part to realize the full potential of this authority. While practitioners we interviewed and ones that we met with at IRS’ tax forums expressed frustrations and had complaints about IRS’ implementation of this initiative, we heard strong support of the initiative as well.

The Director of Submission Processing Operations told us that IRS has delayed establishing additional call-out units as IRS continues to study the cost, resources, and overall effectiveness of such units. According to the Director, IRS is not sure if it is more cost effective to call taxpayers or their practitioners during processing or to send a notice and have the taxpayer or practitioner respond. As a result, IRS did not have the benefit of this information prior to implementation of the initiative for comparison purposes.

According to IRS, taxpayers checked the box on about 28 million returns during the 2001 filing season, or less than half of the approximately 69 million returns prepared by practitioners. IRS used this broad number as the basis for its assumption about the initiative's success. However, it lacked supporting detailed analyses and a written plan for fully assessing effectiveness to support claims of success. For example, IRS could tell us the number of taxpayers who checked the authorization box, but did not have in place a system for sampling or tracking how the use of the checkbox authority facilitated the resolution of issues related to a return's processing. Nor could IRS officials tell us how many, if any, fewer notices were issued as a result of the checkbox authority.

Schedule K-1s Were Transcribed for Matching Later

Trust, partnership, and subchapter S corporation filings have been steadily increasing. For example, IRS reported that between 1997 and 2000, partnership filings have increased almost 18 percent to over 2 million. These filings are referred to as “flow-through returns” because they pass their income through the trust, partnership, or corporation to beneficiaries, partners, and shareholders who are to claim the income on their individual income tax returns. IRS estimates that billions of dollars of such income (referred to as “pass-through income”) are underreported every year. IRS expected 8.5 million flow-through returns would be filed in 2001, passing through hundreds of billions of dollars to beneficiaries, partners, and shareholders.

When the project to transcribe Schedule K-1s was initiated, IRS expected that 30 million schedules would be filed with these flow-through returns—20 million on paper and 10 million electronically. IRS' goal was to transcribe 100 percent of the schedules during the 2001 filing season.⁶ The transcribed data would later be matched against income shown on individuals' income tax returns to help ensure that taxpayers accurately reported income received from partnerships, trusts, and subchapter S corporations. The last time IRS had transcribed Schedule K-1 information was in 1995, when IRS transcribed about 4.1 million schedules.

IRS officials took various actions to help ensure successful implementation of this program. Specifically, they piloted the initiative at

⁶IRS apparently overestimated the number of Schedule K-1s it would receive during the 2001 filing season. As of October 2001, IRS officials reported receiving about 15 million Schedule K-1s, or about one-half of the anticipated volume. IRS officials are trying to determine the reasons behind the discrepancies between anticipated and actual volumes.

four submission processing centers in the Summer of 2000, developed related procedures, and tested computer programs at the beginning of the 2001 filing season. Despite these and other efforts, IRS experienced significant problems in processing the Schedule K-1s. For example, in some cases, IRS employees undercounted the Schedule K-1s attached to a return, which created problems later on when IRS tried to reconcile the number of Schedule K-1s in a particular batch of work. At that point, IRS would have to renumber the Schedule K-1s and ensure that all taxpayers were identified and that information such as their names and addresses had been accurately transcribed.

These processing problems contributed to (1) employee productivity levels that were lower than IRS had estimated, and (2) the need for more processing resources than anticipated. For example, the initial work plan estimated that 136 schedules would be processed per hour, a projection that was later reduced to 60 per hour. The actual productivity level realized was 50 documents per hour. IRS also estimated that it would require 585 staff years to process the Schedule K-1s. After taking into account the fewer staff years needed because of lower than expected volumes and the larger number of staff years needed because of reduced productivity, IRS officials estimated a shortfall of about 50 staff years, with the shortfall being covered by allocating resources from other program areas. IRS officials attributed the failure to meet productivity levels to unrealistic expectations about productivity.

Although IRS spent considerable effort working on implementation issues and some evaluations were done, those evaluations have been limited. For example, although IRS recalculated productivity to help determine the cost of processing Schedule K-1s, IRS has yet to compare this information against original estimates of benefits. Although the true program benefits are to occur later in the process, when IRS begins matching the Schedule K-1 information to individuals' income tax returns and identifies potential underreporting of income, IRS still could benefit from interim evaluations of implementation issues and downstream benefits.

IRS Began Using Postal Service Database to Update Taxpayer Addresses

In conjunction with the United States Postal Service, IRS implemented an initiative to use the Postal Service's National Change of Address (NCOA) database to update taxpayer addresses. IRS meant for the NCOA update to provide quicker resolution of undelivered refunds. According to IRS, it receives downloads of the NCOA database weekly and updates the addresses in its computer systems. Where there was an exact name match, IRS was to update its file with the taxpayer's new address.

**Appendix II: IRS Efforts to Encourage
Electronic Filing and Enhance Returns
Processing in 2001**

Before this initiative was implemented, there was disagreement among some IRS officials over the usefulness of the NCOA database to IRS. The primary concern of some officials was that the Postal Service could not supply IRS with statistics regarding the accuracy of information contained in the database. Despite these concerns, IRS never took action to assess the database's accuracy before using it for updates. Similarly, once implemented, IRS never took action to evaluate the initiative's effectiveness.

Appendix III: TAC Managers' Views on Their Sites' Filing Season Performance

Because IRS did not measure the quality of TAC performance during the 2001 filing season, we obtained the views of group managers regarding (1) their sites' success in meeting the demand for services and providing accurate or timely assistance and (2) the extent that their sites' success was hampered by factors related to such things as staffing, training, and operating hours. Most managers rated their sites' performance overwhelmingly positive, despite citing factors that hindered performance to a varying extent.

We randomly selected a sample of 84 TACs from a listing of 413 TACs that IRS provided. IRS' listing did not include alternative or nontraditional sites, such as mobile units and kiosks. We interviewed some managers more than once, because they were responsible for more than one site in our sample. However, we asked them about each site separately. All percentage estimates from our sample of managers have sampling errors of plus or minus 10 percentage points or less, with 95 percent confidence.

Most TAC Managers Viewed Their Sites' Filing Season as Successful or Very Successful

For each TAC in our sample, we asked the responsible group manager to rate the site's success and briefly explain the basis for that rating, in each of the following areas:

- meeting the total demand for assistance as well as the specific demands for tax law assistance, return-preparation assistance, and tax forms or publications;
- keeping the average wait-time for assistance below 15 minutes;
- providing accurate answers to tax law questions; and
- providing accurate return-preparation assistance.

Table 5 presents our nationwide percentage estimates for managers' views regarding success in each of these areas for all 413 TACs.

Table 5: Percentage Estimates of TAC Managers' Views of Their Sites' Filing Season Success

For the 2001 filing season, to what extent was your site successful with respect to	Very successful	Successful	Neither successful nor unsuccessful		Very unsuccessful	No opinion
			Unsuccessful	Unsuccessful		
Meeting the total demand for all types of TAC assistance	42	48	8	2	0	0
Meeting the demand for tax law assistance	46	46	6	1	0	0
Meeting the demand for return-preparation assistance	51	36	11	2	0	0
Meeting the demand for tax forms or publications	80	18	2	0	0	0
Keeping the average wait-time for assistance below 15 minutes	68	25	5	1	1	0
Providing accurate answers to tax law questions	48	46	6	0	0	0
Providing accurate return-preparation assistance	64	31	5	0	0	0

Source: GAO data and analysis.

We also asked managers to explain their positive ratings (“successful” or “very successful”) and their negative ratings (“unsuccessful” or “very unsuccessful”) for the various categories in table 5. The explanations that follow are based on the actual responses from the managers of the 84 sites in our sample. The numbers of sites shown in parentheses following each reason do not add up to the number of sites in our sample because (1) managers often cited more than one reason in explaining their rating and (2) some managers provided no reason.

Meeting the total demand for all types of TAC assistance

Managers cited the following reasons for rating 75 of the 84 sites “very successful” or “successful.”

- Employees were adequately trained, capable, and/or experienced in handling all types of assistance. (51)
- Employees responded appropriately so that few referrals to other sources of assistance were necessary. (8)
- The same-day appointment system for return preparation ensured availability of all types of service. (5)
- Sites attained success despite insufficient staff, equipment, and space. (5)

Managers cited the following reason for rating 2 of the 84 sites “unsuccessful.”

- Employees were insufficiently trained, and sites had insufficient operating hours. (2)
-

Meeting the demand for
tax law assistance

Managers cited the following reasons for rating 78 of the 84 sites “very successful” or “successful.”

- Employees were adequately trained, capable, and/or experienced in dealing with tax law questions. (77)
- Employees responded appropriately to technical questions without referrals to other IRS areas, such as Compliance. (4)
- Low demand existed for tax law assistance. (2)
- Success was attained despite small work space. (1)

One manager cited the following reason for an “unsuccessful” rating.

- Compliance withdrew back-up support, necessitating many referrals to other sources of assistance. (1)
-

Meeting the demand for
return-preparation
assistance

Managers cited the following reasons for rating 73 of the 84 sites “very successful” or “successful.”

- Employees were adequately trained, capable, and/or experienced in providing return-preparation assistance. (38)
- The same-day appointment system facilitated the return-preparation assistance process. (18)
- The income limitation lowered customer demand for return preparation. (10)
- Non-IRS sources of help were available to provide assistance when taxpayer income exceeded TAC limitations. (10)
- Electronic filing helped ensure ease, speed, and accuracy of return preparation. (8)

Managers rated two sites “unsuccessful” because there were an insufficient number of employees. One of the managers also cited a reduction of Compliance back-up support as a hindrance (2)

Meeting the demand for
tax forms or publications

Managers cited the following reasons for rating 82 of the 84 sites “very successful” or “successful.”

- Required quantity of tax forms and publications were ordered and stored. (70)

-
- Adequate display racks and shelving were available, making it easier for customers to see and select forms. (25)
 - Employees were adequately trained, capable, and/or experienced in handling forms and publications. (20)
 - Ample storage space was available. (4)
 - Demand for forms or publications was low, or free parking or drive up service made it easier to obtain them. (3)

No sites were rated “unsuccessful” or “very unsuccessful” in this area.

Keeping the average wait-time for assistance below 15 minutes

Managers cited the following reasons for rating 78 of the 84 sites “very successful” or “successful.”

- Employees were adequately trained, capable, and/or experienced, which helped minimize wait-time. (35)
- An automated system tracked wait-times, numbers of customers, and types of queries, keeping managers alert to wait-times. (7)
- Low customer demand existed, and employees made immediate referrals to other sources of assistance. (4)

Managers rated 2 of the 84 sites as “unsuccessful” or “very unsuccessful.”

- Appointment scheduling caused problems that affected wait-time in a one-person office, and the wait-time often exceeded 15 minutes. (2)

Providing accurate answers to tax law questions

Managers cited the following reasons for rating 79 of the 84 sites “very successful” or “successful.”

- Employees were adequately trained, capable, and/or experienced. (66)
- Few referrals for assistance were made to other sources of assistance, and employees used a frequently-asked-questions guide to help identify the proper response. (3)

No sites were rated “unsuccessful” or “very unsuccessful” in this area.

Providing accurate return-preparation assistance

Managers cited the following reasons for rating 80 of the 84 sites “very successful” or “successful.”

- Employees were adequately trained, capable, and/or experienced in providing return-preparation assistance. (39)

- Lower than expected rejection rates were experienced for electronically filed returns. (25)
- Electronic filing and return-preparation software helped ensure ease, speed, and accuracy in preparing returns. (22)
- Non-IRS sources of assistance were used to help meet demand. (3)
- The same-day appointment system was helpful, and demand for electronic filing was light. (5)

No sites were rated “unsuccessful” or “very unsuccessful” in this category.

Most Managers Cited Factors That Hampered Their Sites' Success

For each TAC in our sample, we asked managers for their views on the extent to which each of the following factors hampered their sites' success during the 2001 filing season.

- Facilities
- Staffing
- Training
- Days or hours of operation
- Equipment (e.g., computers)
- Supplies (e.g., ink cartridges, paper)
- Tax forms or publications
- Policies or procedures
- Any other item they wished to identify

Although most TAC managers rated their sites' performance during the 2001 filing season as “successful” or “very successful,” most also cited factors (mostly related to facilities, staffing, equipment, and training) that hindered their sites' success, at least to some extent.

Table 6 presents our nationwide percentage estimates for managers' views regarding the extent that factors hampered success for all 413 TACs.

Table 6: Percentage Estimates of TAC Managers' Views on the Extent to Which Certain Factors Hampered Their Sites' Filing Season Success

To what extent was your site's success for the 2001 filing season hampered by factors related to	To a great extent	To a moderate extent	To some extent	Not at all
Facilities	23	15	35	27
Staffing	20	12	26	42
Training	6	23	32	39
Days or hours of operation	4	7	25	64
Equipment (e.g., computers)	14	17	31	38
Supplies (e.g., ink cartridge, paper)	4	7	17	73
Tax forms or publications	0	2	14	83
Policies or procedures	6	15	38	40
Other (specify)—3 managers responded	67	33	0	0

Source: GAO data and analysis.

We also asked managers for explanations whenever they answered “to a great extent” or “to a moderate extent.” The explanations that follow are based on the actual responses from the managers of the 84 sites in our sample. The numbers in parentheses after each reason are the number of sites for which that reason was cited. As was the case with table 5, some managers cited more than one reason in explaining their responses.

Facilities

Managers for 32 of the 84 TACs selected “moderate” or “great extent.” The following reasons were cited.

- TAC facilities were too small. (29)
 - General characterization. (13)
 - Customer waiting areas were not large enough. (14)
 - Workspace for assigned employees was not sufficient. (11)
 - Private space for discussing taxpayer information was not sufficient. (10)
 - Storage space for forms and/or publications was not sufficient. (3)
 - Space to accommodate computer to facilitate electronic filing was not sufficient. (2)
- TAC facilities were not adequately designed or laid out. (12)
 - General characterization. (4)
 - Available equipment, including computer, printer, or copier, were not located close enough to work area. (5)

- The service counter design was outdated or did not provide the privacy needed to protect taxpayer information, or the workspace was not laid out properly to accommodate individual workstations. (3)
- Facility-related issues other than size or layout. (5)
 - Geographical location was remote and/or inconvenient, free parking was not available, facility doors were not accessible to disabled customers and facility heating was not adequate. (5)

Staffing

Managers for 27 of the 84 TACs selected “moderate” or “great extent”. The following reasons were cited.

- General characterization based on insufficient number of field assistance employees. (20)
- Employees were absent because of training, or positions were vacant due to turnover. (3)
- Insufficient back-up from IRS compliance employees or other non-field assistance employees. (7)
- Newly hired employees lacked experience. (2)

Training

Managers for 24 of the 84 TACs selected “moderate” or “great extent.” The following reasons were cited.

- Employees needed more training; they received only part of required training or needed training beyond that normally required. (18)
- Employees needed better training because either training was not effective or subjects covered during the training were not adequately addressed. (4)
- Training was not timely, and required training was not provided sufficiently in advance of the filing season. (7)

Days or hours of operation

Managers for 9 of the 84 TACs selected “moderate” or “great extent.” The following reasons were cited.

- More days or hours of operation were needed. (3)
- Some extended hours were underused. (3)
- Alternative hours were needed. (2)
- Too many hours were worked or hours were lost due to federal building closing. (1)

Equipment

Managers for 26 of the 84 TACs selected “moderate” or “great extent.” The following reasons were cited.

- Inadequate computers were available. (23)
 - Insufficient numbers of computers were available. (13)
 - Insufficient computers with a capability to access taxpayer account information were available. (7)
 - An insufficient number of computers were capable of filing returns electronically. (3)
 - Computers were outdated or malfunctioned. (7)
- Printers were inadequate or insufficient in number. (4)
 - Access to a printer for a specialized collection system was shared. (3)
 - Lacked access to a printer capable of printing taxpayer account information. (1)
- Other equipment-related problems were experienced. (11)
 - Equipment/technical support was lacking. (2)
 - Facsimile machines were not available in sufficient numbers. (2)
 - Equipment utilization limited by office design. (2)
 - Other equipment deficiencies, such as the lack of return-preparation software or a copier, were cited. (5)

Supplies

Managers for 9 of the 84 TACs selected “moderate” or “great extent.” The following reasons were cited.

- Overall shortage of printer ink cartridges and requisitioning problems existed. (9)

Tax forms or publications

Managers for 2 of the 84 TACs selected “moderate” or “great extent.” The following reasons were cited.

- Storage space was insufficient. (1)
- Forms and publications were not available at the beginning of the filing season. (1)

Policies or procedures

Managers for 18 of the 84 TACs selected “moderate” or “great extent.” The following reasons were cited.

- Problems with, or negative reactions to, the new income limitation on return-preparation assistance and/or the new same-day appointment process for that assistance. (14)

Other

Managers for 3 of the 84 TACs cited other factors that hampered their site’s success to a “moderate” or “great extent,” such as the need for security guards.

Appendix IV: Comments From the Internal Revenue Service



COMMISSIONER

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

December 13, 2001

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

Dear Mr. White:

The IRS is committed to providing quality customer service to all taxpayers. Your report, "Tax Administration: Assessment of IRS' 2001 Filing Season," acknowledges our overall progress providing services to taxpayers. I would like to comment on some specific aspects of the report.

Processing of Returns and Refunds

I agree with your conclusion that our processing of returns and the issuing of refunds went smoothly. As you stated, this is a notable accomplishment, especially in concurrence with our reorganization. We maintained our focus on quality service by promptly and accurately processing returns and refunds. When we identified problems, we resolved them quickly to minimize the impact on our taxpayers.

Pittsburgh Lockbox Contractor

Resolving taxpayer issues resulting from this incident and minimizing the possibility of future incidents remains a top priority. Upon discovering this problem in mid-May 2001, we coordinated with the Office of the Treasury Inspector General for Tax Administration (TIGTA) in its investigation to minimize the impact on taxpayers. While the contractor received significant media coverage, we did not want to jeopardize the criminal investigation in progress with additional publicity. Further, the initial assessment suggested a situation affecting only 1,500 taxpayers.

Your report does not mention that during the first week of June 2001, we released information to the press and the public concerning the missing documents. The information included a toll-free telephone number for taxpayers to call for assistance. We also issued an internal message to all our Customer Service Representatives (CSR) telling them about the missing payments and returns, and instructing them to refer taxpayer inquiries to a special assistance unit.

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We established the special unit at our Andover Submission Processing Center (ANSPC), to identify affected taxpayers, and work with them to resolve their cases quickly. This unit maintains centralized control of the taxpayers' accounts until their issues are resolved. It is authorized to:

- Credit replacement checks and documents as being received by the due date.
- Abate incident-related penalty and interest assessments.
- Defer notices or collection activities.
- Facilitate reimbursement of related bank fees.
- Provide an IRS name and telephone number in case of future needs.

Treasury's Financial Management Services (FMS), our contracting agency for lockbox services, terminated the agreement with the bank as a result of the investigation. Our Lockbox Agreement included numerous security requirements and security checks. However, with FMS, we have added more stringent requirements for new agreements.

Processing Initiatives

I agree we should review our initiatives to ensure their proper implementation and ensure they are targeted to achieve the results intended. The initiatives we undertake generally are driven by a recognized need for improvement that our customers, employees, and frequently, our oversight stakeholders have identified. The processing initiatives cited in the report are as stated, "inherently beneficial" because they resolve or mitigate known problems or weaknesses. Often our initiatives do not have a direct, positive impact on internal performance, but are focused on improving tax administration and reducing taxpayer burden. As your report states, "These initiatives may have obvious or inherent benefits beyond improving performance, such as improving compliance, and it may take years before the benefits are fully achieved."

Electronic Filing Growth

Our 2001 Filing Season for electronic filing was very successful. We continued building on positive trends in taxpayer service as our major technology and organizational initiatives took effect. For example:

- We added 23 additional forms to the 1040 e-file program. These included: Form 2106-EZ for un-reimbursed employee business expenses, Form 2688 application for additional extension of time to file, and Form 8379 for injured spouse claims. Increasing numbers of taxpayers are filing their taxes electronically. Through October 20, 2001, more than 40.2 million individual taxpayers filed using one of the three e-file options; a 13.6 percent increase over the same period last year.

3

- More than 29 million taxpayers e-filed their tax returns through an IRS-authorized Electronic Return Originator (ERO), a 14.8 percent increase over the same period last year.
- Approximately 6.8 million taxpayers filed their tax returns on-line, using their home computers through third party transmitters. On-line filing is 36 percent ahead of FY 2000 total volume of 5.0 million.
- More than 4.4 million taxpayers filed their returns over the telephone using the TeleFile System.
- Almost 15.2 million taxpayers chose to file both their federal and state returns simultaneously in a single electronic transmission.

In addition, we offered more electronic payment options for taxpayers, such as accepting debit payments through TeleFile, and accepting credit card payments for Form 1040ES- Estimated Tax Payments and Form 4868-Extension of Time to File. For FY 2001:

- 284,811 payments averaging \$3,129 were made by credit card.
- 363,602 payments averaging \$2,027 were made by Automated Clearing House (ACH) Direct Debit, which enables taxpayers to authorize payments from their checking or savings accounts.

Increasing the Number of Electronic Filers

We are strongly encouraging taxpayers to file their returns electronically. Our advertising campaign for e-filing has contributed to increasing the number of electronic filers. We coordinated with our advertising agency, as authorized by RRA 98, to develop a fully integrated advertising campaign, which includes television, radio, and print advertising. As the e-file program matures, our communications are shifting away from merely promoting awareness of e-file to emphasizing its value, such as saving time.

For the 2002 Filing Season, we plan to add the 29 remaining tax forms and schedules to the e-file program. This means we will open e-file eligibility to over 99 percent of all taxpayers, potentially adding 3.8 million new e-filers. Equally important, tax preparers now will be able to offer electronic filing to all their customers. We hope these enhancements will help us meet the RRA 98 mandate of having at least 80 percent of returns filed electronically by 2007.

We are continuing to focus our e-file advertising on taxpayers who prepare their returns by computer, but file on paper and taxpayers who use the services of a tax professional, but file on paper. This year we will encourage taxpayers to send their tax returns electronically. The campaign also will encourage taxpayers who use a tax professional

to request e-file, reinforcing demand for the service. The new marketing campaign is scheduled to begin in January.

Self-Select PIN Program

In FY 2000, we successfully tested the use of a Personal Identification Number (PIN) code as the taxpayer's signature, eliminating the need to file the paper signature document. This year's program gave eligible taxpayers the option to select a PIN and file electronically without any paper. Approximately 9 million taxpayers used this option. We are expanding awareness to increase use of the Self-Select PIN by:

- Expanding the amount of related information in the 1040 Series Instruction Booklets and various publications available to individual taxpayers and tax professionals.
- Expanding the exposure of Self-Select PIN messages in the 2002 advertising campaign.
- Increasing the quantities and narrowing the focus of the direct-mail Self-Select PIN post card. We will distribute approximately 23 million post cards nationwide.

We also reduced the information requirements for taxpayers to use the PIN from two items to one. Now taxpayers must only provide adjusted gross income from the previous year's tax return to validate their identity. We are advertising this change through publications and information sources related to the Self-Select PIN (e.g., Publication 17, brochures, IRS.gov.)

Use of IRS' Web Site

We are concerned with the absence of a clear definition of "availability" as a measure in the report. Readers of the report could infer that the IRS web site was not available 25 to 35 percent of the time, between February 4 and March 27, 2001, which is not accurate.

Keynote, GAO's independent site rater, uses the term "availability" to describe the percentage of time that a web site's home page downloads without error from the web server to the user's browser. A home page is charged with an error and receives a lower percentage of availability, even if a graphic (having nothing to do with the user's ability to get the information from the page) does not download properly. Errors such as this can be the result of other activity or heavy traffic on the Internet in general, and may have nothing to do with the home page. Most important, this measure in no way reflects whether the web site is "available" or not.

Keynote also reported average delivery time for the IRS home page "fluctuated considerably during the filing season." Our delivery time was always competitive with

industry standards, even though our home page was considerably larger than average. When Keynote reported that the delivery time between March 1 and March 27, 2001, ranged from 2.5 to 3.5 seconds, this delivery time was better than Keynote's own Business 40 Benchmark.

Providing World-Class Telephone Service

We made substantial progress in implementing our strategy to use automation to assist customers with routine inquiries. We increased access to all telephone assistance by improving the availability of our Tele-Tax service, an automated service that provides refund and basic tax law information. Tele-tax provides the same information to customers as Customer Service Representatives (CSR), at a fraction of the cost. This year we shifted 17.3 million calls to this service, which enabled us to focus our Customer Service Representatives on more challenging customer issues.

We are concentrating on the key components that impact service. Our accomplishments to date include:

- 38 percent increase in service provided for tax law, accounts, and refunds, January-June, 2001.
- 42 percent increase in Spanish-language assistance provided by CSRs with the expansion of our Puerto Rico call site.
- Continuous refinement of the strategic planning process each year.
- Measures to reflect telecommunication standards and the customer experience.
- Increasing call site accountability and responsibility through our Balanced Measures approach.
- Assessing skill requirements and realigning staff based on the workload realignment in the Customer Contact Center Optimization and Service Center Transition.

New and Revised Performance Measures

As your report reflects, developing and revising performance measures is critical to our Balanced Measures concept as is aligning those measures with our strategic plan. I appreciate your statements of support, and I understand your concerns that too frequent or extensive changes could invalidate subsequent comparison. We factor that into changes necessary to accomplish our transition.

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Here are some thoughts on the Recommendations for Executive Action:

Recommendation

"To the extent practical, take action to correct tax law accuracy problems reported by IRS and TIGTA in 2000 and 2001, respectively, in time to improve the accuracy of tax law assistance provided in the 2002 Filing Season, rather than deferring quality improvements until data from the new measurement system are available."

Response

Accuracy is a core competency of the Service and we are not waiting for data to make incremental improvements. To improve quality in the upcoming filing season, we will focus on:

- Consistent, standardized services.
- Larger and better-trained workforce.
- Improved access to taxpayer information for those employees directly responsible for case-specific assistance.

Since last filing season, we revised the training curriculum for the Field Assistance employees working in the Taxpayer Assistance Centers (TAC) and provided updated training material during basic training and Continuing Professional Education (CPE). All new-hires receive at least the first six weeks of required training before we allow them to answer technical taxpayer questions. In addition, we implemented the Field Assistance quality review process using contract reviewers, and managerial reviews to identify information about errors. We will analyze this information to provide feedback to front-line managers and employees on problem areas.

Recommendation

"Work with TAC managers to determine if there are any significant facility, staffing, equipment, and training problems that are not addressed in existing improvement plans, and develop appropriate plans for resolving those problems."

Response

We have plans to resolve all issues concerning facilities, staffing, equipment, and training identified in the report. To engage the managers fully in the improvement process, we will implement Manager Councils in each of the seven areas. We are completing Filing Season Readiness and Program Review checklists for each TAC, and implementing a new, formal process by which managers will monitor and document employee performance.

Recommendation

"Directly survey tax return preparers and taxpayers who prepare returns by computer, but do not file electronically."

7

Response

We agree with the need for an additional survey of this audience, and we have made several changes in the program based on their feedback. Some changes we implemented as a result of survey feedback include:

- Making all forms available electronically.
- Eliminating the requirement for a paper signature document for electronically filed returns.
- Expanding the PIN program.
- Improving the IRS web site .

In preparation for the 2002 Filing Season, we expanded our regular market research to include more information about taxpayers whose returns are prepared using a computer, but filed on paper. Other information-gathering efforts included demographic research, taxpayer customer satisfaction surveys, Electronic Return Originator satisfaction surveys, and tax professional attitudinal surveys. Although these efforts did not focus solely on this particular group of taxpayers, we used the information to develop the 2002 advertising campaign that focuses on the general population of 40 million taxpayers.

For the 2003 Filing Season and beyond, we are preparing to use our demographic database to retrieve information about taxpayers who prepare returns on a computer but do not file electronically. We have information showing the number and percentage of returns prepared by computers in each of our four market segments. The information includes: tax returns filed by age, adjusted gross income, filing status, return balance, and accounts paid in full. The research will also identify significant changes in filing patterns from the preceding year.

This demographic data is helpful as we look for ways to increase the number of taxpayers who actually file electronically. Before the close of this calendar year, we will explore the feasibility of surveys or focus groups to identify why they do not file electronically, and how we can overcome barriers to doing so. Budget permitting, we will conduct research during calendar year 2002. Information gathered during these efforts will be used in advertising for 2003 and beyond.

Recommendation

"Develop a plan for evaluating the implementation and effectiveness of processing initiatives."

Response

As we develop new processing initiatives, we will incorporate a plan in the project documentation to assess the implementation and effectiveness of each initiative.

8

Recommendation

"Either discontinue the use of hits as a measure of the performance of IRS' web site, or revise the way hits are calculated so that the measure more accurately reflects usage."

Response

We believe we should continue to count hits as a measure of performance of the web site, because the number of hits indicates site use/traffic, and we use them to measure system performance and estimate system needs. However, we can improve our method for counting hits when we implement a more sophisticated, comprehensive web analytic program in January 2002. As part of our web site redesign and re-hosting project, we will analyze available statistical information that provides us with the best information about web site use. We will then identify our new strategic measures for the site for FY 2003.

If you have any questions, please contact John Dalrymple, Commissioner, Wage and Investment Division, at (202) 622-6860, or Mary Davis, Director, Strategy and Finance, Wage and Investment Division, at (404) 338-8665.

Sincerely,


for Charles O. Rossotti

Appendix V: GAO Contacts and Staff Acknowledgments

GAO Contacts

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

Acknowledgments

In addition to those named above, Bob Arcenia, Pat Brewer, Rudy Chatlos, Ron Heisterkamp, Janelle Hu, Brian James, Ron Jones, John Lesser, and Joanna Stamatiades made key contributions to this report.

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